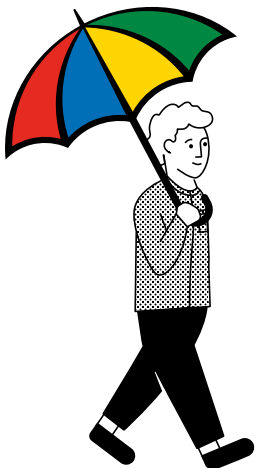


From building homes to transforming our towns and cities, **inclusive capitalism** is already at work.



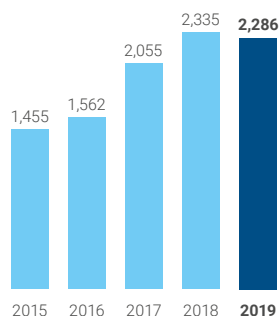
Improving lives through inclusive capitalism

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

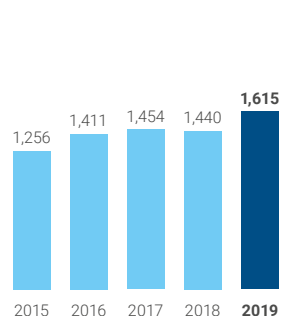


Highlights

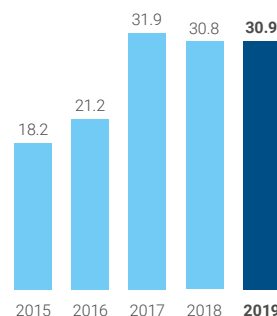
Operating profit* (£m)



Net release from operations (£m)



Earnings per share (p)



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Return on equity



20.4%

(2018: 22.7%)

Solvency II capital coverage ratio (shareholder basis)



184%

(2018: 188%)

Worldwide employee engagement index



72%

(2018: 72%)

Profit before tax

£2,156m

(2018: £2,129m)

Adjusted profit before tax



£2,112m

(2018: £2,128m)

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

Performance measures and remuneration

The performance measures used for the purpose of determining variable elements of directors' remuneration are directly aligned to the group's key performance indicators (KPIs). The above KPIs which form the basis of this determination are identified with the following icon

For more details, refer to pages 87 to 91 of the Directors' report on remuneration.

The categories to which the above KPIs are aligned are:

- Profitability
 - Net release from operations
 - Operating profit
 - Return on equity
 - Earnings per share
- Strategic priorities and non-financial goals
 - Capital: Solvency II capital coverage ratio (shareholder basis)
 - Culture: worldwide employee engagement index



The group uses alternative performance measures (APMs) to help explain its business performance. Further information on APMs, including a reconciliation to the financial statements (where possible), can be found on page 256.

References to 'operating profit' in the strategic report represent 'group adjusted operating profit', an alternative performance measure defined in the glossary.



Our Fast Read

A summary of the annual report, highlighting strategy, performance and how the group is structured is available online. legalandgeneralgroup.com/2019fastread

Chairman's statement



We have a proven operating model, a strong balance sheet with surplus regulatory capital and a robust risk management process. This, coupled with our long-term focus, gives us confidence in future growth and the ability to navigate economic and political events.”

Sir John Kingman
Chairman

A long-term business

Inclusive capitalism underpins our strategy and is at the heart of everything we do. We have successfully identified growth areas and in doing so, have generated consistent, sustainable and socially beneficial returns.

In the 12 months to 31 December 2019, we achieved a total return of over 40% for shareholders, reflecting the consistently strong performance of the business and greater political and market clarity towards the year-end. While concerns about Covid-19 have had minimal effect on our business to date, they have driven a return to more volatile markets in the current quarter.

We have a proven operating model, a strong balance sheet with surplus regulatory capital and a robust risk management process. This, coupled with our long-term focus, gives us confidence in future growth and the ability to navigate economic and political events.

At the same time, we have invested £26 billion into direct investments. These investments deliver positive outcomes for society and are focused on areas such as clean energy, affordable housing, science and technology.

We have seen continued growth both in the UK and overseas. We see significant global opportunities for additional scale, whilst continuing to support the UK through our investments and commitment to our customers.

Continued financial success

In 2019, our operating profit was £2.3 billion, down 2% from 2018. Profit before tax increased by 1% to £2.2 billion and earnings per share (EPS) increased by 0.1p to 30.9p. Excluding mortality reserve releases, operating profit grew by 12% to £2.1 billion and EPS was up by 16% at 28.7p.

Our growth strategy

Our strategy is driven by long-term global trends which include ageing populations, globalisation of asset markets and climate change.

Our historic base in the UK continues to provide outstanding opportunities for business growth. However, the US is increasingly our second home market and we are successfully building our businesses there in pension risk transfer, life insurance and investment management. We are also taking advantage of investment opportunities in Europe and Asia, with notable recent success in Japan.

Our strategy reflects the fact that we are a focused and long-term business, where our investment expertise and understanding of longevity has made us a market leader in providing retirement solutions for customers. Our direct investments mean that our long-term funds provide both economic and social benefits through investments in future cities, housing, and SME finance. The Board has been working closely with Nigel Wilson, your CEO, and the Executive Committee in our strategic development, building continued growth for our business, its shareholders, customers and employees.

Dividends

The Board has again considered carefully the best medium-term trajectory of dividend growth, taking into account both excellent continuing financial performance, and the importance to our shareholders of a rate of dividend growth which is sustainable in a wide range of potential economic scenarios. Accordingly, the Board is recommending a full year dividend of 17.57p for 2019, 7% higher than 2018.

Responsibility in business

We are committed to being a responsible business in everything we do and we want to inspire those companies we work with and invest in, to be responsible too. We recognise the growing importance of sustainability, not just through our commitment to global agreements on building sustainable growth and climate change, but in our daily stewardship activities. Our business aims to be economically and socially useful, and operates with a conscious culture of teamwork and collaboration.

Each year, I ask for nominations for my 'Chairman's Awards' which recognise the people who go above and beyond in their charitable and community efforts in every country where we have a presence. This year I received a wide range of entries, demonstrating the outstanding commitment of our employees to their communities.

We believe that it is important for our Board to have a broad range of insights and perspectives to help us make better decisions as a business and create an inclusive culture for our people. Diversity is important to us because it generates a wider pool of talent by reflecting the broadest range of human attributes, experience and backgrounds. It also supports good decision making and provides different viewpoints, ideas and challenge.

The Board

I should like once again to thank Mark Zinkula, not only for his excellent work on behalf of the Group Board, but also for his achievements as Chief Executive Officer of Legal & General Investment Management (LGIM). Michelle Scrimgeour succeeded Mark Zinkula as Chief Executive Officer of LGIM in July 2019 and was appointed to the Board on 2 September 2019. Michelle brings extensive asset management experience to the Board, having most recently been Chief Executive Officer, EMEA, at Columbia Threadneedle Investments.

Board engagement with key stakeholders

In Board discussion and decision making, we keep the interests of our stakeholders front of mind and consider the impact our decisions have on our wider stakeholder group. Where interests do not align, we seek to balance their needs and ensure all stakeholders are treated fairly.

In the UK, we have now completed the sale of our General Insurance business and expect the sale of our Mature Savings business to complete in the first half of 2020.

We set out details of our engagement with stakeholders on pages 62 to 64.

I mentioned in last year's annual report that Lesley Knox had been appointed as our designated non-executive director to engage with our workforce. Our company cannot continue to be successful without the contribution of our people, who remain at the heart of our business. Lesley's employee engagement activities throughout 2019 can be found on pages 65 of this report. I should like to thank all our people for their outstanding work and professionalism in 2019, which has made our company so successful.

I have continued to meet with a range of our shareholders through the year in London, Edinburgh and New York, and I have valued the opportunity for open and constructive two-way dialogue. As always, the AGM offers a particularly valuable opportunity for the Board to meet our shareholders in person and to hear your views, and I encourage you to attend on 21 May 2020.



Sir John Kingman
Chairman

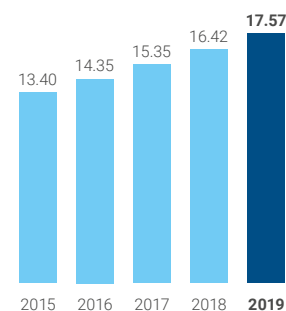
Annual General Meeting 2020

11am on 21 May 2020, at The British Medical Association, BMA House, Tavistock Square, Bloomsbury, London, WC1H 9JP

Dividend policy

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

Full year dividend (p)



Final dividend to be paid on 4 June 2020

12.64p

(2018: 11.82p)

Chief Executive Officer's Q&A



Inclusive capitalism is central to our strategic growth and our long-term, sustainable success.”

Nigel Wilson
Group CEO

Nigel, in 2019 the group continued to deliver excellent financial results. How are you consistently delivering this performance?

We have successfully built our strategy around long-term growth drivers that affect people's lives across the globe. These remain relevant regardless of short-term political or market uncertainty and allow us to tackle large, complex social issues.

For example, focusing on ageing demographics meant we were able to execute some record-breaking pension de-risking deals in 2019, generating £11.4 billion of sales and £1.2 billion of operating profit. Our individual retirement business saw annuity sales increasing by 22% to £970 million. Historical under-investment has created the opportunity for us to put pension savings to use, with £26 billion invested to date in direct investments, helping to transform towns and cities. At the same time, globalisation of asset markets has led to our investment management business now looking after £1.2 trillion of assets, £370 billion internationally.

How did inclusive capitalism develop further in 2019? How does this feature in your strategic priorities?

Inclusive capitalism is central to our strategic growth and our long-term, sustainable success. By joining up pension savings with areas of under-investment, we deliver economically successful and socially useful outcomes, generating the right returns for pension savers and stakeholders. It's a way of creating new assets and new jobs, using the 'power of pensions' to help people across the economy.

In 2019, our pension annuity assets increased to £76 billion, providing further capital for these investments. We have a range of urban transformation projects underway across the UK and we invested in clean energy, science, technology and housing. In 2019, we were delighted to be invited to join the G7's and OECD's 'Business for Inclusive Growth' forum which brings together other influential organisations supportive of inclusive capitalism. This reinforces the message that delivering shareholder value and furthering social progress are not mutually exclusive.

How are you investing your capital differently to help manage climate change?

There are many exciting commercial and developmental investment opportunities within the UK that we have supported and will continue to invest in, particularly around decarbonisation, clean energy and future cities. Our direct investment strategy allows us to develop our towns and cities in an inclusive and environmentally sustainable way.

This year we continued to invest in renewable energy infrastructure. This included one of the UK's largest electric vehicle charging providers, with our total clean energy investments to date totalling £1.3 billion. From 2030, all new homes built by our housing business will be capable of operating at net zero carbon emissions and we continue to work to reduce our carbon footprint. We actively engage with regulators and investee companies to support increased climate action, while those companies which fail to meet minimum thresholds are put on a 'no investment' list. As one of the world's largest investment managers, we use our scale and position to encourage others to do the same.

How will Britain leaving the EU affect your strategy in the UK and internationally?

The Brexit process hasn't impacted our ability to grow. The UK remains central to our growth strategy and will continue to have a world class financial services sector, as well as competitive advantage in many other industries, including science and technology. The UK now needs to turn its attention to creating real jobs to boost productivity, incomes and improve people's lives in all our regions.

Alongside our commitment to the UK, we have seen continued success internationally. In the US, we generated in excess of \$1.1 billion of pensions de-risking premiums and exceeded \$245 billion of total assets under management. In Canada, we agreed our first pension risk transfer for over CAD\$200 million. In Japan, we were awarded a £37 billion passive mandate with the Japan Government Pension Investment Fund which established us as a top three non-domestic manager in the Japanese institutional pension market at the time. In Europe, we saw strong activity and flows in key markets, with assets under management increasing by 35% during 2019, to £58 billion. We will continue to serve our European investment management clients from our newly set up Irish base and continue to work with our European partners such as PGGM who have invested alongside us in our recent build-to-rent schemes. We see huge opportunity to use our expertise and unique synergies to further replicate our success internationally.

How important are your employees in delivering your strategy? What have you done to support their needs?

I'm very proud of all our employees. We continue to invest in our employees' development and wellbeing, creating an inclusive culture where we value differences and empower people to meet their goals. Lesley Knox, in her role as our designated workforce director, met with many employees throughout the year and the insights gained have driven a number of initiatives in 2019, and will continue to do so into 2020 and beyond. The main finding was that our employees are positive about our business, are engaged and are committed to doing the right thing.

All our employees are entitled to participate in our share scheme, with 67% holding shares, making up 1% of our issued share capital. This demonstrates our employees' confidence in Legal & General and that their interests are aligned with those of the group. I'd like to thank all our employees for their hard work and commitment, making Legal & General a company which serves our shareholders, customers and all our communities.

Across the group, by the end of 2019 we had put a total of £26 billion into direct investments.



Urban transformation

We're committed to transforming towns and cities to create jobs, build infrastructure and drive regional economic growth.



Affordable housing

We have partnered with housing associations and other providers to deliver our pipeline of affordable homes across the UK.



Later living

We continue to expand our later living activities to provide high quality housing and care for an ageing population.



Science, technology and innovation

We're helping to drive business growth and greater productivity by investing in science, technology and innovation.



Working toward a net zero carbon future

We have invested in wind and solar power generation, energy efficient buildings, and innovative technologies to control, manage, and store energy.

Our strategy

Our strategy is driven by six growth drivers that affect everyone.

In responding to these drivers, our strategic priorities are set to deliver sustainable profits as well as positive social and environmental outcomes.

Our business model is aligned with our strategy, ensuring we derive maximum benefit for our stakeholders.

Whilst 'Addressing climate change' has been formally included in our growth drivers in 2019, it is not new to our approach, and is deeply embedded in how we run our business.



1. Ageing demographics

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

4. Welfare reforms

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





2. Globalisation of asset markets

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

3. Investing in the real economy

Throughout the UK and beyond, there has been a long-term trend of under-investment in major towns and cities. We continue to experience a serious housing shortage, while small and medium enterprises also struggle to achieve scale without access to long-term capital. This encompasses our 2018 growth drivers of 'Creating real assets' and 'Providing today's capital'.

Short-term influences

There are a number of short-term influences which also affect our business:

The UK's exit from the EU

Our customer base is largely in the UK, US and Asia, which reduces our exposure to any negative trading effects should the UK government be unable to agree a future trading relationship with the EU. However, we have established a new base in Ireland to support our investment management business's European institutional clients, and recognising the risks to specific industries and sectors from a failure in trade negotiations, we have taken steps to structure our investment portfolios for a range of outcomes.

5. Technological innovation

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

6. Addressing climate change

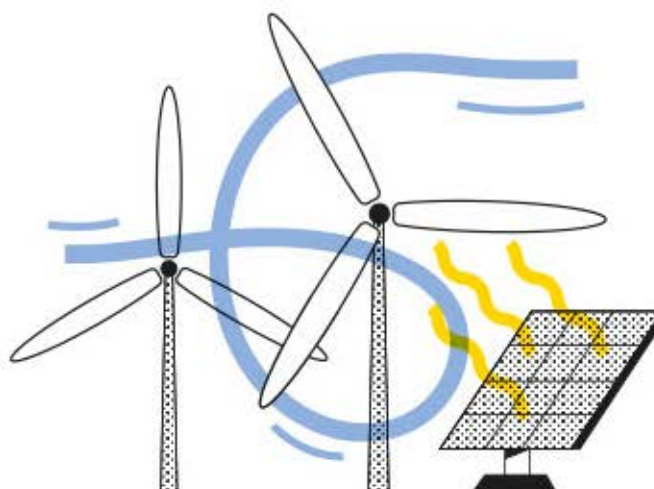
Scientists, policy-makers, markets and regulators increasingly agree that we must move to a global warming trajectory below 2°C to avoid potentially catastrophic physical risks which will impact global economies, markets, companies and people. This implies transition to a lower-carbon economy, which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

Geopolitical environment

Following the UK general election in 2019, the political landscape looks more certain, but wider geopolitical risks remain. We believe our strategy based upon global growth drivers is relevant across the political spectrum and will remain resilient to worldwide developments. However, we will continue to monitor events closely.

Economic outlook

There are tentative indications that the global economic outlook is improving with a period of more positive albeit slow rates of growth. However, at the time of writing the recent outbreak of Covid-19 has potential to impact global supply chains and short-term growth prospects for a number of economies.





Growth drivers

Ageing demographics

Globalisation of asset markets

Investing in the real economy

Strategic priority

We aim to be global leaders in pensions de-risking and retirement income solutions building upon success in the UK and US.

We aim to build a truly global asset management business, entering new markets and expanding our existing operations.

By investing capital over the long term, we aim to become leaders in direct investments whilst benefiting society through socially responsible investments.

2019 achievements

- Over \$1.1 billion (£893 million) of US pension risk transfer premiums in 2019.
- Pension annuity assets up by 20% to £76 billion.

- £37 billion mandate with Japan Government Pension Investment Fund.
- First Canadian pensions risk transfer agreed for over CAD \$200 million.

- £4 billion committed to Oxford University partnership to develop homes and science/innovation districts.
- Six operational sites and over 1,000 homes in our suburban later living portfolio.

£4.6 billion

pensions de-risking deal with Rolls-Royce, one of the largest ever in the UK.

£1.2 trillion

of global assets under management.

5,000

homes in operation, under construction, or planned, in 15 UK build-to-rent schemes.

Looking forward

We will continue to build on our current position, with total opportunity in the markets in which we operate standing at over £5 trillion of defined benefit (DB) liabilities.

International inflows are expected to continue to increase from our growing presence in North America, Asia Pacific and Europe.

We will continue to invest in infrastructure, clean energy, commercial and residential property.



Growth drivers

Welfare reforms

Technological innovation

Addressing climate change

Strategic priority

We want to help people take responsibility for their own financial security through insurance, pensions and savings.

Technology and innovative solutions improve customers' lives and increase efficiency. We aim to be market leaders in the digital provision of insurance and other financial solutions.

We are able to support the fight against climate catastrophe through the positioning of our own balance sheet and through our ownership of one of the largest global institutional investors.

2019 achievements

- 20%+ market share in UK Retail Protection insurance.
- Defined contribution (DC) pension scheme assets of £94 billion.

- Launched cloud based web tools for DC pension schemes to drive member engagement.
- Launched our blockchain reinsurance platform, Estua-re.

- £57 million invested in UK solar portfolios.
- Investment in Pod Point, one of the UK's largest electrical vehicle charging operators.

3.5 million

customers in UK defined contribution (DC) pensions.

1.3 million

UK customers on SalaryFinance digital financial wellbeing platform.

£1.3 billion

invested in renewable energy infrastructure.

Looking forward

We will increase our DC asset portfolio, with total UK DC assets expected to more than double by 2028 to £955 billion. Our investment in digital insurance solutions will improve efficiency and returns.

Our Fintech businesses are expected to grow as they diversify their products and as we make further investments.

We will continue to invest in energy efficient property, renewables and science to support decarbonisation, and use our investment scale and strength to encourage others to follow suit.

Our business model

Our business model enables us to capitalise upon our strengths and capabilities.

We aim to be leaders in four key areas: retirement, insurance, investment management and capital investment. We benefit from scale in each of our businesses.

It is the combination of our strengths and the synergies we achieve from our businesses working together that sets us apart.

Our strengths and capabilities

Our business model is underpinned by the depth and breadth of our resources. It is these resources that allow us to capitalise upon our strategy. They are key to our success and their continued development and enhancement is a constant focus for our business.

Synergies

Globally, there are over \$46 trillion of assets in pension funds, spread across defined benefit and defined contribution schemes. Our retirement and investment management businesses work alongside our capital investment business to put pension assets to best use and generate the right returns for long-term pension savers.

We believe in inclusive capitalism, where investment is both economically successful and socially useful. Working together, our businesses join up this large source of patient capital with areas of under-investment: housing, infrastructure, clean energy, healthcare and growth businesses which deliver high-pay, high-skill jobs.

Our ability to combine investment and risk expertise with innovative solutions is what makes us different. We're able to do this because we understand both the asset and liability side of financial services. We believe we are ideally placed to create value from the four key areas of our business model. See pages 12 to 13 for further details.



People

Our experienced, dedicated professionals offer market expertise and honesty in their interactions with customers. We have a wide range of experience across demography, actuarial modelling and statistical analysis, and our asset management credentials enable us to cover a broad spectrum of asset classes.



Brand

We have a trusted brand with a strong reputation for stability, financial strength and a straightforward approach to business.



Capital

We are a long-term business with robust regulatory capital reserves. We invest our customers' pension assets and our own capital directly into the UK economy in a way which benefits society as a whole.



Customer loyalty

The long-term nature of our business means we have a loyal customer base in the UK and, increasingly, overseas. We partner with companies throughout their pensions de-risking journey and with individuals over their lifetimes.

The power of pensions

The synergies we derive from our business model ensure our businesses work together to deliver our strategic purpose and drive collaboration across the group. Below is an example of our businesses interacting to harness the power of pensions.

Rolls-Royce pension plan investment management

Our investment management business has a long-standing relationship with Rolls-Royce, having provided investment management services to the pension plan since 1989.

Rolls-Royce UK Pension Fund risk transfer agreement

In June 2019, our institutional retirement business agreed a partial buyout with Rolls-Royce for in excess of £4.6 billion, one of the UK's largest deals, covering around 33,000 pensioners in payment.

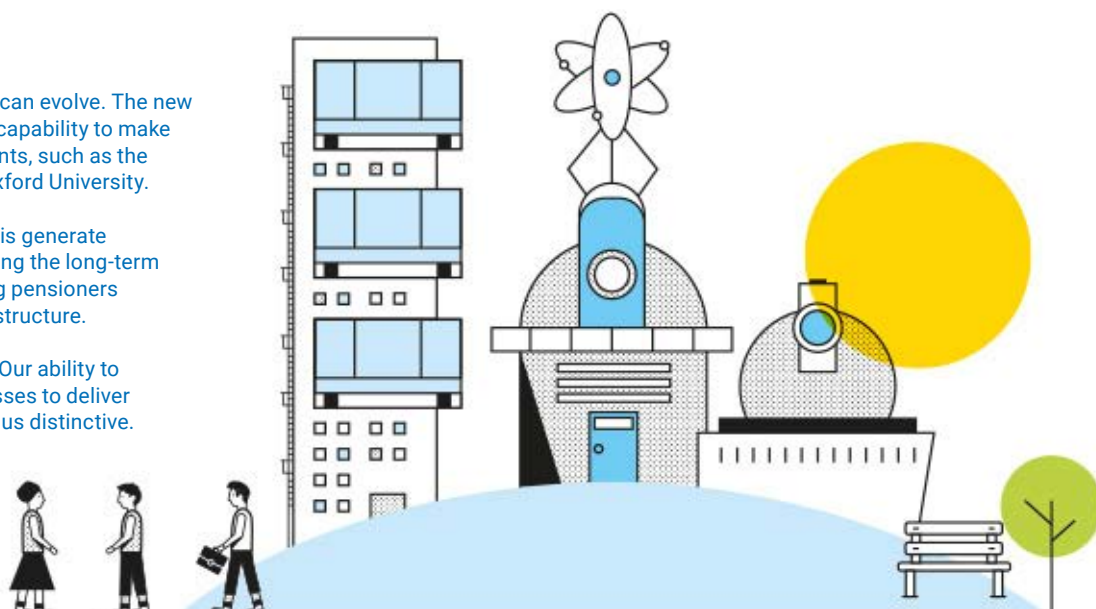
Oxford University partnership

In the same month, our capital investment business announced a £4 billion commitment to a 50:50 partnership with Oxford University to develop homes for staff and students, as well as science and innovation districts.

Well established relationships can evolve. The new Rolls-Royce deal deepens our capability to make socially useful direct investments, such as the partnership agreement with Oxford University.

In turn, investments such as this generate returns that contribute to funding the long-term commitments made to existing pensioners and create much needed infrastructure.

This is the power of pensions. Our ability to collaborate across our businesses to deliver these solutions is what makes us distinctive.



Our business model

Creating value



Our synergies allow us to derive maximum benefit from each of the four key areas of our business model and generate value for our shareholders, customers and communities.

Retirement

We provide guaranteed retirement income for our retail customers in the UK and for members of corporate pension schemes in both the UK and the US.

Individual – We provide certainty for our customers by exchanging their pension savings for a guaranteed monthly income for life.

Institutional – We take on pension scheme liabilities from corporate schemes in the UK, North America and Europe. This 'pensions de-risking' gives companies greater certainty over their liabilities whilst providing guaranteed payments to individuals within their schemes.

How we generate shareholder value

For both individual and institutional customers we use our deep expertise in the science of life expectancy to accurately assess the risks associated with each contract and, therefore, how much income we expect to provide to our customers. We charge a margin on the initial amount received in exchange for assuming the risk over the lifetime of the policy. We invest the margin and a proportion of our customers' pension savings in high quality assets. This generates returns whilst ensuring we are able to pay policyholder pensions in full as they fall due.

Growth drivers

- Ageing demographics
- Welfare reforms
- Technological innovation

 See pages 23 and 28

Investment management

We are the UK market leader in providing pension asset management services to institutional clients. We manage the assets they hold to cover their DB pension scheme liabilities, managing their risk through matching their assets to their liabilities. We are also a leading defined contribution (DC) pension manager, aiming to invest DC customers' pension assets to generate returns. We are continuing to expand into personal investment services and have an increasingly global business with over £370 billion of international assets under management.

How we generate shareholder value

We have £1.2 trillion of assets under management across a range of asset classes. We receive fees for providing these asset management services to both individual and institutional clients through a variety of businesses.

Growth drivers

- Globalisation of asset markets
- Technological innovation
- Addressing climate change

 See page 32

Capital investment

We use some of our customers' pension assets, as well as the group's shareholder capital, to make long-term investments in assets such as future cities, housing and SME finance. These direct investments generate returns for pensions and on the group's capital, as well as benefitting society through socially responsible investing. The long-term nature of these investments makes them attractive to our retirement businesses as they can select these investments to match the duration of their liabilities.

How we generate shareholder value

We generate value through achieving long-term consistent returns on the investments and from disposal gains.

Growth drivers

- Investing in the real economy
- Welfare reforms
- Technological innovation
- Addressing climate change

 See page 36

Insurance

We started offering life insurance cover in 1836 and are the UK's number one individual life insurance provider. We offer 'level-term' life insurance in the US and our group protection business in the UK offers life insurance and income protection products to individuals through their employers. We now have over five million UK individual life insurance customers, over two million people in group protection schemes and in excess of one million US life insurance customers.

How we generate shareholder value

We collect monthly premiums for policies that make payments upon death (life insurance) or inability to work (income protection). We price these premiums using our experience of mortality and morbidity risks, and manage these risks over time. Value is generated through the accurate pricing of these premiums and the margin we charge on each. We further enhance value through the selective purchase of reinsurance at competitive rates.

Growth drivers

- Welfare reforms
- Technological innovation

 See page 40

Our stakeholders

We place great importance on considering the needs of all our stakeholders in our decision making.

The impact of our business is wide reaching and affects different stakeholder groups in different ways. We always take the impact on our stakeholders into consideration and actively encourage their participation.

Our governance framework and policies ensure stakeholders are taken into account in Board discussions and in decision making. This ensures the success of the group over the long term, supports our day-to-day operations and protects our stakeholders' interests.



Shareholders

- Our shareholders are institutional and individual investors who own shares in Legal & General.
- We aim to provide clear information on company strategy and performance, being honest and transparent at all times. We generate value for our shareholders through increases in our share price and a sustainable, progressive dividend.



Suppliers

- We have a broad range of suppliers, ranging from providers of services and materials for our buildings, to suppliers of IT systems and software.
- We strive to work with like-minded businesses who comply with our Code of Conduct. This establishes standards that ensure they operate ethically, are environmentally responsible and their workers are treated with respect and dignity, ultimately creating a positive relationship.



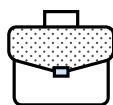
Section 172 Statement

See pages 62 to 64 within Governance for our 'Section 172 Statement'. This describes how the directors have had regard to stakeholders' interests when discharging the directors' duties set out in Section 172 of the Companies Act 2006.



Customers

- Our customers include those saving for retirement, recipients of retirement income, insurance policy holders, residents of our housing and retirement villages, and both individual and institutional investors.
- Our teams are dedicated to making sure we constantly refine what we do – making customers feel confident we’re delivering on our promises.



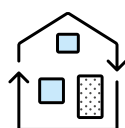
Employees

- Our employees are based in the UK, US, Bermuda, Europe and Asia.
- We continually invest in employee development and wellbeing to create an inclusive culture, where we embrace and leverage differences, with our people engaged and empowered to meet their goals.



Regulators

- We are supervised by several UK regulators, as well as being regulated overseas.
- We recognise the value of strong regulation which ensures trust and confidence in markets and can be a positive force on business. We seek to actively participate with government and regulatory bodies to develop regulations that meet the needs of all stakeholders.



Communities

- We use our own capital and invest our policyholders’ funds to make long-term investments in real assets.
- Our purpose is to improve the lives of our customers, build a better society for the long term and create value for our shareholders. This inspires us to use our long-term assets in an economically and socially useful way to benefit everyone in our communities.



Institutional retirement members event

In September 2019, our institutional retirement business held an event for members of company pension schemes transferred to Legal & General. This took place at one of the state of the art retirement villages owned and operated by Inspired Villages backed by Legal & General. The conference provided helpful information on preparing for retirement, as well as offering customers the chance to ask questions about our services.



£100 million commitment to Sunderland regeneration

Sunderland is home to over 5,500 businesses employing more than 100,000 people. Despite this, there has been a lack of development and office space within the city centre has been limited. Our investment, which forms part of the wider 'Riverside Sunderland' project, is expected to support the creation of up to 3,000 new jobs and contribute to Sunderland’s regeneration.

Our businesses

Our five businesses work together to improve the lives of our customers, build a better society and create value.



We always take a long-term business focus, whether managing assets, understanding the changing patterns of how long people live, or delivering solutions to meet our customers' changing needs throughout their lives.

General Insurance

In May 2019 we announced the sale of our General Insurance business, covering household, pet and travel insurance. This sale was completed on 31 December 2019.

Mature Savings

In December 2017 we announced the sale to ReAssure of our Mature Savings business which provides legacy savings and pensions products. This transaction is expected to complete in the first half of 2020.

Institutional retirement

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

Our main business areas are:

- **UK pension risk transfer.** Providing risk transfer solutions for UK DB schemes.
- **Retirement America.** Providing risk transfer solutions for US DB schemes.
- **Reinsurance.** Providing global reinsurance solutions.

 See page 23

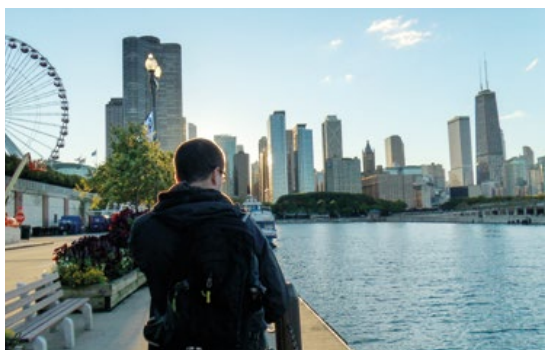
Individual retirement

Legal & General Retirement Retail focuses on providing a broad range of individual retirement solutions, including our lending business which helps retired people use the equity in their homes to boost their retirement finances, and our income business which offers people who are retiring the security of buying annuities and a guaranteed, stable income.

Our main business areas are:

- **Retirement income.** Providing annuities and other pension income products.
- **Retirement lending.** Providing lifetime mortgages to help people increase their retirement resources.
- **Financial advice.** Providing in-house financial advice on our lifetime mortgages.
- **Retirement living solutions.** Helping customers find and fund care for themselves or their relatives.

 See page 28



Investment management

Legal & General Investment Management provides institutional, corporate and individual investment management services. We're an increasingly diversified business focused on those global markets where our expertise can help our wide range of clients meet their investment objectives.

Our main business areas are:

- **Investment management.** Servicing our client base, which includes defined benefit (DB) schemes, defined contribution (DC) schemes, retail investors, and private corporations, both in the UK and internationally.
- **Workplace.** Offering full administration and investment management services to UK DC schemes.
- **Retail investment.** Offering individual investors a range of retail funds and asset management.
- **International.** Building an increasing presence in North America, Asia Pacific and Europe

See page 32

Capital investment

Legal & General Capital generates long-term shareholder value by injecting capital into key sectors where there has been a shortage of investment and innovation. By creating real assets we are able to deliver attractive financial returns, self-manufacture assets for our growing annuity business and source opportunities for our investment management clients.

Our main business areas are:

- **Future cities.** Investing in urban regeneration, infrastructure (digital and social) and clean energy.
- **Housing.** Developing housing through our multi-tenure platform, including CALA, Affordable Homes, Modular Homes and Later Living
- **SME finance.** Providing finance for small businesses.
- **Traded portfolio.** Investing shareholder funds in equities, fixed income and other short-term liquid holdings.

See page 36

Insurance

Legal & General Insurance helps safeguard people's futures from the financial effect of death, critical illness or long-term disability. We also help customers in the home buying process and in managing debt, as well as invest in Fintech opportunities and developing solutions to support our customer experience.

Our main business areas are:

- **UK retail protection.** Providing life insurance, critical illness and income protection for individuals.
- **UK group protection.** Helping companies protect their employees.
- **US protection.** Providing term life insurance cover.
- **UK mortgage club and surveying businesses.** Providing mortgage distribution and home survey/valuation services.
- **Fintech solutions.** Developing solutions and making targeted investments in start-up and scale-up opportunities.

See page 40

Group Chief Financial Officer's Q&A



“

Together, our five businesses form a mutually reinforcing business model with unique synergies in pension de-risking, insurance, asset manufacturing and asset management, enabling us to deliver a return on equity of c.20%.”

Jeff Davies
Group CFO

Looking at earnings per share (EPS), it seems you have already delivered on your ambition to grow EPS at 10% per annum from 2015 to 2020. What is next for the group?

We are very happy with the group's consistent earnings growth, which has delivered 12% compound annual growth rate (CAGR) to shareholders since 2015, despite periods of market volatility. 2019 was another strong year: we delivered IFRS return on equity of 20.4% and grew operating profit by 12% to £2.1 billion, excluding mortality reserve releases. Operating profit including mortality reserve releases was £2.3 billion, down 2%, driven by the lower mortality reserve releases in 2019 compared to 2018.

The group's success is built on long-term structural growth drivers including 'ageing demographics' and 'technological innovation', for example. We have now added 'addressing climate change', given the need for investment to tackle the issues here.

Based on these drivers we select businesses which have strong growth outlooks for many years, across opportunities such as pension risk transfer (PRT), defined contribution (DC) fund management, and affordable housing. Together, our five businesses form a mutually reinforcing business model with unique synergies in pension de-risking, insurance, asset manufacturing and asset management, enabling us to deliver a return on equity of c.20%.

Consequently, we believe we are well placed to continue delivering healthy profit growth for our shareholders beyond 2020. As we approach the end of 2020 we will update the market with our new medium-term financial ambition.

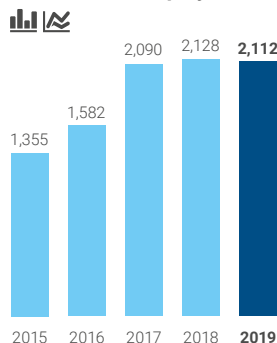
The total premium in the UK PRT market was nearly double the level of the previous year. What are the future prospects for the market and for Legal & General?

Companies are increasingly focused on transferring their legacy Defined Benefit (DB) pension obligations to insurers, fuelling the double-digit PRT annual market growth seen over the past decade. 2019 was the largest year yet in the UK PRT market, with over £40 billion estimated to have been underwritten. Demand from companies and pension plans for insurance remains robust, with £2.1 trillion of total corporate DB liabilities in the UK, including more than £770 billion of PRT demand potentially arising in the UK over the next decade. We are well positioned within the market to achieve our ambition of writing £40 billion to £50 billion of new business over the next five years.

PRT is a global trend and our institutional retirement business also operates in the US, the Netherlands, Ireland, and Canada, which together have more than £3 trillion of corporate DB pension liabilities. 2019 was our first year to write more than \$1 billion of US PRT premiums in a single year, including our first fully retained transaction for more than \$200 million, heralding a new phase of growth for our US business.

Our business model, with its synergies and international reach, makes us more resilient to competition and margin compression in any particular PRT market. We are able to efficiently allocate capital across these markets to hit our return targets, supported by our reinsurance operations in Bermuda.

Adjusted profit before tax (PBT) attributable to equity holders (£m)



£2,112m

(2018: £2,128m)

KPI purpose: To measure the actual distributable earnings (before tax) attributable to shareholders of the group. This includes discontinued operations and reflects actual returns on investments.

Adjusted profit before tax attributable to equity holders decreased marginally by 1%. Excluding the mortality release in our retirement business, following a review of our life expectancy improvement assumptions, of £155 million gross of tax (2018: £433 million gross of tax), the adjusted PBT increased by 15%.

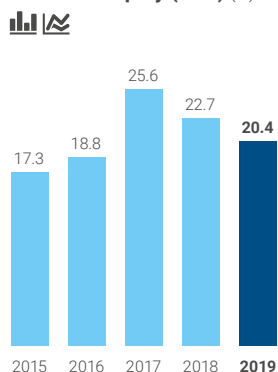
Underlying profitability was dominated by a record year in our retirement business, where we wrote £11.4 billion in new global pension risk transfer deals. Our capital investment business also provided significant year on year growth in profit due to positive performance across global equities, benefitting the traded portfolio. This was partially offset by the impact of the reduction in UK and US long-term interest rates on the reserves held in our Protection businesses.

Guide to symbols used in these financial results

Alternative performance measure (APM), see page 256 for definitions

Key measure in the remuneration of executives, see pages 87 to 93 for definitions

Return on equity (ROE) (%)



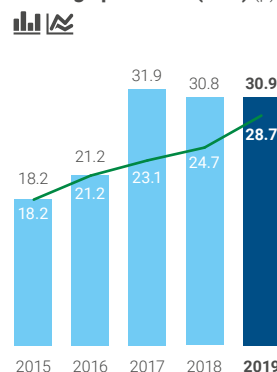
20.4%

(2018: 22.7%)

KPI purpose: To show how efficiently we are using our financial resources to generate a return for shareholders.

The return on equity of 20.4% was driven by another year of strong earnings performance. This was despite a lower contribution from mortality releases of £134 million after tax in 2019 (2018: £359 million after tax) and increased project spend.

Earnings per share (EPS) (p)



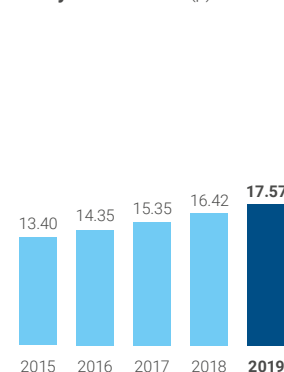
30.9p

(2018: 30.8p)

KPI purpose: To illustrate the profitability associated with each share owned by our investors.

EPS increased slightly by 0.1 pence. Excluding the impact of mortality releases in the retirement business, where we reviewed life expectancy improvement assumptions, EPS increased from 24.7 pence to 28.7 pence, an increase of 16%.

Full year dividend (p)



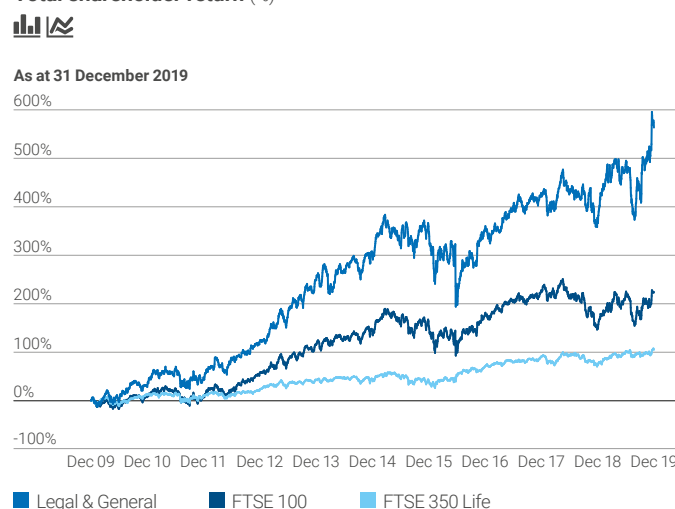
17.57p

(2018: 16.42p)

KPI purpose: To show the level of distribution to shareholders.

In line with our progressive dividend policy reflecting the group's expected medium-term underlying business growth, the Board has recommended an increase of 7% in the full year dividend to 17.57 pence (2018: 16.42 pence). The cost of the full year dividend is £1,047 million (2018: £978 million). Our 2019 full year dividend was covered by net release from operations 1.5 times and by dividends remitted from subsidiaries 1.2 times.

Total shareholder return (%)



40%

(2018: 3%)

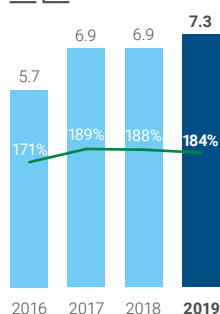
KPI purpose: To measure the total return to shareholders, including dividends and share price movements, over time.

We have outperformed the sector and FTSE 100, delivering a TSR of 40% in 2019.

Group Chief Financial Officer's Q&A continued

Solvency II surplus and coverage*

(£bn)



£7.3bn

(2018: £6.9bn)

184%

(2018: 188%)

KPI purpose: To demonstrate the capital position and risk profile of the group.

The group's capital position remains strong with a £7.3 billion Solvency II surplus (2018: £6.9 billion) and a 184% coverage ratio (2018: 188%) on a 'shareholder view' basis. When stated on a pro-forma basis the group's coverage ratio is 179%** (2018: 181%).

* Represents Solvency II surplus and coverage on a 'shareholder view' basis. See page 208 for more details

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

The mortality release is considerably lower than in 2018. Is the trend reversing?

In recent years we have seen a slowdown in improvements in longevity, so although people are living longer overall, they are not living quite as long as we had assumed. As a result, we have released £0.9 billion of mortality reserves over the past three years.

Our mortality reserve release of £155 million in 2019 relates to what UK population data up to 2017 tells us about likely improvements in the near term. The observed slowdown in longevity has persisted for several years and, while we maintain our cautious view of longevity, we believe we should recognise this trend in our assumptions. Therefore, we have slightly increased our projection of the number of deaths in each year, consequently reducing the required mortality reserve and resulting in a reserve release.

The £155 million mortality reserve release is only incorporating data up to 2017 adjusted for our view of how this impacts our annuitants. Based on our preliminary review of the more recent data, we see the trend of a slowdown in improvements continuing. In the coming years we will analyse the data for the population and our own annuitants, assessing the likelihood of a further sustained slowdown in longevity improvements. If we do choose to make changes, it will be done cautiously in stages.

You have talked about the importance of technology to the insurance and asset management industries and we see that the investment projects spend has increased in 2019. Can you outline your technology investment plans over the coming years?

As I have said before, technology is absolutely essential to the long-term success of our business. Improvements in digital tools over the past several years have improved our speed to market, the quality of customer service and the efficiency of our processes. We rely on technology to allow us to deliver our growth ambitions, scaling our businesses without adding unnecessary costs or headcount.

Across the group we have sought to convert labour intensive administrative tasks into efficient algorithms, or 'robots', freeing our people to focus on innovation and problem solving. We have further relied on big data to support our product pricing and customer experience, delivering improved customer outcomes and more business insights.

Continuing our focus on optimising and simplifying security for our customers, we have launched a new password free login option for our online self-service websites, benefitting 3 million registered customers. This is the first phase of an ambitious programme of new features and improved design.

We have continued to implement system advancements and parallel processing technology that allows us to price a full PRT quote up to 66% faster than before. Across our investment management business and our group finance function, we have been able to meet growing demands by using 20 robots to do the work of 23 full time staff.

We continue to invest in cybersecurity improvements, IT infrastructure upgrades and preparation for the implementation of IFRS 17. Our objective is to achieve the maximum efficiency from these developments to advance the digitisation and automation of our businesses and processes.

Technology is a journey which rewards those who constantly challenge. As we invest throughout our businesses, we seek to self-disrupt, continually reshaping our business and reskilling our people in the process.

Guide to symbols used in these financial results

Alternative performance measure (APM), see page 256 for definitions

Key measure in the remuneration of executives, see pages 87 to 93 for definitions

Tax review

Our approach to tax

Our approach to taxation is aligned with our purpose to improve the lives of customers, build a better society and create value for our shareholders. We aim for our tax affairs to be sustainable in the long term, well governed, fair and transparent. We take pride in the contribution we make to society through our products, our investments in businesses, in housing and other infrastructure assets, and through the taxes we pay and collect.

Our tax strategy and our approach to tax risk management shape how we manage our tax affairs, and guide what we will and won't do. It applies to all of our group businesses as well as our approach to tax in our role as a significant investor in other companies. Our tax strategy is set out in our Group Tax Supplement, which can be found at legalandgeneralgroup.com/investors/results-reports-and-presentations and in which we also include an analysis of our international tax footprint.

Our 2019 tax position

The Group's effective tax rate is primarily driven by the differing tax rates that apply on profits arising from the principal territories in which we operate.

Territory	Tax rate
UK	19.0%
US	21.0%
Bermuda	0.0%
Ireland	12.5%
Hong Kong	16.5%
Japan	30.62%

Our effective tax rate on profit attributable to equity holders for 2019 is 14.3% (2018: 15.0%) compared to the headline UK rate of 19% for the year. The lower tax rate is principally driven by the 0% rate of taxation on profits arising in our Bermudan reinsurance hub.

Our global reinsurance hub provides our business with regulatory capital flexibility for both our UK and international pension risk transfer (PRT) business and our US term insurance business. This enables us to write more business in a capital efficient way in the UK, US and new markets. This in turn has allowed us to support new business and to invest more money in socially useful assets such as housing and other infrastructure projects in the UK.

Our total corporation tax charge of £598 million has increased in 2019 (2018: £210 million), reflecting strong investment returns off the back of positive market movements. Our income tax paid for the year of £540 million (2018: £504 million) reflects the continuing underlying profitability of our businesses, the timing of cash tax payments and the impact of withholding taxes on investments held by the group.



Grace Stevens
Chief Tax Officer

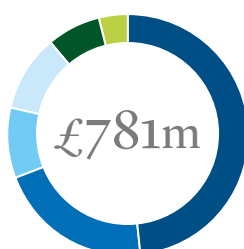
£1,563m

In 2019 our total tax contribution was £1,563 million (2018: £1,265 million) of which 96% (2018: 94%) arose in our UK businesses and 4% (2018: 6%) in our overseas businesses. See below for further details.

Total tax contribution (£m)

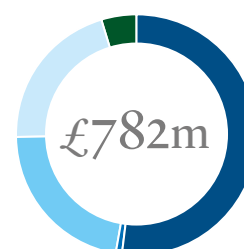
Our total tax contribution is the amount of tax that we pay together with the amount of tax that we collect on behalf of our employees, suppliers, customers and policy holders.

Total taxes paid



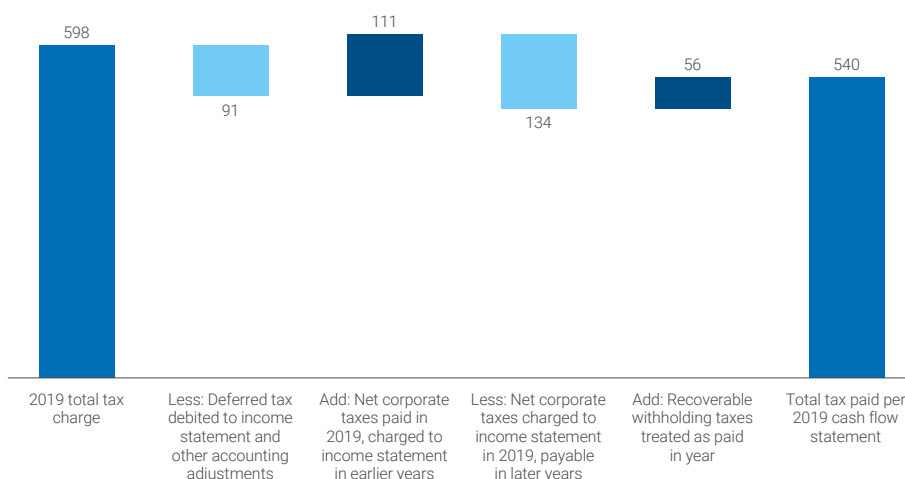
- £381m UK profit taxes paid
- £166m Withholding taxes suffered in the UK
- £73m UK property and other taxes paid
- £81m UK irrecoverable VAT and premium taxes
- £57m UK payroll taxes paid
- £7m Overseas profit taxes paid
- £30m Other overseas taxes paid

Total taxes collected



- £408m UK PAYE deducted from policyholders
- £6m UK property and other taxes collected
- £172m UK VAT and premium tax collected
- £161m UK payroll taxes collected
- £35m Overseas taxes collected

FY 2019 reconciliation from total tax charge to total profit taxes paid (£m)



Business review

Our consistent strategy, unique synergies and high quality people have enabled all five of our businesses to contribute strong financial results and positive outcomes for our stakeholders.

>£4.6 billion

Pension de-risking transaction with Rolls-Royce

>\$1.1 billion

US annuity sales

£37 billion

Continuing our international expansion with a c.\$50 billion Japanese global index mandate

We have accomplished record pension risk transfer volumes in the UK and US, entered into exciting new distribution and investment partnerships and focused on developing our product offering to meet the changing needs of our society.

Outlook

Our strategy and growth drivers have delivered consistently strong returns and we are confident they will support our goal to deliver inclusive capitalism, growing value for shareholders, customers and the broader economy.

Projected demand in the UK pension de-risking market far outstrips supply and represents an enormous opportunity for our institutional retirement business. We intend to write £40 to £50 billion of UK pension de-risking business over the next five years. The market opportunity in the US is significant, with \$3.5 trillion of defined benefit liabilities and only c.6% transacted to date.

Driven by ageing demographics and welfare reforms, the individual retirement market continues to expand, both in terms of the numbers of retirees and the levels of wealth they hold. Our individual retirement and investment management businesses continue to work together to develop a broad range of retirement solutions for our customers.

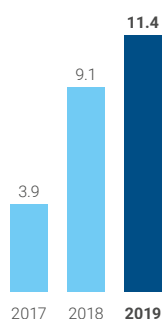
Our investment management business is well positioned to continue driving net flows, and to deliver meaningful earnings growth, as we continue to modernise, diversify and expand internationally. We benefit from global trends in retirement saving and structural shifts in product demand by offering our clients a diverse range of investment capabilities, including environmental, social and governance integration.

We continue to seek opportunities to create real assets in our capital investment business, where we see a need for private long-term capital to support future cities, housing, and innovative funding. Our diversified investment strategy will increasingly manufacture assets that back our annuity commitments and provide opportunities for clients of our investment management business.

We anticipate continued premium growth in our insurance business, supported by our distribution relationships and investment in systems and products, whilst maintaining strong profits. Our group protection business's market share is projected to increase and we expect continued growth from SalaryFinance as the business accesses more employees and diversifies the services offered.

Institutional retirement

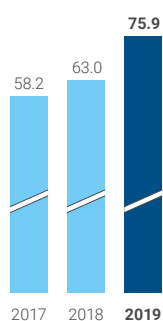
Institutional retirement sales £bn



£11.4bn

Institutional retirement achieved record breaking annuity sales, both in the UK and globally. UK sales of £10.3 billion delivered a 24% increase over 2018 and global sales of £11.4 billion delivered a 25% increase over 2018. In the US we wrote over \$1.1 billion (£893 million) of volume in a single year for the first time. Strategically, institutional retirement is well placed to meet the increasing demand for pension de-risking.

Annuity assets £bn



£75.9bn

Our well diversified annuity asset portfolio increased by 20% to £75.9 billion, driven by £11.4 billion of annuity sales partly offset by the ongoing impact of the run-off of existing business over time. Figures quoted cover both the institutional and individual retirement assets.



Laura Mason
Chief Executive Officer,
Legal & General Retirement Institutional

CEO introduction

Institutional retirement has had another strong year due to our unique combination of pension, actuarial and innovative structuring expertise, coupled with the capacity to create and source long-term direct investments at scale. We are proud of how we are able to work with our investment management business to put pension scheme money to work in our economy and communities, through projects such as clean energy, build to rent and regeneration of our city centres across the UK. The market potential for our global pension risk transfer (PRT) and reinsurance business is exceptional and we are well positioned to make the most of the opportunity.

2019 key activities

Market leading insurance solutions provider

We are a market leading insurance solutions provider to defined benefit pension plans, allowing companies to focus on the running of their business, while ensuring that the long-term benefits promised to pension scheme members are fulfilled.

Through our synergies across the group, we bring together expertise in investment management, asset sourcing, long-term client relationships and in-depth knowledge in mortality trends and longevity risk. As always, we remain disciplined in the deployment of our capital, selecting opportunities that allow us to invest at high credit quality and meet our return targets. Our asset portfolio backing our annuity liabilities is well diversified by sector and geography and approximately two-thirds of our bond portfolio was A minus rated or better.

We have a strong reputation for innovation and bespoke approaches to develop solutions that improve affordability for pension schemes and help them on their de-risking journey. We have access to a wide range of asset sources to back future liabilities in an increasingly competitive market. We continue to use assets that are economically and socially useful, whilst generating long-term returns which are a good match for our pension commitments.

We are well placed to meet the increasing demand for pension de-risking solutions. It was just a few years ago that the UK PRT market was celebrating annual volumes of £10 – £15 billion. In 2019, we believe the market exceeded £40 billion, the highest year on record. Growth potential for PRT is huge and we anticipate the demand for these solutions to continue to grow as pension schemes become better funded.

New business

We have had a record year capturing £10.3 billion of new UK business in 2019, writing 28 transactions during the year. These ranged from completing a number of significantly sized transactions to successfully delivering at the smaller scheme end of the market through our streamlined and efficient approach.

We are increasingly helping to bridge affordability gaps for less well-funded plans, supporting a pathway to buy-in or buyout. We have expanded our range of products by offering solutions that give schemes that are not currently transaction-ready more affordable options. Our solution offering includes options to have partial insurance protection with a pathway to buy-in or buyout, including assured payment policies (APP) and insured self-sufficiency (ISS). In December 2019, we agreed a £1.1 billion de-risking transaction for the AIB Group UK Pension Scheme which included an APP.

We are a whole of market provider, with transactions ranging from around £2 million to over £4.6 billion in 2019, developing bespoke solutions in collaboration with our investment management business which provides a competitive advantage at the high value end of the market. A significant percentage of PRT transactions originate from our investment management business. In 2019 we have demonstrated our market leadership by continuing to write a series of large transactions using our solutions capabilities, as well as leveraging our long-term relationships, including:

£4.6 billion partial buyout with Rolls-Royce Pension Fund

In June 2019, we announced a partial buyout with Rolls-Royce Pension Fund, in excess of £4.6 billion, covering approximately 33,000 in-payment pensioners. This follows the £1.1 billion buyout for the Vickers Group Pension Scheme, part of the Rolls-Royce group, in 2016, covering 11,000 members. This exemplifies our extensive strengths and synergies across the business, given our long standing relationship with Rolls-Royce, having provided investment management services to the pension plan since 1989.

Institutional retirement continued

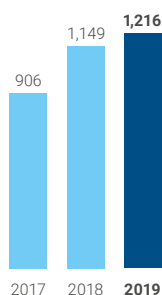


Our business is about securing and protecting members' benefits and investing for the future. We are building a business that is global in scale and that offers a genuine solution to one of society's great challenges."

Laura Mason

Chief Executive Officer, Legal & General Retirement Institutional

Institutional retirement operating profit £m



£1,216m

Operating profit grew 6% to £1,216 million (2018: £1,149 million), driven by higher new business volumes. The figures shown include releases associated with changes to future mortality improvements.

£1.6 billion partial buy-in with the National Grid UK Pension Scheme

The National Grid UK Pension Scheme is a £20 billion defined benefit pension scheme, primarily for previous employees of the gas industry. Following on from our existing management mandate with the scheme we have provided further security to over 6,000 scheme members.

£930m full buy-in for the members of the Tate & Lyle Pension Scheme

This buy-in follows the first transaction undertaken by the Trustee in 2012 for £350 million, meaning that all scheme members are now covered by Legal & General, with a total value of close to £1.2 billion. This transaction covers around 4,800 members which, in addition to the 2012 transaction, means around 6,700 members are now fully covered.

Long standing client relationships

We continue to build relationships and support schemes over a number of years – either through initial investment mandates with our investment management business or through supporting Trustees during their extended de-risking journeys. The Rolls-Royce relationship is a great example of this.

We helped Hitachi to finish their de-risking journey in 2019, having completed two prior pensioners only buy-ins in 2012 and 2013, by providing insurance cover for all remaining members.

We agreed a buyout for US-owned law firm Edwards Wildman Palmer LLP's UK pension scheme, an existing investment management client. Investing in our range of buyout aware funds allowed the scheme to achieve price certainty and a cost effective, seamless asset transfer, and to implement their strategy to reach their objective of a buyout.

International pension de-risking business

We continue to grow our de-risking business internationally, working with partners and developing innovative solutions and technology to build our market presence.

Our US pensions de-risking business experienced another successful year of growth, achieving over \$1.1 billion (£893 million) of premiums, including our first fully retained transaction for more than \$200 million. Our total premiums since launch reached over \$3.5 billion and we have completed 55 transactions, including repeat clients, which not only demonstrates our exceptional client service but also our commitment to our clients' de-risking journey. We anticipate continued levels of high activity for 2020. US pension plan terminations are still on an upward trend due to increased contributions in response to tax reform and we expect this to carry on throughout 2020.

Our global pensions de-risking offering was bolstered during 2019 through our Bermuda-based reinsurance business writing its first reinsurance transaction in Canada for more than CAD \$200 million (more than £114 million). This was supported by a new strategic partnership, taking a meaningful quota-share of the total buy-in liabilities written by Brookfield Annuity Company. The Canadian PRT market is an attractive and fast-growing market and, with our new partnership, we are well positioned to capture a sizeable share.

In 2019, our global reinsurance business launched 'Estua-re', its reinsurance platform driven by blockchain technology. It has the ability to replace multiple processes and systems, with the added security of blockchain technology.

Bermuda is a significant reinsurance market with a robust, Solvency II equivalent, regulatory framework and a well-established regulator.



Innovative de-risking

In 2019 we introduced our assured payment policy solution (APP) and in February 2020, we completed a £1.1 billion de-risking transaction for the AIB Group UK Pension Scheme covering over 1,300 members.

The transaction was split between a £850 million pensioner buy-in and a £250 million APP. The APP structure was ideal for what the Scheme and AIB were working to achieve.

Our global reinsurance hub was set up to enable us to write more business in a capital efficient way in the UK, the US and in new markets.

Investing for good using the power of pensions

We are committed to investing in the future of our towns and cities across the UK on behalf of our annuity policyholders, with a focus on where we can play an important part in people's daily lives. This is a demonstration of our purpose to deliver inclusive capitalism, using our assets in an economically and socially useful way.

When we transact on a de-risking solution we invest the premium received in order to back the pension promises that we are now responsible for keeping. We invest in a diversified portfolio of corporate bonds and increasingly in large scale direct investments. By doing so, we provide financing to local governments, authorities and businesses across the UK and help build the infrastructure that will be the foundation of our future economic growth. In this way, the savings of the older generations are being used to finance the economic growth for the younger generations whilst creating long-term returns which are a good match for our pension commitments.

Helping society

We have been able to support our long-term pension commitments whilst improving lives by developing financial structures that benefit local authorities and their residents.

We provided £285 million in funding, secured on an underlying property portfolio of 473 commercial assets located in and around Glasgow, to support Glasgow City Council in addressing their historic equal pay issues through the provision of the majority of the capital required to meet this liability. It is estimated that around 12,000 Glasgow city households will be positively affected by the settlement of the equal pay dispute.

Our £45 million investment in social housing in Croydon is already providing much needed housing for local families, many of whom were living in temporary accommodation. The partnership will improve family housing provision and creates around £20 million in savings for the council through reduction in debt costs over the life of the agreement. In March 2020 we announced an additional £21 million of investment, increasing to 250 the number of homes being provided.

Investing in infrastructure

We have continued our investment in transport in 2019, with £200 million in long-term debt financing to support the purchase of new Wales & Borders rolling stock fleet which will be a critical part of delivering increased capacity for a rail service in and around Cardiff. This transaction marks our fifth long-term financing

investment of this kind, increasing our exposure to transport and demonstrating a continued commitment to UK infrastructure.

We also invested in solar power generation with a £57 million long-term debt financing agreement to support Hermes Infrastructure, which provides solar photovoltaic systems for over 9,000 residential homes across the UK. This is a great example of how, across the group, we are seeking opportunities to address climate change and required energy transition.

Investing in real assets

In 2019, we entered into four new Government Hub investments and four of our ongoing investments reached practical completion, driving sustainable regional growth and aiding job creation across the UK, and bringing our annuity portfolio's total investment in these assets to over £1.2 billion. We work closely with developers and HMRC to structure these leases to ensure they are the best match for our pension commitments.

We purchased the long leasehold of a student accommodation residence which has been fully let to Christ Church, a college in the University of Oxford, for approximately £37 million. This is an excellent acquisition for our annuity portfolio, matching our continued appetite for long-term income streams which can offer a hedge against inflation. This investment also supports the wider £4 billion group commitment with the University of Oxford.

We continue to invest in commercial mortgage loans, provided by our investment management business, including £420 million in long-term financing to support Almacantar on the debt refinancing of One and Two Southbank Place in London.

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

Understanding the risks

Taking on the responsibility for pension scheme liabilities and providing income in retirement exposes us to the risk that people may live longer than we have anticipated, or that we experience defaults in the investments backing our obligations. As well as pricing for longevity risks, we use reinsurance to manage selected risks, with our investment management business's credit and property experts assessing and managing default risks.



BBC Gardeners' World Live

We met with many of our retirement customers at the 2019 BBC Gardeners' World Live event in Birmingham in June 2019. Working with the Legal & General backed Inspired Villages Group and Royal Voluntary Service, with our commitment to their 'Step Forward' campaign, we provided our retirement customers with a chance to meet our customer service teams and to ask any questions about our business over a relaxing cup of tea or coffee.

International

Driving international growth

In 2019, international assets under management continued to grow. We also saw a number of significant pension risk transfer transactions in North America and we continued to expand insurance distribution channels, as well as our digital capabilities. Our business is becoming increasingly international and we expect this to continue into 2020 and beyond.

Building international assets

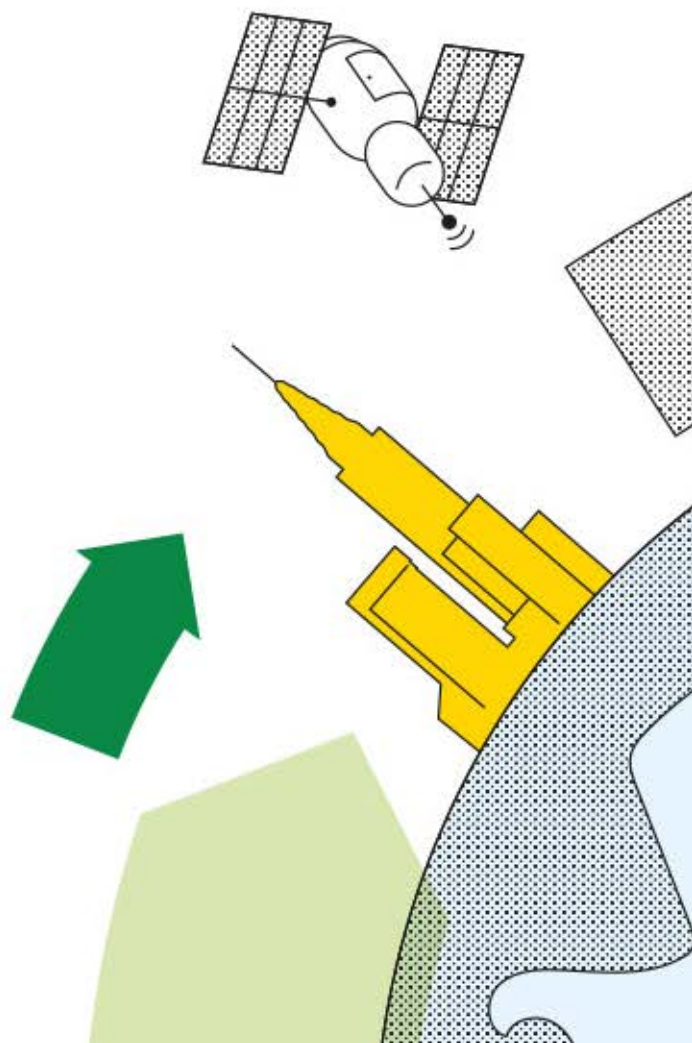
Our investment management business experienced strong growth globally in 2019. In the US, we passed \$245 billion in total assets under management.

In Asia, we successfully implemented a new Japanese operating model and expanded our employee base both in Japan and Hong Kong. We were awarded a £37 billion passive mandate with the Japan Government Pension Investment Fund which established us as a top three non-domestic manager in the institutional pension market at the time. And in the Middle East, we have around £49 billion of assets under management.

In Europe, we saw strong activity and flows in key markets and are well placed to continue to service European clients following the UK's departure from the European Union.

£370 billion

international assets under management



Protecting American families

We are a leading provider of brokerage term life insurance in the US with 1.3 million policyholders. Our continued expansion of partnerships and direct distribution channels enables us to build on the success achieved through existing broker and agency channels. We have introduced automated telephone services for customers, including some available 24/7, and have maintained strong customer satisfaction scores. This has helped us gain over 2,000 new direct-to-consumer customers in 2019.

1.3 million

US policy holders



Driving digital innovation

We are investing in automation and technology in the US to take advantage of growth opportunities and streamline processes by removing manual tasks through robotic process automation (RPA).

In 2019, our global reinsurance business launched 'Estua-re', its reinsurance platform driven by blockchain technology.

In the US, the SalaryFinance digital financial wellbeing platform has reached more than 130,000 employees within its first year of operation, in addition to the platform's 1.3 million UK customers.

130,000

US based customers in first year of operation for SalaryFinance

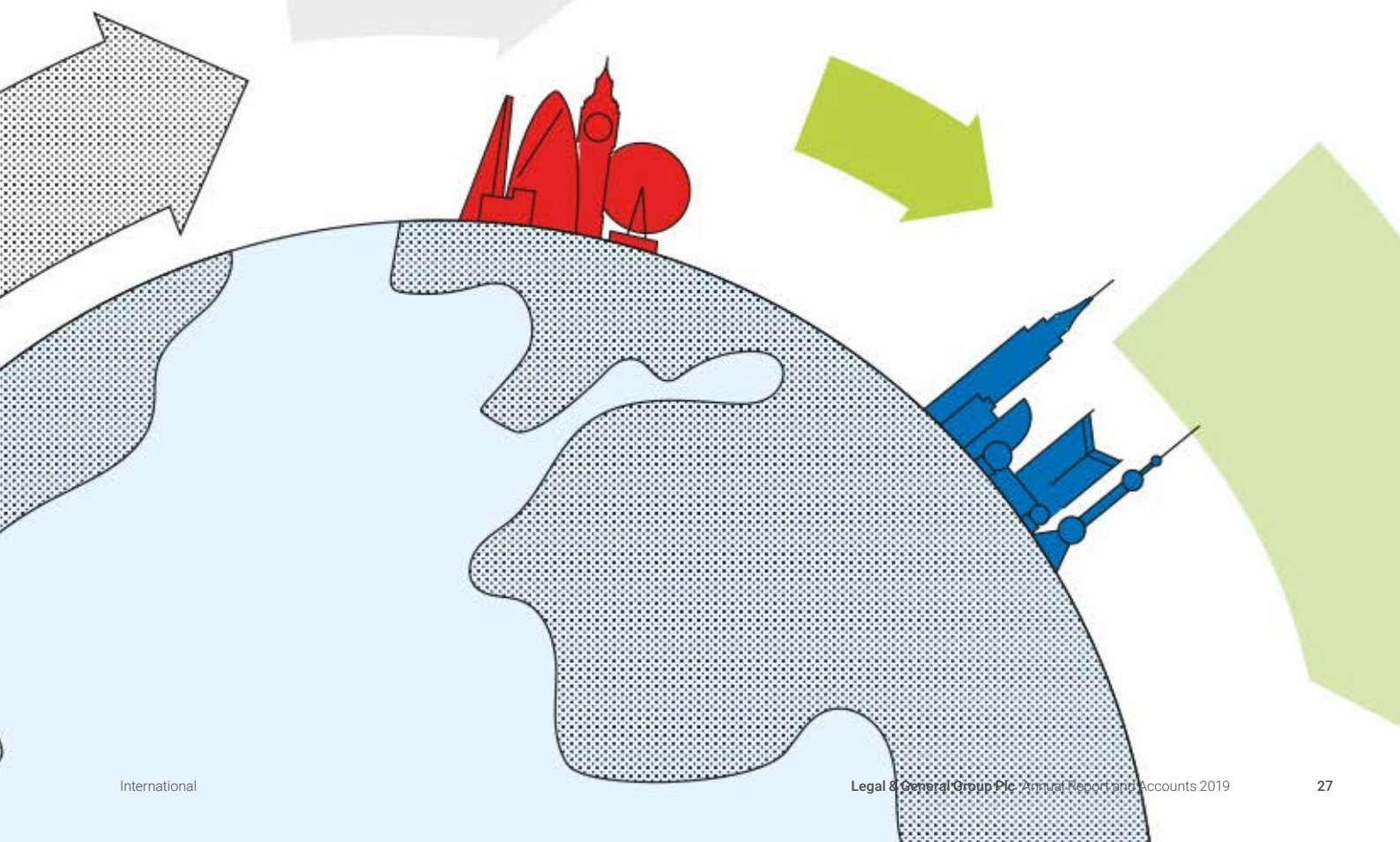
Pension risk transfer

The US PRT market is growing rapidly with over \$3.5 trillion of liabilities in US DB schemes. In 2019 we secured over \$1.1 billion of US premiums (£893 million), with over \$3.5 billion written since our launch in the US in 2015.

In 2019 we agreed our first Canadian PRT transaction for more than CAD \$200 million (more than £114 million). The Canadian market is attractive and fast growing – we estimate that it has more than doubled in size over the last five years to reach sales in 2019 of CAD \$5 billion (£3 billion).

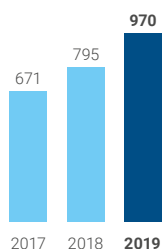
\$1.1 billion

2019 US pension de-risking premiums



Individual retirement

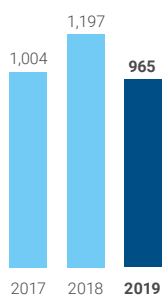
Individual annuity sales £m



£970m

We have had a strong 2019 with new business volumes of £970m up 22% against 2018 volumes. This has been driven by our growing strength in the independent financial adviser market and our competitive pricing, particularly in the first half of the year.

Lifetime mortgages £m



£965m

Lifetime mortgages lending volumes of £965m were 19% lower than sales achieved in 2018. We focused on managing risk by maintaining our pricing and underwriting discipline, and achieved a market share of 25% despite increased competition.



Chris Knight
Chief Executive Officer,
Legal & General Retirement Retail

CEO introduction

We have finished 2019 with four complementary businesses offering a broad retirement service. Our ambition is to become the UK's leading retirement brand whilst helping people achieve longer, healthier and happier lives in retirement. Our thinking is rooted in what our customers tell us, and they are saying, loudly and clearly, that traditional retirement is an outdated concept. In a modern retirement, there are dreams and ambitions, triumphs and challenges as with any time of life. We are focused on having propositions that guide customers through this colourful retirement journey.

2019 key activities

Retirement income

We deliver a range of valued retirement income solutions, helping our customers to achieve their retirement goals. Our growing strength has led to positive year on year growth in individual annuity sales; we remain one of the leading providers of individual annuities.

Over 2019 we have built on our successful relationships across the retirement industry. This included a new partnership with Prudential offering annuities to a section of their customers. This agreement reflects our commitment to the annuities market and is the fourth of its kind. Following the initial success, we expect our partnership with Prudential to increase our annuity sales in 2020 by 15%.

We have continued to invest in our systems and digital customer journeys. As part of our ambition to reduce the end-to-end journey time and enhance our customers' experience, we have made purchasing an annuity easier. In November 2019, we commissioned Annuity Ready, a whole-of-market comparison service. Annuity Ready has been developed through and is independently run by theidol.com, part of the Fintech area within our insurance business. This is a great example of how our businesses work together and leverage in-house expertise to support customer needs.

A key development of 2019 was the acquisition of 'MyFutureNow', a platform specialising in pension pot tracing and consolidation, which will help us in our mission to support consumers at this critical stage in life and respond to customer feedback. MyFutureNow will allow customers to trace their lost or forgotten pension pots and provides a single dashboard view of an individual's pension savings portfolio.

We will continue to enhance our proposition to achieve new distribution opportunities to lead the market towards better customer outcomes for all.

Retirement lending

We have now reached around £4 billion of total lending since we entered the market in 2015. Our success in this market to date has given us a market share of 25% in 2019 whilst remaining focused on maintaining pricing and underwriting discipline.

After five years of strong growth, the lifetime mortgage market plateaued in 2019; although time will eventually tell, we view this as temporary and we are committed to repositioning housing wealth as a key component of holistic retirement planning.

By continually innovating and providing more flexible and relevant lending solutions, we are well placed to disrupt current accepted norms and to help people achieve the right financial outcomes in retirement. Over 2019, we have refined our retirement lending offering, ensuring customer needs are met whilst implementing further variations to broaden the market. We have introduced new levels of loan-to-value and a new downsizing protection feature for customers who choose to move home in later life. Our retirement interest only mortgage, soft launched in December 2019, marked our first move into residential mortgage lending. Our broader offering provides advisers and over-55 consumers more choice in the later life lending market.

Borrowing in retirement is becoming more popular amongst over-55s. To continue growing the later life lending market and meeting the needs of homeowners, we have launched a series of 'Setting the Foundations' workshops for advisers of equity release. By equipping advisers with the knowledge to provide advice on lifetime mortgages, we ensure our customers are getting helpful, transparent and reliable information to make informed decisions.



Our thinking is rooted in what our customers tell us, and they are saying, loudly and clearly, that traditional retirement is an outdated concept.”

Chris Knight

Chief Executive Officer,
Legal & General Retirement Retail

Financial advice

In November 2019, we launched our financial advice business, starting with 19 advisers and initially focused on our lifetime mortgage products. Once we have firmly established this offering, we will look to move into broader retirement-related products and advice needs. We will continue to work closely with our intermediary partners to improve access to and raise awareness around later life lending. By bridging the lifetime mortgage advice gap, training advisers and offering personal, high standard, accessible advice we will help our customers enjoy a more colourful retirement.

Retirement living solutions

We know from listening to our customers that their concerns for retirement are not just financial. They are telling us that they want our help to navigate through the challenges of long-term care. Our team of experts and our technology will help people to understand, find and fund the care they need for themselves or their loved ones.

Over £20 billion a year is spent on the formal care economy in the UK, and it is estimated that £140 billion of time is given by friends and family in informal care. We aim to build the UK marketplace for finding care through our investment in Care Sourcer, a digital app for people seeking care. In 2019, we invested in Current Health, the leading remote patient monitoring platform, allowing patients to be cared for better at home, where they stay healthy and remain happiest. Our investments in the care sector will help individuals lead longer, healthier, happier lives in retirement and lead to building a better and fairer society for all.

We work with Royal Voluntary Service (RVS) and in 2019 we supported their ‘Step Forward’ campaign to inspire more people to volunteer their time to benefit their local communities. We’ve also established a customer referral service with RVS. We have trained colleagues to recognise vulnerable customers who may be struggling with loneliness and would benefit from a ‘safe and well check’ by RVS. Research shows that more than two million over 75s live alone and around 1.9 million older people often feel ignored or invisible; our work with RVS is a small step towards addressing this.

Understanding the risks

In providing individual retirement products we have to make assumptions about how long people may live. We seek to price our products to take account of these risk factors. We also price and underwrite lifetime mortgages to reflect our assessment of the outlook for the housing market, long-term interest rates, longevity and the quality of mortgage security. We are positively exposed to a 2020 recovery in the UK economy, however a continued or further slowdown in the economy will challenge our target volumes for lending.



Colourful retirement photo competition

We rallied UK retirees to challenge stereotyped retirement imagery through a national photo competition. Research highlights the changing face of modern retirement and the diverse selection of winning photos is being used throughout our branding.

Customers

Working in our customers' interests

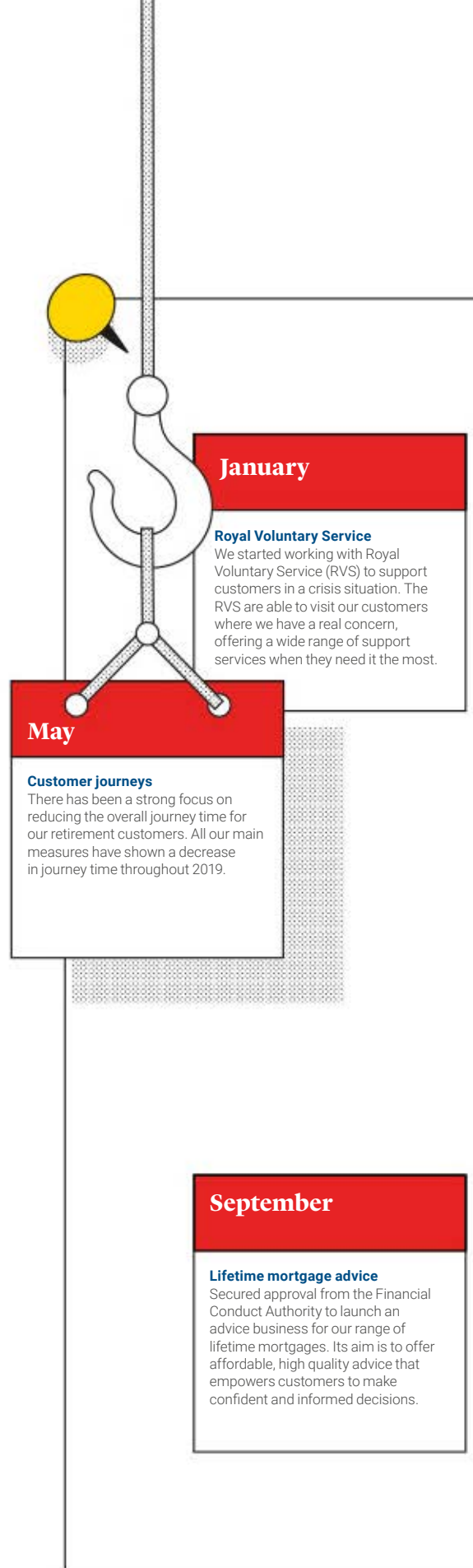
For over 180 years we have provided financial services to customers across the UK and, more recently, the US, Asia and Europe. Our business is built on understanding people, how long they live, what risks they are comfortable with and their changing needs throughout life. We are experts in safeguarding people's financial futures.

We design and distribute our retail products so they become more accessible, transparent and simpler to purchase by innovating product design. And we create great outcomes for all our customers by building the right culture across our business.



Customer assistance helpline

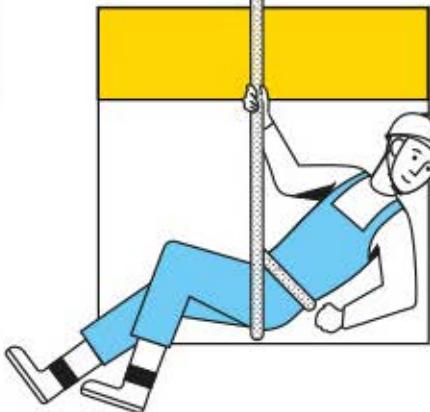
Our lifetime mortgage business's customer assistance helpline offers free 24/7 independent and confidential advice on a wide range of areas, including legal guidance, bereavement support, financial matters and health and wellbeing. This is being rolled out across our retirement businesses in 2020.





February

Financial wellbeing
Financial wellbeing platform launched for workplace pension scheme members. The Financial Wellbeing hub provides practical tools and information around four key themes to help members feel financially confident now and in the future.



April

Dementia Friends
Our lifetime mortgage business is now a dementia friendly business with many employees achieving the status of 'Dementia Friend'. These employees are able to support our customers and people in our community living with dementia, as well as their carers.

June

Random Acts of Kindness
The initiative allows our customer service teams to identify opportunities to show we have listened and care by sending something, such as a card or flowers, to customers in the post following initial conversations.

July

Vulnerable customer training
Increased focus on training and development on Vulnerable Customer (VC) needs. All teams invited to attend training sessions delivered by Royal Voluntary Service in Hove and Solihull. Businesses now have VC champions and leads supported by VC Committees.

August

What Our Customers Are Saying
'What Our Customers Are Saying' is a forum that brings all operational areas of our insurance business together to review and action survey feedback.

October

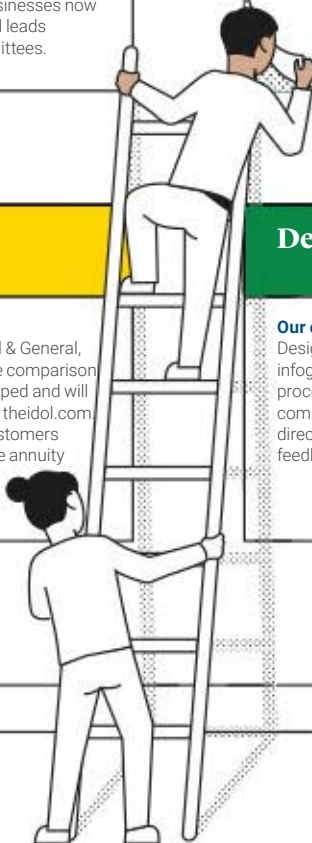
Customer centric website
Investment made in building a customer centric website, with new tools, videos and guides for our individual retirement business.

November

Annuity Ready
Commissioned by Legal & General, a whole of market online comparison service has been developed and will be independently run by theidol.com. It is designed to help customers secure the best available annuity rate from across the market.

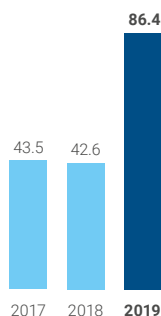
December

Our claims journey
Designed and implemented an infographic to explain our claims process to customers in a clear, compassionate way. This is in direct response to customer feedback.



Investment management

External net flows £bn



↑ 103%

External net flows of £86.4 billion represented a significant increase on 2018, of which £37 billion is attributed to the index mandate with the Japan Government Pension Investment Fund secured in the first half of the year. Underlying flows were diversified across channels, regions and product lines.

Assets under management (AUM)

£bn



£1,196bn

Once again we saw significant growth in our AUM, driven by strong external net flows of £86.4 billion and favourable market performance. International AUM is now £370 billion, including assets managed internationally on behalf of UK clients (2018: £258 billion) and represents 31% of our total assets (2018: 25%).



Michelle Scrimgeour
Chief Executive Officer,
Legal & General Investment Management

CEO introduction

Stewardship is the thread that ties our diverse business together. This begins with our commitment to clients and customers – including over three million people in the UK who save with us through their defined contribution pensions – to provide investment strategies that can help them meet their objectives. Our management of their assets is supported by our investment stewardship team, which takes action on behalf of our investors on issues that matter to them, including the carbon transition, workers' rights, gender diversity, and executive pay. Bringing all this together in a powerful proposition for our clients underpinned our successes in 2019.

2019 key activities

In 2019, Michelle Scrimgeour took on the role of CEO with her priority being to build on our heritage and prepare for the future by diversifying and internationalising the business.

Our investment management business is central to our ambitions and commitment to inclusive capitalism. We support our capital investment business through our Real Assets arm by allocating money to businesses that require long-term capital, for example in our build to rent and future cities projects, as well as managing 92% of our retirement business's assets.

Additionally, a significant amount of our pension risk transfer business is derived from our investment management clients. This includes Rolls-Royce, to whom we have been providing investment management services since 1989 and for whom we wrote a pension risk transfer transaction in excess of £4.6 billion in 2019.

Diversifying our business

We continue to benefit from strong performance in the management of UK defined benefit pension scheme assets. Shifts in retirement saving and the asset management industry have driven an increase in customer appetite for our

diverse range of products and broad investment capabilities, including index, active, multi-asset, and alternatives, as well as environmental, social, and governance (ESG) integration.

Broadening defined contribution

We are planning for the future by broadening our defined contribution proposition. We have one of the UK's largest master trusts, and Workplace member numbers have reached 3.5 million, and we are still increasing our capabilities in this market. For example, in 2019 the Mastertrust became the first in the UK to launch a multi-asset ESG fund as a default option and our Pathway funds also integrated ESG criteria.

Responsible investing

We believe ESG risks are financially material. Responsible investing is essential to mitigate these risks, unearth investment opportunities and strengthen long-term returns.

To meet increasing demand for sustainable investing, in 2019 we extended our industry-leading Future World fund range to additional strategies to help investors meet new challenges such as climate change.

We also launched other products aimed at safeguarding against ESG risks and capturing opportunities. These included several new strategies for retail investors, such as funds in our multi index range, as well as our SICAV and ICAV ranges, which serve European clients.

Our ETF business was further enhanced with the launch of three new thematic strategies that offer investors access to pioneering companies. These seek to create solutions to long-standing challenges through artificial intelligence, healthcare breakthroughs, and clean water technologies.

Investing in real assets

Our Real Assets team agreed to forward fund a key city centre site in Peterborough, marking its 12th Government Hub investment, highlighting our commitment to regional growth. These align with our wider business objective to drive sustainable regional growth and aid job creation. We have furthermore continued to build on our capabilities in private credit and real estate.

International progress

Our investment management business experienced strong growth globally in 2019, with international assets under management growing by 43% to £370 billion on a managed basis. We have expanded our distribution capabilities in key international markets to launch new products such as exchange-traded funds (ETFs) and Real Assets strategies to meet evolving client needs.

Strategic mandate in Japan

A large contributor to international growth was securing the £37 billion index mandate with the Japan Government Pension Investment Fund, which provides a long-term foundation for future growth in Japan and the region. This established us as a top three overseas manager in the Japanese institutional pension market at the time. In Asia ex-Japan and the Middle East, we have continued to build new relationships with institutional investors and deepen existing ones, growing assets under management by £12.8 billion (18%) from 2018, including assets managed in Hong Kong on behalf of UK clients.

US expansion

In the US we exceeded \$245 billion (£186 billion) in total assets under management. We continue to deliver a market leading de-risking proposition to the institutional pension market and we are exploring total retirement income solutions for DC plan participants. As part of our sustainable solutions efforts we launched a Climate Change Strategy fund.

Europe

In Europe, we saw strong activity and flows in key markets. We also established our European entity located in Dublin, which will manage the firm's European UCITS and alternative investment funds.

Operating profit £m



⬆️ 4%

Operating profit of £423 million rose by 4%. Asset management revenue increased by 8%, lower than AUM growth due to new business mix, which had a significant contribution from a £37 billion passive mandate in the first half of 2019. Our cost/income ratio increased slightly to 54% reflecting continued investment to increase resilience and support future growth, and remains low relative to peers.



Our commitment to helping clients meet their objectives and our expertise in investment stewardship is a powerful combination that underpinned our successes in 2019.”

Michelle Scrimgeour
Chief Executive Officer,
Legal & General Investment Management

Investment in the business

We recognise that to support future growth and to enhance our customers' experience, we need to continue to invest in the business. We do this in a disciplined way, looking to optimise investment platforms and using data analytics. Automation and simplification will generate operational leverage and efficiency over time.

Technological advancement

We have launched technology tools to help pension providers gain insight into their members' saving trends. A new member app, Unu, will give employees real-time access to their benefit information through a single login, while our new financial wellbeing platform for defined contribution pension scheme members helps our customers feel financially confident now and about the future.

Understanding the risks

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

Global engagement to enhance long-term value

Active ownership means working to bring about real, positive change to create sustainable value for our clients. Throughout 2019, our investment stewardship team worked with companies, regulators, and other investors to raise standards across markets. Under our Climate Impact Pledge we assess and score over 80 of the world's largest companies, engaging with them to address this challenge. We divest within our Future World funds from those companies that fail to demonstrate sufficient action and vote against re-election of their Board chairs.



Meryam Omi, Head of Sustainability and Responsible Investment Strategy, is responsible for engaging on sustainability themes globally and the development of responsible investment product solutions.

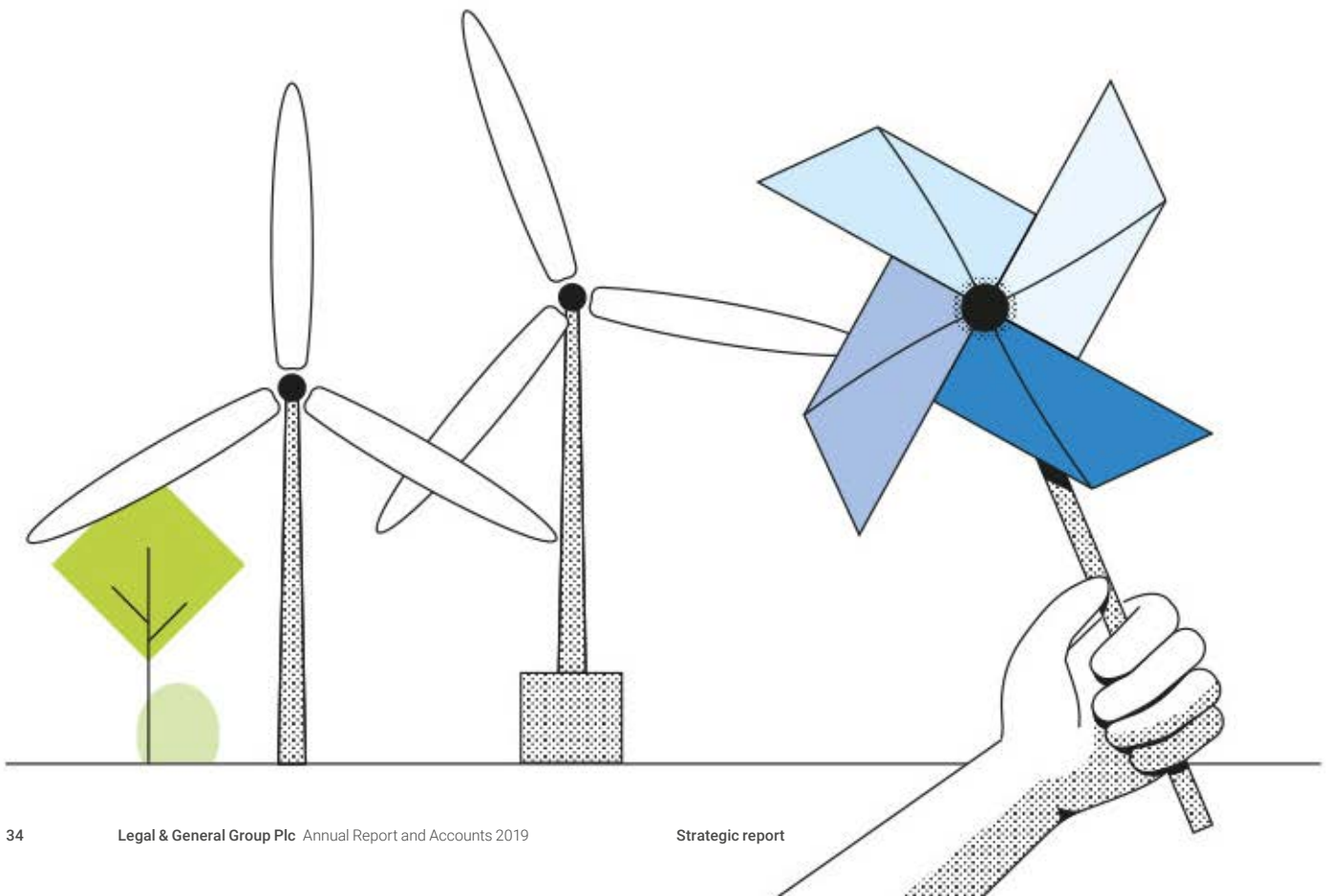
Working towards a net zero carbon future

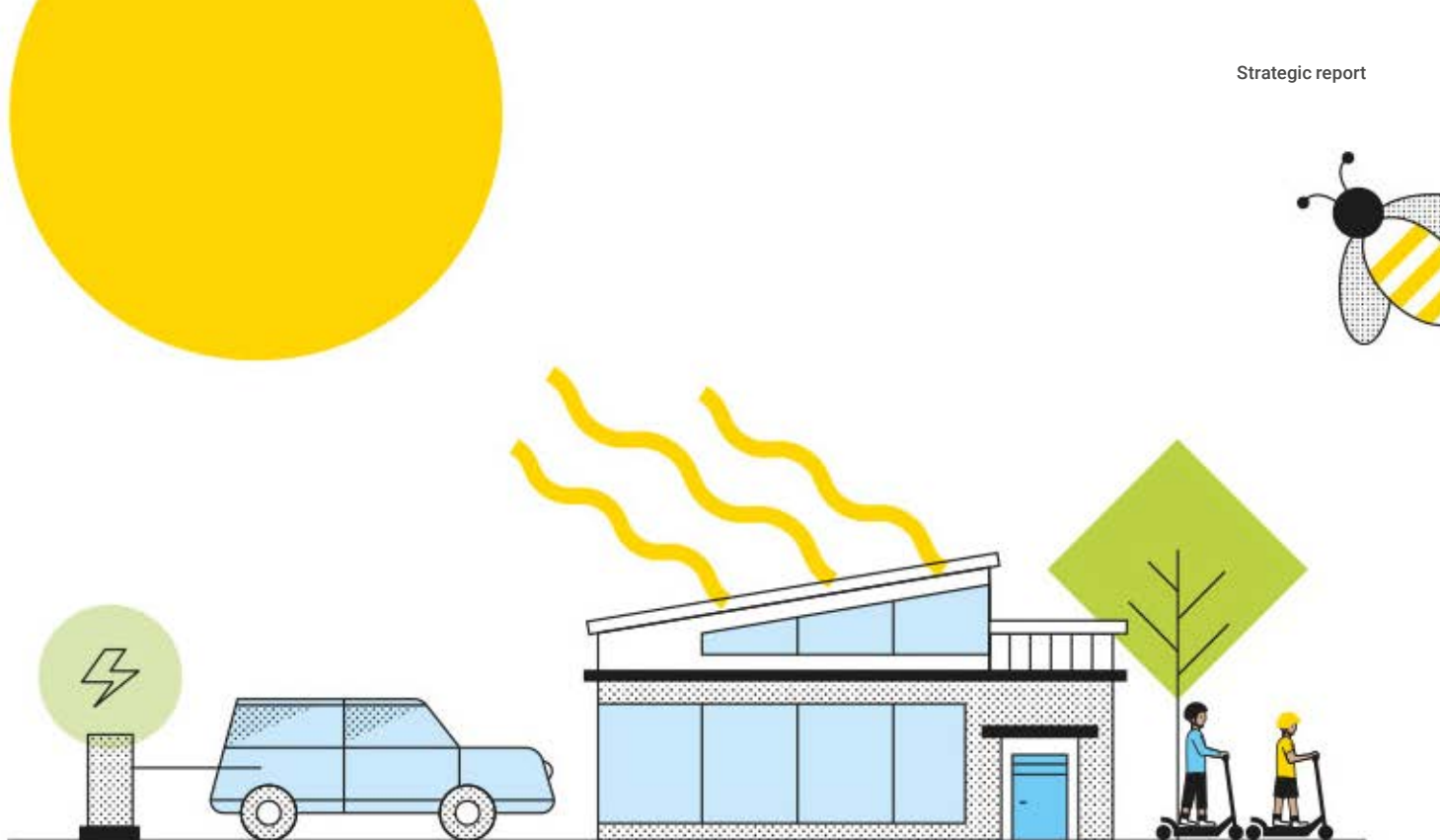
We recognise the seriousness of the climate crisis. As a very long-term business we want to ensure that the environment supports communities and businesses throughout this century and beyond. We can make a positive difference to climate change because of our scale and influence.

“

Avoiding climate catastrophe is our greatest global priority. The debate about whether higher concentrations of greenhouse gasses cause global warming is long over. The science is clear and we can see the change with our own eyes. The focus now should be on what we do about it.”

Nigel Wilson
Group CEO





Investment management

An important part of our strategy is to engage with regulators and investee companies in support of increased climate action, benefitting not just our stakeholders but the wider market and society as well.

We have always been at the forefront of investment stewardship. We believe that by bringing together the best sector expertise from our active investment and stewardship teams, we can proactively identify the factors that will determine the resiliency of sectors and the companies within them.

Future World funds

We have invested £790 million of our capital in our Future World funds which have a strong focus on environmental, social and governance criteria and active engagement. This brings resilience to our own assets, and the scale and credibility to attract external capital to bring more power and authority to our engagement process.

Climate and energy modelling

We are developing the modelling technologies necessary to assess climate risk in asset portfolios. Our aim is offer our clients end-to-end climate solutions including measuring and managing carbon exposure, identifying underlying climate risks and seeking temperature alignment.

For more information, including details of our Corporate and Social Responsibility and TCFD reports, please see 'A sustainable business' on pages 48 to 53.

Our businesses and assets

In managing our own balance sheet we work alongside our investment management business to reallocate capital positively for a sustainable future. Our approach is one of active repositioning and engagement to encourage sustainable business models that are also beneficial for society.

Climate policy

Our policy is to decarbonise the assets on our balance sheet to align with the UN Paris Agreement and UK Government legislation to achieve net zero carbon emissions by 2050. We have set carbon intensity targets and additional governance and control around the acquisition of high carbon investments.

Reducing our carbon footprint

We have undertaken a strategic review of our carbon risks and opportunities and actively manage and report on our carbon emissions. We are working to remove plastics in our offices, as well as being focused on reducing water consumption and waste generation. We have printed this report on recycled paper and have ensured that it is now fully recyclable.

This year we'll be running a Climate Change Hackathon. The aim is to identify ideas which can have a genuine impact if delivered; and to identify the talent and the teams which can come together to bring them to life.

Direct investments

We invest long-term capital into the clean energy sector to accelerate progress to a low-cost, low-carbon economy, as well as reducing the cost of power for consumers, with £1.3 billion invested to date.

From 2030, all homes built by our housing business will be capable of operating at net zero carbon emissions. In addition, we are seeking to understand, monitor and report on the embodied carbon associated with the construction of our homes.

Wind energy

We have invested to support on-shore wind technology. We have also provided debt financing into off-shore wind infrastructure with the capacity to provide enough power to service over 2 million homes.

Solar power

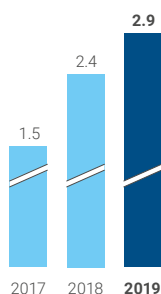
In August 2019 we announced a £57 million long-term debt financing agreement to support Hermes Infrastructure who provide solar photovoltaic systems for over 9,000 private residences and social housing rooftops.

Pod Point

Pod Point are one of the UK's largest electric vehicle charge point operators, with over 69,000 electric vehicle charge points across the UK and Norway. We originally invested in Pod Point in 2019, increasing our stake in February 2020.

Capital investment

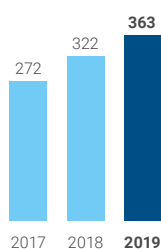
Direct investments £bn



↑ 0.5bn

During the year we have added £0.5 billion of diversified investments and a further £0.4 billion of new commitments across Housing, Future Cities and SME Finance. Our direct investments portfolio has grown to £2.9 billion at the end of the year, an increase of 22% over 2018.

Operating profit £m



↑ 13%

Our diversified investment strategy and continued growth in the underlying direct investments portfolio helped deliver double digit operating profit growth of 13% in 2019.



Kerrigan Procter
Chief Executive Officer,
Legal & General Capital

CEO introduction

Our diversified investment strategy has helped generate attractive returns for shareholders: creating real assets that leverage our existing businesses, networks and expertise, and manufacturing assets that back our annuity commitments and provide investment opportunities for clients of our investment management business. This is supported by the investment returns on our traded portfolio. Over 2019, we have continued to create much-needed new homes, future-proof our towns and cities and invest in UK growth companies. We are investing in socially and economically useful areas which create jobs, drive wage increases, change living standards and deliver returns. Over the next five years we expect to increase our direct investment portfolio to c.£5 billion with a target blended return of 8–10%.

2019 key activities

Future cities

Our future cities business is addressing a shortage of investment and innovation in urban transformation, clean energy and digital infrastructure. Together, these building blocks can have a multiplier effect to create resilient cities of the future as well as generate real assets for the growing asset portfolio within the group's retirement businesses.

Regeneration projects and investing in digital infrastructure

We are involved in some of the UK's largest urban transformation schemes, reshaping the landscape by working closely with our Real Assets team within our investment management business and partnering with local authorities, businesses and institutions. Through these investments, we are supporting the UK to develop great places to live and quality, world class science and technology employment.

In 2019, we established a partnership with Oxford University to develop much-needed affordable homes for university staff and students, as well as science and innovation districts, in and around Oxford. We have committed £4 billion of funding over the next

ten years from our shareholder, annuity and investment managed funds. Recognising the role that universities play in the future success of our economy, the partnership with Oxford University, as well as our existing partnerships with Newcastle University and Bruntonwood, allow us to develop untapped potential in the UK's science and technology sector.

In addition to our major regeneration projects in Leeds, Liverpool, Manchester, London, Bath, Cardiff and Newcastle, in 2019 we announced a £100 million commitment to back Sunderland City Council's visionary plan for a new core business district, which will support the creation of around 3,000 new jobs in the area.

We also invested in the Kao Data Centre campus, building an ambitious partnership to drive strategic expansion and accelerated growth in the data storage sector.

Clean energy investments

We are committed to investing in the clean energy sector to accelerate progress towards a low-cost, low-carbon economy and help make our cities future proof.

We believe electric vehicles will be integral to delivering a clean environment. Our investment in Pod Point, one of the UK's largest electric vehicle charge point operators, has experienced major growth in the last 12 months and in February 2020, we announced that we had increased our stake to 23% in partnership with EDF.

Housing

Our housing platform is diversified across affordability, tenure and life stage, delivering high quality build to sell, build to rent, affordable housing and specialist housing for the elderly, to help meet the UK's ambitious targets. We recognise that we have an important role to play in reducing the carbon footprint of new homes across the UK. Our housing businesses will have enabled all new homes that we deliver to operate with net zero carbon emissions by 2030.

Affordable homes

Our affordable homes business has grown rapidly and, within a year, now uses pension money to develop, own and manage new social housing and affordable homes to address overwhelming need across the UK. In 2019 our first affordable homes became both operational, welcoming our first residents, and profitable, while generating significant opportunities for the group's retirement business.

We have already secured a pipeline of c.3,500 new affordable homes throughout the UK, comprising a gross asset value of around £750 million across 41 sites. We are well positioned to meet our ambition to deliver 3,000 affordable homes annually by 2023.



We are investing in socially and economically useful areas which create jobs, drive wage increases, change living standards and deliver returns.”

Kerrigan Procter
Chief Executive Officer,
Legal & General Capital

CALA Homes

CALA increased unit sales by 14% in 2019 and delivered nearly 2,500 homes across 91 sites, with revenue growing to £1 billion, despite a challenging start to the year in the UK build to sell market. Our diversified housing platform makes us more resilient to temporary market slowdowns and we are well positioned to achieve our long-term target of building over 3,000 build to sell units per annum.

Later living accommodation

Our later living accommodation aims to transform what the elderly can expect from later life by providing vibrant communities specifically built to activate retirement living.

Since its launch in 2018, Guild Living, our developer and operator of urban later living communities, has acquired a site in Bath and two sites in Surrey. Inspired Villages Group, our suburban later living business development portfolio, has grown to over 1,000 homes across six schemes, with a strong pipeline of additional sites and has also broadened its offering in 2019 to include homes to rent, providing a greater choice for residents.

We plan for ambitious growth in our later living business. We have sold more than 500 homes to date and plan to deliver around 3,000 new retirement homes over the next five years in

order to help provide a solution for the more than 3.1 million people in the UK actively seeking to downsize.

Build to rent schemes

Across the group's 15 build to rent (BTR) schemes, in which we play a significant role, nearly 5,000 homes were completed, are in planning or are under development. In 2019, the portfolio has continued to expand with acquisitions in Glasgow, Cardiff and London, as well as a scheme being completed in Bath.

Modular Homes

In our Modular Housing business, we have been working with Selby District Council to develop their former Civic Centre site and with Bristol City Council to deliver over 180 new homes, with a focus on affordable, in order to help address the shortage of housing.

SME finance

We continue to support the UK's entrepreneurs by investing in venture capital and through Pemberton, in which we hold a 40% equity stake, and who provide corporate lending for European mid-market businesses. We have continued to progress our involvement in the SME market and invested further in UK venture capital, including acquiring the remaining holding of Accelerated Digital Ventures. Our venture capital fund investment strategy has benefitted from the UK's innovation economy. We continue to focus on accessing this high-performing asset class for our defined contribution pension clients in our investment management business.

Traded portfolio

Our traded portfolio, mainly consisting of equities, as well as fixed income and short-term liquid holdings, performed strongly over 2019 reflecting improvements in global equity markets relative to 2018.

Understanding the risks

Our early stage investments through Legal & General Capital are inherently exposed to the risk that they don't perform as anticipated. Where we undertake construction activity we are also directly exposed to health and safety, and environmental risk. We seek to closely manage our real estate and housing market risk exposures, including development costs and changes in property values. Site health and safety is a core focus area across all our property development and operating activities.



Cardiff Central Square

Following initial funding in 2015, we have committed £400 million in total to regenerate Cardiff Central Square. This comprises 1.4 million square feet of mixed-use accommodation, including a new headquarters for BBC Wales, as well as much-needed infrastructure and housing. The final development includes the new bus station, 318 build to rent apartments and Grade A office space. Cardiff Central Square demonstrates how our businesses work together: ownership is divided as 12% capital investment, 24% investment management funded and 64% backing our annuity commitments in our retirement business.

Transforming towns and cities

We use our long-term capital to create sustainable communities, applying our capabilities across commercial property, housing, clean energy and innovation.

From the delivery of diversified homes for all demographics, to the regeneration of cities and improved infrastructure, your pension assets, along with our shareholder capital, are deployed to transform the economy and build better futures.

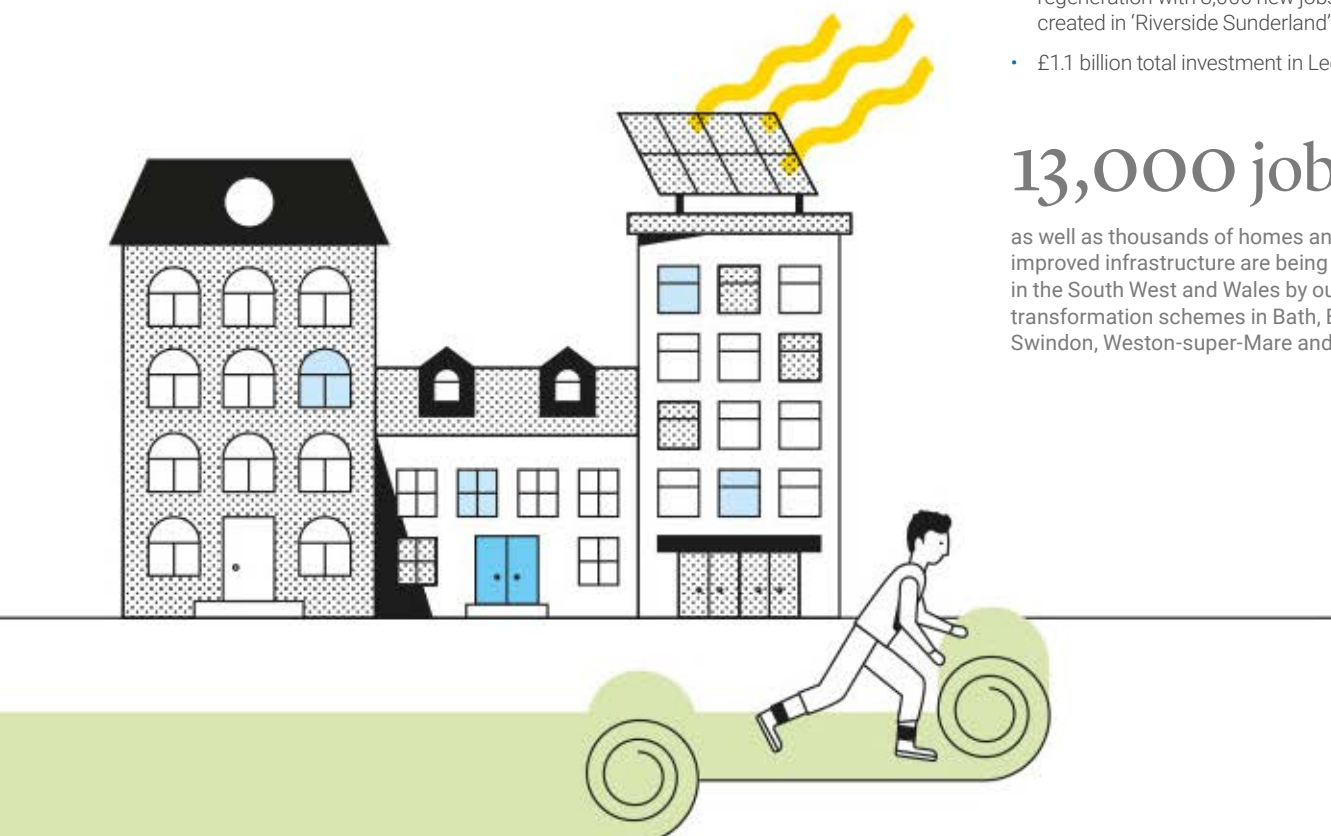
Urban transformation

We are dedicated to helping drive regional economic growth to improve lives and create extraordinary social outcomes. We deliver this through major regeneration schemes in towns and cities across the UK.

- £100 million commitment to Sunderland's regeneration with 3,000 new jobs to be created in 'Riverside Sunderland'
- £1.1 billion total investment in Leeds to date

13,000 jobs

as well as thousands of homes and improved infrastructure are being created in the South West and Wales by our transformation schemes in Bath, Bristol, Swindon, Weston-super-Mare and Cardiff





Affordable housing

We're committed to leading the evolution of the affordable housing sector, by combining our long-term capital with the expertise and management capability of the highest quality providers.

- £45 million investment in 2019 in partnership with Croydon Council to provide 167 homes for homeless local families, increased to £66 million and 250 homes in 2020
- 14 housing associations and partners selected to support delivery of our pipeline of affordable homes

£750 million

of new affordable housing projects throughout the UK, increasing our development pipeline to nearly 3,500 homes, across 41 schemes

Later living

Our later living activities seek to address major societal issues such as health, care and loneliness. We are investing for the long term in a way that unites our stakeholders and is inclusive enough to create a positive, sustainable change.

- Free Employee Assistance Programme (EAP) available to UK care workers through our recent investment, Care Sourcer, the first UK comparison and matching site for aged care
- Included a new rental offering for our suburban later living business, Inspired Villages Group, and established Guild Living, a developer and operator of urban later living communities

3,000

new retirement homes planned to be delivered over the next 5 years with over 500 sold to date

Science, technology and innovation

We provide capital for start-up businesses through existing venture capital managers, take direct stakes in growth companies and invest in innovative sectors.

- 3 new exchange traded funds launched targeting the investment opportunities created by innovations in artificial intelligence, healthcare and clean water
- 100% stake purchased in MyFutureNow enabling customers to trace their lost or forgotten pension pots, an additional benefit for our customers

£230 million

Kao Data Campus, a state-of-the-art data centre servicing the London to Cambridge corridor, in which we have invested

We also focus on clean energy investment, supporting the transition to a low carbon economy. See pages 34 to 35.

Operating profit £m



£314m

Operating profit increased by 2% versus 2018, supported by increased new business contribution, assumption changes and an increased contribution from Fintech. The benefits from model refinements seen in 2018 were not repeated.

Gross written premiums £bn



↑ 6%

Gross written premiums grew by 6% to £2,729 million, driven by increased customer retention in our UK group protection business as well as strong new business from our distribution partnerships in UK and US retail protection. This growth is despite competitive pressures across all markets. Our longer-term focus remains on enhancing competitive advantages through effective use of technology.



Bernie Hickman
Chief Executive Officer,
Legal & General Insurance

CEO introduction

It has been a year of developing and delivering the best technology solutions to support the growth of all our businesses. Group protection has had another strong year, and all our businesses have been delivering premium growth in a challenging market. Our insurance businesses provide much needed financial support when tragedy strikes and we have paid out around £1.8 billion in claims in 2019, providing peace of mind to over 8 million customers. SalaryFinance has made real progress, making salary deducted loans, savings and pay advances available to over 1.4 million employees – often those who are the most financially vulnerable.

Outlook

Longer term, we aim to optimise competitive advantages through automation, improving cost and ease of doing business, and enhancing our sophistication in data usage and risk selection. Deploying innovative technology has already contributed to creating our market leading businesses in UK retail protection, Mortgage Club, surveying and SalaryFinance. We aim to keep on delivering for our customers and so deliver growth in these, as well as other markets of US protection and UK group protection.

2019 key activities

UK retail protection

New business volumes remain strong despite competitive pressures across the market as our competitors focus on sales growth. We have a disciplined pricing approach, offering good value to our customers whilst delivering attractive returns to our shareholders.

Customers are our priority, and in 2019 we improved our claims process for our over 50s life insurance product to enable us to pay out over 70% of claims within 24 hours. Furthermore, we have introduced webchat in our call centres and improved self-service in MyAccount, making it easier than ever for our customers to contact us.

Critical illness

We have broadly maintained our market share of critical illness, and in July 2019 we announced the launch of an updated offering, with improved cover and a simplified list of conditions that makes our critical illness products easier for advisers and customers to understand.

Rental protection plan (RPP)

We became the first UK provider to offer protection products specifically for tenants following a successful pilot with the Mortgage Advice Bureau. RPP pays out a monthly benefit, which can be used to help pay rent, bills or other financial commitments, in the event a customer can no longer work as a result of accident or disease. RPP provides an opportunity for our insurance business to reach a new, growing and underserved population of renters.

Income protection

In May 2019, we announced our eighth income protection enhancement in 18 months, having increased the maximum benefit per annum to £240,000, enabling customers to protect a higher percentage of their salary at the outset, providing them with a superior level of benefit.

UK group protection

Our UK group protection business has performed strongly in a competitive market. We have diversified our client base with the growth in smaller schemes, and our strong retention demonstrates an improvement in customer service and valued relationships. Incremental new business and good levels of existing scheme retention have driven an increase in gross written premiums of 5%.

We provide market leading rehabilitation and early intervention services as part of our Group Income Protection (GIP) policies and have funded over 2,900 treatment sessions in 2019. We are proud to have led the way for employee rehabilitation services to provide better support for employees and reduced recovery times, with 18% of total UK employees covered by GIP back in the workplace before their benefit payment commences. Through our Not A Red Card campaign, we are helping to raise awareness, remove stigma and take real action around mental health in the workplace.

US life insurance

In the US, we protect more families than ever, with 1.3 million policyholders. There is significant opportunity in the US, where life insurance ownership has declined for the last five decades and 43% of US consumers do not own life insurance. We have mitigated strong competition by improving engagement and service levels with our distribution partners and expanding our distribution and product footprint.



Our insurance businesses provide much needed financial support and peace of mind to over 8 million customers.”

Bernie Hickman

Chief Executive Officer,
Legal & General Insurance

We have introduced automated telephone services for customers, with some services now available 24/7, and we have maintained strong customer satisfaction.

Investing in technology

We are investing in technology to deliver a market leading new business platform that will enable the process of applying for life insurance quicker and easier whilst also reducing cost through a range of automation and self service functionality. We are leveraging decades of UK experience in this area to fast track our innovation and we are seeing multiple growth opportunities emerging.

Fintech solutions

We are investing in start-ups and scale-ups to address key financial challenges and opportunities for existing and prospective customers. The investments in our surveying business are starting to provide returns, with a number of new valuation deals secured.

SalaryFinance

SalaryFinance continued its rapid expansion. In the UK, the financial wellbeing platform achieved a reach of over 1.3 million employees and its loan book doubled compared to the end of 2018.

In the US, the platform has reached more than 130,000 employees within the first year of operation. The company is in a strong position to continue to grow the UK and US loan books with new products to launch to their customer base in 2020.

Annuity Ready

Commissioned by our individual retirement business, Annuity Ready – a whole of market, non-advised, online comparison service – has been developed and will be independently run by theidol.com, within our Fintech business. This is another great example of how we work together as a group.

Surveying services

The investments in our surveying business are starting to show returns, with HSBC and Barclays contracts now live, and opportunities to introduce customers to our SmartSurvey product. We performed over 27,000 digital valuations in 2019.

UK mortgage club

Our mortgage club is the largest and longest-running mortgage club in the UK, involved in around one in five of all mortgages. Now in its 25th year, we have facilitated over £500 billion of mortgages and pride ourselves on adding value to our advisers by working closely with new and existing lenders to deliver great products, pricing and criteria – making the process of finding the right mortgage simply better.

Mortgage club lending of £78 billion is 7% ahead of last year as the focus on digital transformation attracts new firms to join the club. Trading profit exceeds anticipated levels as transformation and digitisation of the club continues with SmartCriteria user experience transformation well advanced; registrations are now in excess of 6,000.

Understanding the risks

Providing protection products means we have to make assumptions about our customers' life spans, how healthy they will be, and how long they will continue with the policy. We seek to price and underwrite our products to take account of these risks, and use reinsurance to manage significant exposures. In delivering our ambition to be a market leader in digital provision of insurance, we could be increasingly exposed to new types of risk. We are alive to cyber threats, the risks that they present to our customers' data and the potential for reputational damage and financial loss.



Our insurance business launches a flexible Rental Protection Plan

Nearly a quarter of UK households will be renting by 2023 and their protection needs should be met by products and solutions specifically designed for them. First-time buyers usually receive a protection 'nudge' when they seek mortgage advice, but most renters do not, leaving tenants more vulnerable. We see our Rental Protection Plan as an important link to our build to rent schemes in our capital investment business.

Managing risk



Simon Gadd
Group Chief Risk Officer

We seek to deeply embed risk management in all our businesses.

Overview

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

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

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

We operate a three lines of defence risk governance model.

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

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

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

Our risk management framework

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



Finding what you need online

Detailed information can be found in our risk management supplement.

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

Rewarding the right behaviours

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

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

Our risk landscape

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

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

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

During 2019, we expanded our risk governance framework to include greater focus on understanding and managing our exposures to the financial risks from climate change, seeking to ensure that we can identify, assess, measure and control exposures within the group's overall risk appetite.

Risk appetite

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

Strategy

We manage a diversified portfolio in which we accept risk in the normal course of business and aim to deliver sustainable returns on risk-based capital in excess of the cost of capital.

Monitoring metric: minimum return on capital over the planning cycle.

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

Capital

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

Earnings

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

Customer

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

Liquidity

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

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

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

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

Our largest risk exposures are credit and longevity

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

We are exposed to longevity risk in our pension risk transfer and annuities businesses. Over the years we have built significant expertise in understanding and pricing for longevity. Our intellectual property covers a range of disciplines including actuarial, medical, public health, statistical analysis and modelling.

Working with leading research groups enables us to access the most advanced data, techniques and knowledge to understand and inform our longevity risk management strategies. Future trends in mortality are generally slow to emerge due to the pace of medical and health development, and, whilst we're living longer, over recent years we have seen a slowing in the rate of this improvement compared to our assumptions. But we remain vigilant to emerging trends and, alongside continuous investigation into causes of death, we consider a wide range of scenarios when assessing our capital requirements for the risk including significant advances in medical science.



Our risk framework is designed to allow us to respond to a wide range of emerging risks.”

Simon Gadd
Group Chief Risk Officer

Responding to the threats of climate change

Our exposure to climate change falls into two broad categories. Physical risks, particularly to our property assets from severe weather events; and transition risks from the move to a low carbon economy, which will impact the value of investments associated with higher levels of greenhouse gas emissions. The two risks are linked. Continued emissions will increase physical risks, and limiting the impacts will require substantial emission reductions increasing transition risks.

There are also potential impacts on the health and longevity of those we insure, and although we expect this to be gradual and over the very long-term, it will require consideration within our pricing and long term liability matching strategies.

We are planning our businesses on the basis that climate change is successfully constrained while managing the risk that it is not. We are already undertaking analysis of the physical risks present in the real assets and businesses in which we invest. We are also measuring forward looking flood risk mapping for our directly owned commercial property, and are assessing the sectors and individual asset classes that are exposed to transition risks.

Alongside asset selection and modelling of demographic risks, we have built climate risk management into our governance framework. The Group Chief Risk Officer is responsible for ensuring strategies are in place to respond to climate change risks in line with the risk strategy and risk appetite parameters set by the Group Board.



Finding what you need online

Detailed information can be found in our Group TCFD Report 2019

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

Principal risks and uncertainties

Reserves and our assessment of capital requirements may require revision as a result of changes in experience, regulation or legislation.

Investment market performance and conditions in the broader economy may adversely impact earnings, profitability or surplus capital.

In dealing with issuers of debt and other types of counterparty the group is exposed to the risk of financial loss.

Changes in regulation or legislation may have a detrimental effect on our strategy.

New entrants, or legislative change, may disrupt the markets in which we operate.

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

We fail to respond to the emerging threats from climate change for our investment portfolios and wider businesses.

The global economy looks set to continue in low growth mode, with potential for asset price volatility from a range of factors, including rising geopolitical tensions, and new matters such as the potential impact of Covid-19 on the rate of global productivity. Our regulatory and legislative landscape also continues to evolve, and whilst as a predominantly UK and US focused business our operating model is not materially impacted by the UK leaving the European Union, and the immediate threat of a 'no deal' outcome has receded, there remains significant uncertainty to the final out-turn of trade negotiations for the UK economy as a whole, and how this may be perceived by financial markets.

Own Risk and Solvency Assessment (ORSA)

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

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

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

Capital management

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

Planning for Covid-19

Alongside asset price volatility, we are also exposed to the risk that our business operations may be disrupted should Covid-19 become widespread in the UK or US, for example, should our employees or those who work in our supply chains become unwell, or travel restrictions are put in place. We have already taken action to support the resilience of our business operations and have well established management procedures to respond to such scenarios as they develop. From an insurance risk perspective, based on current data, the impacts of Covid-19 on the mortality for those that we insure is difficult to predict, and there are offsetting effects with our annuities portfolio. Pandemic risk, however, is considered within the pricing of our protection business and as part of our reinsurance and liquidity management strategies, and the capital we hold in excess of regulatory requirements provides a substantial buffer against events that may cause widespread mortality.

Group Board viability statement

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

The group's long-term prospects

The group's prospects are primarily assessed through our strategic and planning processes. Our strategic planning process is a continuous one, and underpins our business planning model. We consider the sustainability and resilience of our business model over the long term (including strategic factors detailed on pages 6 to 9, and longer-term trends in areas such as technology and climate change), as both our investment and insurance products and customer relationships are long-standing ones.

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

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

Period of viability assessment

While the Board has considered adopting a longer period, it believes that five years is the most appropriate time-frame over which we should assess the long-term viability of the group, as required within provision 31 of the UK Corporate Governance Code. The following factors have been taken into account in making this decision:

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

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

The Board carries out a detailed review of the draft plan at the Group Board's annual strategy assessment, and amendments are made accordingly. Part of the Board's role is to consider the appropriateness of any key assumptions made. The latest annual plan was approved in December 2019, resulting in our current five-year business plan.

How we assessed our viability

The Board regularly considers the potential financial and reputational impact of the group's principal risks (as set out on pages 46 to 47) on our ability to deliver the business plan. We regularly refresh our principal risks to reflect current market conditions and changes in our risk profile, and as a result we have now included the impact of climate change as one of our principal risks.

Quantitative stress and scenario testing considers the group's ability to respond to a number of plausible individual and combined shocks, both financial and operational, which could adversely impact the profits, capital and liquidity projections in the group plan. For example, the Board considered the impacts of a market stress commensurate with a market shock in the late cycle environment, as well as a severe market event. These stresses included a severe global shock set with reference to the Bank of England 'Annually Cyclical Scenario', but modified to reflect the group's underlying risk profile. The scenario is broadly based on the Global Financial Crisis of 2008 for market risks exposures and 2002 experience for rating transitions (downgrades and spreads). This scenario has been designed to be a stronger test than the economic downside used to test the prior plan.

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

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

Our conclusion on viability

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

Principal risks and uncertainties

The directors confirm that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.

The principal risks are set out below including details of how they have been managed or mitigated. Further details of the group's inherent risk exposures are set out at Notes 7 and 16 to 18 of the financial statements.

Risks and uncertainties

Reserves and our assessment of capital requirements may require revision as a result of changes in experience, regulation or legislation
The pricing of long-term insurance business requires the setting of assumptions for long-term trends in factors such as mortality, lapse rates, valuation interest rates, expenses and credit defaults as well as the availability of assets with appropriate returns. Actual experience may require recalibration of these assumptions, impacting profitability. Management estimates are also required in the derivation of Solvency II capital metrics. These include modelling simplifications to reflect that it is not possible to perfectly model the external environment, with adjustment necessitated where new data emerges. Forced changes in reserves can also arise from regulatory or legislative intervention impacting capital requirements and profitability.

Investment market performance and conditions in the broader economy may adversely impact earnings, profitability or surplus capital
The performance and liquidity of investment markets, interest rate movements and inflation impact the value of investments we hold in shareholders' funds and those to meet the obligations from insurance business, with the movement in certain investments directly impacting profitability. Interest rate movements and inflation can also change the value of our obligations. We use a range of techniques to manage mismatches between assets and liabilities, however, losses can still arise from adverse markets. Interest rate expectations leading to falls in the risk free yield curve can also create a greater degree of inherent volatility to be managed in the Solvency II balance sheet than the underlying economic position would dictate, potentially impacting capital requirements and surplus capital. In addition, significant falls in investment values can reduce fee income to our investment management business.

In dealing with issuers of debt and other types of counterparty the group is exposed to the risk of financial loss
Systemic corporate sector failures, or a major sovereign debt event, could, in extreme scenarios, trigger defaults impacting the value of our bond portfolios. Under Solvency II, a widespread widening of credit spreads and downgrades can also result in a reduction in our Solvency II balance sheet surplus, despite already setting aside significant capital for credit risk. We are also exposed to default risks in dealing with banking, money market and reinsurance counterparties, as well as settlement, custody and other bespoke business services. A default by a counterparty could expose us to both financial loss and operational disruption of business processes. Default risk also arises where we undertake property lending, with exposure to loss if an accrued debt exceeds the value of security taken.

Trend and outlook

We regularly appraise the assumptions underpinning the business we write. We remain, however, inherently exposed to certain extreme events, that could require us to adjust our reserves. For example, in our pensions risk transfer and annuities business, a dramatic advance in medical science beyond that anticipated may lead to an unexpected change in life expectancy, requiring adjustment to reserves. In our protection businesses an extreme event leading to a widespread increase in mortality or morbidity, for example the emergence of new diseases or reductions in immunology, may also require re-evaluation of reserves to the extent to which underlying liabilities are not reinsured. We are also exposed to lapse risks if our US term policies are not continued in line with our renewal assumptions.

The outlook for the global economy, whilst showing tentative signs of improvement, continues to be that of relatively low growth. Interest rates also look set to continue at their historic lows. In the UK, following the agreement of withdrawal terms from the EU, the immediate risks associated with a no trade deal outcome have receded and there is also more certainty in the broader political landscape. There are, however, a range of factors that could lead to a deterioration in this outlook and a reappraisal of asset values. These include rising geopolitical tensions within the Middle East leading to the disruption of global oil supplies; the truce in the US – China trade war proving temporary or the trade tensions extending to the EU; and the UK failing to achieve a satisfactory future trading relationship with the EU. The emergence of Covid-19 in China also has potential to temporarily impact global growth rates through the disruption of supply chains, as well as the value of investment assets that may be perceived as being adversely impacted from a slow down.

An event leading to widespread default among the issuers of investment grade debt is considered to be a more remote risk; however, we closely monitor a range of factors that may lead to a widening of credit spreads, including those relating to the economic outlook, trends in global interest rates and emerging markets. Whilst considered to be more extreme risk scenarios in the current environment, factors that could increase the level of default risk, if they were to occur, include a material deterioration in global economic conditions; and a renewed banking crisis.

Mitigation

We undertake significant analysis of the variables associated with writing long-term insurance business to ensure that a suitable premium is charged for the risks we take on, and that reserves continue to remain appropriate for factors including mortality, lapse rates, valuation interest rates, expenses and credit defaults. We also seek to pre-fund and warehouse appropriate investment assets to support the pricing of long-term business. In seeking a comprehensive understanding of longevity science we aim to anticipate long-term trends in mortality, and continue to evolve and develop our underwriting capabilities for our protection business. The selective use of reinsurance acts to reduce the impacts of significant variations in life expectancy and mortality. The sensitivities of our business to selected scenarios are set out on page 190.

We cannot eliminate the downside impacts from these and other risk factors on our earnings, profitability or surplus capital, however, as part of our strategic planning activity we seek to model our business plans across plausible economic scenarios to ensure resilience across a range of outcomes. Our ORSA process plays an integral part in ensuring a clear link between capital sufficiency and the nature of risks to which we may be exposed, and confirming that exposures are within our risk appetite. As set out within the Strategic Report on pages 6 to 41, we have sought to ensure focus upon those market segments that we expect to be resilient in projected conditions. Sensitivities to interest rates, and exposures to worldwide equity markets and currencies are set out on page 190, page 172 and page 176, respectively.

We actively manage our exposure to default risks within our bond portfolios, setting selection criteria and exposure limits, and using the capabilities of LGIM's global credit team to ensure the risks are effectively controlled, and if appropriate trade out to improve credit quality. Within our property lending businesses, our loan criteria take account of both the default risk of the borrower and the potential for adverse movements in the value of security. In placing reinsurance we set counterparty specific exposure limits, where appropriate taking collateral. We manage risks to our Solvency II balance sheet through monitoring factors that could give rise to a heightened level of default risk. However, we can never eliminate default risks or their impacts to our Solvency II balance sheet, although we seek to hold a strong balance sheet that we believe to be prudent for a range of adverse scenarios. Details of our credit portfolios are on pages 177 to 181.

Risks and uncertainties

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.

New entrants, or legislative change, may disrupt the markets in which we operate

There is already strong competition in our markets, and although we have had considerable past success at building scale to offer low cost products, we recognise that markets remain attractive to new entrants. 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.

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 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.

Trend and outlook

The regulatory regimes under which the group operates continue to evolve. The operation of the EU derived Solvency II capital regime, which has been in place since 2016, is currently subject to review by EU regulators, and although the UK has left the EU changes may be required to be adopted in a transition period. The UK prudential regulator also continues to refine Solvency II rules for areas such as the capital treatment of lifetime mortgages and other illiquid assets, and the matching adjustment for long-term business. Other areas of significant regulatory change include the transition from LIBOR to SONIA in 2021, for which our planning is already well advanced. Focus areas of the FCA, the UK's conduct regulator, include the fair treatment of vulnerable customers and the provision of financial advice. Focus also continues on ensuring firms prepare for the transition to a low-carbon economy.

We closely monitor the factors that may impact the markets in which we operate, including governmental initiatives, developing industry practices and competitor activity. Alongside digital enabled changes to business operating models that enhance the customer experience, technology is being widely applied to achieve cost savings and efficiencies for market participants. Defined benefit 'superfund' consolidation, pension dashboards and 'collective' pension scheme arrangements also have potential to transform the operating environment for our asset management and pension businesses.

Our plans for growth and the digitalisation of our businesses, together with the regulatory change agenda, inherently increase the profile of operational risks and the need for resilience across our businesses. We are also exposed to construction and safety risks within our commercial real estate and housing businesses, and wider safety risks in the operation of retirement villages and affordable homes. We continue to invest in our system capabilities and business processes to ensure that we meet the expectations of our customers; comply with regulatory, legal and financial reporting requirements; and mitigate the risks of loss or reputational damage from risk events.

The science underpinning climate change is clear and the effects can already be seen across the world. We believe, however, that climate change has not yet been fully priced in by financial markets, and as such it is an area of both additional risk as well as an opportunity for investment in new technologies. While national governments are setting goals to support a smooth transition to low carbon economies, delays in making the necessary changes increase the risk of sudden late policy action, in turn leading to potentially large and unanticipated shifts in asset valuations for those industries and sectors that will need to take action.

Mitigation

We are supportive of regulation in the markets in which we operate where it ensures trust and confidence and can be a positive force on business. We seek to actively participate with government and regulatory bodies in the UK and Europe to assist in the evaluation of change so as to develop outcomes that meet the needs of all stakeholders. Internally, we evaluate change as part of our formal risk assessment processes, with material matters being considered at the Group Risk Committee and the Group Board. Our internal control framework seeks to ensure ongoing compliance with relevant legislation and regulation. Residual risk remains, however, that controls may fail or that historic financial services industry accepted practices may be reappraised by regulators, resulting in sanctions against the group.

As set out in our business review, we continue to introduce new digital platforms to grow our businesses including Annuity Ready, SmartrCriteria and SmartrSurvey, and we are investing in automation using robotics to improve the efficiency of our business processes. In our pensions risk transfer business, our capabilities to assess risk and offer bespoke solutions enable us to differentiate our offer from competitors, and we believe that our investment management and retirement businesses are well positioned for the evolution of the pensions market.

Our risk governance model seeks to ensure that business management are actively engaged in maintaining an appropriate control environment, supported by risk functions led by the Group Chief Risk Officer, with independent assurance from Group Internal Audit. The work of the Group Audit Committee in the review of the internal control system is set out on pages 78 to 79. We recognise, however, that residual risk will always remain and have designed our risk governance framework to ensure that when adverse events occur we can deploy appropriate responses.

We recognise that our scale brings a responsibility to act decisively in positioning our balance sheet to the threats from climate change, and encouraging others to follow suit, as one of the largest global institutional investors. We are embedding the assessment of climate risks in our investment process and are developing our risk metrics and framework for oversight and taking opportunities. We are engaging with regulators, and the companies in which we invest, in support of increased climate action. We have already set carbon intensity targets for our investment portfolios, and along with specific investment exclusions for thermal coal we have implemented controls around the acquisition of high carbon investments. We are also actively investing in energy efficient property, renewables and new science to support de-carbonisation.

A sustainable business

Being a sustainable business defines our role in society and the value we create.



How we create value for society

As a financial services provider we help people protect their families and save for their financial futures. This helps ensure that communities can flourish and that people do not fall into poverty when a family breadwinner dies or when people stop working.

Creating inclusive growth

But we want our purpose to go far beyond this. We want to use our financial resources to create social value and build a better society for all of us. We build new homes and regenerate cities to help everyone in society. We want the financial growth we create to be fully inclusive. That can mean creating jobs for people who find it difficult to get into work. It means building homes that are affordable or that can be used for social housing.

Sustainability and responsibility

Being sustainable also means that we strive to be a leader in limiting the effects of climate change. We want to reduce the carbon footprint we create through running our business. We also influence the companies we invest in to behave in an environmentally friendly way.

The way we run our business also needs to be sustainable. We want our management and employees to reflect the diversity in society. We want to ensure that our employment practices, our products and our investments help to build social mobility so that people's lives are not determined by where they are born.

Our three key themes

Our sustainability work is concentrated around three key themes:

1. Our journey to net zero.
2. Being responsible.
3. Building a stronger society.



Corporate and Social Responsibility

Our corporate and social responsibility report will be published in May 2020. For details see: legalandgeneralgroup.com/csr/

TCFD Report

Our 2019 TCFD report is available on our group website. See: legalandgeneralgroup.com/media-centre/reports/

Our three key themes

Our journey to net zero

In last year's annual report we showed our strong support for the aims of the Paris Agreement to limit global temperature rises above pre-industrial levels to well below 2°C. We have a responsibility to support the fight against climate change as one of the UK's top 40 companies and through our ownership of one of the largest global institutional investors.

As a signatory to the Task Force on Climate-related Financial Disclosures (TCFD) we have disclosed our approach to the risks and opportunities presented by climate change in our 2019 TCFD report. This report has four key climate risk policy statements:

1. We will decarbonise the assets on our balance sheet to align with the Paris objective. We interpret the Paris objective as targeting 1.5°C of warming.
2. We advocate urgent action to mitigate the climate emergency from governments and the companies we invest in.
3. We will use our influence as a large investor to promote a transition to a low carbon economy.
4. We support UK Government legislation to achieve net zero carbon emissions by 2050.

We're making a number of other commitments to achieve net zero carbon emissions by 2050:

- From 2030, all homes built by our housing business will be capable of operating at net zero carbon emissions.* In addition, we're seeking to understand and monitor the embodied carbon associated with the construction of our homes.
- From 2030, our operational footprint (occupied offices and business travel) will operate with net zero carbon emissions.
- We will develop energy efficient commercial properties in our urban regeneration business and set Science Based Targets that are aligned with the Paris objective.
- We have implemented additional governance and control around the acquisition of high carbon investments. This includes controls to comply with new guidelines that apply to the funding of new coal facilities.
- We have exclusions for certain stocks including thermal coal written into the Investment Management Agreements for all relevant asset classes we manage.

In addition, we have set carbon intensity targets to monitor alignment with the Paris objective and are funding the development and roll-out of key technologies which have the potential to accelerate the transition to net zero carbon.

Our 2019 environmental performance

During 2019, the carbon associated with the direct operations of our businesses decreased by 5% to 46,164 tCO₂e in 2019 from 48,744 tCO₂e in 2018. These reductions were met both through our UK operational offices, which delivered a 13% reduction, and through our Real Asset real estate portfolio of commercial properties, which delivered a 14% reduction. In contrast our house building businesses, carbon footprint continued to grow. Further information on carbon emissions can be found in our streamlined energy and carbon reporting on page 252 of this report. A more detailed breakdown of our operational carbon data will also be provided in our CSR report (published in May 2020).

We took further steps to measure our own carbon footprint. At the end of December 2019 the carbon emission intensity of the balance sheet was 243 tonnes CO₂e/£1m invested (down 22% from the previous year). When applied to the £84 billion of equity, bonds and property components of the investment portfolio to which shareholders are directly exposed, this gives a carbon footprint of 20.4 million tonnes of CO₂ emissions. The longer-term smoothed trends in carbon emissions and carbon emission intensity are more important than year-on-year volatility.

Our Real Assets team continued with their industry-leading ESG performance. In 2019 we submitted 16 of our funds for assessment. All achieved Green Star status, with an improved average global score of 82 (from 80 the previous year). Five funds achieved a five-star status, three were ranked top in the UK and one – ADP – was awarded overall Global Sector Leader.

Our investment stewardship team took a strong position on integrating climate strategy into the investment process and product range across all assets and clients, with a particular focus on company engagement and voting. An independent study revealed we were the only one of the world's 15 largest asset managers to be scored A+ for our climate engagement and voting.

* Defined by the UK Green Building Council as when the amount of carbon emissions associated with the building's operational energy on an annual basis is zero or negative. A net zero carbon building is highly energy efficient and powered from on-site and/or off-site renewable energy sources, with any remaining carbon balance offset.



Successful companies are no longer the ones that just make the most money, but are those that create the greatest social value for their communities and society as a whole. Through serving our communities we can meet our environmental, social, and governance goals.”

Sara Heald
Head of Group Sustainability

Our three key themes continued

Being responsible

Being a responsible company is vitally important to foster good relationships with our customers and directly affects how we treat them.

Responsibility begins with our employees and their behaviours, their satisfaction at working for us, their ambitions and their wellbeing. We want to ensure that our people embrace diversity and inclusion and embody the business principles which our Board establishes.

Diversity and inclusion

We're passionate about creating an inclusive culture, a work environment where all of our talented people can succeed, regardless of background, culture, gender, gender identity, sexual orientation, disability or ethnicity. We've made some great progress so far – 71% of our people feel that they have the opportunity to succeed regardless of background.

We're also passionate about tackling under-representation of women at all levels in the workplace. To drive this agenda and achieve a more diverse and gender balanced workforce, we set ourselves two ambitious targets for 2020:

1. 50% female representation across our total population
2. 40% female representation at middle/senior management level

As at 31 December 2019, female representation across our core UK and US businesses stood at 48.2% and at middle/senior management level, our female population was 38.4%. Hitting these targets by 2020 remains an extremely challenging task but we are heavily focused on embedding new ways of working and building integrated action plans to drive accelerated, sustainable change.

Legal & General's workforce

	Female	Male
Board directors	4	7
Executive Committee	4	9
Middle/senior management	1,264	2,029
All employees	4,116	4,426

The data above reflects our core UK and US businesses. It does not include employees of CALA Homes and certain other small businesses.

The Stonewall Workplace Equality Index helps UK companies measure their progress on lesbian, gay, bi and trans inclusion in the workplace. We are now ranked at number 256, up from 335 in 2018 and 396 in 2017. Whilst we have more work to do, this is a reflection of the hard work and commitment of many people across our LGBT+ community in driving positive change, such as ensuring parental policies and benefits are LGBT+ inclusive, introducing our commitment to trans and non-binary people, raising awareness through educational events and local Pride parades, and increasing visibility of our senior leaders' commitment through LGBT Great's 50For50 campaign.

We ranked as one of the Top 75 UK employers in the Social Mobility Employer Index 2019. We strongly believe social mobility is critical to ensuring that our workplace thrives. It's important we make the most of our talent, ensuring everyone has access to opportunities, and an equal opportunity to succeed and to realise their potential, whatever their background.

Every year, 31 December marks International Day of People with Disabilities. In 2019 we invited the Vision Foundation to join us for a special event with guest speaker, Dr Amit Patel, who also joined us at our International Men's Day event, in partnership with Moving Ahead.

“

We're passionate about creating an inclusive culture – a work environment where all of our talented people can succeed, regardless of background, culture, gender, gender identity, sexual orientation, disability or ethnicity.”

Colette Comerford

Head of Inclusion and Culture,
Legal & General Investment
Management



Gender Pay Gap Report

Our 2019 gender pay gap report is available on our group website. See: legalandgeneralgroup.com/media-centre/reports/

World Aids Day and L&GBT+ allies 2nd anniversary celebrations

Our L&GBT+ network fosters a culture of inclusion and community for those who identify as LGBT+ and their allies, giving the community a voice to raise concerns, share challenges and reach out for support. To celebrate our L&GBT+ allies network second anniversary, we proudly partnered with the Terrence Higgins Trust and Positive Voices to celebrate 31 years of progress. We aim to ensure that people globally, irrespective of sexuality, ethnicity, socio-economic background or gender can live healthy lives, free of prejudice and discrimination, and that good sexual health is a right and reality for all. Pictured, our increased presence in London Pride drew recognition from customers along the route. We also took part in the Brighton, Cardiff and Bermuda events.



Our gender pay gap

Despite a slight increase in our gender pay gap for mean hourly pay, we saw a 1.8% reduction in our median hourly gender pay gap, and a decrease in both the mean and median gap for bonus pay. Please see our separate Gender Pay Gap Report for a detailed exploration of this topic, information on what actions we've taken to address it, and the forward-looking plan.

Gender Pay Gap

	2019 Mean	2019 Median	2018 Mean	2018 Median
Hourly Pay	27.6%	28.5%	27.2%	30.3%
Bonus	58.4%	45.5%	59.0%	46.5%

* 2019 and 2018 figures include CALA and reflect Legal & General's UK-based workforce.

Understanding our workforce

It's important that we have a measure of workforce diversity – only by greater transparency in measuring, reporting and charting milestones will we deliver a more interpretative view of our people. We want a sustained and inclusive approach to how we support our talent. In 2019, we updated diversity data across UK recruitment and onboarding platforms, enabling employees to self-service their personal (diversity) information. We now ask for gender, ethnicity, marital status, disability, sexual orientation, gender identity – giving people the option to define their gender identity – caring responsibilities and socio-economic backgrounds.

Alongside this, we developed a Culture, Inclusion & Diversity Dashboard which monitors and assesses gender and ethnicity across the employee life cycle to ensure we can report how we are creating an environment where we are not only attracting diversity, but retaining it as well. Our Executive Committee will review this dashboard regularly, assess what is working well and put improvements in place to make sure we're achieving equality. All members of the group's Executive Committee have a percentage of their bonus linked to culture, one of the measures of which is progress on diversity indices. We've seen an increase in clients asking for information as part of our business prospecting and submissions, and within defined contribution pension scheme implementations. This is a demonstrable example of working across all our business lines, to drive consistency in outlook, impact and ability to measure, resulting in an uptick in workforce data quality across all business areas.

Employee engagement

The Voice survey, introduced in 2018, is our most powerful mechanism for listening to our people. We ran three surveys in 2019, using a digital tool that allows managers to receive real-time engagement data and focused action plans. The insight gained has allowed us to

refine our approach further for 2020, when we will increase the number of managers receiving reports, provide them more training and support, and therefore enable more specific and meaningful actions to be taken at a team level.

We've also reappraised our approach to internal communication. 'Our Story' is a new way of communicating, putting our people's stories at the heart of our messaging. Meanwhile, our new corporate intranet allows improved dialogue and interaction with our communications.

Employee wellbeing

We want to create an environment where everyone can flourish, and we take the wellbeing of our employees extremely seriously. In 2019, we extended our health cover to all employees, regardless of grade. We also improved our Employee Assistance Programme by extending it to cover not only employees, but also their close family. As signatories of the 'Time To Change Pledge', we've continued to train and support our 136-strong network of Mental Health First Aiders and will expand this offering into 2020. Throughout 2019, we ran communication campaigns focused on telling employees' mental health stories, reiterating the support to our people, and emphasising the importance of removing stigma around conversations about mental health. And we've continued to develop our 'Not a Red Card' mental health campaign and awards to encourage other organisations to support such conversations in their workplaces.

Learning and development

Conversations with our people, feedback from our Voice surveys and our strategic workforce plan have all helped us to evolve our approach to training and development. Our priorities are:

- Increasing the use of apprenticeships to support the development of our people and build the skills and capabilities we need for now and the future
- Refocusing our early careers activity to support our commitment to creating an inclusive and diverse workforce
- Creating connected leadership development experiences and management development offerings
- Developing curated content that everyone can access and apply 'in the flow of work'
- Refreshing our approach to mandatory learning, looking to modernise, and create something meaningful and useful that reduces risk and changes behaviours
- Creating strong partner relationships with suppliers to create more consistent and connected learning journeys for our people
- Reviewing our learning technology ecosystem to provide everyone with access to learning at a time they want and need it

Modern Slavery

In 2019 we stepped up our work to address modern slavery risk in our supply chain. We work closely with 'Stronger Together', a Modern Slavery consultancy, to build a robust risk process for all our suppliers.

We have taken a number of actions during the year. These include setting a clear strategy for the group, reviewing policies and procedures, mapping supply chains, training, and developing a robust risk assessment process.

We have developed a stronger interim Modern Slavery Statement and will issue a new statement for our AGM in May 2020.

Human rights

Our responsibility is to respect all human rights. Our proactive approach reflects our ethical commitment and helps to establish and maintain successful relationships with all stakeholders.

Anti-bribery and corruption

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

Non-financial information statement

Under sections 414CA and 414CB of the Companies Act 2006, we are required to include in our strategic report a non-financial information statement.

This section of the strategic report (pages 48 to 53) provides the following information required to be included in the non-financial information statement:

- environmental matters
- our employees
- social matters
- human rights
- anti-corruption and bribery

In addition, other required information can be found on the following pages:

- business model (pages 10 to 13)
- principal risks and how they are managed (pages 42 to 47)

Details of relevant policies, due diligence processes, the outcome of these policies and processes, and our non-financial key performance indicators are contained throughout the strategic report.

Our three key themes continued



Building a stronger society

Investing in inclusive growth

This report highlights how we have now put £26 billion into direct investments such as future cities, housing and clean energy (see pages 36 to 39).

We want to ensure that this growth is fully inclusive and benefits people of all age groups and social classes. Our belief in inclusive growth has been recognised by the Organisation for Economic Co-operation and Development (OECD), inviting us as one of 34 global businesses to the 2019 G7 conference, in a new Business for Inclusive Growth (B4IG) initiative launched by President Emmanuel Macron. The commitment to inclusive growth is built around three key pillars:

1. A pledge to tackle inequality, which includes advancing human rights, as well as building more inclusive workplaces and supply chains;
2. A new business incubator to promote innovative projects that support inclusive growth; and
3. The creation of an inclusive growth financing forum.

Supporting financial and social inclusion

Inclusive capitalism means that we want the widest group of people as possible to benefit from the increased financial security and independence that ownership of insurance, savings and investment products bring.

For example, our investment into SalaryFinance has enabled people who may be struggling to repay debts, or pay bills, to improve their financial wellbeing through lower-interest loans and financial education.

We also want to ensure that all sectors of society benefit from our investments into future cities.

In June 2019, our Affordable Homes team announced that they had secured their first four schemes, comprising 278 new homes in Croydon, Falmouth, Dunstable and Shrivenham.

We value the importance of improving social mobility. A key way of doing this is to provide financial education in schools.

Financial education

We continued to expand our financial education programmes with EveryDay Money and Red Start. In 2019, we conducted a research piece for teachers and school students, asking them how they expect financial education to be delivered. We will be implementing this in 2020.

Social mobility

We support the Social Mobility Pledge which sets the agenda on business-led social mobility helping to level up opportunity across the UK.

Our Modular Homes apprenticeship scheme has enabled many young people to acquire skills while receiving an income from employment.

Helping local communities

In 2019, our community activities included:

- a new partnership with the Duke of Edinburgh Awards scheme in the United States, which we are now funding
- a continued commitment to encourage volunteering, shown by our support for the Royal Voluntary Service 'Step Forward' campaign
- Our continued sponsorship of the 'Share the Orange' campaign, which aims to bring awareness to the growing distress caused by Alzheimer's and dementia.



It's great... for students who are getting close to the world of work, to realise the importance of understanding their finances."

School Teacher

Chichester Free School, talking about our financial education programme

Responsible investing

Driving positive change requires us to think about how we responsibly allocate, manage and oversee capital, creating long-term value, not just for our clients and beneficiaries, but also for the economy, the environment and society. We are all in this together.

Do companies have the right skills and diversity of thought needed to succeed in the future? Do they have a strategy to prepare for the low-carbon economy? Are they motivating their executives for the long term? In 2019, we have continued to engage with regulators and companies and to collaborate with other investors, resulting in favourable outcomes such as:

- Co-filing a successful shareholder proposal at oil major BP, calling on the company to improve its climate strategy
- Pushing for improvements to executive pay, with 30% of the UK's largest 100 companies reducing bosses' pensions to align with the workforce
- Improving the level of independence at automaker Hyundai Motor Company through the appointment of two outside directors

The investment stewardship team also makes full use of voting as a tool to hold companies to account and push for better governance. Under our Climate Impact Pledge we have announced our second annual ranking of corporate climate action, showcasing best practices from companies stepping up (including Xcel Energy and Daimler), whilst also removing 11 companies (including ExxonMobil and Subaru) from certain funds. Our pragmatic approach is receiving external recognition, with an independent study

finding we were the only one of the world's 15 largest asset managers to be scored A+ for our climate engagement and voting.

We have also continued the integration of environmental, social and governance (ESG) data into our investment process. We have now established a Global Research and Engagement Framework bringing together the best sector expertise across our investment management business, to unify our engagement efforts and determine the exposure of sectors and companies to ESG risks and opportunities. To speak with one clear voice in the market, our ESG metrics are aligned with our voting policies – ESG scores for over 3,000 companies, as well as our voting record, are publicly available.

To help better allocate capital towards companies with sustainable practices, in 2019 we launched 12 new funds with an explicit ESG component, enhancing our offering across asset classes and strategies, including our range of Future World and exchange-traded funds. The L&G Mastertrust was also the first to adopt a multi-asset ESG fund as a default option for pension savers. We also continue our public policy advocacy, in order to have impact not just at individual companies, but across entire markets. From improving the quality of audit and the Stewardship Code in the UK and strengthening the rights of investors in Japan and the US, to advocating for sustainable finance in the EU and upgrading the corporate governance code in Germany, we have been working with policy-makers and regulators to raise the bar. In 2019, we have participated in around 30 policy engagements around the world.

30%

of UK's largest 100 companies reducing their bosses' pensions to align with the workforce



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Not A Red Card 2019

Since 1999, mental ill health has been the biggest reason that our customers claim through our Group Income Protection policy. To support these customers further, the Not A Red Card campaign helps us to raise awareness, remove stigma and take real action around mental health in the workplace, through providing employers with the support they need to protect their most valuable asset, their people.

The aim of the 2019 Not A Red Card campaign was to provide managers with the skills and tools they need to support their teams' mental health and to help their employees thrive.

The Not A Red Card Forum and Awards 2019 saw over 200 business leaders, employers and mental health advocates attend the event at the Oval Cricket Ground, London. The day included inspirational stories, expert discussions and insightful roundtable workshops, exploring best practice when it comes to mental health provision in the workplace.

Following the forum, the prestigious Not A Red Card Awards ceremony was held to celebrate mental health excellence in the workplace. The awards recognised individuals and businesses that have developed and implemented best practices and are really championing mental wellbeing at work.



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Board of directors

Committee membership key

- A** Audit
- I** IT
- N** Nominations and Corporate Governance
- R** Remuneration
- Ri** Risk
- Committee Chairman

Other Board members during the year were:

Mark Zinkula retired from the Board on 31 August 2019.



Sir John Kingman
Chairman

Appointed October 2016

I N

Skills and experience:

John brings financial sector, government and regulatory experience to the Board. John previously served as Second Permanent Secretary to HM Treasury, where he was responsible for policy relating to business, financial services and infrastructure. John was closely involved in the UK response to the financial crisis, handling the resolution of Northern Rock and leading negotiations with RBS, Lloyds and HBOS on their £37 billion recapitalisation. He was the first Chief Executive of UK Financial Investments Ltd. John recently undertook an independent review of the Financial Reporting Council, recommending its replacement by a new statutory Audit, Reporting and Governance Authority.

Other appointments:

Royal Opera House Covent Garden Foundation (Trustee)
National Gallery (Trustee and Deputy Chair)
UK Research and Innovation (Chair)
Tesco Bank (Non-Executive Director)



Nigel Wilson
Group Chief Executive Officer

Appointed September 2009 as CFO; appointed CEO June 2012

Skills and experience:

Nigel brings strong leadership skills to the Board. In November 2019, Nigel was named Change Maker of the Year by Seven Hills, an organisation that campaigns on behalf of innovators and advocates for the social good that businesses do. Nigel also won the 'Most admired leader' award at Britain's Most Admired Companies Award 2017 for Management Today. From 2016 to 2017 Nigel was Chairman of the Investment Association's review of Executive Pay and the government's review of Mission Led Business. From 2017 to 2018 he was a member of the government's Patient Capital Review Industry Panel and a Commissioner in the Resolution Foundation's Intergenerational Commission. Nigel is a member of the expert group advising on the government's Social Care Green Paper and on Life Sciences. He is the Chairman of the Bank of England review on innovation in Finance required for addressing Climate Change.



Jeff Davies
Chief Financial Officer

Appointed March 2017

Skills and experience:

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



Kerrigan Procter
Chief Executive Officer, LGC

Appointed March 2017

Skills and experience:

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



Michelle Scrimgeour
Chief Executive Officer, LGIM

Appointed September 2019

Skills and experience:

Michelle was appointed to the Board on 2 September 2019, having taken on the role of LGIM CEO in July 2019. Michelle brings to the Board extensive asset management experience across investments, distribution, product, operations, risk and control functions. Michelle has spent her career at major global firms, most recently as Chief Executive Officer, EMEA, at Columbia Threadneedle Investments. Prior to that, Michelle was Chief Risk Officer at M&G Investments and Director of M&G Group Limited, joining in 2012 from BlackRock. Michelle held a number of leadership positions at BlackRock, and previously at Merrill Lynch Investment Managers. Michelle is on the Board of the Investment Association, a member of the FCA's Practitioner Panel and a member of the Asset Management Taskforce.



Julia Wilson
Senior independent Non-Executive Director

Appointed November 2011; Senior Independent Director from May 2016

A I N Ri

Skills and experience:

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

Other appointments:

3i Group plc (Director)



Henrietta Baldock
Independent Non-Executive Director

Appointed October 2018



Skills and experience:

Henrietta has been Chair of Legal and General Assurance Society Limited since March 2018. She has extensive knowledge of the financial services and insurance sectors through her 25 years' experience in investment banking, most recently as Chairman of the European Financial Institutions team at Bank of America Merrill Lynch (BAML) where she advised many Boards in the sector on some of their most significant transactions. Henrietta joined BAML in 2000 and served as its Vice President of Financial Institutions Group and the Managing Director and Head of European Financial Institutions Investment Banking. She started her career as a generalist adviser and has focused on financial institutions since 1995.

Other appointments:

- Hydro Industries (Director)
- Investec Plc (Director)
- Investec Limited (Director)



Philip Broadley
Independent Non-Executive Director

Appointed July 2016



Skills and experience:

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

Other appointments:

- AstraZeneca PLC (Non-Executive Director)
- Eastbourne College (Director & Trustee)
- London Library (Treasurer)



Lesley Knox
Independent Non-Executive Director

Appointed June 2016



Skills and experience:

Lesley brings a wealth of international, strategic and financial services experience having spent over 17 years in senior roles in financial services, including with Kleinwort Benson and the Bank of Scotland. Lesley previously served as Chair of Alliance Trust PLC and as Senior Independent Director at Hays plc.

Lesley continues in her role as designated workforce director. On 3 July 2019 Lesley was appointed as Chair of the company's subsidiary Legal & General Investment Management (Holdings) Limited.

Other appointments:

- Dovecot Studios Limited (Non-Executive Director)
- Genus Plc (Senior Independent Non-Executive Director and Chair of Remuneration Committee)
- The Black Stork Charity (Director)
- Grosvenor Group Limited pension fund (Trustee)
- National Galleries of Scotland Foundation (Trustee)



George Lewis
Independent Non-Executive Director

Appointed November 2018



Skills and experience:

George has significant, broad, executive and professional experience in financial services, with a strong focus on global asset management. George joined the Royal Bank of Canada in 1986, serving in various financial and wealth management roles. He was a member of RBC's Group Executive Board from 2007 to 2015, with responsibility for RBC's wealth, asset management and insurance segments. Prior to his current roles, George served on the Boards (and chaired the Audit and Risk Committees) of Ontario Power Generation and Enbridge Income Fund (TMX).

Other appointments:

- Ontario Teachers' Pension Plan (Non-Executive Director)
- AOG Group (Non-Executive Director)
- Cenovus Energy Inc (Non-Executive Director)



Toby Straus
Independent Non-Executive Director

Appointed January 2017



Skills and experience:

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

Other appointments:

- Macmillan Cancer Support (Trustee)
- Pacific Life Re Limited (Director)



Geoffrey Timms
Group General Counsel and Company Secretary

Skills and experience:

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

Executive Committee

Nigel Wilson

Group Chief Executive Officer

See Board of directors pages 56 to 57.

Jeff Davies

Chief Financial Officer

See Board of directors pages 56 to 57.

Michelle Scrimgeour

Chief Executive Officer, Legal & General Investment Management

See Board of directors pages 56 to 57.

Kerrigan Procter

Chief Executive Officer, Legal & General Capital

See Board of directors pages 56 to 57.

Geoffrey Timms

Group General Counsel & Company Secretary

See Board of directors pages 56 to 57.

Other Committee members during the year were:

Cheryl Agius stepped down from her role as Chief Executive Officer, General Insurance on 31 July 2019 and left the company on 31 December 2019.

Mark Zinkula left the company on 31 August 2019.

Other business unit Chief Executive Officers (CEOs)



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

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



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

Chris is the Chief Executive Officer of Legal & General's Retail Retirement business. Chris was previously the Chief Financial Officer of Legal & General's Retirement Division where he was responsible for driving the financial results of the business. Prior to this he was the Finance Director of the Group's UK Savings and Protection business.

Chris is a qualified actuary, and has had a 30-year career in the UK and international financial services markets. He joined Legal & General in 2009.



Bernie Hickman **Chief Executive Officer, Legal & General Insurance**

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



Claire Singleton **Chief Executive Officer, Mature Savings**

Claire was appointed Chief Executive Officer, Mature Savings in July 2018. She oversees an area which looks after over one million customers who have invested £29 billion of assets across individual pensions, bond or endowment products. Claire joined Legal & General in 2011 from US law firm Jones Day. A Cambridge law graduate and qualified solicitor, she has worked in a variety of legal roles within the company, most recently as General Counsel, Corporate and Legal & General Capital. Claire helped to build and lead an outstanding legal team, delivering significant value to our business. In 2020, as the Mature Savings business is being transferred to ReAssure Limited, Claire will take up the role as CEO of Legal & General Home Finance.

Additional Executive Committee members



Simon Gadd
Group Chief Risk Officer

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



John Godfrey
Group Corporate Affairs Director

John has worked in the City for over 35 years, providing advice on corporate affairs and communications to US, European and Japanese financial institutions. He joined Legal & General as Group Communications Director in 2006, becoming Corporate Affairs Director following the global financial crisis. Since then, his responsibilities have variously included communications, public affairs and policy, corporate social responsibility and brand. In 2016 he left Legal & General to work in government as head of the Prime Minister's Downing Street Policy Unit, returning to the company in September 2017. He is a Financial Inclusion Commissioner.



Emma Hardaker-Jones
Group HR Director

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

The role of the Executive Committee

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



Stephen Licence
Group Chief Internal Auditor

Stephen joined Legal & General in 2014 having previously been Emerging Markets Chief Internal Auditor at RSA Insurance where he was responsible for the Internal Audit activity in the group's businesses across Latin America, Asia, Middle East and Eastern Europe. His 25 years' Internal Audit experience has included Life, General and Healthcare insurance in both Legal & General and Lloyd's of London markets. He was also previously an audit consultant at the London Stock Exchange Group. Stephen is a Chartered Member of the Institute of Internal Auditors.

Letter from the Chairman



Sir John Kingman
Chairman

Welcome to the 2019 Governance report which provides insight into how we, the Board, have approached our responsibilities during this year, and the work of the Board committees.

High standards of corporate governance, our corporate purpose, culture and the relationships between the company and our stakeholders have never been more important. The Board is committed to maintaining the highest standards of corporate governance across the group to support the delivery of our strategy, positive stakeholder relationships and the creation of long-term sustainable value for our shareholders.

For the year ended 31 December 2019, the new 2018 UK Corporate Governance Code (the 'Code') was the standard against which we were required to measure ourselves. The Board has considered carefully the new requirements of the Code and I am pleased to report that we have complied with all principles of the Code throughout the year. Further detail on our compliance with the Code can be found on pages 70 to 71.

Our approach to governance

The Board's role is to lead the company and oversee the governance of the group. The Board plays a key role in ensuring that our approach to governance aligns with our culture and values and that the tone is set from the top.

As a Board, we believe that good corporate governance underpins successful business performance. We have welcomed the recent revisions to the Code, which align with our own priorities. The Board is fully committed to ensuring our governance processes remain effective to support the outcomes we aspire to.

During the year we reviewed our governance structures at Board, Committee and subsidiary company levels to ensure they remain appropriate for the businesses and markets in which we operate, whilst supporting our overall strategy, corporate purpose and culture. As our business continues to evolve and as we pursue our strategic objectives in an ever-changing environment, our strong governance framework supports the Board in ensuring that across the group we make decisions in the right way.

Stakeholder engagement

In addition to the recent changes to the Code aimed at promoting greater transparency, the Board welcomes the new reporting legislation around stakeholder engagement.

We keep the interests of the group's shareholders, customers, employees, suppliers and wider stakeholders at the heart of our decision making and how we deliver our strategy to achieve long-term, sustainable success. Further detail on how we, as a Board, have fulfilled our duties to our stakeholders under s.172 of the Companies Act 2006 is available on pages 62 to 64.

Our people have always been at the heart of our business. In 2018, the Board took steps to recognise formally the importance of understanding the views of our workforce. As mentioned in our 2018 Annual Report, Lesley Knox was appointed as our designated non-executive director for engagement with the company's workforce in October 2018. Further detail about Lesley's activities in her role throughout 2019 is available on page 65.

As well as a strong governance framework, open, constructive and effective communication with our investors is vital. I have met with a range of our shareholders over the year, and I have valued the opportunity for open and constructive two-way dialogue. The AGM also offers a particularly valuable opportunity for the Board to meet our shareholders in person and to hear their views.

Board changes and succession planning

I believe the company has a very high quality Board and benefits from the diverse range and depth of expertise and skills that the directors bring. During the year we have continued to keep under review the composition of the Board, remaining conscious of the need to maintain a well-balanced and diverse Board.

The Board has continued to evolve in 2019 with the appointment of Michelle Scrimgeour on 2 September 2019. Michelle succeeded Mark Zinkula as Chief Executive Officer of Legal & General Investment Management (LGIM) in July 2019 and brings to the Board extensive asset management experience across investments, distribution, product, operations, risk and control functions. Michelle has spent her career at major global firms, most recently as Chief Executive Officer, EMEA, at Columbia Threadneedle Investments.

I should like to take this opportunity once again to thank Mark Zinkula for his excellent stewardship and strong contribution to both the Group Board and in his role as Chief Executive Officer of LGIM.

This year the Nominations and Corporate Governance Committee and the Board have continued to focus on succession planning. We undertake regular and full reviews of both our Group Board and Executive Committee succession plans. We continue to monitor closely the diversity of our succession plans to ensure that we are attracting, developing and progressing diverse talent and teams. Additionally, as part of our efforts to improve our culture and drive inclusion, we continue to take action to increase the diversity of our workforce and reduce our gender pay gap. Further information can be found on page 51.


Subsidiary Boards

Strong subsidiary governance is important to achieving good corporate governance. The Board and subsidiary company Boards enjoy positive and constructive working relationships. Our framework of guiding principles remains in place for the relationship between the Group Board and the Boards of the group's principal subsidiaries, promoting effective interaction across all levels of the Group. In July 2019 we announced the appointment of Lesley Knox as the non-executive Chair of one of our principal subsidiaries, Legal & General Investment Management (Holdings) Limited (LGIM(H)). This appointment, combined with Henrietta Baldock's continuing role as Chair of Legal & General Assurance Society Limited (LGAS), means the chairmanship of two of our principal subsidiaries, LGAS and LGIM(H), are now combined with group non-executive director roles, further interlinking our Group Board and principal subsidiary Boards, promoting enhanced collaboration.

Board effectiveness

During the year an externally facilitated internal review of the effectiveness of the Board and its Committees was conducted, further detail of which can be found on page 68. I am pleased to report that the Board, its Committees and directors continue to operate effectively.

I strongly encourage as many shareholders as possible to attend the AGM on 21 May 2020 and I look forward to sharing with you the successes of the Company during 2019.



Sir John Kingman
Chairman



High standards of corporate governance, our corporate purpose, culture and the relationships between the company and our stakeholders have never been more important.”

Sir John Kingman
Chairman

Stakeholder engagement

The Board recognises the importance of considering all stakeholders in its decision-making, as set out in section 172 of the Companies Act 2006 and the new reporting legislation around stakeholder engagement is welcomed by the Board.

As part of the director induction process, directors are briefed on their duties, including their duty under s.172 of the Companies Act 2006. The directors are entitled to require from the company all such information they may reasonably request in order to be able to perform their duties as directors, including advice from an independent advisor at the company's expense.

In Board decision making, the relevance of each stakeholder group may vary depending on the subject in question, so the Board seeks to understand the needs of each stakeholder group as part of its decision making. Additionally, the Group Company Secretary is available to provide support to the Board in ensuring that sufficient

consideration is given in relation to stakeholder issues during Board discussions. All group and subsidiary Board papers must demonstrate that stakeholder consideration has been taken into account as part of the Board decision making process. For each transaction approved by the Board, discussion takes place around employee impact. Stakeholder impact is also considered in relation to material acquisitions and strategic expansion.

The section below sets out our s.172 statement and provides details of key stakeholder engagement undertaken by the Board during the year. Additional details of our key stakeholders and why they are important to us are set out on pages 14 to 15.

Engagement with our stakeholders

Shareholders



Overview

Our shareholders are vital to the future success of our business, providing funds which aid business growth and the generation of sustainable returns.

Engagement

- Full Board attendance at the AGM held in May 2019. Shareholders were given the opportunity to meet with the Board and ask any questions they had following the meeting.
- The Chairman attended 16 investor meetings, covering topics such as group strategy, governance, the group's business lines and the wider macro-environment. Feedback from these meetings was shared with the wider Board.
- In October 2019, Lesley Knox sent a letter to our largest investors requesting feedback on the directors' remuneration policy.
- Investor Relations provides regular updates to the Board and engages the Board on shareholder-related matters. They also provide the Board with regular feedback on investors' views on business strategy and the market environment.
- In order to provide better, direct access to retail shareholders, the Investor Relations team held a well-attended meeting with ShareSoc, an organisation of 5,000 retail investors. For those ShareSoc members unable to attend in person, the presentation was made available on the ShareSoc website.
- We provide easy access for our shareholders to the company's announcements, results and investor information, via our company website which has a dedicated shareholder section. The website contains all London Stock Exchange regulatory announcements made by the company and a copy of all of our Annual Reports and related publications. A webcast of half-year and full-year results presentations are also made available via a link on the website which is permanently available.

Outcomes

- The retail shareholder meeting with Investor Relations (referred to on the left) took place on 18 November 2019 and was attended by 50 retail investors. The event was a success: 88% of respondents indicated they were more likely to invest in Legal & General following the presentation.
- Five responses to Lesley Knox's letter regarding the remuneration policy were received from investors. This feedback was useful input into further developing the directors' remuneration policy.

Suppliers



Overview

Interaction with our suppliers and treating our suppliers fairly allows us to drive higher standards, and reduce risk in our supply chain whilst benefitting from cost efficiencies and positive environmental outcomes.

Engagement

- The Group Risk Committee received at each meeting during the year a report relating to outsourcing and third party management. A focused review was undertaken which involved consideration of the risks associated with, and the group's approach to, managing critical third party supplier arrangements.
- The Legal & General Resources Limited Board, our main contracting entity for suppliers, receives a procurement update at each Board meeting, including an update on relationships with suppliers and associated performance. The Group Board has sight of the minutes of each of these Board meetings and any issues are escalated to the Group Board where necessary.
- In accordance with the Group Board matters reserved, any expenditure in relation to a supplier in excess of an amount determined by the group from time to time was put to the Group Board for consideration and approval during the year.

Outcomes

- Suppliers were considered throughout the sale process of the General Insurance and Mature Savings business. A case study on the sale of the GI business is provided on page 69.

Engagement with our stakeholders continued

Customers



Overview

Listening to our customers helps us to better understand their needs and provide suitable and reliable products and services.

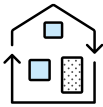
Engagement

- The Group Board receives a Customer Champion report annually.
- Customer management information is regularly reported to the Group Board. The Group Risk Committee also received detailed customer MI at each meeting and the Customer Champion attended each meeting to present to the Committee. Subsidiary Boards are also in receipt of regular updates regarding customers.
- A number of Board members visited the General Insurance and Legal & General Retirement Institutional teams in June 2019; activities included call listening, a floor walk with the customer services team and a customer focus presentation.
- In May, Philip Broadley spent time with the Legal & General Retirement Retail team and walked through a customer journey in the 'shoes of the customer'; this included call listening and a review of the various documents customers receive.

Outcomes

- Legal & General Financial Advice (LGFA) launched in November 2019 with an aim to play a part in growing the overall market for lifetime mortgages by increasing the supply of high quality advice which will help customers navigate greater complexity and choice throughout their later life. More information on the LGFA business can be found on page 29.
- Having reviewed customer MI throughout the year, both the Board and the Customer Champion identified a trend whereby the median timeframe to pay life and protection claims had increased in the first half of 2019. The MD of Retail Protection was asked to attend the Group Risk Committee meeting in May to explain the trend and actions being taken to improve the situation; following this, the MD returned to the December Group Risk Committee meeting and evidenced how the actions taken had successfully reversed the trend.
- Pages 30 to 31 provide further information on our customer focus.

Community



Overview

Contributing positively to wider society enables us to create stronger communities and have a positive environmental impact.

Engagement

- The Group Board's approach to environmental, social and governance matters is of high importance. The Group Corporate Responsibility & Ethics (GCRE) Committee has responsibility and oversight of such matters and the Group Board is provided with regular updates and a presentation on GCRE Policy on an annual basis. The Board also receives annually an update on CSR.
- A number of our Group Board non-executive directors serve as trustees for various charities. Further detail of these trusteeships is provided within the director biographies on pages 56 to 57.
- Jeff Davies is the Group Board sponsor of the Task Force on Climate-related Financial Disclosures Report (TCFD), whilst Lesley Knox is Group Board sponsor of the Modern Slavery Act. These Board members drive the agenda in relation to the respective subject area, receive reports back on targets and plan the upcoming five-year strategy. Further information on the TCFD can be found on page 49 and our Modern Slavery Statement can be found on page 51.
- Nigel Wilson is a member of the expert group advising on the government's Social Care Green Paper and on Life Sciences. He is the Chairman of the Bank of England review on innovation in finance required for addressing climate change. During the year Nigel Wilson spoke at a number of 'Not a Red Card' mental health events. Further detail on the Not a Red Card campaign can be found on page 54.
- A Senior Leadership event was held in November 2019 at which there was focus on how business leaders should respond to the climate change challenge.

Outcomes

- The Chairman's Awards took place in January 2019 where employees' achievements in charity work, external of Legal & General, were celebrated. Employees were nominated by staff, friends and family to receive awards for their charitable efforts. Group Board members attended the event.
- In July 2019, we announced the launch of homes to rent to the later living sector through Inspired Villages, our suburban later living business, providing greater choice for residents in order to suit their individual financial circumstances and to provide housing across the spectrum of all tenures, ages and social groups. More information on the Later Living and Affordable Homes businesses is provided on pages 36 to 37.
- There has been further investment in Future Cities throughout the year. This helps to create sustainable communities with good employment opportunities, high quality and varied housing, access to an efficient and comprehensive public transport system whilst reducing our environmental impact. Further detail on the Future Cities business is on page 36.
- Pages 38 to 39 provide further examples of some of our recent investments which have positively impacted communities.
- Ahead of the G7 meeting of world leaders, Legal & General joined 34 global businesses and the OECD to back Business for Inclusive Growth – a ground-breaking public and private sector collaboration across the G7 nations.

Stakeholder engagement continued

Engagement with our stakeholders continued

Regulators



Overview

We work with our regulators proactively, with openness and transparency. Early and active engagement, with both government and our regulators, helps to ensure we understand changing requirements and can take timely action to implement the regulatory change required, optimising outcomes for our customers and our people where possible.

Engagement

- The Group Board non-executive directors attend individual Proactive Meetings with both the PRA and FCA on a frequency determined by the regulators for each two-year supervisory cycle. Topics covered include strategy, board effectiveness, cyber, culture, regulatory matters and customer outcomes.
- At each meeting the Group Board received a report from the Chief Risk Officer which contained an update on Prudential Regulation. The Chief Risk Officer periodically attends Group Board meetings to present to the Board.
- To mark the beginning of each two-year supervisory cycle, the FCA attend the Group Board to discuss their priorities. The PRA attend the Group Board annually as part of the PRA's Periodic Summary Meeting cycle.
- During the year we had two Mastertrusts authorised by The Pension Regulator (TPR) and we are now subject to their supervision. Legal & General has been proactive in establishing an open working relationship with this new regulator.

Outcomes

- Regulators have been fully engaged during the Mature Savings sale process and the sale of the General Insurance business.
- Having launched a new financial advice business, Legal & General Financial Advice (LGFA), in November 2019, the FCA was frequently updated on progress such that the authorisation process and business request for authorisation was well understood and well managed on both sides. We believe the introduction of LGFA will drive positive customer outcomes in the home finance market.
- Authorisation of two Mastertrusts by TPR has meant that we can assist more companies in providing work place pensions to customers. Having a colourful retirement is important to us and we are honoured to be able to help our customers in achieving this.

Employees



Overview

Engaging with our people enables us to create an inclusive company culture and a positive working environment.

Engagement

- We were an early adopter of the initiative to appoint a designated workforce director. Lesley Knox reports back to the Board at each meeting on employee-related matters. A report from the Designated Workforce Director is provided on the next page.
- The Board has and will continue to take part in site visits, giving directors an opportunity to meet with employees from various areas of the business. The Board attended a site visit to our investment management business at our central London head office in May 2019, and a number of Board members visited the Cardiff and Hove sites during the year.
- The Voice employee survey provides the ability to gain valuable insights about what is important to employees. Following the Voice surveys, action plans at both group-level and with divisional and local teams are put in place. Voice helps enable us to become a more digital, healthy, and inclusive organisation. The Board receives, periodically, detailed metrics on the views and requirement of employees coming out of the Voice survey and plans for how actions will be implemented to address issues raised by employees in the survey.
- The Board has oversight of whistleblowing and routinely receives reports arising from its operation. Philip Broadley serves as the Group Board's whistleblowing champion.

Outcomes

- A report from the designated workforce director, including detail of activities throughout the year and the output of this engagement is provided on page 65.
- 83% of employees took part in the September 2019 Voice survey, providing 10,780 individual comments. Since the survey, action has been taken on some of the most important issues raised by employees:
 - Hearing from leaders about the future of the business, our strategy and our change programmes: Nigel Wilson, Jeff Davies and Sir John Kingman held Town Hall events in Solihull, Penrith, Leeds, Barnsley, London and Maryland.
 - Frustrations with IT and systems: Our ambitious Project 2020 is ongoing, which will help to make sure we have the right technology to support and transform the way we work.
 - Communication within the business: Over the summer, a series of focus groups across the company were held to identify where the issues were and what could be done to address them. This helped to create a new narrative for the company, which focused on who we are, how we work, and importantly, where we are going.
- In January 2019 the Board hosted a 'Rising Stars' dinner. This was an opportunity for the Board to meet and interact with some of the company's valued and high potential individuals across the business. It was also an opportunity for those employees to meet the Board members and gain some insight into their roles and perspectives.
- Additional workspace has been provided in central London. This will address employee feedback regarding office workspace which will materially improve employee experience.

Employee engagement



Lesley Knox
Designated workforce director

Legal & General has few assets more precious than its people, so the approach to employee representation to the Board needs to be careful, attentive and thorough.

The focus for 2019 was on getting up and running in what is a new role for me and for the company, and I took a three-fold approach. First, finding out what is on employees' minds by speaking to as many of them as possible. Second, understanding what mechanisms we already have in place for employee representation within the group and how they fit together. And third, relaying my findings to colleagues in the boardroom and on the Executive Committee.

What underlies all this is connection. Connecting employees with the Board and each other, using technology to improve these connections and fostering the growth of passionate communities of employees that exist already.

There is much we already do well, and which Legal & General had been doing before the creation of my role. Our Voice survey, launched in late 2018, marked a shift from an inflexible annual survey towards an 'always listening' approach to employee engagement. Our employee satisfaction index ended 2019 on 72 (on an average 82% completion rate over the course of three surveys); over the course of 2019 we received 18,747 individual employee comments through the survey. This gives us a rich source of feedback, solid foundations from which to monitor employee engagement, and perhaps most importantly, clarity on where we need to focus our efforts.

Other mechanisms for employee representation include our recognised Union partner, Unite; local employee engagement forums, which represent our people's concerns on a variety of issues, both local and national; and our Management Consultative Forum, which represents senior grades. In 2020 I intend to work more closely with each of these groups, helping to make their constituents' case to the Board and with the Executive Committee.

I have visited Legal & General sites in Cardiff, Hove and Edinburgh as well as our London HQ this year, speaking to around 400 employees of all grades and most business areas. They have raised issues including: underinvestment in our junior and middle managers' skills, especially in leadership and in using insights from the Voice survey to make improvements; and the need for us to offer clearer development opportunities, including building a pipeline of talent from the apprentice level. Working with HR colleagues, these topics will be a focus for 2020.

As well as referring my findings to individual Executive and Board colleagues, the Board offers me the opportunity to report at every meeting. I do this after every site visit. A mixture of anecdotal and formal reports are given, leading to action where required.

We have used employee insight this year to improve the experience of those Mature Savings and General Insurance employees who are leaving the business, through outplacement and redeployment support and ongoing communication and engagement activity. Meanwhile, we know we have more to do on integrating employees in outlying parts of our business, including CALA Homes; and on ensuring that employees of those businesses which are growing organically, such as Digital and IT, are represented and engaged well.

My main finding for 2019 is that Legal & General has a great workforce: passionate, engaged people who are committed to doing the right thing and creating the best possible experience for clients, customers and each other. Many of them are quite literally invested in the future of their company: 67% of employees already hold shares through our employee share plan; and 5% of our ordinary shareholders are employees. Furthermore, they are enthusiastic supporters of the communities where they live; there is much to celebrate, and we do, with events like our annual Chairman's Awards. In short, if inclusive capitalism begins at home, our employees are already exemplifying the best of our corporate purpose.

I look forward to a 2020 of informed, active advocacy for Legal & General's employees to my Board colleagues.

Governance report

The UK Corporate Governance Code – committed to the highest standards

The 2018 UK Corporate Governance Code (the 'Code') emphasises the role of good corporate governance in achieving long-term sustainable success. The principles of the Code are the standards against which we are required to measure ourselves during the year. The information on the following pages explains how we have applied the principles of the Code in practice during the year. The information required under Disclosure Guidance and Transparency Rule 7.2.6 can be found in the directors' report on pages 250 to 253. Each year, the Board reviews the group's corporate governance framework and compliance with the Code. Pages 70 to 71 set out at a high level how we have complied with each of the principles.

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

The Board

The table below sets out the changes to the Board that have taken place over the course of the year. Michelle Scrimgeour took on the role of CEO of Legal & General Investment Management (LGIM) in July 2019 and was appointed an executive director of the Board on 2 September 2019. Michelle replaced Mark Zinkula who stepped down from the Board on 31 August 2019. The Board continues to focus on maintaining a well-balanced and diversified Board with the right mix of individuals who can apply their wider business knowledge and experiences to the setting and oversight of delivery of the Group's strategy.

Changes to the Board

Appointments	Resignations
Michelle Scrimgeour 2 September 2019	Mark Zinkula 31 August 2019

How the Board operates

The Board is led by the Chairman, Sir John Kingman. The day-to-day management of the company is led by Nigel Wilson, the Group Chief Executive. The non-executive directors play a key role in our governance framework and culture, and their roles are not limited to the boardroom. Examples of some of the other activities they have undertaken during the course of the year are set out on page 70.

The Board is accountable for the long-term success of the company by setting the group's strategic objectives and monitoring performance against those objectives. The Board meets formally on a regular basis and at each meeting considers business performance, strategic proposals, acquisitions and material transactions in the context of the Group's strategic plans, risk appetite, the interests of the group's stakeholders and our social purpose. The Board and its subsidiaries operate within a clearly defined delegated authority framework, which is fully embedded across the group.

The delegated authority framework ensures that there is an appropriate level of Board contribution to, and oversight of, key decisions, and that the day-to-day business is managed effectively. The delegated authority framework consists of a clearly defined schedule of matters reserved for the Board. The types of matters reserved include, amongst other things, matters relating to the group's strategic plan, material transactions, risk appetite, and oversight of systems of internal control and corporate governance policies. Those matters which are not reserved are delegated by the Board to group level committees, the Group Executive Committee and to the Group CEO who then delegates decision making onward to the Group Capital Committee, an executive decision making forum, and his direct reports.

How the Board spent its time in 2019

The Board met formally eight times during 2019 including two off-site strategy events, and Board sub-committees were constituted on a number of occasions in order to deal with matters arising in the ordinary course of business outside of the formal schedule of meetings. A table of individual Board member attendance at the formal Board and Committee meetings is provided on page 71. Board members met informally with the executive and senior management on a regular basis outside of the formal meeting schedule.

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

- an update from the Group Chief Executive, the Group Chief Financial Officer and a report from each of the key business divisions on business performance and key business initiatives;
- discussions on strategic proposals, acquisitions, material transactions and other material initiatives;
- risk and compliance matters;
- legal and governance matters; and
- people and employee engagement matters.

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

Key areas of focus in 2019	Discussion and actions arising
Strategy	<ul style="list-style-type: none"> At its December meeting, the Board considered and approved the Group's five-year business plan and 2020 budget. This included a review of the divisional strategic objectives, initiatives and financial and non-financial KPIs. The Board held a full day strategy event which covered, among other things, the Group's medium-term strategic opportunities, which had been identified as key for the Board to focus on in the 2018 evaluation exercise. The Board held a further two-day strategy event in London to discuss progress against the Group's strategic plan and how the Board believes it should evolve. The Board also discussed the strategic options in particular arising from ageing population trends globally, changes in the role of ESG and in investing both as principal and agent for our clients. At each Board meeting, the Board considered corporate and material transactions to ensure that proposed transactions were aligned with the group's strategy and risk appetite. The Board had early sight of pipeline initiatives.
Solvency II	<ul style="list-style-type: none"> The Board considered and approved Internal Model Major Change applications and regularly monitors the Group's Solvency II position.
Governance	<ul style="list-style-type: none"> An externally-facilitated internal Board evaluation took place in the later part of 2019. Detailed recommendations arising from the evaluation were developed and an action plan was subsequently adopted by the Board. The Board is regularly updated by the Group General Counsel and Company Secretary on legal matters, emerging regulation and governance changes. The Board is regularly updated by the Chief Risk Officer on risk and compliance matters. During 2019, the Board has had particular focus on the interaction with subsidiary Boards and initiatives to promote greater collaboration and engagement whilst enhancing the strength of oversight and challenge at all levels of governance. Lesley Knox and Henrietta Baldock's roles as Chair of LGIM(H) and LGAS, respectively, mean the Chairmanship of two of our principal subsidiaries are combined with Group non-executive roles, further strengthening the link between our Group Board and principal subsidiary Boards.
Stakeholders	<ul style="list-style-type: none"> During the year, the Board regularly considered the Group's relationship with various stakeholder groups. It discussed customers, shareholder matters, employee engagement, and the Group's impact on, and relationship with, wider society and the environment. The Board has focused deep dives on such areas, for example sessions with the executive nominated as the Group's Customer Champion, and it considers these matters as part of its decision making on strategic proposals. Employee engagement continued to be a focus for the Board in 2019 with Lesley Knox being the Designated Workforce Director providing regular updates on engagement with the workforce, the results of the employee survey and visits to a number of Legal & General office locations. Board members met regularly through the year with key regulators, the Prudential Regulation Authority and Financial Conduct Authority.

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

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

The key areas of the Board's induction programme include:

- an introduction to the group's corporate structure, governance framework and guiding principles;
- a meeting with the Group Company Secretary who provides detail on the roles and responsibilities of the Board, delegated authority framework, listed company requirements and the requirements of the UK Corporate Governance Code, and how the group complies with its principles;
- meetings with the CEO of each business division to receive an overview of each business unit including information around strategic goals, risk overview and management, customers, and key financial and non-financial KPIs;
- meetings with members of the Board, the Executive Committee and senior management, covering areas such as:
 - group risk management
 - risk and compliance
 - finance
 - remuneration
 - investor relations and corporate affairs;
- a meeting with the Group Actuary focusing on regulatory capital and the Group's Internal Model; and
- meetings with the Chairs of the Risk, Remuneration and Audit Committees, the external auditor and the group's brokers.

In addition, all Board members receive continuing education and development at regular intervals throughout the year. Board and Committee meetings are used regularly to update the Board on developments in the areas in which the group operates, and specific training sessions for directors are scheduled for key topical issues. For example, the Board received a detailed training session in November 2019 on the impact on the Group of the new accounting standard IFRS 17. Other development activities undertaken throughout 2019 included a deep dive into our Affordable Housing business and updates in respect of our US businesses and other international aspirations. Non-executive directors also visited our business operations in different locations and attended one-to-one briefing sessions with key members of the senior management team on a regular basis over the year.

Governance report continued

Group Information Technology ('IT') Committee

The IT Committee's primary role is to provide oversight of, and guidance to, the Board with regards to all aspects of IT, cyber and information security across the Group. Its responsibilities include:

- overseeing the control environment in place for IT, cyber and information security;
- overseeing major change programmes including technology aspects and understanding their strategic contribution and risks;

- reviewing risks relating to IT, cyber and information security and plans for mitigation; and
- reviewing and endorsing the Group IT Strategy and Group Cyber Strategy, and their implementation plans.

The Committee membership comprises the Chairman, the Senior Independent Director, the Chair of the Audit Committee and the Chair of the Risk Committee. One of the Group CEO and the Group CFO, the Chief Risk Officer and the Group IT Director are expected to attend all meetings. The Committee is also advised by two independent IT experts. The Committee met eight times during 2019.

In 2019 the Committee:

- focused in particular on the Group's cyber security, information security, access management and GDPR programmes;
- considered capabilities relating to IT, cyber and digital skills and plans to address any capability gaps;
- reviewed and endorsed the organisation and operating model in place for IT and cyber security and subsequently considered its ongoing suitability; and
- maintained oversight of the overall resilience of the group's IT systems.

2019 Board and Committee evaluations

The Board undertakes a formal review of its performance and that of its Committees each year. The 2019 externally-facilitated internal review was conducted by Lintstock, an external Board review specialist. Lintstock have no other connection to the company or individual directors. Board members were required to review and complete a comprehensive questionnaire. The aim of the review was to assess the effectiveness of the Board, both as a collective unitary Board, and at individual Board member level, in order to implement any actions required to become a more effective Board. The performance of each of the Board Committees was also assessed.

The review focused in particular on the following areas:

- Board composition, expertise and dynamics;
- strategic and performance oversight;
- succession planning and human resource management; and
- priorities for change.

The evaluation included a review of the Chairman's performance.

The results of the review were very positive. A summary of recommendations from the review is set out below, together with an update on the progress made against the recommendations from the 2018 internal review.

Recommendations from 2019

Continue to have regular oversight over and involvement in non-executive and executive development and succession.

Continue to improve the Board's understanding of its stakeholders, including customers, suppliers and employees.

Continue to enhance focus on the Group's businesses and the markets in which they operate.

Continue to enhance the support provided to the Board in terms of training, facilities and quality of papers.

Recommendations from 2018 review

Progress against 2018 recommendations

Board to have greater visibility over divisional transformation programmes.

The Board receives regular updates in respect of all major and transformational programmes through the business reports of the heads of the division and business management information packs. In addition during the course of 2019 the Board held detailed discussions on IFRS 17 planning and cyber security transformation. There is also a standing agenda item in relation to strategic divisional proposals.

At each IT Committee meeting, a standing item is an update to the Committee in relation to major programmes together with periodic deep dives.

Continue to evolve the Board's involvement in the group's processes for managing and developing talent.

As well as regular scheduled discussions about succession planning and development of leadership skills, the Board holds a dinner each year for 'Rising Stars' working within the business. Furthermore, the Nominations and Corporate Governance Committee held a deep dive in relation to talent development and planning for women at grades 5 and 6.

Continue to have regular oversight over executive succession.

Executive development and succession planning is scheduled for review at least annually and throughout 2019 the Nominations and Corporate Governance Committee held sessions on executive and Board succession planning. In addition, the Board discussed top talent and succession plans for individual business senior management and this was further developed with a detailed discussion at the strategy event in October 2019.

Improve the Board's understanding of the views and requirements of customers.

The Executive Customer Champion reports to the Board periodically and provides an update in relation to the customer champion work being carried out in each business division and on group-wide initiatives.

Consider how the group's communications with the media and other stakeholders could be improved.

The group appointed a new Head of Investor Relations in March 2019 and the PR functions have been strengthened through its relationship and engagement with the Tulchan Group, a public communications advisory firm, who are involved early on in the process in relation to significant media communication matters. The Board has also considered how the group could improve its press relations and ensure that it is further digitally enabled and digitally responsible.

Stakeholder engagement

Detail on our key stakeholders can be found on pages 14 to 15. Detail of the Board’s engagement with its stakeholders and our s.172 statement is provided on pages 62 to 64.

Major decisions and discussions during 2019

The Board factored the needs and concerns of our stakeholders into its discussions and decisions throughout the year, in accordance with s.172 of the Companies Act 2006

(see s.172 statement on pages 62 to 64). Stakeholder issues are an integral part of the Board’s decision making and we seek to embed this in key subsidiary Boards and decision making committees throughout the organisation. Whilst not all decisions affect every stakeholder group our Boards and committees endeavour to balance the sometimes conflicting needs of our stakeholders to ensure all are treated consistently and fairly. Major decisions and considerations during 2019 include:

Decision		
<ul style="list-style-type: none"> Affordable Homes: Consideration of third party asset and tenant managers with a focus on partners who have high levels of customer service capabilities and a focus on their regulatory and safety obligations. 	<ul style="list-style-type: none"> Approval of £100 million investment to Sunderland regeneration: Supporting the creation of up to 3,000 new jobs. 	<ul style="list-style-type: none"> Approval of the development of a flagship Build to Rent Scheme in Wandsworth: Delivering 1,000 new homes.
<ul style="list-style-type: none"> Sale of Mature Savings business: Impact on employees, regulators and customer service levels throughout the ongoing sale process. 	<ul style="list-style-type: none"> Approval of partnership with Croydon Council: A £45 million investment to provide 167 affordable homes for families on the housing waiting list, providing much-needed stability for local families and residents. 	<ul style="list-style-type: none"> Approval of £4 billion partnership with Oxford University: Developing homes for university staff and students, together with science and innovation districts in and around Oxford.
<ul style="list-style-type: none"> Sale of General Insurance business: Consideration of all key stakeholders throughout the sale process. See more detail below. 	<ul style="list-style-type: none"> Approval of the acquisition and development of Bath Quays North: Transformation of an under-utilised site into a commercial district to attract and retain office occupiers in the city. 	<ul style="list-style-type: none"> Approval of additional workspace in City Place, London: Addressing the issue of space, which will materially improve employee experience.

Looking at one of the decisions in more detail: Sale of the GI business

In April 2019 the Board approved the sale of the General Insurance business (comprising principally our home insurance and pet insurance businesses) to Allianz, subject to receipt of the necessary regulatory and competition authority approvals, with the sale subsequently completing on 31 December 2019. The sale included a substantial workforce and required the establishment of transitional services arrangements.

Our stakeholder impact analysis identified the following risks and benefits to our key stakeholders:

Risk	Mitigant/Benefit
The Legal & General employees dedicated to the General Insurance (GI) business may be negatively impacted as a result of the sale	In order to secure jobs and benefits for the employee workforce dedicated to the GI business we negotiated for all such employees to be transferred to the purchaser’s group with protection of their contractual terms and conditions, and continuity of service as part of the transaction, avoiding to the extent possible any negative impact of the sale on the affected workforce. We also ensured communication and consultation was opened up to the whole impacted workforce directly rather than solely with their representatives, thereby exceeding our legal obligations. In recognition of the personal uncertainty for our people, we ensured they had access to regular town hall briefings and a dedicated mailbox for any questions. We consulted extensively with our trade union, Unite, as well as our Management Consultative Forum.
Customers may be unsettled or treated differently as a result of the sale	The impact on customers was a key consideration when agreeing the sale. In particular, the Board considered metrics illustrating the level of customer satisfaction with the buyer, which reflected a strong track record with regards to customer service in the UK market. Additionally, Legal & General customers will benefit from becoming part of a corporate group for which general insurance is a strategic focus.
Existing suppliers suffer disruption or detriment	As part of the sale, and following engagement with our suppliers, it was agreed that transitional support of certain supplier contract management services would continue to be provided by Legal & General to allow an extended period to arrange an orderly migration for suppliers.
Regulatory risk	There was proactive engagement and dialogue with both the PRA and FCA throughout the sale process.



Sir John Kingman
Chairman

Committed to the highest standards

Compliance with the 2018 UK Corporate Governance Code: For the year ended 31 December 2019, we are pleased to report that we have applied the principles and complied with the provisions of the Code.

1. Board leadership and company purpose **A. Board's role**

There is a formal schedule of matters reserved for the Board which sets out the structure under which the Board manages its responsibilities, providing guidance on how it discharges its authority and manages the Board's activities. The Board's main activities throughout the year are detailed on pages 66 to 67. The company continues to be led by an effective and entrepreneurial Board; a yearly planner is reviewed at each Board meeting to ensure the most important and current topics are being discussed at meetings throughout the year. Our governance framework means we have a robust decision making process and a clear framework within which decisions can be made and strategy can be delivered. Our delegated authority framework ensures that decisions are taken by the right people at the right level with accountability up to the Board, and enables an appropriate level of debate, challenge and support in the decision making process.

B. Purpose and Culture

The Board's agenda is set by the Chairman and deals with those matters relating to the group's strategic plan, risk appetite, and systems of internal control and corporate governance policies. The Board held a strategy meeting in March 2019 and met for a two day off-site strategy event in October 2019 to consider the group's strategy. The Board regularly reviews the CRO conduct report providing insight into culture across the organisation and helping to ensure behaviours throughout the business align with the company's purpose, values and strategy. Furthermore, the Board is responsible for overseeing implementation of the group-wide diversity and inclusion policy which applies to all individuals directly employed by the group and forms the basis of engagement with customers and suppliers. Board members participate in site visits enabling them to meet with employees and gain first-hand insight into culture in the various business divisions. The Chairman, Group CEO and Group CFO have also hosted Town Hall events at various locations throughout the year. Additionally, when the Board is considering entering a new market/business area, culture plays a major part in discussions and Board members remain conscious of the need to embed the company culture in any new businesses.

C. Resources and Controls

Matters delegated to the Group Chief Executive include managing the group's business in line with the strategic plan and approved risk appetite, and responsibility for the operation

of the internal control framework. The Group Risk Committee assists the Board in the oversight of the risks to which the group may be exposed and provides the Board with strategic advice in relation to current and potential future risk exposures. The risk management framework supports the informed risk taking by our businesses, setting out those rewarded risks that we are prepared to be exposed to and the risks that we want to avoid. Further information on risk management can be found on pages 42 to 47.

D. Stakeholder Engagement

Board members take an active role in engaging with shareholders and wider stakeholders. Further information on the Board's engagement with stakeholders can be found on pages 62 to 64. Board members receive feedback at each Board meeting from Lesley Knox on her role as Designated Workforce Director and periodic feedback from the Voice survey enabling them to assess and monitor culture.

E. Workforce Engagement

In addition to Board members' site visits, the designated workforce director meets with hundreds of employees of various grades and across business divisions throughout the year, enabling visibility of workforce policies and practices across the organisation and how these align with the company's values. There is a whistleblowing hotline available for any members of the workforce who wish to raise any concern of wrongdoing in the workplace. The Board has oversight of whistleblowing and routinely receives reports arising from its operation. Additionally, employees are encouraged to share their views through the Voice survey and with the Designated Workforce Director. Further details are available on page 65.

2. Division of responsibilities

F. Role of the Chairman

The Chairman sets the agendas for meetings, manages the meeting timetable and encourages an open and constructive dialogue during meetings, inviting the views of all Board members.

G. Composition of the Board

In addition to the Chairman, the Board comprises six independent non-executive directors and four executive directors. The roles of the Chairman and Group Chief Executive are clearly defined and the role profiles are reviewed as part of the annual governance review undertaken by the Board. Sir John Kingman, the Chairman, is responsible for leading the Board while Nigel Wilson, Group Chief Executive, is responsible for the day-to-day management of the company within the parameters of the strategy set by the Board. Sir John Kingman was identified by the directors as being independent on appointment.

H. Role of the non-executive directors

The non-executive directors' engagement with management, constructive challenge and contribution to Board discussion is assessed as part of the Board's annual effectiveness review. The non-executive directors' letters of appointment set out the time commitment expected from them. At times, this time commitment may go beyond that set out in the letter of appointment and is therefore reviewed regularly. External commitments, which may have an impact on existing time commitments, must be agreed in advance with the Chairman and approved by the Nominations and Corporate Governance Committee under its delegation from the Group Board. In addition, the policy for the identification and management of directors' conflicts of interest is reviewed on an annual basis. The significant commitments of each of the directors are included in the Board biographies on pages 56 to 57. The Chairman's commitments were considered as part of his appointment and the Board agreed that he had no commitments that were expected to have a negative impact upon his time commitment to the Company. This is kept under review.

I. Role of the Company Secretary

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

3. Composition, succession and evaluation

J. Appointments to the Board and succession planning

The Nominations and Corporate Governance Committee is responsible for assessing the composition of the Board and, in making recommendations for appointments to the Board, the Committee considers the balance of skills, experience and knowledge needed in order to enhance the Board and support the company in the execution of its strategy. Details of the work undertaken by the Nominations and Corporate Governance Committee are set out on pages 72 to 75. The Nominations and Corporate Governance Committee is responsible for leading the process of appointing new directors to the Board and for succession planning.

K. Skills, experience and knowledge of the Board

The Nominations and Corporate Governance Committee is committed to ensuring that all appointments are made on merit having evaluated the capabilities of all potential candidates against the requirements of the Board, with due regard for the benefits of all types of diversity, including diversity of gender,

social and ethnic backgrounds, cognitive and personal strengths. Further details of the appointments undertaken during the year can be found on page 73 and a summary of the Board's policy on diversity and inclusion can be found on page 74.

L. Board evaluation

An externally facilitated internal Board effectiveness review was undertaken during 2019. Details of this internal evaluation and an update on the progress against the recommendations from the 2018 evaluation are set out on page 68. The Board undergoes an externally facilitated evaluation every three years with the next external evaluation taking place in 2020. Sir John Kingman's performance is appraised as part of this annual review, as well as the effectiveness of both the non-executives and the executive team.

All directors were subject to shareholder election or re-election at the 2019 AGM and all directors received over 98% votes in favour of their re-election. All directors will be subject to shareholder election or re-election at the 2020 AGM.

4. Audit, risk and internal control

M. Internal and external audit

The Audit Committee comprises six independent non-executive directors and the Board delegates a number of responsibilities to the Audit Committee, including oversight of the group's financial reporting processes and internal control, and the work undertaken by the external and internal auditors. The Committee

also supports the Board's consideration of the company's viability statement and its ability to operate as a going concern. The Audit Committee chair provides regular updates to the Board on key matters discussed by the Committee.

N. Fair, balanced and understandable assessment

The Strategic report, located on pages 1 to 53, sets out the performance of the company, the business model, strategy, and the risks and uncertainties relating to the company's future prospects. When taken as a whole, the directors consider the annual report is fair, balanced and understandable and provides information necessary for shareholders to assess the company's performance, business model and strategy.

O. Risk management and internal control framework

The Board sets the company's risk appetite and annually reviews the effectiveness of the company's risk management and internal control systems. A description of the principal risks facing the company is set out on pages 46 to 47. Page 45 sets out how the directors have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate (the 'viability statement'). The Group Risk Committee considers assessments of the group's current risk profile and emerging risk factors, facilitated by the Group Chief Risk Officer. The activities of the Group Risk and Audit Committees are set out on pages 76 to 81.

5. Remuneration

P. Remuneration policies and practices

The company aims to reward employees fairly and its remuneration policy is designed to promote the long-term success of the company whilst aligning the interests of both the directors and shareholders. Shareholders last approved the remuneration policy at the 2017 AGM and approval of the remuneration policy will be sought at the upcoming AGM in May 2020. The directors' remuneration policy is set out on pages 87 to 91.

Q. Executive remuneration

The Remuneration Committee is responsible for setting the remuneration for all executive directors. No director is involved in deciding their own remuneration outcome.

R. Remuneration outcomes and independent judgement

Details of the composition and the work of the Remuneration Committee are set out in the directors' report on remuneration on pages 82 to 83.



UK Corporate Governance Code

A full version of the Code can be found on the Financial Reporting Council's website. Please visit: frc.org.uk

Board and Committee meetings attendance during 2019¹

Director	Appointment date	Committee appointments	Board (8)	Audit Committee (5)	Nominations and Corporate Governance Committee (3)	Remuneration Committee (5)	Group Risk Committee (5)	Group IT Committee (8)
Chairman and executive directors								
Sir John Kingman ²	24 October 2016	I N	8/8		3/3			8/8
N D Wilson	1 September 2009		8/8					
J Davies	9 March 2017		8/8					
K Procter	9 March 2017		8/8					
M Zinkula	18 September 2012		4/5 ³					
M Scrimgeour	2 September 2019		4/4 ⁴					
Non-executive directors								
J Wilson	9 November 2011	A I N Ri	8/8	4/5	3/3		4/5	8/8
H Baldock	4 October 2018	A N R Ri	8/8	5/5	3/3	5/5	5/5	
P Broadley	8 July 2016	A I N Ri	8/8	5/5	2/3	5/5	5/5	7/8
L Knox	1 June 2016	A N R Ri	8/8	5/5	2/3	5/5	5/5	
G Lewis	1 November 2018	A N Ri	8/8	5/5	3/3		5/5	
T Strauss	1 January 2017	A I N Ri	8/8	5/5	3/3		5/5	5/8

- Attendance at meetings in accordance with the formal schedule of meetings.
- Attends all Audit, Remuneration and Group Risk Committee meetings as an invitee.
- Mark resigned from the Legal & General Group Plc Board on 31 August 2019.
- Michelle was appointed to the Legal & General Group Plc Board on 2 September 2019.

Committee membership key

- A** Audit **I** IT **N** Nominations and Corporate Governance Committee
R Remuneration **Ri** Risk **I N Ri** Committee Chairman

Nominations and Corporate Governance Committee report



Sir John Kingman
Chairman

The composition of the Committee

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

Members
Sir John Kingman
Julia Wilson
Henrietta Baldock
Philip Broadley
Lesley Knox
George Lewis
Toby Strauss

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



The Committee's terms of reference, which set out full details of the Committee's responsibilities, can be viewed on our website:
<https://www.legalandgeneralgroup.com/about-us/corporate-governance/>

The Committee's key responsibilities are:

- Regularly reassessing the structure, size and composition of the Board and recommending any suggested changes.
- Considering succession planning for directors and other senior executives. This takes into account the promotion of diversity and inclusion, the challenges and opportunities facing the company, and the skills and expertise needed by the Board in the future. In addition, the Committee ensures the continued ability of the company to compete effectively in the market place.
- Reviewing the criteria for identifying and nominating candidates for appointment to the Board based on the specification for a prospective appointment including the required skills and capabilities.
- Identifying and nominating for approval of the Board, candidates to fill Board vacancies as and when they arise, taking into account other demands on directors' time.
- Reviewing the time commitment required from non-executive directors and assessing the non-executive directors' other significant commitments to ensure that they continue to be able to fulfill their duties effectively.
- Overseeing and monitoring the company's corporate governance framework, ensuring compliance with the UK Corporate Governance Code while promoting the highest standards of corporate governance across the group.

The role of the Committee

This year the Nominations Committee and the Corporate Governance Committee were merged. This reflects that the work of the two Committees is strongly aligned around corporate governance matters and the role of the Board in relation to Board appointments and succession planning. The remit of the joined Committee places a diverse and experienced Board at the heart of strong corporate governance standards.

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



The remit of the joined Committee places a diverse and experienced Board at the heart of strong corporate governance standards.”

Sir John Kingman
Chairman

How the Committee spent its time in 2019

During 2019 the Committee has focused in particular on the recruitment of the new Legal & General Investment Management (LGIM) CEO, Michelle Scrimgeour. Her biography is set out on

page 56 and shows the strength and depth of skills and experience she has brought to the Board, in particular her extensive asset management experience. The process involved in Michelle’s appointment was as follows:

The process for the appointment of new LGIM CEO

Role requirements	Process	Search	Recruitment
A detailed specification was prepared for the role of CEO of LGIM and Group Board Executive Director, specifying the skills, knowledge, experience and attributes required.	The Committee directed the selection process, appointing a sub-committee to manage the process. Korn Ferry, an external search consultant, was engaged to facilitate the search and selection process.	Potential candidates identified were assessed against the role specification and shortlisted for interview. Interviews focused on each candidate’s skills and experience for the role.	The Committee agreed that Michelle Scrimgeour was the right candidate for the role and should be proposed to the Board for appointment as LGIM CEO and Group Board executive director. The Board approved her appointment, which took effect on 2 September 2019. Regulatory approval of Michelle’s appointment to LGIM was received on 6 September 2019.

An effective Board is one that represents both diversity of thought and background. Ensuring appropriate diversity in Board composition with the right mix of skills and experience has been a key focus for the Committee during the year. The Committee undertook an assessment of the skills and competencies required for non-executive roles for the Board to effectively develop and oversee the group’s strategy. The Committee also identifies any gaps which could be filled to enhance the Board’s future performance. The Committee determined that the Board is the right size, sufficiently international and able to manage the demands of the group concluding that no further additions to the Board were required at this time. Looking forward, the group’s ambition is to improve ethnic diversity at senior management and Board level in accordance with the Board Diversity Policy and is aspiring to meet the recommendations made by the Parker review.

The Committee has continued to focus on contingency, medium-term and long-term succession planning for the executive and senior management, with particular emphasis on leadership succession and capabilities evaluation. The CEO and the HR Director engaged a leadership consultancy to provide insights, recommendations and independent assurances in relation to succession planning and executive capabilities. The findings were shared with the Board and were used to help facilitate discussions at the Committee in relation to succession planning and to identify

key attributes and capabilities for future leaders. The report drafted by the consultancy was discussed by the Committee with a view to further developing internal succession planning and the capabilities of the executive and senior management. This activity will continue to evolve during the course of 2020. The Committee also approved the launch of the new Leadership Principles for the group, being ‘Ambitious, Authentic and Agile’.

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

Nominations and Corporate Governance Committee report continued

The Committee also considered the Chairman's new role as a Board member of Tesco Bank. The Committee discussed the time commitment this would involve and whether it may have a material impact on the Chairman's commitments to Legal & General. The Committee determined that the Chairman had sufficient time to perform the new role as Board member of Tesco Bank and that the Chairman's time commitments would continue to be reviewed. The Chairman provided assurance to the Committee that his primary responsibility would be to give the full time commitment necessary to Legal & General.

Our approach to diversity

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

The Committee has three key areas of focus for the Board as part of driving diversity and inclusion across the group.

1. Building a diverse and inclusive Board

We have a responsibility to develop and sustain a panel of Board members that are diverse, and are reflective of our people as well as the businesses and communities our organisation serves.

We have maintained the gender diversity on our Board which comprises 36% females and 64% males following the appointment of Michelle Scrimgeour. The Board continues to support Lord Davies' and the Hampton-Alexander voluntary targets, namely for a third of all Board members in FTSE 350 companies and FTSE 100 companies to be women by 2020. The chart overleaf demonstrates the Board's current position.

We are committed to increasing ethnic diversity representation at all grades across the Group.

2. Building a diverse Senior Leadership Team

The Board plays an important role in modelling and promoting 'difference' across the Group's senior leadership population. This includes monitoring and guiding the Group to achieve its gender diversity target of 40% female leadership by 2020 and ensuring effective career plans are in place to build a diverse talent pipeline. It also includes shaping and supporting future goals across the senior leadership population.

Our Executive Committee comprises 31% females and 69% males and two of our five business divisions are led by a female CEO. Gender data at management and employee level is available on page 50. The Board firmly supports Legal & General's gender balance goal of 50/50 by 2020 which aims to have a 50/50 balance of men and women right through the organisation by 2020. Achieving this remains a challenging task but we have made steady progress as a result of a number of planned actions. Some examples include:

- inclusive hiring practices like balanced shortlists and diverse interview panels;
- introduction of a digital, strengths-based assessment tool to reduce bias in talent decisions;
- continued commitment to our female mentoring programme;
- introduction of agile working practices so individuals can balance busy lives;
- wellbeing resources including access to a backup network for child, adult and elder care; and
- ongoing external validation and benchmarking through the Women in Finance Charter, the Bloomberg Gender Equality Index and Hampton Alexander Review.

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

3. Driving diversity & inclusion across our organisation

The Board is responsible for overseeing the implementation of our Group-wide diversity and inclusion policy. This policy applies to all people directly employed by the Group and forms the basis of our engagement with our clients, suppliers and other third-party providers. Our standards include:

- We will be fair and transparent, and treat our people with integrity and openness. We will be respectful of differences and we will not tolerate behaviour that marginalises, disadvantages or devalues others.
- We will aim to build a workforce that reflects the diverse communities we serve. We are committed to creating social value and being led by the needs of our customers. We will invest in our hiring processes so we can attract a more diverse pool of people, and we will tackle barriers that prevent us from attracting and retaining more diverse talent.
- We will create an inclusive environment where people feel comfortable sharing their opinions and feel like they belong. We will encourage our people to embrace difference, to listen to other points of view, and work together to achieve the best outcome.
- We will ensure that everyone across Legal & General understands their responsibilities in driving an inclusive and diverse culture and the opportunities it can bring. We will develop a robust governance framework and use data and insights to shape our actions, measure our progress, and drive accountability.

More information relating to diversity and inclusion across our organisation can be found on page 50.

4. Corporate Governance

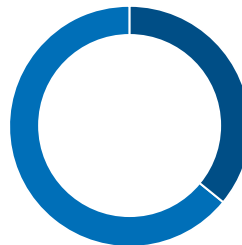
The Board is also responsible for overseeing and monitoring the group's corporate governance framework which includes the following activities:

- Monitoring the group's compliance with the UK Corporate Governance Code.
- Promoting the highest standards of corporate governance across the company.
- Considering and approving directors' additional external appointments, taking into account other demands on directors' time.
- Ensuring that on appointment to the Board, non-executive directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, Committee service and involvement outside Board meetings.
- Overseeing the process for ensuring that non-executive directors have tailored induction programmes on appointment and on-going development programmes, including regular Executive Business Awareness sessions, designed to maximise their effectiveness.
- Overseeing the process by which the Board, each Committee and individual directors assess their effectiveness (including the use of an external facilitator periodically, as well as self-assessment) and report to the Board on the findings and recommendations.

Details of the group's compliance with the UK Corporate Governance Code have been provided on pages 70 to 71.

Diversity

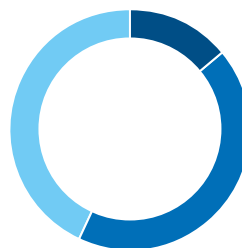
Gender



As at 31 December 2019 the Board comprised:

- 36% Females
- 64% Males

Tenure



The length of tenure of the non-executives varies:

- 14% Over six years
- 43% Between three and six years
- 43% Between one and three years

The Committee only engages executive search firms that are signatories to the Voluntary Code of Conduct for Executive Search Firms, which promotes gender diversity and best practice for corporate Board searches. In 2019, the company engaged JCA Group and Korn Ferry which are both signatories to this Code. Both of these search firms have no other connection to the company or individual directors.

The Committee briefs the search firm to ensure that the pool of candidates presented includes candidates with an appropriate range of experience, knowledge and background, and who demonstrate independence of approach and thought. As detailed on page 73, this process was followed for the recruitment of our new executive director appointed in 2019.



Finding what you need online

We have published our Gender Pay Gap data, which can be found online at www.legalandgeneralgroup.com/media-centre/reports.

A summary is available on page 51 of this report.

Audit Committee report



Phillip Broadley
Chairman of the Audit Committee

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

Members
Phillip Broadley
Henrietta Baldock
Lesley Knox
George Lewis
Toby Strauss
Julia Wilson

Other regular attendees at Committee meetings include the following:

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

Letter from the Chairman Dear Shareholder

I am pleased to present the Audit Committee Report for the year ended 31 December 2019. The report explains the work of the Audit Committee during the year, and meets the disclosure requirements set out in the 2018 UK Corporate Governance Code (the 'Code').

The Code requires that the Audit Committee must operate effectively and efficiently and that its members have a balance of skills and experience to deliver its responsibilities. There were no changes to the membership of the Committee during the year. The members of the Audit Committee have a wide range of experience, including as executives in the financial services and other sectors, as non-executive directors, and as Board members responsible for financial reporting. The Board considers that I meet the requirements of the Code in having recent and relevant financial experience, as do other members of the Audit Committee.

It is worth highlighting that all members of the Audit Committee are also members of the Risk Committee, which ensures that there is appropriate identification and management of any issues that are relevant to both committees.

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

Audit Committee focus for the 2019 year

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

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

In addition to the above, the Committee has also begun focusing more on the Company's preparedness for IFRS 17. Our work in this regard has primarily been in respect of ensuring plans are in place to meet the new financial reporting requirements, but we expect the focus to increase significantly over the coming years, with a greater focus on the modelling, methodologies and assumptions used to calculate insurance liabilities and the impact of transition.

KPMG LLP ('KPMG') were appointed as the group's external auditors with effect from the financial year ended 31 December 2018, and their first externally facilitated internal audit effectiveness review was carried out during 2019 in conjunction with the broader review of the Board's effectiveness. The review focused on audit quality, the structure and independence of the audit team and KPMG's relationship with the Committee, Executive team and Group Internal Audit. The Committee commented on how the Committee perceived KPMG's understanding of the group's business environment and made suggestions on areas of future audit focus. I have shared the review's findings with the lead audit partner and discussed improvements which could be made to the way in which the Committee and KPMG interact.

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

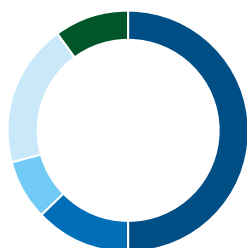
A handwritten signature in blue ink, appearing to read 'Phillip Broadley'.

Phillip Broadley
Chairman of the Audit Committee

How the Audit Committee spent its time in 2019

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

Percentage of time allocated to specific agenda items



- 50% Financial reporting, including areas of judgment, and reporting developments
- 13% External audit
- 8% Internal audit
- 19% Internal controls
- 10% Other (including governance)

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

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

- Accounting and Financial Reporting
- Internal Control
- Internal and external audit

Accounting and financial reporting

The Audit Committee reviews the appropriateness of the half year and annual financial statements, which it carries out with both management and the external auditors. This review includes ensuring that the annual report and accounts, taken as a whole, are fair, balanced and understandable, as well as covering compliance with disclosure requirements and the material areas in which significant judgements had been applied.

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

The significant accounting issues considered in relation to the 2019 financial statements are detailed on page 78.

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

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

The Audit Committee, having completed its review, recommended to the Board that, when taken as a whole, the 2019 annual report is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Audit Committee, together with the Risk Committee, reviewed the key assumptions and methodologies of the risk-based capital model as well as related Solvency II disclosures.

Audit Committee report continued

During the year, the Audit Committee has continued to keep abreast of significant and emerging accounting developments, and the Audit Committee regularly considers the progress of the projects to implement new

standards, and the key judgements relating to their implementation, including the expected impacts on results and the approach to transitional disclosures.

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

Internal control

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

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

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

identified, processes are in place to ensure that the necessary actions are taken and progress is monitored by the Audit Committee.

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

Internal Audit

The Group Chief Internal Auditor has a standing agenda item at each Audit Committee meeting to update the Audit Committee on audit activities, progress of the audit plans, the results

of any unsatisfactory audits and the action plans to address these areas. In 2019, 117 audits were completed in line with the Internal Audit Plan approved by the Audit Committee. There was a particular focus on key themes including cyber/ data management and governance, financial control framework establishment, digital business and regulatory change, conduct risk, financial management and control, model risk, outsourcing/vendor management and economic and political volatility.

The external auditor

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

Appointment

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

KPMG were appointed as the group's external auditors with effect from the financial year ended 31 December 2018.

Performance

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

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

The Audit Committee receives regular reports from the external auditor on audit findings and significant accounting issues. In 2019, the Audit Committee continued to focus on the external auditor's assurance work on the financial control environment, as well as their conclusions on the significant accounting issues noted above.

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

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

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

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

	2019	2018	2017
Audit	7.1	6.0	6.1
Audit-related required by legislation	0.8	0.8	0.8
Other audit-related	1.1	0.6	1.0
Other assurance	0.3	0.2	0.4
Non-assurance	0.2	1.5	0.8
Total	9.5	9.1	9.1

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

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

Remuneration

In 2019, the group spent £1.6 million on non-audit services provided by KPMG. It spent a further £0.8 million on audit-related services required by legislation, which is excluded from any calculation of the ratio of non-audit to audit fees in accordance with the UK FRC Ethical Standard for Auditors (June 2016). Further details can be found in Note 34 to the consolidated financial statements. The non-audit fee represents 23% of the total audit fee for 2019. The audit fee in 2019 includes additional fees relating to the prior year audit of group subsidiaries.

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

Group Risk Committee report



Toby Strauss
Chairman of the
Group Risk Committee

The composition of the Committee

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

Members
Julia Wilson
Henrietta Baldock
Philip Broadley
Lesley Knox
George Lewis
Toby Strauss

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

The role of the Committee is to assist the Board in the oversight of the risks to which the group may be exposed and to provide the Board with strategic advice in relation to current and potential future risk exposures. This includes reviewing the group's risk profile and appetite for risk, and assessing the effectiveness of the group's risk management framework. The group's approach to the management of risk is set out in more detail on pages 42 to 47.

Committee activities during 2019

The work of the Committee is supported by the Group Chief Risk Officer and the Company Secretary, who assist the Committee chairman in planning the Committee's work and ensuring that the Committee receives accurate and timely information. The Committee met five times during 2019.

Group Chief Risk Officer's report

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

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

Group Conduct Risk Director's report

At each meeting the Committee receives a report from the Group Conduct Risk Director. This provides the Committee with an assessment of the overall profile of conduct risks for the group; analysis and trends in conduct risk indicators including complaints data, and the results of reviews undertaken by the group conduct risk monitoring team, as well as evaluation of changes in the conduct risk landscape as regulatory approaches evolve. The Group Conduct Risk Director's report is accompanied by a suite of customer service metrics designed to enable the Committee to assess the management of the customer journey across the group's financial services products.

Focused business and risk reviews

Focused 'deep dive' reviews of particular risk areas are undertaken at each Committee meeting. The purpose of these reviews is to enable Committee members to examine the risk profile of the core business lines and to consider the robustness of the frameworks in place to manage the key risk exposures. Committee members are invited to participate in setting the agenda for these deep dive reviews, considering both the current operating environment and emerging risk factors. Below are examples of some of the key reviews that took place during 2019, and the areas of focus by the Committee.

- Financial risks from climate change: Reviews of the risks presented by climate change for the sectors in which the group invests and the group's strategy for their management;
- Health, safety and property development risks: Reviews of the profile and management of the health, safety and environmental risks within the commercial real estate and housing businesses operated by LGC and LGIM Real Assets;
- Credit risk management: A review of LGR's credit portfolio, considering risk measurement, monitoring and reporting along with broader investment themes and credit strategy;
- Operational resilience: Assessment of the group's capabilities to ensure continuity of business operations and regulatory expectations of the UK financial services sector;
- Outsourcing and third party management: Consideration of the risks and the group's approach to managing critical third party supply arrangements;
- The transition from LIBOR: Activities to ready the group for the replacement of LIBOR with SONIA, and actions to minimise associated legal, regulatory and conduct risks;
- Claims management: The group's approach to assessing and settling protection claims to ensure balanced customer outcomes;
- Direct Investment: Reviews of the risks, limits, tolerances and risk monitoring for the direct investment asset class;
- Brexit risks: Reviews considering the potential stress scenarios of a 'no deal' Brexit and potential management actions.

The Committee also takes an active role in the development of the group's recovery and resolution plans, which have been put in place in line with the UK regulatory requirements relating to systemically important insurers. As part of this activity the Committee considered the results of liquidity and credit risk 'fire drills' undertaken during the year.

Risk appetite

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

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

Risk-based capital model

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

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

Own Risk and Solvency Assessment (ORSA)

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

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

Risk governance

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

Risk-based remuneration

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

Directors' report on remuneration



Lesley Knox
Chairman of the Remuneration Committee

Our remuneration report is organised into the following sections

Letter from the Chairman of the Remuneration Committee	82
Quick read summary	84
Remuneration policy	87
Annual report on remuneration	94

The directors' remuneration policy was subject to a binding vote in 2017, and has applied for three years from the 2017 AGM. A proposed new remuneration policy is set out on pages 87 to 93 and will be presented for approval at the 2020 AGM. The annual report on remuneration together with the Chairman's Statement will be subject to an advisory shareholder vote.

Remuneration Committee members

The composition of the Committee

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

Members
Henrietta Baldock
Philip Broadley
Lesley Knox

Other regular attendees at the meeting include the following:

Group Chairman; Group Chief Executive; Director of Group Finance; Group HR Director; Group Reward Director; Head of Executive Compensation; Representative of the independent adviser Deloitte LLP

Letter from the Chairman

Dear Shareholder

I am pleased to present the Remuneration Committee's report for 2019, and also propose a new directors' remuneration policy for shareholder approval at our 2020 AGM.

This year, we have sought to improve the transparency and clarity of our remuneration report, including a 'quick read' section summarising our current remuneration policy and its implementation in 2019, showing graphically the outcomes against performance targets and the resulting remuneration received for 2019. Full details, in accordance with the remuneration reporting regulations, continue to be disclosed on pages 94 to 113 but I hope this 'quick read' summary is useful.

Link between pay and performance

Legal & General has continued to deliver strong performance during 2019. Excluding mortality reserve releases, operating profit has increased by 12% and earnings per share has continued to grow, up by 16%. In this context, and considering overall financial performance, the Committee has determined the outcomes for incentive awards.

Annual variable pay As in previous years, the Committee chose to exclude the beneficial impact of mortality assumption changes from the results when determining annual bonus (AVP) awards. However, even excluding these items, there was very strong financial performance during 2019 resulting in bonus outcomes in the range 55% to 92% of maximum. The Committee considered the AVP outcomes in the context of underlying business performance and determined that no adjustment was required.

The targets and outcomes relating to each AVP award are summarised in the 'quick read' section on page 86 and in further detail on pages 96 to 98.

Performance Share Plan The long-term incentive (PSP) awards granted in 2017 were subject to performance over the three-year period ended 31 December 2019. Total Shareholder Return (TSR) under the PSP rules was 45%, significantly outperforming the median of the FTSE 100 and the comparator group. Over the same period, Earnings Per Share (EPS) grew by 42.9% (12.6% p.a.) and Dividends Per Share (DPS) by 22.4% (7% p.a.), resulting in 86.9% of the 2017 PSP award vesting, with the remaining 13.1% lapsed and forfeited. The PSP targets and outcomes are summarised in the 'quick read' section on page 86 with further detail on page 99.

Base pay increases The average base pay increase for UK employees during 2019 was 3.6%, and the increases for Nigel Wilson, Kerrigan Procter and Michelle Scrimgeour, with effect from 1 March 2020, have been set at 3.6%, 3.8% and 3.5% respectively. As stated in our 2016 report, and again last year, the Committee may award higher increases for a recently appointed executive director who progresses in the role over time, and therefore Jeff Davies has been awarded a 6.3% increase with effect from 1 March 2020.

Board changes

As previously announced, during 2019 Mark Zinkula retired and Michelle Scrimgeour was appointed a Group Board director and Chief Executive Officer LGIM. Mark had led LGIM since 2011 and created a significant business during that time. In accordance with our approved

remuneration policy and the relevant plan rules, due to his retirement Mark was designated a 'good leaver' for the purposes of his unvested share awards. Mark continued to receive his remuneration through to his leaving on 31 August 2019, and is eligible for a 2019 bonus (AVP) award pro-rated for the period through to his leaving, based on targets and performance for the full year. His bonus remains subject to the normal deferral period (three years). Mark was not granted a long-term incentive (PSP) awards grant in 2019, but his unvested PSP awards from prior years have been pro-rated and will vest on the normal dates based on targets and performance for the full performance periods, and subject to normal deferral. Malus and clawback provisions continue to apply to all of Mark's AVP and PSP awards. Full details of the treatment of Mark's AVP and PSP awards upon leaving are shown on page 103.

Michelle joined on 1 July 2019, and was appointed an executive director on 2 September 2019. Her annual base pay was set at £575,000 which is lower than Mark's base pay of £638,000 but recognising that this is her first board appointment. In accordance with the approach we have taken with other new executive directors, we have set base pay at a lower level so that subject to continued performance, the Committee may reposition her base pay as she progresses in the role over time. Annual bonus (AVP) award and long-term incentive (PSP) awards for Michelle have been set in line with Mark's previous opportunities, at a maximum of 175% and 250% of base pay respectively. Michelle's pension contributions have been set at 10% of base pay, in line with the majority of the UK workforce. Michelle was eligible to receive a 2019 bonus (AVP) award pro-rated for her period of service during 2019, and subject to deferral, malus and clawback, as normal.

On appointment, Michelle forfeited cash and share awards from her previous employer, Columbia Threadneedle Investments (CTI). In accordance with our policy on recruitment remuneration, the Committee granted to Michelle cash and share awards, matching as closely as possible the value and timescale to vesting of her forfeited CTI awards. The details of these awards are set out on pages 102 to 103 which are subject to malus and clawback in the normal way, and furthermore will be forfeited if Michelle resigns prior to the third anniversary of her commencement date (i.e. before 1 July 2022).

Consideration of the wider workforce

The Committee considers remuneration across the wider workforce when determining executive director remuneration, policy and practices. Although quantum and participation will vary, the policies and practices applying to executive directors are the same as for the wider workforce in most instances. In 2019, changes

were made to the benefits provided to UK employees. Private medical insurance is now available to every UK employee, with increased life insurance, and improved holiday and family-friendly policies (maternity, paternity, adoption and shared parental leave). During 2020, there will be a further review of employee benefits, including a review of UK pension contributions.

As the group's designated workforce director, I meet a broad range of our employees, ensuring they are appropriately represented in the Boardroom and when making Remuneration Committee decisions. My report on page 65 explains some of those activities undertaken during the year, and our work on diversity and inclusion, gender pay gap, and employee engagement is set out on page 51. Again this year, we adopted a stratified approach to distributing base pay increases for UK employees, with the lowest paid (less than £30,000 a year) receiving the highest increases (generally 4% of base pay) recognising their greater exposure to price inflation.

The CEO pay ratio for 2019 to median is 112 as detailed on page 109. Variations in the vesting of long-term incentives (PSP) awards can cause short-term variations in the total remuneration pay ratio, but the general trend when looking at base pay has been for a slight reduction in the ratio.

We continue to be encouraged by the number of employees choosing to invest in the company's Share Purchase and ShareSave plans. Around two thirds of all employees now participate, becoming shareholders in our company, contributing to and benefiting from our collective success.

Remuneration policy review

It will be three years since our directors' remuneration policy was last approved by shareholders in 2017. Therefore at our 2020 AGM, we will submit a new policy for approval.

During 2019, we reviewed our approach to remuneration in the context of future business strategy, updated investor guidelines and evolving best practice, and sought feedback from shareholders and representative bodies. I am grateful for all the responses received, which have helped shape our thinking.

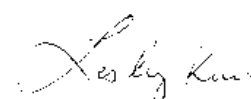
Since 2017, we have made some progressive changes within the bounds of our current policy, by simplifying the performance measures and extending the holding period to five years for PSP awards. Post employment shareholding requirements and the alignment of pension contributions for new executive directors with the majority of the UK workforce were introduced in 2019. These changes are now formally included in our proposed new remuneration policy.

During the course of the review, the Committee considered a number of alternative approaches, including a restricted stock plan. However, reflecting on our long-term strategic priorities, we concluded that the current framework remains aligned with and continues to drive the delivery of our business strategy, maintaining the link between remuneration and shareholder returns, and reflecting best practice and investor expectations. As such, the proposed new remuneration policy remains very similar to the existing policy (except as noted below), with no new incentive plans or changes to the current incentive opportunities. The proposed new remuneration policy is set out on pages 87 to 93, including the following proposed changes:

- **Shareholding requirements** increased to 325% of base pay for all executive directors, with a post-employment shareholding requirement at the same level for at least two years post-cessation of employment.
- **Relocation benefits**, where an executive director may be required to relocate or perform duties outside their home country, any such benefits (including housing, school fees, home travel, etc.) will be limited to a maximum period of two years.
- **Bonus moderator** to be explicitly included in the AVP determination, enabling the Committee to reduce (but not increase) formulaic outcomes, if not justified in the context of a range of factors, including risk management, behaviours, culture, capital generation, Solvency II coverage ratio and sustainable financial performance.
- **Environmental, social and governance (ESG)** targets to be included as a specific performance measure from 2021 for the AVP, and also considered when assessing the vesting outcome of the PSP.
- **Pension contributions** for new executive directors are already aligned with that available to the majority of the UK workforce (currently 10% of base pay), but pension contributions will be aligned between the UK workforce and all executive directors by 2022.

A further explanation for each of these proposed policy changes is set out on page 87.

I hope that you will find this report a useful and clear account of the Committee's decisions and remuneration outcomes for the year. Furthermore, I hope that you will support the proposed changes to our remuneration policy, which are designed to strengthen our approach, and continue to improve the link between director remuneration and shareholder returns.



Lesley Knox
Chairman of the Remuneration Committee

Quick read summary

Remuneration policy summary and 2019 implementation

Remuneration element and time horizon

Base pay



2019 policy summary

Operation

Reviewed annually, with increases effective 1 March.

Opportunity

No maximum, but any increase will normally be in line with the range for other UK employees. In specific circumstances, the Committee may award increases above this level, for example where base pay for a newly appointed executive director has been set with a view to allow the individual to progress in the role over time.

Performance

Personal performance will be taken into consideration in determining any increase.

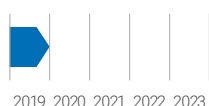
2019 implementation

	Effective 1 March 2019	Effective 1 March 2020	% increase
Nigel Wilson	£945,500	£979,500	+3.6%
Jeff Davies	£555,000	£590,000	+6.3%
Kerrigan Procter	£525,000	£545,000	+3.8%
Michelle Scrimgeour	£575,000*	£595,000	+3.5%
Mark Zinkula	£638,000#	n/a	n/a
<i>Employees below the Board (average)</i>			3.6%

* Effective from joining 1 July 2019

Effective until leaving 31 August 2019

Benefits



Operation

Market competitive, in line with benefits provided to other senior employees in the UK.

Opportunity

No maximum, except for plan limits and HMRC rules, in line with other UK employees.

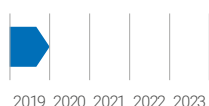
Performance

No performance conditions.

Benefits during 2019 include:

- Allowance in lieu of a company car
- Private medical insurance
- Life insurance
- Income protection
- All-employee ShareSave plan (SAYE)
- All-employee share purchase plan (SIP)

Pension contributions



Operation

Defined contribution pension plan or a cash allowance in lieu of pension. Non-UK nationals may be permitted to participate in home-country pension plans where relevant. Base pay is the only element of pensionable remuneration.

Opportunity

Up to 15% of base pay, in line with other senior employees in the UK. For new executive directors, pension contributions are aligned to that available to the majority of the workforce (currently 10% of base pay).

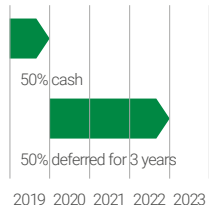
Performance

No performance conditions.

Pension contributions during 2019 (as % of base pay):

Nigel Wilson	15%
Jeff Davies	13.8%
Kerrigan Procter	15%
Michelle Scrimgeour	10%
Mark Zinkula	15%
<i>Majority of workforce</i>	10%
<i>Other senior employees in the UK</i>	15%

Annual Variable Pay (AVP)



Operation

Performance assessed over a one-year period, with targets and weightings set annually. Awards are determined after the year end, taking into consideration performance against targets, the underlying performance of the business, and individual performance. The Committee may adjust and amend the awards if circumstances justify a change. 50% of any AVP award is deferred into shares for three years, malus and clawback provisions apply.

Opportunity

Up to 150% of base pay for the Group Chief Executive and Chief Financial Officer, and 175% of base pay for the other executive directors. No bonus is payable for threshold performance or below, with up to 50% of maximum for target performance (up to 60% of maximum is payable for target performance for Mark Zinkula).

Performance

Measures selected by the Committee aligned with the group's strategic priorities, based on an appropriate mix of group and/or divisional financial performance targets as well as strategic and personal measures.



- 70% Financial performance
- 30% Strategic and personal objectives

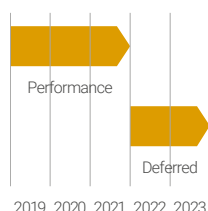
Bonus opportunity for 2019 (as % of base pay):

	At target	At maximum
Nigel Wilson	75%	150%
Jeff Davies	75%	150%
Kerrigan Procter	87.5%	175%
Michelle Scrimgeour	87.5%	175%
Mark Zinkula	105%	175%

Remuneration policy summary and 2019 implementation

Remuneration element and time horizon

Performance Share Plan (PSP)



2019 policy summary

Operation

Conditional award of shares, subject to the achievement of financial performance targets set annually by the Committee, with a performance period of normally no less than three years, and awards released on the fifth anniversary of the grant date. The Remuneration Committee may amend the vesting downwards (but not increase the level of vesting) dependent on the underlying performance of the group. PSP awards are subject to malus and clawback.

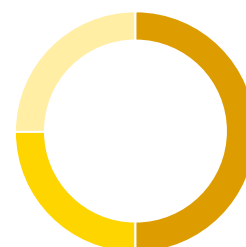
Opportunity

The maximum award opportunity is 300% of base pay, although the normal award opportunity is 250% of base pay. 15% of the award vests for threshold performance, increasing to 100% of the award for maximum performance.

Performance

Measures selected by the Committee aligned with the group's long-term strategic priority of delivering sustainable returns to shareholders, with normally 50% based on total shareholder return (TSR) and 50% on financial measures.

2019 Implementation



- 50% EPS
- 25% TSR (vs FTSE 100)
- 25% TSR (vs comparator group)

PSP award grants in 2019 (as % of base pay):

	Maximum
Nigel Wilson	250%
Jeff Davies	250%
Kerrigan Procter	250%
Michelle Scrimgeour	n/a
Mark Zinkula	Nil

Shareholding requirements

Executive directors' share ownership

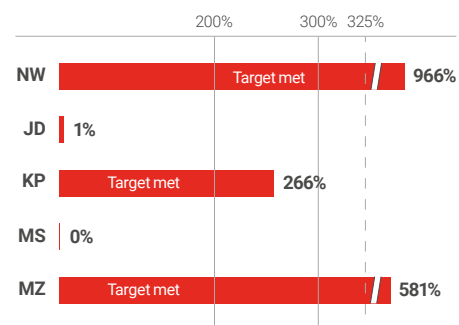


The Group Chief Executive is expected to build a shareholding of 300% of base pay and the other executive directors 200% of base pay, with any after tax vested shares retained until the guideline is met, to be maintained for at least two years after leaving employment.

From 2020, the shareholding requirement is proposed to be increased to 325% of base pay for all executive directors.

All executive directors are on target to fulfil their share ownership requirements within five years of appointment.

Share ownership at 31 December 2019

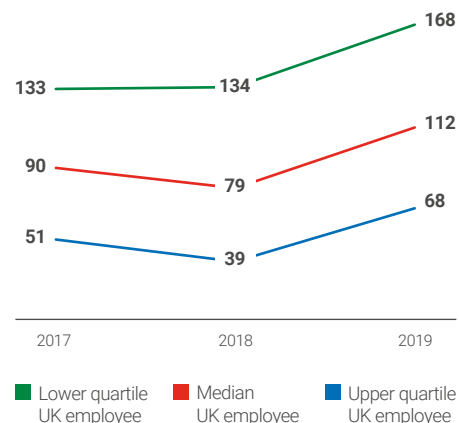


CEO pay ratio

Total remuneration

Since 2016 we have been voluntarily disclosing the details of the pay ratio in relation to the Group CEO and the wider UK employee population. The chart opposite provides an indication of the change in the pay ratio, for total remuneration, since 2017, the period for which we have a consistent basis for the calculation.

For 2019 the pay ratio for total remuneration has increased as a result of the higher level of vesting of the 2019 PSP award, which is a reflection of the sustained financial performance and high total shareholder return delivered over the last three years. Further details of the pay ratio are provided on page 109.



Quick read summary continued

Alignment with strategy and 2019 performance outcomes

The performance measures for the incentive plans are directly aligned to the group's key performance indicators. The Group Board reviews the KPIs annually and adds or changes them where appropriate. The purpose of each KPI is explained in more detail on pages 19 and 20. Further details of performance measures and outcomes are provided on pages 96 and 98.

Overarching drivers of the business

Overarching drivers of the business	Group KPIs	Incentive plans (weightings)		2019 performance targets and outcomes				
				Threshold	Target	Maximum	Actual ¹	
		AVP	PSP					
		Group CEO & CFO	Divisional CEOs					
Profitability	Net release from operations (NRO)	20%	10%	£1,396m	£1,458m	£1,502m	£1,578m	
	Operating profit	25%	12.5%	£1,823m	£1,883m	£1,977m	£2,085m	
	Earnings per share (EPS) 1 year growth	12.5%	6.25%	24.1p	25.3p	26.5p	28.8p	
	Return on Equity (ROE)	12.5%	6.25%	17.3%	18.1%	18.8%	19.2%	
	Divisional financial performance (see page 97)		35%					
	Earnings per share (EPS) 3 year average annual growth			50%	5.0%	12.6%	14.0%	
	Dividend per share (DPS) 3 year average annual growth				5.0%	7.0%	14.0%	
Shareholder value creation	TSR vs FTSE 100		25%	47.5	27.4	19.0		
	TSR vs comparator group		25%	13.5	8.4	6.0		
Strategic priorities	(see page 97):	30%	30%					
		100%	100%	100%				

1. Performance measures exclude the impact of mortality assumption changes, profits and separation costs relating to the Mature Savings business and intangible asset adjustments.

Remuneration received

Executive directors' remuneration (£'000)

Nigel Wilson

Actual remuneration

2018	1,086	1,118	1,194	3,398
2019	1,107	1,292	2,193	4,592

Maximum remuneration

2019	1,107	1,418	2,523	5,048
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Jeff Davies

Actual remuneration

2018	599	638	1,237	
2019	642	763	1,206	2,611

Maximum remuneration

2019	642	833	1,388	2,863
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Kerrigan Procter

Actual remuneration

2018	595	620	404	1,619
2019	619	707	1,146	2,472

Maximum remuneration

2019	619	919	1,318	2,856
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Michelle Scrimgeour (appointed to the Board 2 September 2019, CEO LGIM from 1 July 2019)

Actual remuneration

2018	N/A			
2019	217	372	1,763	2,352

Maximum remuneration

2019	217	503	1,763	2,483
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Key

- Fixed (base pay, benefits and pension contributions)
- Annual Variable Pay (AVP)
- Performance Share Plan (PSP)
- Replacement awards.

Remuneration policy

The following sections set out our directors' remuneration policy, which is subject to shareholder approval by way of a binding vote at the 2020 AGM on 21 May 2020.

No new incentive plans or changes to the current incentive opportunities are proposed. Below is a summary of the changes between the current (2017) remuneration policy and the proposed (2020) remuneration policy:


Remuneration type	Proposed changes
Benefits	<ul style="list-style-type: none"> Relocation benefits, where an executive director may be required to relocate or perform duties outside their home country, will be limited to a maximum period of two years.
Pension contribution	<ul style="list-style-type: none"> Pension contributions for new executive directors aligned to that available to the majority of the UK workforce. Pension contributions will be aligned between the majority of the UK workforce and all executive directors by 2022
Annual Variable Pay (AVP)	<ul style="list-style-type: none"> A bonus moderator explicitly included in the AVP determination enabling the Committee to reduce (but not increase) formulaic outcomes if not justified in the context of a range of factors. From 2021, inclusion of environmental, social and governance (ESG) targets as a specific performance measure.
Performance Share Plan (PSP)	<p>Progressive changes made since 2017 now incorporated into policy:</p> <ul style="list-style-type: none"> Holding period applied to Performance Share Plan (PSP) awards such that no awards may be released prior to five years from grant. Performance measures for PSP awards simplified by replacing the Earnings Per Share (EPS) and Dividends Per Share (DPS) matrix with EPS growth target (in addition to comparative TSR).
Shareholding requirements	<ul style="list-style-type: none"> Shareholding requirement for all executive directors increased to 325% of base pay (previously 300% of base pay for the Group Chief Executive and 200% of base pay for the other executive directors) Post-employment shareholding requirement for executive directors introduced to maintain their shareholding for at least two years after leaving employment.

Remuneration policy continued

Fixed pay

	Base pay	Pension contributions	Benefits	Annual Variable Pay (AVP)
Purpose and link to strategy	Provides a fixed level of earnings, appropriate to the market and requirements of the role.	Provides a basis for savings to provide an income in retirement.	Provides benefits and allowances appropriate to the market, and to assist employees in efficiently carrying out their duties.	Incentivises and rewards the achievement of annual financial performance and delivery of strategic priorities. 50% of any AVP award is deferred into shares, reinforcing retention and alignment with shareholders, by encouraging long-term focus and risk alignment.
Operation	<p>Reviewed annually with effect from 1 March, taking into account:</p> <ul style="list-style-type: none"> the individual's skills, experience and performance; scope of the role; external market data, including other FTSE 100 companies and other financial and non-financial institutions; pay and conditions elsewhere in the group; and overall business performance. <p>There is no obligation to increase base pay upon any such review, and any decision to increase base pay will take into account the associated impact on overall quantum.</p>	<p>In line with other employees in the UK, executive directors may:</p> <ul style="list-style-type: none"> participate in a defined contribution pension plan; or receive a cash allowance in lieu; or receive some combination thereof. <p>Non-UK national executives may be permitted to participate in home-country pension plans where relevant.</p> <p>Base pay is the only element of pensionable remuneration.</p>	<p>In line with other employees in the UK, benefits currently include:</p> <ul style="list-style-type: none"> private medical insurance; life insurance; income protection; and all-employee (ShareSave and Share Purchase) plans. <p>Executive directors may participate in voluntary benefits and choose to acquire Legal & General products which they fund themselves, sometimes through salary sacrifice.</p> <p>In line with other senior managers in the UK, executive directors receive a non-pensionable cash allowance in lieu of a company car.</p> <p>Where an executive director is required to relocate, or perform duties outside their home country, additional benefits may be provided, (including healthcare and assistance for housing, school fees, home travel, relocation costs and tax compliance advice) for a period not exceeding two years.</p>	<p>In normal circumstances:</p> <ul style="list-style-type: none"> performance is assessed over a one-year period; performance measures and weightings are set annually to ensure they are appropriately stretching, and aligned with the group's strategic priorities; performance targets take into account internal forecasts, market expectations and prior year performance. Target normally equates to the forecast in the strategic plan, with maximum set at an appropriate stretch above plan, but still within the company's risk appetite. AVP awards are determined after the year end, taking into consideration performance against targets, individual performance, and overall business performance; 50% of any AVP award is paid in cash, after the year end, with 50% deferred into restricted shares (or nil-cost options, or phantom equivalent, or other forms dependent upon business or regulatory requirements) for a further three years; dividends or dividend equivalents may accrue during the deferral period and vest and are paid in shares upon vesting; malus and clawback apply to both cash awards and deferred awards.
Opportunity	<p>There is no set maximum base pay, but any increases will normally be in line with the range of increases for other UK employees. In specific circumstances, the Committee may award increases above this level, for example where:</p> <ul style="list-style-type: none"> base pay for a recently appointed executive director has been set with a view to allowing progression in the role over time; or there has been a significant increase in the size or scope of an executive director's role or responsibilities; or there is a significant change in the regulatory environment. 	<p>For new executive directors, pension contributions are aligned to that available to the majority of the workforce (currently up to 10% of base pay).</p> <p>Pension contributions for executive directors appointed before 2019 are currently aligned with the contributions for other senior managers in the UK defined contribution pension plan (currently up to 15% of base pay).</p> <p>Pension contributions will be aligned between the majority of the UK workforce and all executive directors by 2022.</p>	<p>The maximum amount paid in respect of benefits will be the actual cost of providing those benefits which, particularly in the case of insured benefits, may vary from year to year, although the Committee is mindful of achieving the best value from benefit providers.</p> <p>The maximum opportunity for participation in the all-employee share plans is the same for all employees and takes into account prevailing HMRC rules.</p>	<p>The maximum opportunity in respect of any financial year is:</p> <ul style="list-style-type: none"> 150% of base pay for the Group Chief Executive and Chief Financial Officer; 175% of base pay for other executive directors. <p>No bonus is payable for threshold performance or below, with up to 50% of maximum for target performance.</p> <p>The Committee will consider the calculated outcome in the context of a range of factors (not just the specific performance measures) including risk management, behaviours, culture, capital generation, Solvency II coverage ratio and sustainable financial performance, and may apply a 'moderator' to reduce (but not increase) an AVP award if there are factors that warrant such a reduction.</p>
Performance	Personal performance will be taken in consideration in determining any base pay increase.	There are no performance conditions.	There are no performance conditions.	<p>A combination of:</p> <ul style="list-style-type: none"> Financial performance (primary measure with at least 70% weighting) – to ensure growth and return to shareholders; and Strategic and personal performance – to safeguard the future, with the development of future income streams, and focus on key metrics including customers, culture and (from 2021) ESG.

	Performance Share Plan (PSP)	Non-executive directors' fees	Shareholding requirements
Purpose and link to strategy	Provides a direct and transparent link between executive pay and the delivery of shareholder returns over the longer term.	Compensates non-executive directors for their responsibilities and time commitment.	Provides alignment with shareholder returns and ensures a reduction in own wealth if there is a reduction in Legal & General's share price.
Operation	<p>A conditional award of shares (or nil-cost options, or phantom equivalent, or other forms dependent upon business or regulatory requirements). In normal circumstances:</p> <ul style="list-style-type: none"> subject to a performance period of no less than three years; subject to a holding period such that no awards are released before five years from the date of grant; performance measures and targets are set annually by the Committee to ensure they are relevant and appropriately stretching, and aligned with the delivery of shareholder returns over the longer term; performance targets take into account, internal forecasts, any guidance provided to the market, market expectations, prior performance, and the company's risk appetite; dividends or dividend equivalents may accrue in the period following the end of the performance period until vesting and release; and malus and clawback apply. <p>Exceptionally, the Committee may adjust and amend the PSP awards in accordance with the rules, including:</p> <ul style="list-style-type: none"> lengthen the performance period and/ or the holding period for future awards; reduce (but not increase) the level of vesting dependent upon the performance of the group. 	<p>Fees for the Chairman and non-executive directors are set at an appropriate level to reflect:</p> <ul style="list-style-type: none"> time commitment required to fulfil the role; responsibilities and duties of the positions; and typical competitor practice in the FTSE 100 and other financial services institutions. <p>Fees comprise a base fee for membership of the Board, plus (where applicable) additional fees for:</p> <ul style="list-style-type: none"> Senior Independent Director (SID); Committee chairmanship; and Committee membership (not including the Nominations Committee). <p>Additional fees for membership of Committee, or chairmanship or membership of subsidiary Boards, or other fixed fees may apply if justified by time or commitment.</p> <p>The Chairman receives an inclusive fee for the role. The Chairman's fee is reviewed annually by the Committee, and the non-executive directors' fees are reviewed by the executive directors. There is no obligation to increase fees upon any such review.</p>	<p>Executive directors are expected to retain any after tax vested share awards until their shareholding requirements are met, and maintain that shareholding requirement (or their actual shareholding at the date of leaving, if lower) for at least two years after leaving employment with the group.</p> <p>The Committee retains the discretion to withhold future PSP grants if executive directors are not making sufficient progress towards their shareholding requirement.</p> <p>Non-executive directors may elect to receive a proportion of their fees (normally 50%) in Legal & General shares until their shareholding requirement is met.</p> <p>The sale of shares prior to the shareholding requirements being met may be permitted in extenuating situations, for example, a change to personal circumstances, ill health, etc.</p>
Opportunity or requirement	<p>The maximum opportunity for an executive director in respect of any financial year is 300% of base pay (although the Committee's current intention is that the normal award opportunity will be 250% of base pay).</p> <ul style="list-style-type: none"> 15% of the award vests for threshold performance; 100% of the award vests for achievement of maximum. <p>The Committee assesses the formulaic vesting outcome, and may amend the vesting downwards (but not increase the level of vesting) considering a range of factors including overall performance, risk management, capital generation, Solvency II coverage ratio, and (from 2021) ESG.</p>	<p>Fees are subject to the aggregate limit in the company's Articles of Association. Any changes in this limit would be subject to shareholder approval.</p> <p>The Chairman and non-executive directors are not eligible to participate in any benefit, pension or incentive plan. However, additional benefits may be provided if the Board feels this is justified, such as tax compliance advice, work permits or similar. Expenses incurred in carrying out duties (and any associated tax liability) may be reimbursed or paid directly by the company.</p>	<p>Shares owned outright equivalent to:</p> <ul style="list-style-type: none"> 325% of base pay for executive directors; and 100% of base fee for non-executive directors.
Performance	An appropriate mix (normally an equal weighting) of: <ul style="list-style-type: none"> earnings performance – to incentivise growth in earnings; and shareholder return – to deliver a competitive return for shareholders. 	No performance conditions.	Not applicable.

 See pages 90 and 93 for Remuneration policy notes

Remuneration policy continued

Remuneration policy notes

Area	Commentary
Decision making process	In determining the new remuneration policy, the Remuneration Committee followed a robust process. The Committee discussed the detail of the policy over a series of meetings in 2019 and early 2020. The Committee considered the strategic priorities of the business and evolving market practice. Input was sought from the management team, while ensuring that conflicts of interests were suitably mitigated. An external perspective was provided by our major shareholders and independent advisors. The Committee also assessed the policy against the principles of clarity, simplicity, risk management, predictability, proportionality and alignment to culture.
Deferred share element	The deferred share element of the AVP plan and the PSP shall be operated in accordance with the rules of the respective plans.
Prior arrangements	The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out in this report, where the terms of the payment were agreed: (i) before 21 May 2014 when the group's first approved policy came into effect; (ii) before the policy above came into effect, provided that the terms of such payment were consistent with the shareholder approved policy at the time the payments were agreed; or (iii) at a time when the relevant individual was not a director of Legal & General and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of Legal & General. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to deferred awards, the terms of the payment are 'agreed' at the time the award is granted.
Minor amendments	The Committee will follow any statutory requirements when operating the policy, and may make minor amendments to the policy for regulatory, exchange control, or administrative purposes without obtaining shareholder approval for that minor amendment.
Malus/clawback	The Committee may apply malus (i.e. reduce the number of shares in respect of which an award vests, or delay such vesting, or impose additional vesting conditions) in the event of financial mis-statement, personal misconduct, failure of risk management, reputational damage, factual error in calculating payment/ vesting, material downturn in performance or other exceptional circumstances identified by the Committee. The Committee may also, in exceptional circumstances, claw-back share awards which have already been released to individuals, if it considers it appropriate to do so having regard to such factors as it deems relevant – such as the likelihood of recovery, any loss suffered, and the link between the award and the event. Clawback will normally only apply within four years of the end of the relevant performance period.
Discretion in relation to future operation of the policy	In the event of a variation of the company share capital or a demerger, special dividend or any other event that may affect the company's share price, the number of shares subject to an award and/or any exercise price applicable to the award, may be adjusted. The Committee may amend any performance conditions applicable to PSP awards if any event occurs which causes the Committee to consider an amended performance condition would be more appropriate and not materially less difficult to satisfy.
Performance measures and targets	The performance conditions for the AVP and the PSP have been chosen by the Committee to align with the group's strategic priorities and are the key performance indicators in relation to the operation of the business. AVP financial measures have been chosen to ensure company growth and return to shareholders. AVP strategic and personal measures have been set to safeguard the future of the company, by for instance, focusing on the development of future income streams and to ensure performance related to key metrics such as risk management, customer strategy and culture is taken into consideration. For the PSP, earnings measures are chosen to incentivise growth in earnings and shareholder return measures are chosen to deliver a good return on equity for shareholders.
Remuneration policy for other employees	The remuneration policy for other employees does not differ significantly from the executive remuneration policy. Further details are provided on page 108.

Recruitment remuneration

The Committee will pay no more than it considers necessary to attract appropriate candidates, and it is not contemplated that remuneration will need to be different from the structure or exceed the limits set out in the remuneration policy table. The maximum variable remuneration will be in line with that set out in the remuneration policy table, that is 475% of base pay, excluding any compensation for awards forfeited on appointment.

As a result of regulations around the globe in the financial services sector, executives are likely to have accrued deferred remuneration which may be lost upon a change of employment. Accordingly, to aid the recruitment of a new executive director, the Committee may grant deferred cash and share awards to compensate for awards forfeited upon leaving a previous employer, taking into consideration relevant factors including:

- the form of the award;
- any performance conditions;
- the vesting profile and likelihood of vesting; and
- relevant regulatory requirements and guidance.

Any awards will reflect the terms and the value of the arrangements forgone, and any such compensation will be subject to forfeiture and clawback if the executive leaves the company voluntarily within a fixed time period determined by the Committee, being not less than three years. Where possible the Committee will use existing share-based plans. However, in the event these are not appropriate, the Committee retains the discretion to use the Listing Rules exemption (LR 9.4.2) for the purpose of making an award to compensate for amounts forfeited upon leaving a previous employer.

For internal appointments, the Committee may continue to honour prior commitments made before joining the Board.

Where a new executive director has to relocate to take up the appointment, either within the UK or from overseas, practical and/or financial support may be provided in relation to relocation or mobility including the cost of any tax incurred for a period not exceeding two years. For appointments from overseas, certain home country benefits may continue to apply. Relocation and mobility support may also apply to the recruitment of a non-executive director.

The Committee will normally align the remuneration arrangements for new non-executive directors with those outlined within the policy table.

Service contracts and appointment letters

All executive directors are subject to annual re-election. The contracts for executive directors are rolling service contracts.

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

Standard notice policy is:

- 12 months' notice from the company
- 12 months' notice from the executive director
- The current CFO's service contract may be terminated on six months' notice by the company or the executive director.

Executive directors may be required to work during their notice period, or take a period of 'garden leave', or may be provided with payments in lieu of notice if not required to work their full notice period.

Appointment letters for non-executive directors are currently for three years, but subject to annual re-election. Appointments may be terminated by either party without notice.

Termination and payments for loss of office

Any termination payments in lieu of notice would consist solely of base pay and the cost of providing benefits for the outstanding notice period. Any statutory requirements will be observed. Our standard practice is to include within executive directors' contractual terms mitigation provisions as regards payments in lieu of notice.

Eligibility for annual variable pay, deferred annual variable pay awards and performance share awards are governed by their respective plan rules, as summarised below:

- Annual Variable Pay (AVP) – there is no automatic entitlement to an annual bonus in the year of cessation of employment. However, for a 'good leaver', the Committee may determine that an executive director will receive a bonus pro-rated for the period through to leaving based on targets and performance for the full year, and an assessment of overall business and personal performance.
- Deferred AVP awards – in the event that a participant is a 'good leaver' any outstanding unvested deferred awards will normally be released in accordance with the ordinary timescale. Exceptionally, the Committee reserves the right to accelerate any vesting or payment, for example in the case of terminal illness.
- Performance Share Plan (PSP) – unless the Committee determines otherwise, in the event that a participant is a 'good leaver' any unvested PSP awards will be pro-rated for the period through to leaving and vest based on targets and performance to the end of the performance period, with awards released at the normal times. Exceptionally, the Committee reserves the right to accelerate vesting or payment due, for example in the case of terminal illness.

'Good leaver' circumstances are leaving due to death, disability, ill-health or injury, redundancy, retirement with company agreement, the individual's employing company/business ceasing to be part of the group, or other circumstances at the Committee's discretion. For all other leavers, unvested awards lapse.

Awards will generally vest early upon a takeover of the company, merger or other corporate reorganisation. Alternatively participants may be allowed or required to exchange their awards for new awards. If there is a demerger, delisting or special dividend or other transaction which may affect the share price, the Committee may allow awards to vest on the same basis as for a takeover.

The Committee reserves the right to make any other payments in connection with a director's cessation of office/employment where the payments are made in good faith in the discharge of an existing legal obligation (or by way of damages for breach of such obligation) or by way of settlement of any claim arising in connection with the cessation of the director's office/employment, or for any fees for outplacement assistance and/or director's legal and/or professional advice fees in connection with his/her cessation of office/employment.

Consideration of employment conditions elsewhere in the group

The remuneration policy for other UK employees is similar to that for executive directors in accordance with our philosophy that remuneration should be appropriate to the local competitive market, and reward high performance in a framework of appropriate risk management.

Some components of remuneration may apply only to certain levels of employees (for example, long-term incentives). Other components of remuneration may be paid at different levels based on grade or length of service (for example, pension participation, and some benefit entitlements and allowances). There are other variances depending on geographic location and local market practice. However, the general approach is consistent across the group. Further details are provided on page 108.

The Committee receives information regarding base pay, benefits, variable pay and terms and conditions of employees throughout the group. This includes relevant background information that allows the Committee to consider not only the highest paid, but the lowest paid and all pay levels across the group, and ensure a consistency of approach when determining the remuneration arrangements for executive directors. The Committee also has oversight of all long-term incentive awards across the company.

The company does not invite employees to comment specifically on the directors' remuneration policy, but regular employee surveys include questions about pay and benefits, and the responses are used to inform remuneration policy across the group.

Remuneration policy continued

Statement of consideration of shareholder views

The Committee seeks to maintain an active dialogue with investors regarding remuneration and corporate governance more generally. During 2019 and early 2020, the Committee sought feedback from its 20 largest shareholders and representative bodies regarding the directors' remuneration policy, so that shareholders could enter into further discussions with the Chairman of the Committee, and express their views in advance of the Committee making any final proposals. The responses helped shape the Committee's thinking in formulating the changes to the remuneration policy. The Committee is grateful to shareholders for their feedback and continues to appreciate all feedback.

Illustration of the application of the remuneration policy

The charts below illustrate the executive directors' fixed remuneration (defined below) and how much they could earn for target and maximum performance and in the event of a 50% growth in share price for PSP awards based on their remuneration for 2020.

Remuneration scenario (£'000)

Nigel Wilson

Fixed Remuneration

100% 1,150

On Target

51% 33% 16% 2,252

Maximum

23% 29% 48% 5,068

Maximum + 50% share price growth

18% 23% 39% 20% 6,292

Jeff Davies

Fixed Remuneration

100% 693

On Target

51% 33% 16% 1,357

Maximum

23% 29% 48% 3,053

Maximum + 50% share price growth

18% 23% 39% 20% 3,791

Kerrigan Procter

Fixed Remuneration

100% 658

On Target

49% 36% 15% 1,339

Maximum

22% 32% 46% 2,974

Maximum + 50% share price growth

18% 26% 37% 19% 3,656

Michelle Scrimgeour* (appointed to the Board 2 September 2019, CEO LGIM from 1 July 2019)

Fixed Remuneration

100% 674

On Target

47% 37% 16% 1,418

Maximum

21% 33% 46% 3,203

Maximum + 50% share price growth

17% 26% 38% 19% 3,946

Key

- Fixed (base pay, benefits and pension contributions)
- Annual Variable Pay (AVP)
- Performance Share Plan (PSP)
- 50% Share Price Growth

In developing the scenarios, the following assumptions have been made:

Fixed remuneration	Consists of 2020 base pay, benefits (based on the value included in the single figure for 2019) and pension.
On Target	In addition to fixed remuneration, <ul style="list-style-type: none"> • Annual variable element pays out at 50% of maximum includes the potential value that each executive director could receive for target performance: • PSP is shown at threshold (15% of maximum)
Maximum	In addition to fixed remuneration, includes the potential value that each executive director could receive for maximum performance under the annual variable element and the PSP.
Maximum + 50% share price growth	In addition to the maximum scenario, includes a 50% share price increase assumption on the PSP award.

How our approach to remuneration aligns with strategy

Our remuneration approach has been designed to support strategy and reward the achievement of long-term sustainable performance. In alignment with the provisions of the UK Corporate Governance Code, the Committee has continued to consider our approach to executive remuneration to ensure that our policies, structures and performance measures have clear strategic rationale.

The Committee considers it essential that the performance measures used for the purpose of the incentive arrangements for management are directly aligned to the Group's KPIs. The following sets out how the performance measures used for the purpose of the AVP and PSP are directly linked to our KPIs and other strategic priorities and the rationale for these measures.

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

Group KPIs and strategic priorities	Profitability				Shareholder value creation	Strategic priorities and non-financial goals				
	Net Release from Operations	Operating profit	EPS	ROE	Total Shareholder Return	Solvency II	Risk	Culture	Customer	ESG (from 2021)
AVP (CEO)	20%	25%	12.5%	12.5%		Underpin	30% and Moderator			
PSP			50%		50%	Underpin	Underpin			Underpin

Alignment with the UK Corporate Governance Code

When determining our new directors' remuneration policy, the Committee reviewed our alignment with the provisions of the revised 2018 Code. The table below details how the Committee addressed the principles set out in the UK Corporate Governance Code in respect of the directors' remuneration policy:

Clarity	<ul style="list-style-type: none"> The Committee welcomes open and frequent dialogue with shareholders on our approach to remuneration. As part of the review of policy during 2019, shareholders were consulted to understand their views on proposed changes. The remuneration policy for our executive directors has been designed in line with the remuneration philosophy and principles that underpin remuneration across the Group, and the details of our approach to executive remuneration is transparent for all employees.
Simplicity	<ul style="list-style-type: none"> Our remuneration arrangements throughout the Group are simple in nature and well understood by both participants and shareholders. Although quantum and participation will vary, the policies and practices applying to executive directors are the same as for the wider workforce in most instances. The objective of each element of our policy is explained and the amount paid in respect of each element of pay is clearly set out.
Risk	<ul style="list-style-type: none"> In line with regulatory requirements, our approach aims to promote sound and effective risk management whilst supporting our long-term success. The Committee considers that the structures of incentive arrangements does not encourage inappropriate risk-taking. In reviewing award outcomes the Committee is presented with a comprehensive report from the Chief Risk Officer to ascertain that objectives have been fulfilled within the risk appetite of the group. In addition, the Committee receives feedback from the Group Regulatory Risk and Compliance function on any issues to consider around regulatory breaches or customer outcomes. AVP deferral, the PSP holding period and our shareholding requirement (including the post-cessation shareholding requirement) provide a clear link to the ongoing performance of the business and the experience of our shareholders. Malus and clawback provisions apply to both the AVP and PSP.
Predictability	<ul style="list-style-type: none"> Our policy contains details of threshold, target and maximum opportunity levels under our AVP and PSP, with actual outcomes dependent on performance achieved against predetermined measures and target ranges. This is illustrated by the charts on page 92.
Proportionality	<ul style="list-style-type: none"> The AVP scorecard rewards achievement of our annual operating targets and the PSP scorecard rewards achievement of long-term financial and shareholder value creation targets. The Committee's ability to apply discretion to reduce formulaic outcomes under both plans ensures appropriate outturns in the context of underlying Company and individual performance. Our performance measures and target ranges under the AVP and PSP are aligned to Company strategy. This is illustrated by the chart above.
Alignment to culture	<ul style="list-style-type: none"> Under the AVP, the Committee assesses performance against a range of objectives, including those related to our customers and culture, strategy and risk. This ensures that reward is not determined solely on financial performance but also drives behaviours consistent with Legal & General's culture.

Annual report on remuneration

Audited information

Content contained within a grey outline box indicates that all the information in the panel is audited.

Planned implementation for 2020

Content contained within a black outline box indicates that all the information in the panel is planned for implementation for 2020.

'Single figure' of remuneration – executive directors

The following table shows a single total figure of remuneration for each executive director in respect of qualifying services for the 2019 financial year, together with a comparative figure for 2018.

Single figure table

Executive director	Fixed			Variable					Total £'000
	Base Pay £'000	Benefits £'000	Pensions £'000	Replacement		PSP ³		Total £'000	
				AVP £'000	Award £,000	Face value £'000	Share price appreciation £'000		
2019									
Nigel Wilson	942	24	141	1,292	–	1,975	218	2,193	4,592
Jeff Davies	548	22	72	763	–	1,087	119	1,206	2,611
Kerrigan Procter	518	31	70	707	–	1,032	114	1,146	2,472
Michelle Scrimgeour ¹ – from 1 July 2019	192	6	19	372	1,763	–	–	–	2,352
Mark Zinkula ²	428	182	69	413	–	1,208	133	1,341	2,433
2018									
Nigel Wilson	924	23	139	1,118	–	1,078	116	1,194	3,398
Jeff Davies	508	24	67	638	–	–	–	–	1,237
Kerrigan Procter	483	47	65	620	–	365	39	404	1,619
Mark Zinkula ²	636	208	102	696	–	742	80	822	2,464

- Michelle Scrimgeour succeeded Mark Zinkula as CEO of Legal & General Investment Management Limited with effect from 1 July 2019 and was appointed to the Board on 2 September 2019. The figures included above are in respect of the remuneration received during the period in 2019 that Michelle was an executive director. This includes the full amount of variable remuneration received during this period. In the period from 1 July 2019 until 2 September 2019, Michelle received base pay of £95,833.
- Mark Zinkula stepped down as an executive director and as CEO LGIM on 31 August 2019, remuneration details for 2019 are in respect of service provided as an executive director. 15% of Mark Zinkula's base pay and AVP are paid to him in the US. At the time of his appointment as CEO LGIM a US dollar to GB sterling exchange rate of £1 = \$1.60 was agreed. In 2019, Mark received £361,533 in base pay in the UK and \$106,006 in base pay in the US. Based on the exchange rates at the time of payments the total value of base pay received by Mark in 2019 was £444,545.
- The 2016 PSP figures reported in the 2018 single figure now reflect the actual vesting price of the shares, which vested on 8 March 2019, at £2.683 per share. The values previously included in the 2018 report based on a three-month average share price to 31 December 2018 were £1,085k (Nigel Wilson), £368k (Kerrigan Procter) and £747k (Mark Zinkula).

Base pay

Executive director	Annual base pay as at 1 January 2019	Annual base pay effective 1 March 2019	Total base pay paid in 2019	Annual base salary effective 1 March 2020	% increase
Nigel Wilson	927,000	945,500	942,417	979,500	3.6%
Jeff Davies	510,000	555,000	547,500	590,000	6.3%
Kerrigan Procter	484,500	525,000	518,250	545,000	3.8%
Michelle Scrimgeour ¹	–	575,000 ¹	191,667	595,000	3.5%
Mark Zinkula	638,000	638,000	427,787	n/a	n/a

- Michelle Scrimgeour's base pay applied from the commencement of her role as CEO LGIM on 1 July 2019 and she was appointed to the Board on 2 September 2019. The figure included in the single figure table above for total base pay in 2019 is in respect of the period for which she was an executive director.

Benefits

Benefits include the elements shown in the table below.

Executive director	Car allowance, insurances and taxable expenses £'000	Dividends £'000	Discount SAYE and SIP matching shares £'000	International allowance £'000	Total benefits £'000
2019					
Nigel Wilson	20	3	1	–	24
Jeff Davies	20	1	1	–	22
Kerrigan Procter	20	3	8	–	31
Michelle Scrimgeour	6	–	–	–	6
Mark Zinkula	44	–	–	138	182
2018					
Nigel Wilson	20	3	–	–	23
Jeff Davies	24	–	–	–	24
Kerrigan Procter	20	27	–	–	47
Mark Zinkula	48	–	–	160	208

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

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

Benefits for 2020

Benefits for 2020 remain in line with policy.

Pension

Nigel Wilson and Kerrigan Procter received a cash allowance of 15% of base pay. Mark Zinkula received a cash allowance of 15% of base pay in lieu of joining the UK pension plan, and also participated in the Legal & General America 401k plan and a US non-contributory cash balance plan, with total employer contributions to the 401k plan in 2019 of £4,980. Jeff Davies received a cash allowance of 13.8% of base pay and Michelle Scrimgeour received a cash allowance of 10% of base pay. All cash allowances are subject to normal payroll deductions of income tax and national insurance.

Pension for 2020

Nigel Wilson and Kerrigan Procter receive a cash allowance of 15% of base pay, Jeff Davies receives a cash allowance of 13.8% of base pay and Michelle Scrimgeour receives a cash allowance of 10% of base pay.

2019 annual variable pay (AVP) awards

This reflects the total AVP awards to be paid in 2020 based on performance for the year ended 31 December 2019. The value includes both the cash element and the portion deferred into shares (50% of the award).

The executive directors' AVP awards in relation to performance during 2019 were measured against a basket of metrics and objectives. For Nigel Wilson and Jeff Davies, they were weighted between group financial objectives (70%) and other strategic personal objectives including effective risk management (30%). For Kerrigan Procter, Michelle Scrimgeour and Mark Zinkula they were weighted between group financial objectives (35%), divisional objectives (35%) and other strategic personal objectives including effective risk management (30%).

As with 2017 and 2018, the AVP awards were subject to potential adjustment based on an assessment of overall financial performance, risk and any other circumstances considered relevant by the Remuneration Committee as well as a Solvency II performance measure. For 2019, the Solvency II performance measure was assessed by the Committee on a qualitative assessment of performance informed by input from the Chief Risk Officer and the Risk Committee. Based on this assessment and consideration of all the circumstances, it was determined that no adjustment was necessary to the formulaic outcome.

For 2019, AVP payouts as a percentage of the maximum were: Nigel Wilson 91%, Jeff Davies 92%, Kerrigan Procter 77%, Michelle Scrimgeour 74% and Mark Zinkula 55%. For Michelle and Mark the AVP payouts have been pro-rated for length of service in 2019. The tables below illustrate performance against each of the measures. Further details on the breakdown of the AVP payout for Mark Zinkula are provided on page 103 along with details of other award vestings.

Group financial – achievement

Performance measures	Weighting				2019 Performance				Payout % of maximum
	Nigel Wilson	Jeff Davies	Kerrigan Procter	Michelle Scrimgeour	Threshold	Target	Maximum	Actual	
Net release from operations ¹	20.00%	20.00%	10.00%	10.00%	1,396	1,458	1,502	1,578	100%
Operating profit ¹	25.00%	25.00%	12.50%	12.50%	1,823	1,883	1,977	2,085	100%
Adjusted EPS ¹	12.50%	12.50%	6.25%	6.25%	24.1	25.3	26.5	28.8	100%
Adjusted ROE ¹	12.50%	12.50%	6.25%	6.25%	17.3	18.1	18.8	19.2	100%
Solvency II performance ²	Underpin								

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

Based on the above results, the group element of AVP pays out at 100% of maximum, as set out in last year's report and in the Remuneration Committee Chair's statement accompanying the report, in determining payouts the Committee considered the impact of mortality assumption changes and separation costs relating to the Mature Savings business on performance measures. The Committee was of the view that it would not be appropriate to include the impact of these items, in calculating the AVP outturn.

**Divisional performance – achievement**

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

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

Executive director	Divisional measures	Summary of performance	Payout (out of 35%)
Kerrigan Procter	Key measures include PBT (for direct investments and modular housing), return on new direct investments, operating profit and PBT on the traded portfolio and divisional expenses	<ul style="list-style-type: none"> • Growth in operating profit of 13% in 2019, up to £363m • Growth in the direct investment portfolio to £2.9m, an increase of 22% over 2018 • Continued growth of CALA Homes, with unit sales increasing by 14% in 2019 and revenue growing to £1bn 	19%
Michelle Scrimgeour	LGIM key measures include operating profit (with a separate specific target for Workplace Savings), cost income ratio, global annualised net new revenues and flagship fund performance	<ul style="list-style-type: none"> • Operating profit growth of 4%, up to £423m • External net flows of £86.4bn, a significant increase on 2018 with continued international growth • A cost income ratio of 54%, a slight increase on 2018, reflecting continued investment to ensure operational efficiency and future growth 	19%

Strategic personal performance – achievement

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

Executive director	Divisional measures	Summary of performance	Payout (out of 30%)
Nigel Wilson	For 2019, Nigel's objectives focused on continuing development of the company's medium-term strategy and driving growth across all businesses through continued pricing and risk disciplines, growth of international assets and revenues, successful disposal of non-core businesses and the continued development of a truly digital organisation	<p>Nigel's award reflects his delivery against all his strategic personal objectives including:</p> <ul style="list-style-type: none"> • Continued strong financial performance with growth across all key areas of the company's business model • Reviewing and building on the long-term strategy of the business, ensuring a continued focus on inclusive capitalism to deliver economically successful and socially useful outcomes • International growth, in particular in the PRT and investment management businesses 	21%
Jeff Davies	Jeff's objectives included ensuring continued pricing and risk disciplines, in particular in regard to PRT business, successful disposal of non-core businesses, contribute to continued development of the company's medium-term strategy and continued investment and improvement of IT systems and controls	<p>Jeff's award reflects his continued strong performance throughout the year and against all objectives including:</p> <ul style="list-style-type: none"> • Contribution to the review and development of the company's long-term strategy • Ensuring pricing and risk disciplines which allow the company to continue to grow profitably across key markets such as PRT, defined contribution (DC) fund management and affordable housing • Continued development of the group finance function, helping to build a high performing culture 	22%
Kerrigan Procter	Kerrigan's objectives focused on implementation of LGC's strategy across Future cities, Housing and SME finance and continued development of a strong culture and risk discipline across the business	<p>Kerrigan's award reflects his strong performance in driving forward performance across the core areas of strategic focus. Key achievements include:</p> <ul style="list-style-type: none"> • Significant future cities investments including the establishment of a partnership with Oxford University, a £100m investment in Sunderland and continued clean energy investments • Rapid growth of the affordable homes business and continued growth of CALA Homes • Continued development of the risk and control environment, reflecting the diverse risks of the business 	23%
Michelle Scrimgeour	Michelle's objectives focused on the continued development of the defined contribution and defined benefit businesses, growth of the retail business, establishing a personal investing capability for the UK, international growth of the LGIM business and continued enhancement of capabilities and services delivered to the group	<p>Michelle's award reflects her delivery against key objectives since joining the company in July 2019, including:</p> <ul style="list-style-type: none"> • Continuing work to diversify the business, broadening the defined contribution proposition including the launch of a multi-asset ESG fund as a default option in the MasterTrust • International growth across US, Japan and Europe • Investment in technology to improve operational efficiency and customer experience 	20%

Risk consideration

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

Deferral policy

In line with our policy, 50% of all 2019 AVP awards were deferred for three years into conditional shares, subject to continued employment and clawback/malus provisions.

Executive director	Cash bonus £	Deferred bonus £	Total bonus £
Nigel Wilson	646,200	646,200	1,292,400
Jeff Davies	381,250	381,250	762,500
Kerrigan Procter	353,300	353,300	706,600
Michelle Scrimgeour	185,900	185,900	371,800

For 2018, AVP payouts as a percentage of the maximum were: Nigel Wilson 80%, Jeff Davies 83%, Kerrigan Procter 73% and Mark Zinkula 62%.

Outstanding share bonus plan (SBP) awards

The table below shows the shares held under the SBP and those that were awarded or vested during 2019. The shares awarded in 2019 relate to deferred AVP in relation to the 2018 performance year. The share price used to calculate the awards is the average of the three days preceding grant.

Grant date	Awards outstanding at 1 January 2019	Awards granted in 2019	Grant price £	Face value at grant price £	Awards vested in 2019	Awards outstanding at 31 December 2019
Nigel Wilson ¹	722,272	194,979	£2.867	£559,005	271,950	645,301
Jeff Davies	122,767	111,272	£2.867	£319,018	0	234,039
Kerrigan Procter	350,760	108,107	£2.867	£309,944	98,357	360,510
Michelle Scrimgeour	0	350,013	£2.717	£950,985	0	350,013

1. The awards vested in 2019 include 43,109 shares for Nigel Wilson accrued as dividends on deferred awards.

AVP potential 2020

Deferral policy

In line with our policy, 50% of all 2020 AVP awards will be deferred for three years into conditional shares, subject to continued employment and clawback/malus provisions.

In line with our policy, for 2020 the target and maximum AVP opportunities for our executive directors will be:

Executive director	Target opportunity (% of salary)	Maximum opportunity (% of salary)
Nigel Wilson	75%	150%
Jeff Davies	75%	150%
Kerrigan Procter	87.5%	175%
Michelle Scrimgeour	87.5%	175%

Performance will be based on a combination of group and/or divisional financial performance targets as well as strategic (including customer, employee measures and effective risk management) and personal measures. The percentage weightings will be the same as in 2019. Actual targets have not been disclosed due to commercial sensitivity. Group financial targets will be disclosed in the 2020 annual report. Divisional and strategic personal performance targets are considered confidential and will not be disclosed in any future report.

Details of how the 2017 PSP award vested

The 2017 PSP award vested at 86.9% in March 2020 based on a combination of TSR (50%) and financial performance (50%) over the three-year performance period ended 31 December 2019.

In line with policy, the Committee carefully reviewed the company's underlying performance over the performance period. The review included considerations of capital management, risk, cost management and partnerships entered into and maintained. The Committee felt the company performance had been strong over the period and saw no reason not to allow the PSP to vest in accordance with the TSR and financial performance outcome.

The results are shown below:

Grant date	Performance period	Comparator group	Legal & General's TSR ¹	Comparator group median rank	Comparator group 80th percentile TSR performance	Legal & General's notional rank	% of award vesting against comparator group	Percentage of element vesting
18 April 2017	1 January 2017 to 31 December 2019	FTSE 100		47.5	19.0	27.4	74.9%	
		Bespoke comparator group	45.0%	13.5	6.0	8.4	72.8%	73.9%

Performance condition	Performance targets	Actual performance	Percentage of element vesting
EPS growth (% p.a.)	subject to performance matrix	12.60%	
DPS growth (% p.a.)	subject to performance matrix	7.00%	
ROE underpin (% p.a.)	12% p.a. underpin	18.37%	100.0%

1. TSR is calculated under the PSP scheme rules using the three-month average prior to the start and the end of the performance period.

The figures reported for the 2017 PSP, with a performance period ended 31 December 2019, reflect the market value of the awards that will vest in March 2020. The share price at the date of vesting was not known at the end of the financial year and as such the value included in the 'single figure' of remuneration is based on the number of shares that will vest multiplied by the average share price over the quarter ended 31 December 2019 (£2.756).

Executive director	Shares granted in 2017	Shares vesting in March 2020	Estimated value of shares on vesting (£)
Nigel Wilson	915,444	795,749	2,192,736
Jeff Davies	503,544	437,705	1,206,123
Kerrigan Procter	478,367	415,820	1,145,818
Michelle Scrimgeour	–	–	–

Financial performance condition (50% of the 2017 award)

Fifty percent of the award vested based on performance against the following matrix of earnings per share and dividends per share growth, subject to achieving a return on equity underpin whereby return on equity must be at least 12% over the performance period.

	Dividends per share growth (% p.a.)											
	<5	5	6	7	8	9	10	11	12	13	14	
Earnings per share growth (% p.a.)	<5	0	0	0	0	0	0	0	0	0	0	0
	5	0	15	25	35	45	55	65	75	85	95	100
	6	0	25	35	45	55	65	75	85	95	100	
	7	0	35	45	55	65	75	85	95	100		
	8	0	45	55	65	75	85	95	100			
	9	0	55	65	75	85	95	100				
	10	0	65	75	85	95	100					
	11	0	75	85	95	100						
	12	0	85	95	100							
	13	0	95	100								
	14	0	100									

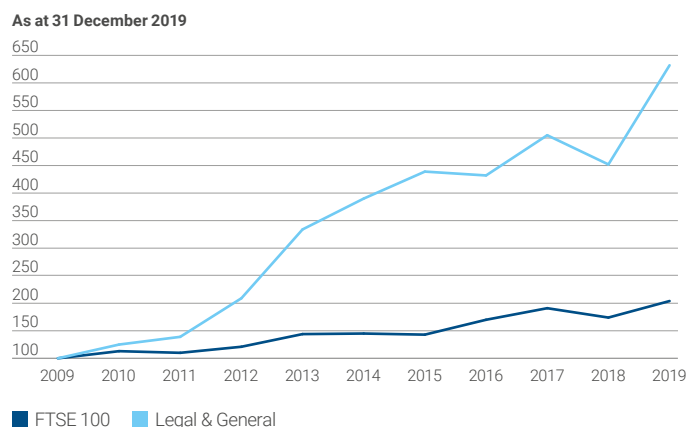
The vesting levels between stated points on the matrix are calculated on a straight line basis.

Annual report on remuneration continued

Other remuneration information

Total shareholder return (TSR)

The chart shows the value, as at 31 December 2019, of £100 investment in Legal & General shares on 31 December 2009, compared to £100 invested in the FTSE 100 on the same date. The other points plotted are the values at the intervening financial year-ends. The FTSE 100 Index was chosen as the company is a member of this index.



Chief Executive – historic remuneration information

The table below shows the remuneration of the Group Chief Executive in place at the time over the same period.

Year	Name	Group Chief Executive single figure of total remuneration (£'000)	Annual variable element against maximum opportunity	PSP vesting rates against maximum opportunity
2019	Nigel Wilson	4,592	91.1%	86.9%
2018	Nigel Wilson	3,398 ¹	80.4%	48.7%
2017	Nigel Wilson	3,439 ²	85.3%	59.9%
2016	Nigel Wilson	5,417 ³	87.8%	76.6%
2015	Nigel Wilson	5,497 ⁴	86.25%	100%
2014	Nigel Wilson	4,213	90.67%	100%
2013	Nigel Wilson	4,072	93.10%	100%
2012	Nigel Wilson – appointed CEO 30 June 2012	898	96.00%	0% – note 5
	Tim Breedon – retired 30 June 2012	3,280	84.80%	100% – note 6
2011	Tim Breedon	2,325	79.58%	16.60%
2010	Tim Breedon	1,526	89.98%	0%

1. Restated from 2018 report to reflect the actual value of the 2016 PSP at vesting

2. Restated from 2017 report to reflect the actual value of the 2015 PSP at vesting.

3. Restated from 2016 report to reflect the actual value of the 2014 PSP at vesting.

4. Restated from the 2015 report to include the value of the PSP award vesting in August 2015.

5. The 2009 PSP vested in full in 2012. However, no PSP is shown in the figure for Nigel Wilson as, while he received the PSP, it vested during the time he was CFO.

6. The 2009 PSP vested in full in 2012. The PSP figure that vested for Tim Breedon is shown in his figure as it vested during the time he was Group Chief Executive.

Scheme interests awarded during the financial year

The following table sets out details of PSP awards made in 2019.

Executive director	Type of award	Basis of award (% of base pay and face value) ¹	% of award vesting for threshold performance	% of award vesting for maximum performance	Performance/holding period
Nigel Wilson	Nil-cost options	250% of base pay £2,363,750	15%	100%	1 January 2019 to 31 December 2021. Awards are also subject to a holding period, such that the award is not released until year 5 from the grant date.
Jeff Davies	Nil-cost options	250% of base pay £1,387,500	15%	100%	
Kerrigan Procter	Nil-cost options	250% of base pay £1,312,500	15%	100%	
Michelle Scrimgeour	Nil-cost options	0% of base pay £0	15%	100%	

1. The number of shares awarded is calculated based on the average share price for the five days preceding the grant which was £2.8544.

Awards were also made during the year under the share bonus plan (SBP) in respect of performance for 2018; in line with our policy 50% of all 2018 AVP awards were deferred into shares for three years, subject to malus and clawback provisions. The amounts deferred in respect of the 2018 AVP were also made in line with the above deferral policy.

Michelle Scrimgeour received the following awards as part of her compensation for pay forfeited on leaving her previous employer. Further details are provided on pages 102 to 103.

Grant date 18 July 2019	Type of award	Basis of award (value) ¹	Grant price	Vesting date
Michelle Scrimgeour	Conditional shares	£197,564	£2.717	31 May 2020
	Conditional shares	£261,362	£2.717	31 May 2021
	Conditional shares	£492,060	£2.717	31 May 2022

1. The number of shares awarded is calculated based on the average share price for the five days preceding the grant.

Performance conditions for PSP awards granted in 2019

Financial performance condition (50% of the 2019 award)

50% of the award will vest based on the EPS growth with vesting based on performance as set out in the table below:

EPS growth p.a.	Proportion of shares vesting
<5%	0%
5%	15%
12%	100%
Between 5% and 12%	Straight line basis between 15% and 100%

TSR performance condition (50% of the 2019 award)

25% of the award will be based on Legal & General's TSR performance relative to the FTSE 100.

The remaining 25% of the award will be based on Legal & General's TSR performance against a bespoke group of insurers.

The vesting schedule of the TSR performance conditions is as follows:

Grant date 16 April 2019	Proportion of shares vesting
Below median	0%
Median (threshold vesting)	15%
80th percentile and above	100%
Between median and the 80th percentile	Straight line basis between 15% and 100%

At the end of the three-year performance period, the Committee will critically assess whether the formulaic vesting outcome is justified. To do this, the Committee will look at a number of factors including: whether the result is reflective of underlying performance and has been achieved within the company's agreed risk appetite; the Solvency II coverage ratio, the quality of earnings and the nature of any changes in leverage or key assumptions. If such considerations mean that the formulaic outcome of the vesting schedule is not felt to be justified, then the Committee can exercise downwards discretion.

Performance Share Plan (PSP) 2020 awards: Nigel Wilson, Jeff Davies, Kerrigan Procter, and Michelle Scrimgeour will each be granted an award over nil-cost options with a face value of 250% of base pay.

As indicated previously, for the 2020 award, the following performance measures will be used:

- relative TSR performance against the FTSE 100 (25% of award) and a bespoke group of companies (25% of award)
- EPS growth (50% of award)

Vesting of awards will be subject to an assessment of performance against Solvency II objectives.

Having considered the business plan over the coming three years and market expectations of performance and given the level of stretch within the TSR performance conditions, the Committee considered it appropriate to continue to set threshold vesting (15% of the award) at median TSR performance and maximum vesting at the upper quintile TSR performance.

For the EPS growth measure the Committee considered it appropriate for vesting to be based on performance as set out in the table below:

EPS growth p.a.	Proportion of shares vesting
<5%	0%
5%	15%
12%	100%
Between 5% and 12%	Straight line basis between 15% and 100%

Performance share plan (PSP) 2018

For information, other outstanding PSP awards are shown below.

Grant date 16 April 2018	% of base pay	Face value £'000	Share price at award £	Max no. of shares
Nigel Wilson	250	2,318	£2.6708	867,717
Jeff Davies	250	1,275	£2.6708	477,385
Kerrigan Procter	250	1,211	£2.6708	453,515
Mark Zinkula	250	1,595	£2.6708	597,199

Awards made on appointment of Michelle Scrimgeour

As a consequence of regulations around the globe in the financial services sector, executives are likely to have accrued significant deferred remuneration that may be lost upon a change of employment. Our policy on recruitment remuneration provides that in these circumstances, the Committee may grant awards equivalent to the remuneration arrangements forfeited upon leaving a previous employer, taking into consideration relevant factors including, but not limited to, the form of the award, any performance conditions attached to those awards, the vesting profile and likelihood of vesting, and any relevant regulatory requirements and guidance in relation to the awards. Any awards will reflect the terms and the expected value of the arrangements forgone, and where possible, the Committee will use existing share-based plans.

On appointment as CEO LGIM in July 2019, Michelle Scrimgeour forfeited cash and share awards from her previous employer, Columbia Threadneedle Investments (CTI). Accordingly, in accordance with our policy on recruitment remuneration, the following cash and share awards have been granted to Michelle, subject to malus and clawback, matching as close as possible both the value and timescale to vesting of her forfeited CTI awards.

Cash awards

Payment date	In replacement of	Value
31/07/2019	2018 annual bonus award	£205,000
31/08/2019	2018 annual bonus award	£205,000
29/02/2020	Pro-rated 2019 annual bonus award and LTI awards vesting 2019	£299,959
31/08/2020	Pro-rated 2019 annual bonus award	£102,500

Awards made on appointment of Michelle Scrimgeour continued

Share awards

Grant date	Vesting date	In replacement of	Award value	No. of Shares	Grant price
18/07/2019	31/05/2020	LTI vesting 2020	£197,564	72,714	£2.717
18/07/2019	31/05/2021	LTI vesting 2021	£261,362	96,195	£2.717
18/07/2019	31/05/2022	LTI vesting 2022	£492,060	181,104	£2.717

All cash and share awards will be forfeited if Michelle resigns prior to the third anniversary of her commencement date (i.e. before 1 July 2022).

Payments for loss of office (audited)

As announced in May 2018, Mark Zinkula retired on 31 August 2019. As set out in the 2018 Annual Report, and consistent with our remuneration policy, Mark remained eligible for an annual variable pay (AVP) award for 2019, pro-rated for the period through to his leaving, conditional upon performance, with any award subject to deferral in accordance with the normal rules and deferral timescales.

2019 annual variable pay (AVP) award

In line with the remuneration policy, the determination of Mark's 2019 AVP award was weighted between group financial objectives (35%), divisional financial objectives (35%) and strategic objectives (30%).

The group and divisional financial performance achieved were as set out on pages 96 and 97, resulting in Mark achieving a maximum award for group financial performance and 58% of maximum for divisional financial performance. Mark's strategic personal performance targets had not been fully achieved at the date of his retirement, so the Committee did not consider it appropriate to award any bonus in respect of this component. Therefore, overall, Mark will receive an AVP award of 55% of the maximum.

The AVP payment will be subject to the normal policy deferral requirements (i.e. 50% deferred into shares for three years) and awards will remain subject to malus and clawback.

Unvested deferred share awards

Mark was treated as a good leaver in accordance with the rules of the AVP plan, and therefore upon retirement his unvested deferred share awards will vest in accordance with the ordinary timescale (i.e. deferred for three years), as set out in the table below.

Bonus year	Grant date	Vesting date	Awards	Grant price
2015	21/04/2016	21/04/2019	188,611	£2.431
2016	18/04/2017	18/04/2020	166,682	£2.495
2017	16/04/2018	16/04/2021	164,818	£2.688
2018	16/04/2019	16/04/2022	121,306	£2.867

Unvested performance share plan (PSP) awards

In accordance with the rules of the performance share plan (PSP), upon retirement, a participant remains eligible to receive a proportion of their PSP awards already granted, pro-rated for the period through to leaving, and subject to the normal performance conditions over the full performance period, and released in accordance with the normal timescale.

In 2017, Mark was granted a PSP award over a maximum of 629,934 shares. After pro-rating for service to the date of his retirement in August 2019, the maximum number of shares that can vest is 559,750. As disclosed on page 99, the 2017 PSP vested at 86.9% of maximum based on performance for the full performance period ended 31 December 2019, resulting in 486,422 shares vesting. In accordance with the normal rules, these shares vest in equal thirds following the results announcements for 2019 to 2021.

In 2018, Mark received a PSP award over a maximum of 597,199 shares. After pro-rating for service to the date of his retirement in August 2019, the maximum number of shares that can vest is 331,292. The number of shares vesting will be based on performance for the full performance period to 31 December 2020, and then subject to deferral for a further two years, with any shares released in April 2022.

Mark was not granted a PSP award in 2019.

Payments to past directors

There were no payments to past directors in 2019.

Annual report on remuneration continued

Statement of directors' shareholding and share interests

Total shareholding of executive directors

	Type	Owned outright/ vested shares	Subject to deferral/ holding period	Total vested and unvested shares (excludes any shares with performance conditions)	Subject to performance conditions	Shares sold or acquired during the period 1 January 2020 and 28 February 2020	
						Own outright/ vested shares	Subject to deferral/ holding period
Nigel Wilson	Shares	2,997,796	645,301	3,643,097	–		
	ESP	15,654	3,907	19,561	–	81	45
	Options	–	447,327	447,327	2,611,268		
Jeff Davies	Shares	–	234,039	234,039	–		
	ESP	1,582	1,093	2,675	–	81	45
	Options	–	5,818	5,818	1,467,020		
Kerrigan Procter	Shares	440,211	360,510	800,721	–		
	ESP	19,951	973	20,924	–	81	45
	Options	–	140,176	140,176	1,391,698		
Michelle Scrimgeour	Shares	–	350,013	350,013	–	–	–
	ESP	–	–	–	–	–	–
	Options	–	–	–	–		
Mark Zinkula ¹	Shares	1,689,048	–	1,689,048	–		
	ESP	–	–	–	–	–	–
	Options	–	–	–	891,043		

1. Mark Zinkula's shares are as at 31 August 2019, the date of his retirement.

Shareholding guidelines – executive directors

The Group Chief Executive is expected to build a shareholding of 300% of base salary and the other executive directors 200% of base salary. The table below shows shareholding levels as at 31 December 2019. From 2020 the shareholding requirement for all executive directors will increase to 325% of base pay.

	Actual share ownership as % of 2019 base salary: vested shares ¹	Guidelines on share ownership as a % of base salary	Guideline met	Shares owned at 1 January 2019	Shares owned at 31 December 2019	Shares sold or acquired during the period 1 January 2020 and 28 February 2020
Nigel Wilson	966%	300%	Yes	3,011,725	3,013,450	126
Jeff Davies	1%	200%	No	1,005	1,582	126
Kerrigan Procter	266%	200%	Yes	264,425	460,162	126
Michelle Scrimgeour – appointed 2 September 2019	0%	200%	No	–	–	–
Mark Zinkula – retired on 31 August 2019 ²	581%	200%	Yes	1,242,899	1,689,048	–

1. Closing share price as at 31 December 2019: £3.03; Closing share price as at 31 August 2019: £2.20.

2. The amount reported as Mark Zinkula's shares owned as at 31 December 2019 are as at 31 August 2019, the date of his retirement.

Notes

Shares used for the above calculation exclude those with performance conditions, any unexercised options, those shares subject to a period of deferral and any shares held in a private trust where the executive director is not a trustee. They include vested shares where the executive director has beneficial ownership, shares independently acquired in the market and those held by a spouse or civil partner or dependent child under the age of 18 years.

Although the share ownership guidelines are not contractually binding, executive directors are normally expected to retain any after tax vested share awards until the guideline is met. The Committee retains the discretion to withhold future grants under the PSP if executives are not making satisfactory progress against the guidelines. Once shareholding requirements have been met, executive directors may sell surplus shares if they wish. The Committee has discretion to allow executive directors to sell shares prior to the shareholding guidelines being met if there are extenuating circumstances, for example, changes to personal circumstances.

From 2020 all executive directors will also be required to maintain this level of shareholding for two years post-cessation of their employment.

Share options exercised during 2019

The following table shows all share options exercised by the executive directors during 2019.

Executive director	Date of grant	Shares exercised	Exercise date	Share price at date of exercise £	Gain £
Nigel Wilson	11/06/2014	215,672	23/04/2019	2.910	627,606
Nigel Wilson	14/04/2015	159,576	23/04/2019	2.910	464,366
Nigel Wilson	21/04/2016	148,282	23/04/2019	2.910	431,501
Mark Zinkula	11/06/2014	147,288	06/03/2019	2.762	406,809
Mark Zinkula	14/04/2015	106,692	12/03/2019	2.739	292,229
Mark Zinkula	14/04/2015	113,974	16/09/2019	2.528	288,126
Mark Zinkula	21/04/2016	102,090	01/04/2019	2.752	280,952
Mark Zinkula	21/04/2016	109,057	16/09/2019	2.528	275,696
Mark Zinkula	21/04/2016	109,058	16/09/2019	2.528	275,699
Kerrigan Procter	11/06/2014	121,812	17/11/2019	2.767	337,054
Kerrigan Procter	14/04/2015	81,842	17/11/2019	2.767	226,457
Kerrigan Procter	21/04/2016	50,208	17/11/2019	2.767	138,926
Kerrigan Procter	09/04/2014	8,108	02/12/2019	2.758	7,362

Annual report on remuneration continued

Non-executive directors' remuneration – 2019

Non-executive directors' fees

The fees for the Chairman were reviewed during 2019 and with effect from 1 August 2019 the fee was increased from £490,000 to £505,000. The table below sets out the current fees.

The current limit for fees paid to non-executive directors is an aggregate of £1,500,000 p.a.

Annual fees	Current fee £
Chairman	505,000
Base fee	75,000
Additional fees:	
Senior Independent Director	30,000
Committee Chairmanship fees (Audit, Remuneration and Group Risk Committees)	30,000
Attendance fee (payable if the non-executive sits on two or more Board Committees)	10,000

The table below shows the actual fees paid to our non-executive directors in 2019 and 2018.

Non-executive director		Fees for 2019	Benefits for 2019	Total remuneration for 2019	Fees for 2018	Benefits for 2018	Total remuneration for 2018
Sir John Kingman	Chairman N CG	496,250	–	496,250	466,667	–	466,667
Henrietta Baldock ¹	A N R Ri – appointed 1 October 2018	190,625	1,115	191,740	103,447	–	103,447
Philip Broadley	A CG N R Ri	115,000	1,439	116,439	115,000	569	115,569
Lesley Knox	A N R Ri	165,000	3,062	168,062	115,000	1,211	116,211
George Lewis	A N Ri – appointed 1 November 2018	102,708	17,906	120,614	14,167	–	14,167
Julia Wilson	A CG N Ri	115,000	367	115,367	115,000	–	115,000
Toby Strauss	A CG N Ri	115,000	437	115,437	115,000	1,547	116,547

Key:

NED Committee membership:

A = Audit

N = Nominations

R = Remuneration

Ri = Risk

CG = Corporate Governance

- Henrietta Baldock is also Chair of the Legal & General Assurance Society Board for which she receives a separate fee to that paid to her as a non-executive director of the group. The actual fees in the table above include her total fees for both roles.
- Lesley Knox is also Chair of the Legal & General Investment Management (Holdings) Limited Board for which she receives a separate fee to that paid to her as a non-executive director of the group. The actual fees in the table above include her fees for both roles.

Shareholding requirements – non-executive directors

Non-executive directors are required to build up a shareholding equivalent to one times base fee. The table below shows their shareholding as at 2 January 2020, taking into account share purchases in relation to December 2019 fees, purchased on 2 January 2020.

Name	Shareholding as at 2 January 2020	Holding as a % of base fee	Met criteria of 1 x base fee	Shares purchased from 1 January 2020 to 28 February 2020
Sir John Kingman	180,717	108%	Met	3,862
Henrietta Baldock	9,664	39%	On Target	1,206
Philip Broadley	43,135	174%	Met	–
Lesley Knox	77,600	314%	Met	–
George Lewis	25,592	103%	Met	338
Julia Wilson	51,823	209%	Met	–
Toby Strauss	36,134	146%	Met	1,789

Non-executive directors' terms of employment

Annual fees	Current letter of appointment start date	Current letter of appointment end date
Sir John Kingman	24 October 2016	24 October 2021
Julia Wilson	09 December 2017	09 December 2020
Henrietta Baldock	04 October 2018	04 October 2021
Philip Broadley	08 July 2019	08 July 2022
Lesley Knox	01 June 2019	01 June 2022
George Lewis	01 November 2018	01 November 2021
Toby Strauss	01 January 2020	01 January 2023

The standard term for non-executive directors is three years and for the Chairman is five years. All non-executive directors are subject to annual re-election.

Annual report on remuneration continued

Remuneration for employees below Board

General remuneration policy

The group's remuneration policy is designed to reward, motivate and retain high performers in line with the risk appetite of the group. Remuneration is considered within the overall context of the group's sector and the markets in which the divisions operate. The policy for the majority of employees continues to be to pay around the relevant mid-market range with a competitive package designed to align the interests of employees with those of shareholders, and with an appropriate proportion of total remuneration dependent upon performance.

We define core remuneration as base pay, annual bonus and other benefits such as pension. Key employees are also eligible to participate in the performance share plan (PSP).

Summary of the remuneration structure for employees below the Board

Element	Policy
Base pay	<p>We aim to attract and retain key employees by paying base pay which delivers competitive total remuneration. Factors taken into account when determining salaries include:</p> <ul style="list-style-type: none">• the nature, size and scope of the role• the knowledge, skills and experience of the individual• individual and overall business performance• pay and conditions elsewhere in the group• appropriate external market data <p>As a member of the Living Wage Foundation base pay is also set with reference to the Foundation's UK and London living wage levels.</p> <p>During 2019, the average base pay increase was 3.6%. For the latest pay review the approach adopted was for the lowest paid employees (less than £30,000) to receive, on average, the highest increases (generally 4% of base pay).</p>
Annual bonus	<p>The majority of employees participate in a discretionary bonus plan, unless an alternative plan applies based on role. An employee will be considered for a discretionary bonus award based on achievement against objectives, conduct and behaviours, the role performed during that year and internal relativities.</p> <p>The group operates bespoke bonus plans where business appropriate. However, the Remuneration Committee has ultimate discretion over all bonus plans.</p> <p>Bonuses above a certain threshold are subject to deferral with the deferral amount increasing with the size of the bonus. Deferred awards are normally held in shares for three years.</p> <p>The company reserves the right to adjust deferral levels for code staff as deemed appropriate.</p>
Performance share plan (PSP)	<p>Participation in the PSP is offered to a small number of senior executives each year in recognition of the strategic and influential role that they hold in terms of driving company performance, as well as their individual contribution. This includes employees in LGIM whose roles span different business divisions and whose participation encourages synergy and teamwork across the group. Participation in the plan for one year does not guarantee participation in future years.</p> <p>PSP awards were made to around 80 employees during 2019.</p> <p>Where appropriate, grants under the PSP may also be made for new employees who join the company during the year in key roles.</p>
Other share plans and long-term incentives	<p>The company operates a Share Bonus Plan (SBP) which provides the vehicle for deferral of annual bonuses in the majority of cases and also allows for a limited number of awards of shares to high potential individuals and those with critical skills.</p>
Benefits	<p>In 2019, changes were made to the benefits provided to UK employees. Private medical insurance is now available to every UK employee, with increased life insurance, improved holiday and family-friendly policies (maternity, paternity, adoption and shared parental leave). During 2020, there will be a further review of employee benefits.</p>
Pension	<p>All employees are given the opportunity to participate in a Group Pension Scheme. The pension opportunity offered to the majority of the workforce is 10% of base pay.</p>
Employee share plans	<p>All employees are given the opportunity to participate in a Save As You Earn (SAYE) plan and an Employee Share Purchase plan. These are both HMRC approved plans which offer all employees the opportunity to share in the success of the business.</p>

Annual equal pay audit

The group seeks to ensure that our pay policies and practices are free from unfair bias. Part of the pay review process is an annual equal pay audit that reviews pay and bonus decisions by gender, ethnicity, age and full-time versus part-time working. In addition, it considers the application of the pay policy more widely, in particular looking at decisions made in the annual pay review across grades, functions and divisions.

Gender pay reporting

The group has published its gender pay report for 2019. Further details can be found on page 51 of the annual report.

Pay ratio in relation to the Group CEO

Since 2016 we have voluntarily disclosed details of the pay ratio in relation to the Group CEO and the wider UK employee population. From 2018 we made some amendments to how we report the information in order to align with the reporting requirements set out by BEIS, which came into effect for financial years starting 1 January 2019.

The tables below provide the ratio between the CEO single figure total remuneration and total remuneration for all UK employees and the details of the salary and total remuneration for UK employees.

Total remuneration

Year	Method	Pay ratio			All UK employees £		
		75th percentile	Median	25th percentile	75th percentile	Median	25th percentile
2019	B	68	112	168	67,744	41,177	27,408
2018	B	39	79	134	86,082	42,906	25,381
	A	49	83	132	69,923	40,814	25,730
2017	B	51	90	133	67,475	38,055	25,891
	A	52	89	137	66,572	38,802	25,023

Base pay

Year	Method	Pay ratio			All UK employees £		
		75th percentile	Median	25th percentile	75th percentile	Median	25th percentile
2019	B	16	26	40	59,692	36,000	23,375
2018	B	13	26	41	71,583	35,493	22,570
	A	16	27	41	57,853	34,475	22,781
2017	B	18	27	42	51,550	33,706	21,765
	A	16	27	42	58,020	33,649	22,148

Pay ratio commentary

Between 2018 and 2019 the ratio of total remuneration for the Group CEO compared to UK employees has risen, having previously fallen from 2017 to 2018. The increase is the result of the high vesting level of the 2017 PSP compared with the PSP awards in the previous two years, which reflects the sustained financial performance and the delivery of high total shareholder returns over the last three years.

Methodology

We have chosen option B as our method for calculating the pay ratio for 2019, consistent with the methodology for reporting of the gender pay gap. The total remuneration figures for the UK employees are based on salaries at 1 December 2019. Bonus amounts for 2019 are not determined for some eligible employees until after publication of this report, and therefore it is not possible to determine the exact 2019 total remuneration for all UK employees (option A) within this timescale. As indicated in the 2018 report, for completeness and transparency, we have included the pay ratios based on the option A method for 2018 and 2017 and we will also retrospectively disclose the pay ratio for 2019 based on the option A method in the 2020 report. We do not believe that this will result in pay ratio figures which are materially different to the 2019 figures disclosed above.

Annual report on remuneration continued

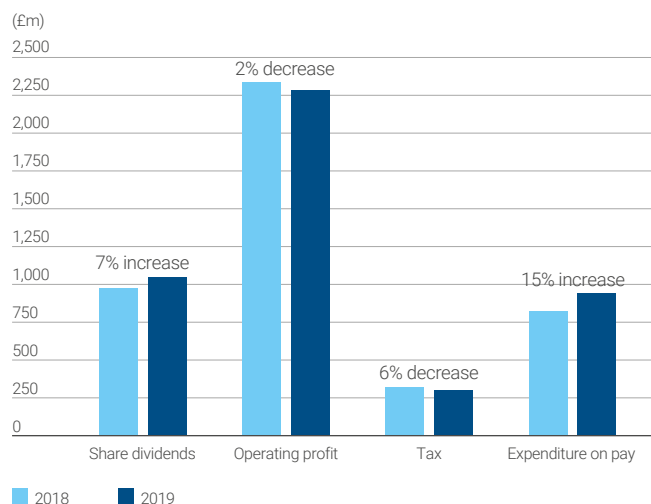
Percentage change in remuneration of director undertaking the role of Group Chief Executive 2019 over 2018

	Change to base pay %	Change to benefits %	Change in AVP %
Group Chief Executive	1.99%	2.14%	15.60%
Comparator group	3.60%	3.60%	3.07%

As with last year we have chosen the whole UK employee population as the comparator group. This group has been chosen because it includes a wider cross section of the group's employees. The increase in benefits for the employee comparator group relates to the impact of base pay increases.

Relative importance of spend on pay

The chart opposite shows the relative importance of spend on pay compared to shareholder dividends and operating profit for the year. Operating profit has been shown because it is a KPI of the business. No share buybacks were made in 2018 or 2019.



Remuneration Committee

The table below shows the members and attendees of the Remuneration Committee during 2019.

Committee members, attendees and advice

Meetings in 2019

During 2019, the Committee met five times and in addition had ongoing dialogue via email and telephone discussion. An outline of the Committee undertakings during 2019 is shown in the table below. Members: during 2019 the Remuneration Committee comprised the following non-executive directors:

Year	Number of Remuneration Committee meetings attended during 2019
Lesley Knox	5/5
Philip Broadley	5/5
Henrietta Baldock	5/5

Committee undertakings

Quarter	Governance	Performance	Remuneration policy	Regulatory
First	<ul style="list-style-type: none"> Review of report on the activities of the Group Reward Steering Committee in 2018 	<ul style="list-style-type: none"> Reviewed findings of the CRO report Approved the 2018/19 annual pay review and executive pay awards Approved vesting of the 2016 PSP, LGIM LTIP and LGC Direct Investment Share Awards 	<ul style="list-style-type: none"> Approved the 2019 AVP performance measures Approved the 2019 long-term incentive awards Approved the 2019 SAYE invitation 	<ul style="list-style-type: none"> Approved the remuneration policy statement for the PRA
Third	<ul style="list-style-type: none"> Reviewed outcomes of AGM season Review of Group & Divisional Reward Steering Committee terms of reference 	<ul style="list-style-type: none"> Financial update and indicative variable pay update for executive teams 	<ul style="list-style-type: none"> Review of the executive remuneration policy 	
Fourth	<ul style="list-style-type: none"> Review and approval of Committee terms of reference Review of report on the activities of the Group Reward Steering Committee in 2019 	<ul style="list-style-type: none"> Review of the salary and variable pay budget proposals for the 2019/20 review Consideration of incentive out-turns in respect of 2019 	<ul style="list-style-type: none"> Continuation of remuneration policy review, focused on pension contributions and shareholding requirements Review of AVP and PSP performance measures and targets for 2020 Approved 2020 SAYE invitation 	<ul style="list-style-type: none"> Review of code staff lists Reviewed remuneration policy statements for FCA and PRA

At the invitation of the Remuneration Committee, the Group Chairman attends Committee meetings. Where appropriate, the Group Chief Executive, Nigel Wilson; and the Group HR Director, Group Reward Director, Head of Executive Compensation, Director of Group Finance and Group Chief Risk Officer also attend meetings. No person is present during any discussion relating to his or her own remuneration.

At the invitation of the Remuneration Committee, a representative from Deloitte LLP also attends Committee meetings. During 2019, Deloitte principally advised the Committee on external developments affecting remuneration as well as specific matters raised by the Remuneration Committee. Deloitte were appointed by the Committee. The Committee reflects on the quality of advice provided and whether it properly addresses the issues under consideration as part of its normal deliberations. The Committee is satisfied that the advice received from Deloitte LLP engagement team is objective and independent. Deloitte are signatories to the remuneration consultants' group code of conduct in relation to executive remuneration consulting in the UK. The total fees paid to Deloitte in relation to Remuneration Committee work during 2019 were £120,750 (excluding VAT). While fee estimates are required for bespoke pieces of work, fees are generally charged based on time with hourly rates in line with the level of expertise and seniority of the adviser concerned. During the year, Deloitte also provided the company with tax advice, consulting services, internal audit support and financial advisory services.

Annual report on remuneration continued

Terms of reference

The Committee's terms of reference are available on our website. The remit of the Committee includes the remuneration strategy and policy framework for the whole company as well as the executive directors.

The Committee particularly focuses on:

- determining the individual remuneration for executive directors and for other designated individuals or for those who are discharging a head of control function role
- undertaking direct oversight on the remuneration of other high earners in the group
- oversight of the remuneration of Code staff and employees in the control and oversight functions
- oversight of remuneration policies and structures for all employees

Considering risk

The Reward Steering Committee (RSC) and the Group Regulatory Risk and Compliance Function make a key contribution to the process of designing reward structures and evaluating whether achievement of objectives and any payment from plans have taken into account the overall risk profile of the group.

Reward Steering Committee (RSC)

Reporting to the Remuneration Committee, the RSC helps set the framework within which our incentive arrangements are normally reviewed and implemented, with a view to supporting business strategy, whilst acting within the group's risk appetite. The members of the RSC include the Group HR Director, Group Chief Risk Officer, Group Conduct Risk Director, Regulatory Risk Director, LGIM Chief Compliance Officer, the Director of Group Finance, the Group Reward Director and the Head of Executive Compensation.

Where a business unit tables a proposal for consideration, the relevant business manager is required to attend the RSC meeting to explain the background and to answer all questions and challenges from the RSC.

Group regulatory risk and compliance function

The Remuneration Committee also works closely with the Group Regulatory Risk and Compliance Function with respect to remuneration proposals.

In particular, the function reports to the Committee on an annual basis on whether any risks have been taken outside of pre-agreed parameters, there have been regulatory breaches, or they are aware of any other considerations that may lead the Committee to consider whether it should impact the payment of bonuses to staff (including in particular the executive directors and Code staff).

The CRO also specifically looks at the overall risk profile of the group and whether executive directors have achieved objectives within the group's accepted risk appetite. The CRO also reviews the executive directors' objectives for the forthcoming year to ensure they are in line with the risk parameters.

Since the implementation of a new Solvency II remuneration policy in 2016, the scope of the CRO report has been extended to consider whether there are any risk considerations which may warrant adjustments to the overall level of corporate annual variable pay awards.

Engagement with shareholders

The Committee seeks to maintain an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance and any changes to the group's executive pay arrangements.

During 2019, we reviewed our approach to remuneration in the context of future business strategy, updated investor guidelines and evolving best practice, and sought feedback from shareholders and representative bodies. The responses that we received have helped shape our thinking and whilst the proposed new remuneration policy remains very similar to the existing policy we have proposed a number of changes. These include increasing the shareholding for all executive directors to 325% of base pay, limiting the period for which relocation benefits may be paid to a director to a maximum of two years and the introduction of an explicit bonus moderator in the AVP enabling the Committee to reduce (but not increase) formulaic outcomes. From 2021 it is also proposed to include a specific environmental, social and governance (ESG) target as an AVP performance measure.

During 2019 the pension contributions for new executive directors have already been aligned with that available to the majority of the UK workforce (10% of base pay). We will continue to review pension contributions and it is intended that these will be aligned between the UK workforce and all executive directors by 2022.

Statement of voting at the annual general meeting (AGM) 2019

The table below shows the voting outcomes on the directors' remuneration policy at the AGM in May 2017, and the directors' remuneration report at the last AGM in May 2019.

Item	For	Against	Abstain number
Remuneration policy	91.23%	8.77%	–
	3,851,461,140	370,032,785	15,093,723
2018 remuneration report	97.83%	2.17%	–
	4,066,344,533	90,018,275	28,689,449

Dilution limits

The company's all-employee plans and the now-closed ESOS operate within the Investment Association's dilution limit of 5% of issued capital in 10 years for executive schemes, and all its plans will operate within the 10% of issued capital in 10 years limit for all schemes.

As at 31 December 2019, the company had 4.93% of share capital available under the 5% in 10 years limit and 9.71% of share capital under the 10% in 10 years limit.

As at 31 December 2019, 29,537,141 shares were held by the Employee Benefit Trust to hedge outstanding awards of 52,054,902 shares for the PSP and SBP.

Other information relating to directors' remuneration

External appointments

The company considers that certain external appointments can help to broaden the experience and contribution to the Board of the executive directors. Any such appointments are subject to annual agreement by the group and must not be with competing companies. Subject to the group's agreement, any fees may be retained by the individual. However, they received no fees for the below appointments.

External appointments held in 2019 are shown below:

	Role and organisation	Fees
Nigel Wilson	n/a	Nil
Jeff Davies	n/a	Nil
Kerrigan Procter	n/a	Nil
Michelle Scrimgeour	Director of The Investment Association, Member of the FCA Practitioner Panel	Nil
Mark Zinkula	On the Board of the Financial Reporting Council	Nil



Legal & General Affordable Homes welcomes its first customers

Jamie and Melanie were living in an overcrowded one bedroom flat after the birth of their daughter Ellie in January 2019. Jamie is a self-employed landscaper and Melanie is currently signed off work after having an operation. Jamie and Melanie became the first ever Legal & General Affordable Homes residents, finding a safe and stable home, after waiting 13 months on the Cornwall Council Home Choice register for appropriate accommodation.

Before becoming our second customers, Adam and Stacy, who both work in education, were living in a three bedroom property with their five sons. They'd been living in an older property too small for their needs for over seven years before the opportunity arose to move their family back to their home town and nearer to relatives who are keen to help the family enjoy a better standard of living.

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Group consolidated financial statements

Consolidated financial statements

The **group consolidated financial statements** are divided into three sections:

- The **Primary statements and performance** section, which includes the group primary statements and other notes which we believe are integral to understanding our financial performance.
- The **Balance sheet management** section, which provides further details on our financial position and approach to risk management.
- The **Additional financial information** section, which includes disclosures required to be compliant with accounting standards or the Companies Act. We view this information as important, but less significant in understanding our business and performance.

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Independent auditor's report to the members of Legal & General Group Plc

1 Our opinion is unmodified

We have audited the financial statements of Legal & General Group Plc ('the Company') for the year ended 31 December 2019 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Balance Sheet, Company Statement of Changes in Equity and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 17 May 2018. The period of total uninterrupted engagement is for the two financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: group financial statements as a whole	£107.0 million (2018: £92.5 million) 4.7% (2018: 4.1%) of normalised profit before tax from continuing operations
Coverage	92.2% (2018: 91.4%) of group profit before tax
Key audit matters	vs 2018
Recurring risks	Valuation of non-participating insurance contract liabilities ◀ ▶
	Valuation of hard to value (Level 3) investments ◀ ▶
	Parent company risk: Recoverability of parent company's investment in subsidiaries ◀ ▶

Group consolidated financial statements continued

Independent auditor's report to the members of Legal & General Group Plc continued

2 Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures.

In the prior year, we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. As a result of developments since the prior year report, including the Group's own preparation for Brexit, the relative significance of this matter on our audit work, including in relation to credit assumptions and Level 3 investment valuations which remain part of key audit matters, has reduced. Accordingly, we no longer consider this a key audit matter.

These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of non-participating insurance contract liabilities

(Annuity and protection policyholder liabilities included within non-participating insurance contract liabilities of £77,317 million; 2018: £64,707 million)

Refer to page 78 (Audit Committee Report), page 133 (accounting policy) and page 191 (financial disclosures).

The risk	Our response
<p>Subjective valuation: Annuity policyholder liabilities</p> <p>The valuation of annuity liabilities is an inherently subjective area, requiring management judgement in the setting of key assumptions. The longevity and credit risk assumptions for the UK and US, and the UK expense assumptions involve the greatest level of subjectivity. A small change in these assumptions can have a significant impact on the liabilities. The annuity business consists of individual annuities and bulk purchase annuity ('BPA') schemes.</p> <p><i>Longevity assumptions</i></p> <p>Longevity assumptions have two main components which include mortality base assumptions and the rate of mortality improvements. Changing trends in longevity and emerging medical trends means there is a high level of uncertainty in the assumptions.</p> <p><i>Credit assumptions</i></p> <p>The valuation discount rate is derived from the yield on the assets backing the annuity liabilities. In setting the valuation discount rate, an explicit allowance for credit risk is included by making a deduction, representing part of the yield on debt and other fixed income securities. The assumptions surrounding this deduction require significant judgement and there is a risk that changes in investment yields, market spreads, current actual default experience and anticipated trends are not appropriately reflected.</p> <p><i>Expense assumptions</i></p> <p>Management judgement is required in setting the maintenance expense assumption which is based on management's long term view of the expected future costs of administering the underlying policies.</p> <p>Data Capture: Annuity policyholder liabilities</p> <p>Within the UK, there is a risk that incomplete data is used in the calculation of policyholder liabilities because data does not transfer appropriately from the policyholder system to the actuarial models.</p> <p>Calculation error: Annuity and Protection policyholder liabilities</p> <p>Management uses actuarial models to calculate policyholder liabilities. Within the UK, there is a risk that unauthorised or erroneous changes to the models may occur.</p> <p>Estimation uncertainty: Annuity and Protection policyholder liabilities</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of insurance contract liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements disclose the sensitivities (note 20) estimated by the Company.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> - Control design: testing of reconciliation controls to ensure completeness and accuracy of data used in both the experience analyses that inform the assumption setting process and the data flows from policy administration systems to the actuarial valuation models. - Test of detail: testing the completeness of data used in the valuation of annuity liabilities by reconciling all of the data from the policy administration system to the data used in the actuarial models. <p>We used our own actuarial specialists to assist us in performing our procedures in this area. Our procedures included:</p> <ul style="list-style-type: none"> - Methodology choice: assessing the appropriateness of the methodology for selecting assumptions by applying our understanding of developments in the business and expectations derived from market experience. - Benchmarking assumptions: assessing mortality improvement assumptions against industry data on expected future mortality rate improvements and industry historic mortality improvement rates and assessing the appropriateness of the credit risk assumptions by comparing to industry practice and our expectations derived from market experience. - Historical comparisons: evaluating the mortality base assumptions used in the valuation of the annuity liabilities by comparing to the Group's historic mortality experience, assessing the credit default assumptions by comparing to the historical performance of the asset portfolio; and assessing whether the expense assumptions reflect the expected future costs of administering the underlying policies by analysing the allocations of the forecast 2020 costs to maintenance expenses, with reference to historical allocations and planned actions. - Test of detail: testing that changes to the actuarial model from the prior year have been appropriately reviewed and approved; and evaluating the appropriateness of the financial impact of the changes made to the model during the year. - Assessing transparency: assessing whether the disclosures in relation to the valuation of non-participating insurance contract liabilities are compliant with the relevant financial reporting requirements. <p>Our results</p> <ul style="list-style-type: none"> - We found the resulting estimate of the valuation of non-participating insurance contract liabilities to be acceptable (2018 result: acceptable).

Valuation of hard to value (Level 3) investments

Lifetime mortgages, private credit, investment property and unlisted fund investments, included within the Level 3 investments of: £30,215 million

(2018: Lifetime mortgages, private credit, investment property and unlisted fund investments, included within the Level 3 investments of: £24,280 million)

Refer to page 78 (Audit Committee Report), page 133 (accounting policy) and page 162 (financial disclosures).

The risk	Our response
<p>Subjective valuation: 5.7% of the investment portfolio is classified as Level 3 assets, of which we consider the valuation of lifetime mortgages, private credit, investment property and unlisted fund investments involve the greatest level of subjectivity.</p> <p>For these positions a reliable third party price was not readily available and therefore the application of expert judgement from management in the valuations adopted is required.</p> <p>The key assumptions underlying the valuations are:</p> <ul style="list-style-type: none"> – <i>Lifetime mortgages</i>: property price inflation, property index volatility, mortality and the illiquidity premium added to the risk free rate. – <i>Private credit</i>: yields of selected comparator securities and credit ratings derived from credit rating models. – <i>Investment Property</i>: estimated rental value and yield of the property. – <i>Unlisted fund investments</i>: fair value is equivalent to the attributable proportion of the reported Fund Net Asset Value (NAV). <p>Estimation uncertainty The effect of these matters is that, as part of our risk assessment, we determined that the valuation of hard to value (Level 3) investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 11) disclose the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> – Control design and operation: testing of the design, implementation of key controls over the valuation process for the hard to value (Level 3) investments, including the testing of operating effectiveness of key controls relating to the valuation of private credit assets. – Our valuation expertise: <ul style="list-style-type: none"> – using valuation specialists to assess the suitability of the valuation and credit rating methodologies used by management; to independently revalue a sample of the private credit investments and assess the suitability of comparator securities utilised in the valuation on a sample basis. – using actuarial specialists to challenge the valuation methodology adopted in relation to Lifetime mortgages for suitability and appropriate application. – Assessing valuers' credentials: assessing the objectivity, professional qualifications and competence of external valuers of private credit and investment property investments and reconciling the valuations provided by them to the valuations recorded in the system. – Methodology choice: assessing the appropriateness of the pricing methodologies for private credit and investment property investments with reference to relevant accounting standards and the Group's own valuation guidelines as well as industry practice. – Benchmarking assumptions: evaluating and challenging the key assumptions upon which the valuations of Lifetime mortgages and investment property investments were based, by making a comparison to our own understanding of the market, comparable evidence relied on by the valuers and to industry benchmarks. – Test of detail: <ul style="list-style-type: none"> – independently obtaining the most recent Net Asset Value (NAV) statements to confirm the appropriateness of the fair value of the unlisted funds with reference to the management reported NAV as at the year end. – performing a retrospective test over the NAV valuations for each fund to assess if the fund valuations reported in the audited financial statements in the prior year were materially consistent with the most recent NAV valuation statements available at the time. <p>Assessing transparency: assessing whether the disclosures in relation to the valuation of hard to value (Level 3) investments are compliant with the relevant financial reporting requirements and appropriately present the sensitivities of the valuation to alternative assumptions.</p> <p>Our results</p> <ul style="list-style-type: none"> – We found the resulting estimate of the valuation of hard to value (Level 3) investments to be acceptable (2018 result: acceptable).

Parent company risk: Recoverability of parent company's investment in subsidiaries

(£8,950 million; 2018: £8,465 million)

Refer to 246 (accounting policy) and 248 (financial disclosures).

Low risk, high value:

The carrying amount of the parent company's investments in subsidiaries represents 79.0% (2018: 79.0%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.

Our procedures included:

- **Independent re-performance:** comparing the carrying amount of a sample of the highest value investments, with the relevant subsidiaries' financial information to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making.

Our results

- We found the Group's assessment of the recoverability of the investment in subsidiaries to be acceptable (2018 result: acceptable).

Group consolidated financial statements continued

Independent auditor's report to the members of Legal & General Group Plc continued

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £107.0 million (2018: £92.5 million), determined with reference to a benchmark of profit before tax from continuing operations (PBTCO), normalised to exclude this year's investment and other variances and losses on non-controlling interests as disclosed in note 2 of the financial statements, of which it represents 4.7% (2018: 4.1%).

Materiality for the parent company financial statements as a whole was set at £29 million (2018: £46 million), determined with reference to a benchmark of total assets and chosen to be lower than materiality for the group financial statements as a whole. It represents 0.3% (2018: 0.4%) of the stated benchmark. We consider total assets to be the most appropriate benchmark as the Company principally holds investments in other entities.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £5.3 million (2018: £4.6 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

In addition, we applied materiality of £3.6 billion (2018: £3.8 billion) to the classification of unit-linked assets and liabilities in the consolidated balance sheet and related notes, determined with reference to a benchmark of total financial investments and investment property, of which it represents 0.9% (2018: 1.0%). This materiality was applied solely for our work on matters for which a misstatement is likely only to lead to a reclassification between line items within assets and liabilities, in accordance with FRC Practice Note 20 The Audit of Insurers in the United Kingdom.

We agreed to report to the Audit Committee any corrected or uncorrected classification misstatements in unit-linked assets and liabilities exceeding £181.0 million (2018: £190.0 million).

Of the Group's 21 (2018: 19) reporting components, we subjected 14 (2018: 18) to full scope audits for group purposes and 7 (2018: 1) to specified risk-focused audit procedures over financial investments, investment property, cash and cash equivalents, payables and financial liabilities. The latter 7 were not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

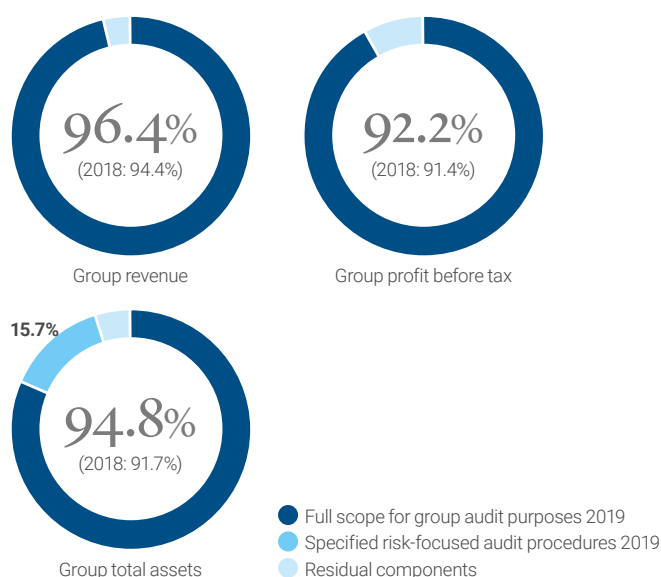
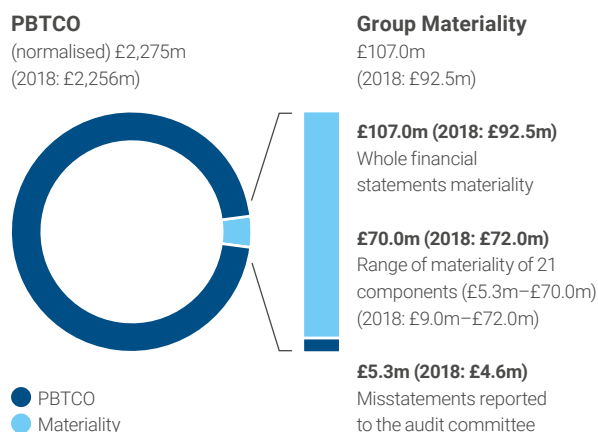
The components within the scope of our work accounted for the percentages illustrated to the right. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £5.3 million to £70.0 million (2018: £9.0 million–£72.0 million), having regard to the mix of size and risk profile of the Group across the components. The work on 18 of the 21 (2018: 15 of 19) components was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. The Group team performed procedures on the items excluded from normalised group profit before tax.

The Group team visited the locations of 19 (2018: 17) components in the United Kingdom and the United States to assess the audit risk and strategy. Telephone conference meetings were also held with these component auditors and others that were not physically visited. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').



Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- Adverse impacts arising from fluctuations or negative trends in the economic environment which affect the valuations of the Group's investments, wider credit spreads and defaults and valuation of policyholder liabilities due to the impact of the market movements;
- Adverse policyholder lapse or claims experience.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement at page 250 of the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 251 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Group Board viability statement on page 45 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Group Board viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Group Board viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Group consolidated financial statements continued

Independent auditor's report to the members of Legal & General Group Plc continued

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- a corporate governance statement has not been prepared by the company.

We are required to report to you if the Governance report does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Based solely on our work on the other information described above:

- with respect to the Governance report disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
 - we have not identified material misstatements therein; and
 - the information therein is consistent with the financial statements; and
- in our opinion, the Governance report has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 252, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group team to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: Listing Rules and regulatory capital and liquidity recognising the financial and regulated nature of certain of the Group's activities and certain regulated subsidiaries. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**Rees Aronson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants
KPMG LLP
15 Canada Square,
London, E14 5GL

3rd March 2020

Primary statements and performance

Consolidated Income Statement

For the year ended 31 December 2019	Notes	2019 £m	2018 £m
Income			
Gross written premiums	31	15,203	12,843
Outward reinsurance premiums		(3,452)	(2,114)
Net change in provision for unearned premiums		(66)	–
Net premiums earned		11,685	10,729
Fees from fund management and investment contracts	31	834	802
Investment return	32	53,014	(11,843)
Other operational income		1,253	1,206
Total income	31	66,786	894
Expenses			
Claims and change in insurance contract liabilities		19,005	8,370
Reinsurance recoveries		(3,502)	(1,051)
Net claims and change in insurance contract liabilities		15,503	7,319
Change in investment contract liabilities	22	45,809	(11,304)
Acquisition costs		805	780
Finance costs	23	269	238
Other expenses	3	2,244	1,732
Total expenses		64,630	(1,235)
Profit before tax		2,156	2,129
Tax expense attributable to policyholder returns	33	(72)	(53)
Profit before tax attributable to equity holders		2,084	2,076
Total tax expense	33	(369)	(364)
Tax expense attributable to policyholder returns	33	72	53
Tax expense attributable to equity holders	33	(297)	(311)
Profit after tax from continuing operations	31	1,787	1,765
Profit after tax from discontinued operations ¹	30	23	43
Profit for the year		1,810	1,808
Attributable to:			
Non-controlling interests		(24)	(19)
Equity holders		1,834	1,827
Dividend distributions to equity holders during the year	4	998	932
Dividend distributions to equity holders proposed after the year end	4	753	704
		p	p
Total basic earnings per share²	5	30.92	30.79
Total diluted earnings per share²	5	30.75	30.64
Basic earnings per share derived from continuing operations²			
	5	30.53	30.07
Diluted earnings per share derived from continuing operations²			
	5	30.36	29.92

1. Detailed disclosure of discontinued operations is included in Note 30.

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

Consolidated Statement of Comprehensive Income

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

Primary statements and performance continued


Consolidated Balance Sheet

As at 31 December 2019	Notes	2019 £m	2018 £m
Assets			
Goodwill		64	65
Purchased interest in long term businesses and other intangible assets	9	190	223
Deferred acquisition costs	10	75	140
Investment in associates and joint ventures accounted for using the equity method		324	259
Property, plant and equipment ¹		298	57
Investment property	11	7,695	6,965
Financial investments	11	498,376	430,498
Reinsurers' share of contract liabilities	21, 22	5,810	4,737
Deferred tax assets	33	8	7
Current tax assets	33	468	418
Receivables and other assets	14	8,532	5,593
Assets of operations classified as held for sale	30	24,844	26,234
Cash and cash equivalents	15	13,923	17,321
Total assets		560,607	492,517
Equity			
Share capital	37	149	149
Share premium	37	1,000	992
Employee scheme treasury shares	37	(65)	(52)
Capital redemption and other reserves		250	230
Retained earnings		8,033	7,261
Attributable to owners of the parent		9,367	8,580
Non-controlling interests	38	55	72
Total equity		9,422	8,652
Liabilities			
Non-participating insurance contract liabilities	21	77,317	64,707
Non-participating investment contract liabilities	22	320,594	293,080
Core borrowings	23	4,091	3,922
Operational borrowings	23	1,020	1,026
Provisions	24	1,220	1,140
UK deferred tax liabilities	33	189	144
Overseas deferred tax liabilities	33	182	185
Current tax liabilities	33	107	171
Payables and other financial liabilities	25	84,039	62,548
Other liabilities	39	804	619
Net asset value attributable to unit holders		31,507	26,481
Liabilities of operations classified as held for sale	30	30,115	29,842
Total liabilities		551,185	483,865
Total equity and liabilities		560,607	492,517

1. Property, plant and equipment for 2019 includes £238m of right of use assets that have arisen on the implementation of IFRS 16. See Note 26.

The notes on pages 130 to 242 form an integral part of these financial statements.

The financial statements on pages 124 to 242 were approved by the board of directors on 3 March 2020 and were signed on their behalf by:



Sir John Kingman
Chairman



Nigel Wilson
Group Chief Executive Officer



Stuart Jeffrey Davies
Group Chief Financial Officer

Consolidated Statement of Changes in Equity

	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves ¹ £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
For the year ended 31 December 2019								
As at 1 January 2019	149	992	(52)	230	7,261	8,580	72	8,652
Profit for the year	-	-	-	-	1,834	1,834	(24)	1,810
Exchange differences on translation of overseas operations	-	-	-	(67)	-	(67)	-	(67)
Net movement in cross-currency hedge	-	-	-	12	-	12	-	12
Net actuarial losses on defined benefit pension schemes	-	-	-	-	(51)	(51)	-	(51)
Net movement in financial investments designated as available-for-sale	-	-	-	57	-	57	-	57
Total comprehensive income for the year	-	-	-	2	1,783	1,785	(24)	1,761
Options exercised under share option schemes	-	8	-	-	-	8	-	8
Shares purchased	-	-	(20)	-	-	(20)	-	(20)
Shares vested	-	-	7	(35)	-	(28)	-	(28)
Employee scheme treasury shares:								
– Value of employee services	-	-	-	39	-	39	-	39
Share scheme transfers to retained earnings	-	-	-	-	1	1	-	1
Dividends	-	-	-	-	(998)	(998)	-	(998)
Movement in third party interests	-	-	-	-	-	-	7	7
Currency translation differences	-	-	-	14	(14)	-	-	-
As at 31 December 2019	149	1,000	(65)	250	8,033	9,367	55	9,422

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

Primary statements and performance continued

Consolidated Statement of Changes in Equity continued

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2019	Notes	2019 £m	2018 £m
Cash flows from operating activities			
Profit for the year		1,810	1,808
Adjustments for non cash movements in net profit for the year			
Net (gains)/losses on financial investments and investment property		(45,516)	23,132
Investment income		(10,501)	(10,182)
Interest expense		322	293
Tax expense	33	598	210
Other adjustments		117	183
Net (increase)/decrease in operational assets			
Investments held for trading or designated as fair value through profit or loss		(18,031)	(10,381)
Investments designated as available-for-sale		(179)	(248)
Other assets		(4,660)	1,258
Net increase/(decrease) in operational liabilities			
Insurance contracts		13,089	3,257
Investment contracts		27,514	(22,571)
Other liabilities		21,313	12,057
Net increase/(decrease) in held for sale net liabilities		1,206	(8,500)
Cash utilised in operations			
		(12,918)	(9,684)
Interest paid		(263)	(215)
Interest received		5,047	4,841
Tax paid ¹		(540)	(504)
Dividends received	32	5,389	5,201
Net cash flows utilised in operating activities			
		(3,285)	(361)
Cash flows from investing activities			
Net acquisition of plant, equipment, intangibles and other assets		(89)	(401)
Net disposal/(acquisition) of operations, net of cash (transferred)/acquired	28, 29	198	326
Net disposal/(investment) in associates and joint ventures		29	(130)
Net cash flows generated/(utilised) from investing activities			
		138	(205)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders during the year	4	(998)	(932)
Options exercised under share option schemes	37	8	4
Treasury shares purchased for employee share schemes		(20)	12
Payment of lease liabilities		(33)	–
Proceeds from borrowings	23	1,309	960
Repayment of borrowings	23	(958)	(325)
Net cash flows utilised in financing activities			
		(692)	(281)
Net (decrease)/increase in cash and cash equivalents			
		(3,839)	(847)
Exchange (losses)/gains on cash and cash equivalents		(16)	16
Cash and cash equivalents at 1 January (before reallocation of held for sale cash)		18,088	18,919
Total cash and cash equivalents			
		14,233	18,088
Less: cash and cash equivalents of operations classified as held for sale	30	(310)	(767)
Cash and cash equivalents at 31 December			
	15	13,923	17,321

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

Primary statements and performance continued

1 Basis of preparation

Legal & General Group Plc, a public limited company incorporated and domiciled in England and Wales, operates across four broad business areas of retirement, investment management, capital investment and insurance through its subsidiaries and associates in the United Kingdom (UK), the United States and other countries throughout the world.

(i) Significant accounting policies

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

The group has selected accounting policies which state fairly its financial position, financial performance and cash flows for a reporting period. The accounting policies have been consistently applied to all years presented unless otherwise stated. Accounting policies that relate specifically to a balance or transaction are presented above the relevant numerical disclosure.

Financial assets and financial liabilities are disclosed gross in the Consolidated Balance Sheet unless a legally enforceable right of offset exists and there is an intention to settle recognised amounts on a net basis. Income and expenses are not offset in the Consolidated Income Statement unless required or permitted by any accounting standard or International Financial Reporting Interpretations Committee (IFRIC) interpretation, as detailed in the applicable accounting policies of the group.

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

The group has applied the following standards and amendments for the first time in its annual reporting period commencing 1 January 2019.

IFRS 16 – Leases

IFRS 16, 'Leases', issued in January 2016, became effective from 1 January 2019, and replaced all previous lease requirements and guidance under IFRS, including IAS 17, 'Leases', IFRIC 4, 'Determining Whether an Arrangement Contains a Lease', SIC-15, 'Operating Leases – Incentives' and SIC-27, 'Evaluating the Substance of Transactions in the Legal Form of a Lease'. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts, bringing many commitments in relation to operating leases (as previously defined in IAS 17) onto the balance sheet.

The group has adopted IFRS 16 by using the modified retrospective approach, and therefore did not restate comparative financial information. At the date of the initial application the group recognised a lease liability by discounting future lease payments at the incremental borrowing rate, the weighted average of which as at 1 January 2019 was 4.09%. A right-of-use asset of an equal amount was recognised, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the group Consolidated Balance Sheet immediately before the date of initial application. Additionally, on transition, the group has elected to apply the standard only to those contracts that were previously assessed as leases applying IAS 17 and IFRIC 4. The group also has elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The implementation of IFRS 16 did not have a material impact on the group's consolidated financial statements, and other than the effect of discounting, no material differences were identified between operating lease commitments as at 31 December 2018 and the lease liability recorded as at 1 January 2019.

IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments

IFRIC 23, 'Uncertainty over Income Tax Treatments' was issued in June 2017. The Interpretation clarifies the application of recognition and measurement requirements in IAS 12, 'Income Taxes' when there is uncertainty over income tax treatments. The implementation of IFRIC 23 did not have a material impact on the group's consolidated financial statements.

Amendments to IAS 19 – Employee Benefits

These amendments were issued in February 2018. The amendments require entities to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; they also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. This Interpretation did not have any material impact on the group's consolidated financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle

These improvements were issued in December 2017 and consist of minor amendments affecting IFRS 3 'Business combinations', IFRS 11, 'Joint arrangements', IAS 12, 'Income taxes' and IAS 23, 'Borrowing costs'. These amendments do not have any material impact on the group's consolidated financial statements.

Amendments to IAS 28 – Investments in Associates and Joint Ventures

These amendments, titled 'Long-term Interests in Associates and Joint Ventures', were issued in October 2017. The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. These amendments do not have any material impact on the group's consolidated financial statements.

(iii) Standards, interpretations and amendments to published standards which are not yet effective

Certain standards, amendments and interpretations to existing standards have been published which are mandatory for the group's accounting periods beginning on or after 1 January 2020 or later periods and which the group has not adopted early, as disclosed below.

IFRS 17 – Insurance Contracts

IFRS 17, 'Insurance Contracts' was issued in May 2017 and is currently expected to be effective for annual periods beginning on or after 1 January 2022. This reflects the one year delay proposed by the IASB in their June 2019 exposure draft and is subject to a subsequent local endorsement process, whether that be for the UK or the EU. There remains uncertainty over the final effective date.

IFRS 17 will be applied following the transitional options provided for in the standard, and provides a comprehensive approach for accounting for insurance contracts, including their measurement, income statement presentation and disclosure. The group has mobilised a project to assess the financial and operational implications of the standard, and work will continue throughout the remainder of 2020 to ensure technical compliance and to develop the required system capability to implement the standard, regardless of the effective date.

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 IASB subsequently issued 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which allows entities which meet certain requirements to defer their implementation of IFRS 9 until adoption of IFRS 17 or 1 January 2021, whichever is the earlier. In June 2019 the IASB proposed to extend the fixed expiry date of the temporary exemption in IFRS 4 from applying IFRS 9 by one year. Entities eligible for the exemption will be required to apply IFRS 9 for annual periods beginning on or after 1 January 2022, to align with the proposed delay in the adoption date of IFRS 17. The group qualified for the deferral of IFRS 9 and is making use of this option.

The group has mobilised a project to assess the impact of IFRS 9 on its financial instruments, in particular around the classification and measurement of financial assets backing insurance contract liabilities expected to be measured using locked-in discount rates under IFRS 17 and impairment.

Amendments to IFRS 3 – Business Combinations

These amendments, issued in October 2018, are effective for business combinations for which the acquisition date is on or after 1 January 2020, subject to EU endorsement. The amendments provide more guidance on the definition of a business.

Amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

These amendments, issued in October 2018, clarify the definition of 'material', and align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective for annual reporting periods beginning on or after 1 January 2020. The group does not expect the impact to be significant.

Amendments to References to the Conceptual Framework in IFRS Standards

These amendments, issued in March 2018, update the current conceptual framework with the aim to assist preparers of financial reports to develop consistent accounting policies for transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2020. The group does not expect the impact to be significant.

Amendments to IFRS 9 – Financial Instruments, IAS 39 – Financial Instruments: Recognition and Measurement, and IFRS 7 – Financial Instruments: Disclosures

These amendments, titled 'Interest rate benchmark reform' were issued in September 2019. They modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. The amendments are effective for annual reporting periods beginning on or after 1 January 2020. The group does not expect the impact to be significant.

Amendments to IAS 1 – Presentation of Financial Statements

These amendments, issued in January 2020, clarify the existing requirements for classifying liabilities as current or non-current. The amendments are effective for annual reporting periods beginning on or after 1 January 2022, subject to EU endorsement. The group does not expect the impact to be significant.

Primary statements and performance continued

1 Basis of preparation continued

(iv) Critical accounting policies and the use of estimates

The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the Consolidated Balance Sheet and Income Statement and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, material adjustments could be made to the carrying amounts of assets and liabilities within the next financial year. The Audit Committee reviews the reasonableness of judgements associated with and the application of significant accounting policies. The significant accounting issues considered by the Audit Committee are included within the Audit Committee Report on page 76.

The major areas of critical accounting judgement on policy application are considered below:

Insurance and investment contract liabilities (Notes 21 and 22): Product classification and the assessment of the significance of insurance risk transferred to the group in determining whether a contract should be accounted for as an insurance or investment contract.

Contracts which transfer significant insurance risk to the group are classified as insurance contracts. Contracts that transfer financial risk (e.g. change in interest rate or security price) to the group but not significant insurance risk are classified as investment contracts.

Judgement is required in order to assess the significance of the transfer of insurance risk within a contract. This assessment is based on whether the occurrence of an insured event could cause the group to make significant additional payments, i.e. if the occurrence of the event causes significantly higher cash outflows for the group than its non-occurrence.

Certain contracts, which are both insurance and investment, contain discretionary participating features representing the contractual right to receive additional benefits as a supplement to guaranteed benefits under certain conditions, being:

- that the additional benefits are a significant portion of the total contractual benefits;
- the amount and timing of the additional benefits is at the discretion of the group; and
- that the additional benefits are contractually dependent upon the performance of a company, fund or specified pool of assets.

Insurance contracts and investment contracts with such discretionary participation features are accounted for under IFRS 4, while investment contracts without discretionary participation features are accounted for as financial instruments under IAS 39.

Judgement is therefore required in order to establish whether any additional benefits in an insurance or investment contract meet the above requirements for being considered discretionary participation features.

Consolidation (Notes 44 to 46): Assessment of whether the group controls underlying entities and should therefore consolidate them.

The assessment takes account of various criteria, including decision making ability, equity holding and the rights to a variable return from the entity.

Control arises when the group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

For operating entities this generally accompanies a shareholding of 50% or more in the entity. Subsidiaries that are consolidated where the group owns less than 50% of the ordinary share capital (structured entities), are consolidated based on an assessment of control normally arising from special rights attaching to the class of share owned, other contractual arrangements and factors such as the purpose of the investee, the nature of its relevant activities, voting rights (including potential voting rights) and substantive and protective rights.

The group invests in various fund and unit trust entities where it also acts as the asset manager to those entities. In these instances, in determining whether the group controls the entities, the assessment focuses on the aggregate economic interests of the group (direct interest and expected management fees) and on whether the group acts as a principal or agent. This includes an assessment of the removal rights of other investors (their practical ability to allow the group not to control the fund). Additionally, holdings in such investments can fluctuate on a daily basis according to the participation of the group and other investors in them. As a result, in determining control, we look at the trend of ownership over a longer period (rather than at a point in time) to mitigate the impact of daily fluctuations which do not reflect the wider facts and circumstances of the group's involvement. This is performed in line with the following principles:

- where the entity is managed by a group asset manager, and the group's ownership holding in the entity exceeds 50%, the group is judged to have control over the entity;
- where the entity is managed by a group asset manager, and the group's ownership holding in the entity is between 30% and 50%, the facts and circumstances of the group's involvement in the entity are considered, including the rights to any fees earned by the asset manager from the entity, in forming a judgement as to whether the group has control over the entity; and
- where the entity is managed by a group asset manager, and the group's ownership holding in the entity is less than 30%, the group is judged to not have control over the entity, but again the facts and circumstances of the group's involvement in the entity are considered.

The following sets out information about the critical accounting assumptions made by the group about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Valuation of insurance and investment contract liabilities (Notes 19 to 22)

Determination of longevity, mortality and morbidity assumptions used in the calculation of the insurance contract liabilities. The assumptions for the rate of future longevity, mortality and morbidity are based on the group's internal experience and judgements about how experience may vary in the future. This assessment takes into account market benchmarking, internal experience studies and independent industry data.

Determination of the expense assumptions used in the calculation of the insurance liabilities that represent the expected future costs of administering the underlying insurance policies. The expense assumptions are based on management's best estimate of these future costs.

Determination of valuation interest rates used to discount the liabilities are sensitive to the assumptions made, for example, on credit default of the backing assets. These assumptions take into account consideration of market experience and historic internal data.

Valuation of unquoted illiquid assets and investment property (Note 11)

Determination of fair value of unquoted and illiquid assets, and investment property involves judgements to model valuations, through the incorporation of both observable and unobservable market inputs, which include assumptions that lead to the existence of a range of plausible valuations for financial assets.

Defined benefit pension plan (Note 24)

Determination of pension plan assumptions including mortality, discount rates and inflation. These assumptions have been set in accordance with the requirements of IAS 19 and include consistent judgements with those in setting the annuity liabilities where possible. Note 24 includes a sensitivity analysis to alternative assumptions.

(v) Consolidation principles

Subsidiary undertakings

The consolidated financial statements incorporate the assets, liabilities, equity, income, expenses and cash flows of the company and of its subsidiary undertakings drawn up to 31 December each year. All intra-group balances, transactions, income and expenses are eliminated in full.

Subsidiaries are those entities (including special purpose entities, mutual funds and unit trusts) over which the group directly or indirectly has control (i.e. when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee) (Note 44). Profits or losses of subsidiary undertakings sold or acquired during the year are included in the consolidated results up to the date of disposal or from the date of gaining control. Puttable instruments held by external parties in consolidated investment vehicles, such as unit trusts, are classified as liabilities and appear as 'Net asset value attributable to unit holders' in the Consolidated Balance Sheet.

Associates and joint ventures

The group has interests in associates and joint ventures (Note 45) which form part of an investment portfolio held through private equity vehicles, mutual funds, unit trusts and similar entities. In accordance with the choice permitted by IAS 28, 'Investments in associates', these interests have been classified as fair value through profit or loss and measured at fair value within financial investments, with changes in fair value recognised in the Consolidated Income Statement.

Associates which do not form part of an investment portfolio are initially recognised in the Consolidated Balance Sheet at cost. The carrying amount of the associate is increased or decreased to reflect the group's share of total comprehensive income after the date of the acquisition.

Primary statements and performance continued

1 Basis of preparation continued

(vi) Product classification

The group's products are classified for accounting purposes as either insurance contracts (participating and non-participating) or investment contracts (participating and non-participating). The basis of accounting for these products is outlined in Notes 21 and 22 respectively. The following table summarises the classification of the group's significant types of non-participating insurance and investment contracts as described in Note 6 for each applicable reportable segment. The group's general insurance business has been sold and all of the group's participating business is classified as held for sale, hence no additional information in relation to these products has been provided.

Reportable segment	Non-participating insurance contracts	Non-participating investment contracts
LGR	<ul style="list-style-type: none">• Pension risk transfers• Individual annuities• Longevity insurance• Lifetime Care Plan	<ul style="list-style-type: none">• Lifetime mortgages• Fixed term individual annuities• Assured payment policies• Retirement interest only mortgages
LGI	<ul style="list-style-type: none">• UK Retail protection• UK Group protection• US protection• US Universal life• US Individual annuities	
LGIM		<ul style="list-style-type: none">• Workplace savings• Institutional Pension• Segregated investment management mandates• Collective Investment Schemes

(vii) Fiduciary activities

Assets associated with fiduciary activities and the income arising from those assets, together with associated commitments to return such assets to customers, are not included in these financial statements. Where the group acts in a fiduciary capacity, for instance as a trustee or agent, it has no contractual rights over the assets concerned.

(viii) Foreign exchange and exchange rates

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

Foreign exchange gains and losses are recognised in the Consolidated Income Statement, except when recognised in equity as qualifying cash flow or net investment hedges.

The closing exchange rates at 31 December 2019 were 1.33 United States dollar and 1.18 euro (31 December 2018: 1.28 United States dollar and 1.11 euro).

The average exchange rates for the year ended 31 December 2019 were 1.28 United States dollar and 1.14 euro (31 December 2018: 1.34 United States dollar and 1.13 euro).

2 Supplementary operating profit# information

(i) Reconciliation between operating profit and profit from ordinary activities after income tax

	Notes	Profit/ (loss) before tax ¹ 2019 £m	Tax (expense)/ credit 2019 £m	Profit/ (loss) after tax 2019 £m	Profit/ (loss) before tax ¹ 2018 £m	Tax (expense)/ credit 2018 £m	Profit/ (loss) after tax 2018 £m
Legal & General Retirement (LGR)	2(iii)	1,569	(216)	1,353	1,548	(263)	1,285
– LGR Institutional (LGRI)		1,216	(172)	1,044	1,149	(193)	956
– LGR Retail (LGRR)		353	(44)	309	399	(70)	329
Legal & General Investment Management (LGIM)		423	(82)	341	407	(81)	326
Legal & General Capital (LGC)		363	(68)	295	322	(61)	261
Legal & General Insurance (LGI)	2(iii)	314	(37)	277	308	(39)	269
– UK and Other		223	(40)	183	246	(46)	200
– US (LGIA)		91	3	94	62	7	69
Operating profit from continuing operations		2,669	(403)	2,266	2,585	(444)	2,141
Operating profit from discontinued operations ²		11	(2)	9	79	(15)	64
Operating profit from divisions/(tax expense) on divisions		2,680	(405)	2,275	2,664	(459)	2,205
Group debt costs ³		(208)	40	(168)	(203)	39	(164)
Group investment projects and expenses		(186)	40	(146)	(126)	24	(102)
Operating profit/(tax expense)		2,286	(325)	1,961	2,335	(396)	1,939
Investment and other variances	2(iv)	(150)	23	(127)	(188)	76	(112)
Decrease on non-controlling interests		(24)	–	(24)	(19)	–	(19)
Profit for the year/(tax expense) for the year		2,112	(302)	1,810	2,128	(320)	1,808

1. The profit/(loss) before tax reflects profit/(loss) before tax attributable to equity holders.

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

3. Group debt costs exclude interest on non recourse borrowings.

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

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

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

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

Primary statements and performance continued

2 Supplementary operating profit# information continued

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

For the year ended 31 December 2019	Release from operations ¹ £m	New business surplus/ (strain) £m	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items £m	Other £m	Operating profit/(loss) after tax £m	Tax expense/ (credit) £m	Operating profit/(loss) before tax £m
LGR	598	327	925	(53)	390	91	–	1,353	216	1,569
– LGRI	418	265	683	(40)	313	88	–	1,044	172	1,216
– LGRR	180	62	242	(13)	77	3	–	309	44	353
LGIM	366	(20)	346	(1)	–	(4)	–	341	82	423
– LGIM (excluding Workplace Savings) ²	339	–	339	–	–	–	–	339	82	421
– Workplace Savings ³	27	(20)	7	(1)	–	(4)	–	2	–	2
LGC	295	–	295	–	–	–	–	295	68	363
LGI	259	(7)	252	(11)	44	(12)	4	277	37	314
– UK and Other	165	(7)	158	(11)	44	(12)	4	183	40	223
– US (LGIA)	94	–	94	–	–	–	–	94	(3)	91
From continuing operations	1,518	300	1,818	(65)	434	75	4	2,266	403	2,669
From discontinued operations ⁴	9	–	9	–	–	–	–	9	2	11
Total from divisions	1,527	300	1,827	(65)	434	75	4	2,275	405	2,680
Group debt costs	(168)	–	(168)	–	–	–	–	(168)	(40)	(208)
Group investment projects and expenses	(44)	–	(44)	–	–	–	(102)	(146)	(40)	(186)
Total	1,315	300	1,615	(65)	434	75	(98)	1,961	325	2,286

1. Release from operations within US (LGIA) includes £81m of dividends from the US.

2. LGIM (excluding Workplace Savings) includes profits on fund management services.

3. Workplace Savings represents administration business only.

4. Discontinued operations include the results of the Mature Savings and General Insurance divisions following the group's announcement to sell these businesses to ReAssure Limited (a subsidiary of Swiss Re) and Allianz respectively. The sale of the General Insurance business completed on 31 December 2019 and the recognised operating loss for the year is £35m (2018: £nil).

Release from operations for LGR, LGIM – Workplace Savings and LGI represents the expected IFRS surplus generated in the year from the in-force non profit annuities, workplace savings and UK protection businesses using best estimate assumptions. The LGIM release from operations also includes operating profit after tax from the institutional and retail investment management businesses. The LGI release from operations also includes dividends remitted from LGIA. The release from operations within discontinued operations primarily reflects the unwind of expected profits after tax under the risk transfer agreement with ReAssure Limited (a subsidiary of Swiss Re) from the Mature Savings business, offset by losses from the General Insurance business in 2019.

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

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

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

Release from operations and net release from operations for LGC and LGIM represents the operating profit (net of tax). See Note (iii) for more detail on experience variances, changes to valuation assumptions and non-cash items.

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

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

1. Release from operations within US (LGIA) includes £77m of dividends from the US.

2. LGIM (excluding Workplace Savings) includes profits on fund management services.

3. Workplace Savings represents administration business only.

4. Discontinued operations reflect the results of the Mature Savings and General Insurance divisions following the group's announcements to sell these businesses to ReAssure Limited (a subsidiary of Swiss Re) and Allianz respectively. Operating profit of the General Insurance business in 2018 was £0m.

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

Primary statements and performance continued

2 Supplementary operating profit# information continued (iii) Analysis of LGR and LGI operating profit

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

1. Other experience variances for LGI in 2018 reflected a number of modelling requirements which were not repeated in 2019.

2. Mortality assumption changes for LGR include a one off release of £134m (net of tax) from an update in the longevity trend assumption from adjusted CMI 2016 to adjusted CMI 2017. In 2018, the comparable one off release of £359m was from adjusted CMI 2015 to adjusted CMI 2016. Other positive longevity variances are driven by routine updates to our assumptions relating to base mortality rates.

3. LGR Other changes to valuation assumptions reflect a change in assumption on the future exercise of an option within a longevity swap contract.

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

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

(iv) Investment and other variances

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

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

3 Other expenses

An analysis of other expenses is set out below:

	Notes	2019 £m	2018 £m
Staff costs (including pensions and share-based payments)	35	939	820
Redundancy costs		6	5
Lease rentals ¹		4	23
Auditors' remuneration	34	10	9
Depreciation and impairment of plant and equipment ²		45	11
Amortisation and impairment of purchased interest in long term businesses and other intangible assets	9	89	34
Direct operating expenses arising from investment properties which generate rental income		13	12
House building expenses ³		869	819
Other administrative expenses		560	190
Total other expenses		2,535	1,923
Less: other expenses from discontinued operations		(291)	(191)
Other expenses from continuing operations		2,244	1,732

- In 2019 lease rentals represent expenses on short term or low value leases as permitted under IFRS 16. In 2018, where a significant proportion of the risks and rewards of ownership is retained by the lessor, leases were classified as operating leases under IAS 17, and payments made by lessees under operating leases (net of any incentives from the lessor) were charged to the Consolidated Income Statement on a straight line basis over the period of the lease.
- 2019 Depreciation and impairment of plant and equipment includes £36m of depreciation on right of use assets classified as Property, plant and equipment following implementation of IFRS16.
- House building expenses represent cost of sales of the group's housing businesses, including CALA Homes. A total of £1,056m (2018: £981m) of house building income has been recognised in the year (see Note 31(ii)(d)).

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

Primary statements and performance continued

4 Dividends

Interim dividends on ordinary shares are deducted from retained earnings in the period in which they are paid. Final dividends on ordinary shares are recognised as a liability in the period in which they have been approved by shareholders of the company.

	Dividend 2019 £m	Per share¹ 2019 p	Dividend 2018 £m	Per share¹ 2018 p
Ordinary dividends paid and charged to equity in the year:				
– Final 2017 dividend paid in June 2018	–	–	658	11.05
– Interim 2018 dividend paid in September 2018	–	–	274	4.60
– Final 2018 dividend paid in June 2019	704	11.82	–	–
– Interim 2019 dividend paid in September 2019	294	4.93	–	–
Total dividends	998	16.75	932	15.65
Ordinary share dividend proposed²	753	12.64	704	11.82

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

2. Subsequent to 31 December 2019, the directors declared a final dividend for 2019 of 12.64 pence per ordinary share. This dividend will be paid on 4 June 2020. It will be accounted for as an appropriation of retained earnings in the year ended 31 December 2020 and is not included as a liability in the Consolidated Balance Sheet as at 31 December 2019.

5 Earnings per share

Earnings per share is a measure of the portion of the group's profit allocated to each outstanding share. It is calculated by dividing net income attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the year, excluding employee scheme treasury shares. For this purpose, net income is defined as the profit after tax, attributable to equity holders of the company, derived from continuing operations.

For diluted earnings per share, the weighted average number of ordinary shares in issue, excluding employee scheme treasury shares, is adjusted to assume conversion of all dilutive potential ordinary shares, such as share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

(i) Basic earnings per share

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

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

(ii) Diluted earnings per share

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

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

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

Balance sheet management

6 Principal products

A significant part of the group's business involves the acceptance and management of risk.

A description of the principal products offered by the group's segments is outlined below. The group seeks to manage its exposure to risk through controls which ensure that the residual exposures are within acceptable tolerances agreed by the board. The group's risk appetite framework and the methods used to monitor risk exposures can be found on pages 42 to 47.

Details of the risks associated with the group's principal products and the controls used to manage these risks can be found in Notes 7 and 16 to 18.

Legal & General Retirement (LGR)

Annuity contracts

Annuity products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump sum capital payment. No surrender value is available under any of these products.

Pension Risk Transfer (PRT) represents bulk annuities, whereby the group accepts the assets and liabilities of a company pension scheme or a life fund. These are written predominantly to UK clients, but also for US, Canadian, Dutch and Irish clients.

Immediate and deferred annuity contracts are also offered to individual policyholders. Immediate annuities provide a regular income stream to the policyholder, purchased with a lump sum investment, where the income stream starts immediately after the purchase. The income stream from a deferred annuity is delayed until a specified future date. A small portfolio of immediate annuities has been written as participating business.¹

Some non-participating deferred annuities sold by the group contain guaranteed cash options, predominantly minimum factors for commuting part of the annuity income into cash at the date of vesting. The value of such guaranteed options is currently immaterial.

There is a block of immediate and deferred annuities within the UK non-profit business with benefits linked to changes in the RPI or for a minority the CPI, but with contractual maximum or minimum increases. In particular, most of these annuities have a provision that the annuity will not reduce if RPI, or for a minority CPI, becomes negative. The total annual annuity value of such annuities in payment at 31 December 2019 was £930m (2018: £830m). Thus, 1% negative inflation, which was reversed in the following year, would result in a guarantee cost of approximately £9m (2018: £8m). Negative inflation sustained over a longer period would give rise to significantly greater guarantee costs. Some of these guarantee costs have been partially matched through the purchase of negative inflation hedges and limited price indexation swaps.

The group also offers products for individuals that provide a guaranteed level of income over a chosen fixed period of time, in exchange for an initial lump sum payment from the policyholder. The products can provide a fixed lump sum at maturity and/or options to surrender on non-guaranteed terms.

The group wrote its first Assured Payment Policy (APP) at the end of 2019. An APP is a long term contract under which the policyholder (a registered UK pension scheme) pays a day-one premium and in return receives a contractually fixed and/or inflation-linked set of payments over time from the insurer.

The group has written some deferred annuity contracts with guaranteed minimum pensions. These options expose the group to interest rate and longevity risk as the cost would be expected to increase with decreasing interest rates and improved longevity. The market consistent value of these guarantees carried in the balance sheet is £182m at 31 December 2019 (2018: £189m).

Longevity insurance contracts

The group also provides longevity insurance products for company pension schemes, under which regular payments are made to the scheme reflecting their actual longevity experience, while the scheme makes an agreed set of regular payments in return. Some policies contain a guaranteed surrender value which is currently immaterial.

Lifetime mortgages

Lifetime mortgages are a form of equity release mortgage that provide non-commercial borrowers with a loan secured against their main residence, without the need for regular repayments. They are regulated retail mortgages offered only to borrowers over the age of 55 through specialist intermediaries. Interest accrues over the term of the loan and is repayable at the time the principal becomes due. Loans can be advanced in a single lump sum amount or in several subsequent drawdowns of an agreed facility. All lifetime mortgages provide a 'no negative equity' guarantee, which means that if the loan is repaid from the sale of the property and if the net sale proceeds are lower than the balance of the loan, the group will accept the net sale proceeds as full settlement.

Lifetime Care Plan

The Lifetime Care Plan provides a monthly payment to a UK registered care provider that helps meet the cost of care for the policyholder's life. A policyholder can choose to receive a fixed monthly payment or opt to have escalation built in. A death benefit exists within the product so that if a policyholder dies within the first 6 months of the start date a percentage of the original premium less any payments already made is payable to the estate.

1. This small portfolio of immediate annuities written as participating business will be disposed of as part of the Mature Savings business sale to ReAssure Limited, a subsidiary of Swiss Re, which was announced by the group in December 2017. The sale is subject to regulatory approval and the Part VII transfer is expected to complete in 2020.

Retirement Interest Only mortgages

A Retirement Interest Only (RIO) mortgage is a standard residential mortgage available for non-commercial borrowers above 55 years old. A RIO mortgage is very similar to a standard interest-only mortgage, with two key differences:

- The loan is usually only paid off on death, move into long term care or sale of the house.
- The borrowers only have to prove they can afford the monthly interest repayments and not the capital remaining at the end of the mortgage term. No repayment solution is required as repayment defaults to sale of property.

Legal & General Investment Management (LGIM)

LGIM offers both active and passive management on either a pooled or segregated basis to clients domiciled globally. Assets are managed in London, Chicago and Hong Kong on behalf of pension funds, institutional clients, sovereign wealth clients, retail clients and subsidiary companies within the group.

The key products provided by LGIM are Workplace Savings, Institutional Pensions, Segregated investment management mandates and Collective Investment Schemes.

The core strategies applied for managing the products are set out below.

Index fund management

LGIM provides a diversified range of pooled index funds, providing a wide choice and the ability to pursue specific benchmarks efficiently. In addition, segregated solutions are offered to institutional clients providing large scale customisation against established market capitalisation weighted and alternative indices.

The LGIM ETF business provides clients access to LGIM's index fund management capabilities via our Exchange Traded Fund platform. ETF products cover a broad range of traditional and thematic asset classes.

Active strategies

LGIM offers a range of pooled and segregated active fixed income funds. The LGIM liquidity funds offer institutional investors a solution for their cash management requirements across a range of core currencies. The liquidity funds aim to deliver competitive returns with a high level of diversification, whilst focusing on capital preservation through portfolios of high quality, liquid assets.

Active strategies also includes an active equity management business comprising focused teams managing stock selection across different regions.

Solutions and Liability Driven Investment (LDI)

LGIM provides a range of pooled and bespoke solutions to help de-risk defined benefit pension schemes. These solutions will usually combine active or passive underlying portfolios with derivative overlays designed to meet clients' specific requirements.

Multi-asset funds

Multi-asset funds for retail and institutional clients, built using LGIM's expertise in asset allocation which is informed by an in-house research capability. The underlying asset classes may be managed on an active or passive basis within LGIM. An allocation strategy service is also offered to institutional clients, which may also allocate some of the portfolio to managers other than LGIM.

Real Assets

LGIM offers a range of pooled funds, segregated accounts and joint ventures investing on behalf of UK and overseas investors across physical real estate, private corporate debt, infrastructure debt and real estate loans. The business has specialist teams of fund and asset managers and an in-house research team.

Workplace Savings

Workplace Savings provides corporate pension scheme solutions to enable companies to meet their auto-enrolment obligations. Workplace Savings (a business division of LGAS operated within LGIM) acts as scheme operator and administrator for these products while the customers hold the individual or scheme level pension policies issued by LGAS.

Legal & General Capital (LGC)

Investment strategy and implementation

Legal & General Capital manages shareholder assets which are not directly required to meet contractual obligations to policyholders. LGC's investments fall into two distinct categories; direct investments and traded assets. The value of, and income from, both categories is sensitive to conditions within investment markets and the broader economy. Potential volatility in returns is managed using a range of techniques, including foreign exchange and interest rate hedging, and exposure concentration limits by asset type, sector and geographic region.

Direct investments and structuring

Direct investments are an integral part of the wider group strategy. LGC's direct investments are typically illiquid investments entered into through acquisition, joint venture with strategic partners or by the creation of new companies. LGC seeks to make direct investments in sectors where there are structural funding shortfalls, and is organised into three sectors: housing, future cities (including urban regeneration and clean energy) and SME finance (including venture capital). LGC employs capital and sector expertise to such investments to target attractive risk-adjusted returns which can deliver higher returns and/or lower volatility for our shareholder capital than listed equity.

Balance sheet management continued

6 Principal products continued

Legal & General Insurance (LGI)

LGI business comprises UK and US retail protection, UK group protection, US universal life business and Fintech business.

UK protection business (retail and group)

The group offers protection products which provide mortality or morbidity benefits. They may include health, disability, critical illness and accident benefits; these additional benefits are commonly provided as supplements to main life policies but can also be sold separately. The benefit amounts would usually be specified in the policy terms. Some sickness benefits cover the policyholder's mortgage repayments and are linked to the prevailing mortgage interest rates. In addition to these benefits, some contracts may guarantee premium rates, provide guaranteed insurability benefits and offer policyholders conversion options.

US protection business

Protection consists of individual term assurance, which provides death benefits over the medium to long term. The contracts have level premiums for an initial period with premiums set annually thereafter. During the initial period, there is generally an option to convert the contract to a universal life contract. After the initial period, the premium rates are not guaranteed, but cannot exceed the age-related guaranteed premium.

Reinsurance is used within the protection businesses to manage exposure to large claims. These practices lead to the establishment of reinsurance assets on the group's balance sheet. Within LGA, reinsurance and securitisation is also used to provide regulatory solvency relief (including relief from regulation governing term insurance and universal life reserves).

US universal life

Universal life contracts written by LGA provide savings and death benefits over the medium to long term. The savings element has a guaranteed minimum growth rate. LGA has exposure to loss in the event that interest rates decrease and it is unable to earn enough on the underlying assets to cover the guaranteed rate. LGA is also exposed to loss should interest rates increase, as the underlying market value of assets will generally fall without a change in the surrender value.

Annuities

Immediate annuities have similar characteristics as products sold by LGR. Deferred annuity contracts written by LGA contain a provision that, at maturity, a policyholder may move the account value into an immediate annuity, at rates which are either those currently in effect, or rates guaranteed in the contract.

General Insurance (GI)¹

General Insurance business comprises Household, Accident Sickness and Unemployment (ASU), and Pet products.

Household

These contracts provide cover in respect of policyholders' homes, investment properties, contents, personal belongings and incidental liabilities which they may incur as a property owner, occupier and individual. Exposure is normally limited to the rebuilding cost of the home, the replacement cost of belongings and a policy limit in respect of liability claims. In addition, there is an additional cover option for Family Legal Protection (FLP) to cover costs of pursuing certain UK legal proceedings arising from, for example: death/personal injury, buying/hiring goods or services, infringement of property legal rights and breach of employment contracts.

Accident Sickness and Unemployment (ASU)

These contracts provide cover in respect of continuing payment liabilities incurred by customers when they are unable to work as a result of accident, sickness or unemployment. Exposure is limited to the monthly payment level selected by the customer sufficient to cover the payment and associated costs, up to the duration limit specified in the policy, usually 12 months.

Pet

These contracts provide cover in respect of veterinary treatment of policyholders' pets in the event of accident or illness. In addition, there may be additional cover for death, third party liability as a result of damage or injury caused by their pets, and if the pet is lost or stolen. Exposure is limited to the payment limit selected by the customer (subject to contract specific inner limits), up to the duration limit specified by the policy which varies per condition and per year.

1. On 31 May 2019 the group announced the sale of its General Insurance business to Allianz. The sale completed on 31 December 2019.

Savings¹

A range of contracts are offered in a variety of different forms to meet customers' long term savings objectives. Policyholders may choose to include a number of protection benefits within their savings contracts. Typically, any guarantees under the contract would only apply on maturity or earlier death. On certain older contracts there may be provisions guaranteeing surrender benefits. Savings contracts may or may not guarantee policyholders an investment return. The contracts fall into three main types:

- Non-participating savings, pensions and endowment contracts;
- Participating savings business, comprising endowment contracts, with-profits pensions, with-profits annuities and with-profits bonds; and
- Unit linked savings contracts and collective investment savings products.

For unit linked savings contracts and collective investment savings products, there is a direct link between the investments and the obligations. The group is not directly exposed to any market risk, currency risk or credit risk for these contracts. As a result, risk disclosures have not been presented in respect of the associated assets and liabilities. Unit linked business is written both inside and outside the with-profits fund.

Pensions (individual and corporate)

These are long term savings contracts through which policyholders accumulate pension benefits. Some older contracts contain a basic guaranteed benefit expressed as an amount of pension payable or a guaranteed annuity option. Other options provided by these contracts include an open market option on maturity, early retirement and late retirement. The group would generally have discretion over the terms on which the latter types of options are offered.

With-profits annuities

These annuity contracts provide a regular income the amount of which is determined by the addition of regular and temporary bonuses.

Endowment policies

These contracts provide a lump sum on maturity determined by the addition of annual and final bonuses over the duration of the contract. In addition, the contracts provide a minimum sum assured death benefit.

With-profits bonds

These contracts provide an investment return to the policyholder which is determined by the addition of regular and final bonuses over the duration of the contract. In addition, the contracts provide a death benefit, typically of 101% of the value of the units allocated to the policyholder.

Participating contracts

The with-profits fund ceased writing new business on 31 January 2015. Only increases to existing pension policies and new members to existing Group Personal Pension Schemes, where allowed for in the policy terms and conditions, have been accepted after that date. Regular premiums in payment at the date of closure also continue to be accepted.

Discretionary increases to benefits on participating contracts are allowed in one or both of annual and final bonus form. Some older participating contracts include a guaranteed minimum rate of roll up of the policyholder's fund up to the date of retirement or maturity. Bonuses are determined in accordance with the principles outlined in the Fund's Principles and Practices of Financial Management (PPFM) for the management of the with-profits fund. The principles include:

- The with-profits fund will be managed with the objective of ensuring that its assets are sufficient to meet its liabilities and other regulatory and capital requirements without the need for additional capital from outside the with-profits fund;
- Bonus rates will be smoothed so that some of the short term fluctuations in the value of the investments of the with-profits fund and the business results achieved in the with-profits fund are not immediately reflected in payments under with-profits policies.

The inherited estate is the excess of assets held within the with-profits fund over and above the amount required to meet liabilities, including those which arise from the regulatory duty to treat customers fairly in settling discretionary benefits. Following the closure to new business of the with-profits fund on 31 January 2015, the Board agreed a run-off plan. They consider annually whether part of the inherited estate should be distributed to with-profits policyholders. In adverse circumstances this may result in a deduction from investment returns in order to increase the value of the inherited estate. The amount and timing of any distribution from or deduction to increase the inherited estate shall be determined by the Board. In November 2019 the Board approved a 0.5% addition to asset share reflecting a distribution of part of the estate.

The distribution of surplus to shareholders depends upon the bonuses declared for the year. Typically, bonus rates are set having regard to investment returns, although the group has some discretion setting rates and would normally smooth bonuses over time. The volatility of investment returns could impact the fund's capital position and its ability to pay bonuses. If future investment conditions were less favourable than anticipated, the lower bonus levels resulting would also reduce future distributions to shareholders. The estate would normally be expected to absorb the impact of these investment risks. Only in extreme scenarios, where shareholders were required to provide support to the with-profits fund to meet its liabilities, would these risks affect shareholder equity.

Since the group's announcement to sell the Mature Savings business to ReAssure Limited, a subsidiary of Swiss Re in December 2017 it has entered into a Risk Transfer Agreement with ReAssure Limited. Until formal legal transfer of the business is complete, all non-expense risk exposure related to the Mature Savings business is effectively transferred to ReAssure Limited by this agreement.

1. In December 2017, the group announced the sale of its Mature Savings business to ReAssure Limited, a subsidiary of Swiss Re. The sale is subject to regulatory approval and the Part VII transfer is expected to complete in 2020.

Balance sheet management continued

7 Asset risk

The group is exposed to the following categories of asset risk as a consequence of offering the principal products outlined in Note 6. The group is also exposed to insurance risk as a consequence of offering these products – more detail on insurance risk can be found in Note 18.

Market risk

Exposure to loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets.

Credit risk

Exposure to loss if another party fails to perform its financial obligations to the group.

Liquidity risk

The risk that the group, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

The financial risks associated with LGIM's businesses are directly borne by the investors in its funds. Therefore detailed risk disclosures have not been presented.

The group seeks to manage its exposures to risk through controls which ensure that the residual risk exposures are within acceptable tolerances agreed by the Board. A description of the risks associated with the group's principal products and the associated controls is detailed overleaf.

Market risk

Principal risks	Product/business segment	Controls to mitigate risks
<p>Investment performance risk</p> <p>The group is exposed to the risk that the income from, and value of, assets held to back insurance liabilities do not perform in line with investment and product pricing assumptions leading to a potential financial loss.</p>	Annuities and Protection	Stochastic models are used to assess the impact of a range of future return scenarios on investment values and associated liabilities in order to determine optimum portfolios of invested assets. For immediate annuities, which are sensitive to interest rate risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes in line with the value of liabilities when interest rates change.
<p>The financial risk exposure for participating contracts is different from that for non-participating business. Lower investment returns increase the costs associated with maturity and investment guarantees provided on these contracts. Greater emphasis is placed on investing to maximise future investment returns rather than matching assets to liabilities. This results in holding significant equity and property investments.</p>	With-profits ¹	These risks are managed by maintaining capital sufficient to cover the consequences of mismatches under a number of adverse scenarios. In addition, different investment strategies are followed for assets backing policyholder asset shares and assets backing other participating liabilities and surplus. The former include significant equity and property holdings, whilst the latter are invested largely in fixed interest securities. The assets held are managed so as to provide a partial hedge to movements in fixed interest yields and equity markets. The methodology used to calculate the liabilities for participating contracts makes allowance for the possibility of adverse changes in investment markets on a basis consistent with the market cost of hedging the guarantees provided. The methodology also makes allowance for the cost of future discretionary benefits, guarantees and options. The value of future discretionary benefits depends on the return achieved on assets backing these contracts. The asset mix varies with investment conditions reflecting the group's investment policy, which aims to optimise returns to policyholders over time whilst limiting capital requirements for this business.
<p>For unit linked contracts, there is a risk of volatility in asset management fee income due to the impact of interest rate and market price movements on the fair value of the assets held in the linked funds, on which investment management fees are based. There is also the risk of expense over-runs should the market depress the level of charges which could be imposed.</p>	Unit linked	The risk is managed through maintaining a diversified range of funds in which customers may invest. The performance of linked investment funds relative to their investment objectives is subject to regular monitoring. Periodic assessment is also made of the long term profitability to the group of these funds. For some contracts the group has discretion over the level of management charges levied.
<p>Property risk</p> <p>Lifetime mortgages include a no-negative equity guarantee which transfers an exposure to loss to the group as a result of low house price inflation and an exposure to specific properties which may experience lower house price inflation for whatever reason.</p>	Lifetime mortgages	To mitigate the risk, maximum loan to value ratios are set for all lending with further underwriting criteria setting out acceptable properties for lending purposes. Policy terms also require properties to be fully insured and maintained, including the right of inspection. Diversification of lending by property type and geographic region seeks to control exposures to specific aspects of the property market.
<p>LGC businesses build homes across the residential market, invest in large commercial and residential development projects and manage several developed real-estate assets. The group's revenue streams are exposed to residential sales achieved, as well as the volume of transactions, both of which may be affected by the performance of the housing market. Independent valuations of real-estate assets, either in development or developed, also depend on an assessment of the wider real-estate market.</p>	LGC	Diversification by geographic region and property type avoids concentration of exposures to specific areas of the property market. Sites are developed in a number of phases to spread the risk to a local market over several years and where possible we seek to co-invest with local experts to manage assets. The purchasing of new land for development requires approval from LGC's Investment Committee and the Group Capital Committee. Where appropriate, key methods are adopted to further manage the risk, such as fixed price construction contracts, forward sales and pre-letting. These businesses can also benefit from flexible funding arrangements available through the group.

1. In December 2017, the group announced the sale of its Mature Savings business to ReAssure Limited (a subsidiary of Swiss Re). The sale is subject to regulatory approval and the Part VII transfer is expected to complete in 2020. Since the announcement the group has entered into a risk transfer agreement with ReAssure Limited. Until the Part VII transfer is completed the asset risks are effectively transferred to ReAssure Limited by this agreement.

Balance sheet management continued

7 Asset risk continued

Market risk

Principal risks	Product/business segment	Controls to mitigate risks
<p>Currency risk</p> <p>To diversify credit risk within the annuities business corporate bond portfolio, investments are held in corporate bonds denominated in non-sterling currencies. LGC also invest in overseas assets. Fluctuations in the value of, or income from, these assets relative to liabilities denominated in sterling could result in unforeseen loss.</p>	Annuities, LGC and LGI	To mitigate the risk of loss from currency fluctuations, currency swaps and forwards are used to hedge exposures to corporate bonds denominated in currencies other than sterling. Hedging arrangements are placed with strongly rated counterparties with collateral requirements being subject to regular review and reconciliation with the counterparties. The hedges do not eliminate all currency risk and the group retains some residual risk.
<p>The consolidated international subsidiaries and financial instruments of subsidiaries are translated into sterling in the consolidated accounts. Changes in the sterling value can impact consolidated equity but may be mitigated by associated hedging transactions.</p>	Group and LGC	To mitigate the risk of loss from currency translation the company continuously monitors its exposure and executes appropriate hedging transactions when necessary. Hedging arrangements are placed with strongly rated counterparties with collateral requirements being subject to regular review and reconciliation with the counterparties.
<p>Inflation risk</p> <p>Inflation risk is the potential for loss as a result of relative or absolute changes in inflation rates. Annuity contracts may provide for future benefits to be paid taking account of changes in the level of inflation. Annuity contracts in payment may include an annual adjustment for movements in price indices.</p>	Annuities	The investment strategy for annuities business takes explicit account of the effect of movements in price indices on contracted liabilities. Significant exposures that may adversely impact profitability are hedged using inflation swaps. Annuity contracts also typically provide for a cap on the annual increase in inflation linked benefit payments. The hedges do not eliminate all inflation risk and the group retains some residual risk.
<p>Interest rate risk</p> <p>Interest rate risk is the risk that the group is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates.</p>	Annuities	To mitigate the risk that guarantees and commitments are not met, financial instruments are purchased, which broadly match the expected non-participating policy benefits payable, by their nature and term. The composition of the investment portfolio is governed by the nature of the insurance or savings liabilities, the expected rate of return applicable on each class of asset and the capital available to meet the price fluctuations for each asset class, relative to the liabilities they support.
<p>The group is exposed to interest rate risk on the investment portfolio it maintains to meet the obligations and commitments under its non-linked insurance and investment contracts, in that the proceeds from the assets may not be sufficient to meet the group's obligations to policyholders.</p>	Group and LGC	Asset liability matching significantly reduces the group's exposure to interest rate risk. IFRS sensitivity to interest rate changes is included in Note 20.

Credit risk

Principal risks	Product/business segment	Controls to mitigate risks
<p>Bond default risk</p> <p>A significant portfolio of corporate bonds and commercial loans are held to back the liabilities arising from writing general insurance and annuities business. Whilst the portfolio is diversified, the asset class is inherently exposed to the risk of issuer default, with the possibility of financial loss.</p>	Annuities, General Insurance ¹ , and LGIA	Portfolio level and specific issuer limits are set by financial strength rating, sector and geographic region so as to limit exposure to a default event. Issuer limits are regularly reviewed to take account of changes in market conditions, sector performance and the re-assessment of financial strength by rating agencies and the group's own internal analysis. Exposures are monitored relative to limits. Financial instruments are also used to mitigate the impact of rating downgrades and defaults. If appropriate, actions are taken to trade out investments at risk of default.
<p>Reinsurance counterparty risk</p> <p>Exposure to insurance risk is mitigated by ceding part of the risks assumed to the reinsurance market. Default of a reinsurer would require the business to be re-brokered potentially on less advantageous terms, or for the risks to be borne directly resulting in possible financial loss. Credit risk syndication also exposes the group to counterparty default risks. The group is required to carry an element of associated credit risk capital on its balance sheet should the business not be re-brokered on the same terms.</p>	Protection, Annuities, General Insurance ¹ , and LGIA	When selecting new reinsurance partners for its protection business, the group considers only companies which have a minimum credit rating equivalent to A- from Standard & Poor's. For each reinsurer, exposure limits are determined based on credit ratings and projected exposure over the term of the treaty. Actual exposures are regularly monitored relative to these limits. Similarly, for longevity and credit risk syndication transactions, the group targets the use of strongly rated counterparties and seeks to ensure that positions are fully collateralised. The adequacy and quality of collateral is subject to ongoing monitoring.
<p>Property lending counterparty risk</p> <p>As part of our asset diversification strategy, we hold property lending and sale and leaseback investments. We are inherently exposed to the risk of default by a borrower or tenant.</p>	Annuities and LGC	Each property lending and sale and leaseback investment transaction is subject to a due diligence process to assess the credit risks implicit in the transaction and confirm that any risk of default has been appropriately mitigated. We also protect our interests through taking security over the underlying property associated with each investment transaction.
<p>Banking counterparty risk</p> <p>The group is exposed to potential financial loss should banks or the issuers of financial instruments default on their obligations to us. We are also exposed to counterparty risks in respect of the providers of settlement and custody services.</p>	Group and LGC	The group controls its exposures to banking counterparties and the issuers of financial instruments using a framework of counterparty limits. These limits take account of the relative financial strength of the counterparty as well as other bank counterparty exposures that the group may have. Limits are subject to regular review with actual exposures monitored against limits. The group has defined criteria for the selection of custody and settlement services. The financial strength of providers is regularly reviewed.

1. On 31 May 2019, the group announced the sale of its General Insurance business to Allianz. The sale completed on 31 December 2019.

Balance sheet management continued

7 Asset risk continued

Liquidity risk

Principal risks	Product/business segment	Controls to mitigate risks
<p>Contingent event risk</p> <p>Events that result in liquidity risk include a flu pandemic or natural disaster leading to significantly higher levels of claims than would normally be expected, or extreme events impacting the timing of cash flows or the ability to realise investments at a given value within a specified timeframe.</p>	LGI, General Insurance ² and Group	The group seeks to ensure that it meets its obligations as they fall due and avoids incurring material losses on forced asset sales in order to meet those obligations. A limited level of contingent liquidity risk is, however, an accepted element of writing insurance contracts. It is furthermore a consequence of the markets in which the group operates and the executions of investment management strategies. However, the group's insurance businesses seek to maintain sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may arise from contingent events. The level of required liquidity is identified using techniques including stress tests for shock events and the profile of actual liquid assets is regularly compared to the required liability profile. The group's treasury function provides formal facilities to other areas of the group to cover contingent liquidity requirements arising from more extreme events and where investment assets may not be readily realisable.
<p>Collateral liquidity risk</p> <p>Within the annuities business, the use of financial instruments to hedge default, interest rate, currency and inflation risks can require the posting of collateral with counterparties at short notice.</p>	LGR and LGC	Liquidity requirements to meet potential collateral calls under stressed conditions are actively managed and an appropriate pool of eligible assets specified in the agreements with counterparties is maintained. As at 31 December 2019, LGR held eligible collateral worth four times the total amount of outstanding collateral (using the most representative definition of collateral contained within the group's different collateral agreements).
<p>Investment liquidity risk</p> <p>Within the with-profit fund, exposure to liquidity risk may arise if the profile of investment assets held to meet obligations to policyholders is not aligned with the maturity profile of policies, or the profile does not adequately take account of the rights of policyholders to exercise options or guarantees to specified early surrender terms or minimum rates of return.</p>	Savings ¹	Liquidity risk is managed ensuring that an appropriate proportion of the fund is held in cash or other readily realisable assets to meet each tranche of maturities and anticipated early withdrawals as they fall due. Where policyholders have discretion to require early payment of policy proceeds, contractual safeguards are in place to ensure that the fund and remaining policyholders are not disadvantaged should a material number of policyholders exercise this discretion.
<p>Non-participating savings contracts are exposed to liquidity risk in that certain asset classes in which underlying funds invest, such as property, may not be readily realisable in certain market conditions, or only realisable at a reduced value.</p>	Savings ¹	Liquidity risks associated with non-participating savings contracts are documented and communicated to customers within product terms and conditions. The terms also highlight that for certain asset classes such as property, the group retains the right to defer the processing of fund withdrawal requests for up to six months, should underlying assets need to be realised to meet payment requests.
<p>Direct lending, sale and leaseback investments and lifetime mortgage business are inherently illiquid forms of investment, with limited secondary markets to realise the value of assets outside agreed redemption terms.</p>	LGR and LGC	Given the illiquid nature of the annuity and other liabilities the group is able and willing to take advantage of the premium offered by illiquid assets. The group, however, sets limits on the overall exposure to illiquid investments taking account of the nature and type of liabilities that the assets are held to meet.

1. In December 2017, the group announced the sale of its Mature Savings business to ReAssure Limited (a subsidiary of Swiss Re). The sale is subject to regulatory approval and the Part VII transfer is expected to complete in 2020. Since the announcement the group has entered into a risk transfer agreement with ReAssure Limited. Until the Part VII transfer is completed the asset risks are effectively transferred to ReAssure Limited by this agreement.
2. On 31 May 2019, the group announced the sale of its General Insurance business to Allianz. The sale completed on 31 December 2019.

As at 31 December 2019, the group had £2.7bn (2018: £3.6bn) of cash and cash equivalents in shareholder funds and non profit non-unit linked funds and a £1.0bn syndicated committed revolving credit facility in place, provided by a number of its key relationship banks, maturing in December 2022.

8 Assets analysis

The group has categorised its assets and liabilities in the following disclosure in accordance with the level of shareholder exposure to market and credit risks. Various reinsurance arrangements are in place as a mechanism to mitigate the risks including a risk transfer agreement with ReAssure Limited (a subsidiary of Swiss Re), whereby the group transfers all economic risks and rewards of the Mature Savings business, including With-profits, to ReAssure Limited from the effective date of 1 January 2018. The four categorisations presented are:

Unit linked

For unit linked contracts, there is a direct link between the investments and the obligations. Unit linked business is written in both Legal and General Assurance Society Limited and Legal and General Assurance (Pensions Management) Limited. The financial risk on these contracts is borne by the policyholders. The group is therefore not directly exposed to any market risk, currency risk or credit risk for these contracts. As a result, risk disclosures have not been presented for unit linked assets and liabilities.

With-profits

Policyholders and shareholders share in the risks and returns of the with-profits fund. The return to shareholders on virtually all participating products is in the form of a transfer to shareholders' equity, which is analogous to a dividend from the fund and is dependent upon the bonuses credited or declared on policies in that year. The bonuses are broadly based on historic and current rates of return on equity, property and fixed income securities, as well as expectations of future investment returns. The with-profits classification excludes unit linked contracts.

Non profit non-unit linked

Shareholders are exposed to the risk and rewards of ownership of assets backing non profit non-unit linked business.

Shareholder

All other assets are classified as shareholder assets. Shareholders of the group are directly exposed to market and credit risk on these assets. This includes the assets and liabilities of our overseas insurance operations and general insurance.

The table overleaf presents an analysis of the balance sheet by category. All of the quantitative risk disclosures in Notes 16 and 17 have been provided using this categorisation.

Balance sheet management continued

8 Assets analysis continued

	Shareholder £m	Non profit non-unit linked £m	With- profits £m	Unit linked £m	Total £m
As at 31 December 2019					
Assets					
Goodwill and Purchased interests in long term businesses and other intangible assets	243	11	–	–	254
Investment in associates and joint ventures accounted for using the equity method	315	9	–	–	324
Property, plant and equipment	292	6	–	–	298
Investments ¹	10,711	87,270	2,388	419,625	519,994
Reinsurers' share of contract liabilities	322	5,485	–	3	5,810
Other assets	3,236	2,638	–	3,209	9,083
Assets of operations classified as held for sale	–	456	7,989	16,399	24,844
Total assets	15,119	95,875	10,377	439,236	560,607
Liabilities					
Core borrowings	4,138	–	–	(47)	4,091
Operational borrowings	1,013	–	–	7	1,020
Non-participating contract liabilities	296	77,432	–	320,183	397,911
Other liabilities	4,155	14,163	–	99,730	118,048
Liabilities of operations classified as held for sale	–	384	10,375	19,356	30,115
Total liabilities	9,602	91,979	10,375	439,229	551,185

	Shareholder £m	Non profit non-unit linked £m	With- profits £m	Unit linked £m	Total £m
As at 31 December 2018					
Assets					
Goodwill and Purchased interests in long term businesses and other intangible assets	285	3	–	–	288
Investment in associates and joint ventures accounted for using the equity method	259	–	–	–	259
Property, plant and equipment	56	1	–	–	57
Investments ¹	10,905	67,177	2,224	374,478	454,784
Reinsurers' share of contract liabilities	343	4,343	–	51	4,737
Other assets	2,628	748	–	2,782	6,158
Assets of operations classified as held for sale	37	459	7,825	17,913	26,234
Total assets	14,513	72,731	10,049	395,224	492,517
Liabilities					
Core borrowings	3,963	–	–	(41)	3,922
Operational borrowings	909	56	–	61	1,026
Non-participating contract liabilities	677	64,203	–	292,907	357,787
Other liabilities	3,558	4,714	3	83,013	91,288
Liabilities of operations classified as held for sale	1	505	10,054	19,282	29,842
Total liabilities	9,108	69,478	10,057	395,222	483,865

1. Investments includes financial investments, investment property and cash and cash equivalents.

9 Purchased interest in long term businesses (PILTB) and other intangible assets

Portfolios of in-force insurance or investment contracts acquired either directly or through the acquisition of a subsidiary undertaking are capitalised at fair value. The value of business acquired represents the present value of anticipated future profits in acquired contracts. These amounts are amortised over the anticipated lives of the related contracts in the portfolio.

Other intangible assets mainly consist of customer relationships, brand and capitalised software costs. Intangible assets acquired via business combinations are recognised at fair value and are subsequently amortised on a straight line method over their estimated useful life. Where software costs are separately identifiable and measurable, they are capitalised at cost and amortised over their expected useful life on a straight line basis.

Purchased interest in long term businesses and other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

	PILTB insurance contracts 2019 £m	PILTB investment contracts 2019 £m	Other intangible assets 2019 £m	Total 2019 £m
Cost				
As at 1 January	391	33	330	754
Additions ¹	–	–	93	93
Disposals ²	–	–	(76)	(76)
(Decrease)/increase due to currency translation	(9)	–	2	(7)
As at 31 December	382	33	349	764
Accumulated amortisation and impairment				
As at 1 January	(380)	(33)	(115)	(528)
Amortisation for the year	–	–	(26)	(26)
Impairment ³	(8)	–	(55)	(63)
Disposals ²	–	–	34	34
Decrease due to currency translation	9	–	–	9
As at 31 December	(379)	(33)	(162)	(574)
Total net book value as at 31 December	3	–	187	190
Less: assets of operations classified as held for sale ⁴				–
Net book value as at 31 December				190
To be amortised within 12 months ⁵				40
To be amortised after 12 months ⁵				150

1. Other intangible assets include £2m related to acquisitions made during the year.
2. Disposals primarily relate to the sale of the General Insurance business, which was completed on 31 December 2019.
3. Impairments of other intangible assets relates to capitalised software development costs.
4. Detailed disclosure related to assets of operations classified as held for sale is included in Note 30.
5. The maturity analysis of the assets between less and more than 12 months is based on the Total net book value as at 31 December.

Balance sheet management continued

9 Purchased interest in long term businesses (PILTB) and other intangible assets continued

	PILTB insurance contracts 2018 £m	PILTB investment contracts 2018 £m	Other intangible assets 2018 £m	Total 2018 £m
Cost				
As at 1 January	377	33	211	621
Additions ¹	–	–	119	119
Increase due to currency translation	14	–	–	14
As at 31 December	391	33	330	754
Accumulated amortisation and impairment				
As at 1 January	(365)	(33)	(82)	(480)
Amortisation for the year	(1)	–	(33)	(34)
Increase due to currency translation	(14)	–	–	(14)
As at 31 December	(380)	(33)	(115)	(528)
Total net book value as at 31 December	11	–	215	226
Less: assets of operations classified as held for sale ²				(3)
Net book value as at 31 December				223
To be amortised within 12 months ³				40
To be amortised after 12 months ³				186

1. Other intangible assets include £42m related to acquisitions made during the year.

2. Detailed disclosure relating to assets of operations classified as held for sale is included in Note 30.

3. The maturity analysis of the assets between less and more than 12 months is based on the Total net book value as at 31 December.

10 Deferred acquisition costs

The group incurs costs to obtain and process new business. These are accounted for in line with the appropriate accounting standards as follows:

Long term insurance business

Acquisition costs comprise direct costs, such as initial commission, and the indirect costs of obtaining and processing new business. Some acquisition costs relating to non-participating insurance contracts written outside the with-profits fund which are incurred during a financial year are deferred by use of an asset which is amortised over the period during which the costs are expected to be recoverable, and in accordance with the expected incidence of future related margins. For participating contracts, acquisition costs are charged to the income statement when incurred.

Investment contracts

For participating investment contracts, acquisition costs comprise direct costs such as initial commission and the indirect costs of obtaining and processing new business. These costs are charged to the income statement when incurred. For non-participating investment contracts, only directly attributable costs relating to investment management services which vary with, and are related to, securing new contracts and renewing existing contracts, are capitalised and amortised over the period during which the service is provided on a straight line basis. All other costs are recognised as expenses when incurred.

	Insurance contracts 2019 £m	Investment contracts 2019 £m	Total 2019 £m	Insurance contracts 2018 £m	Investment contracts 2018 £m	Total 2018 £m
As at 1 January	112	466	578	99	479	578
Acquisition costs deferred	161	1	162	121	2	123
Amortisation charged to income statement	(159)	(3)	(162)	(114)	(3)	(117)
Disposals ¹	(65)	–	(65)	–	–	–
(Decrease)/increase due to currency translation	(1)	–	(1)	6	–	6
Other	–	1	1	–	(12)	(12)
Total as at 31 December	48	465	513	112	466	578
Less: assets of operations classified as held for sale ²	–	(438)	(438)	–	(438)	(438)
As at 31 December	48	27	75	112	28	140
To be amortised within 12 months ³	28	31	59	67	31	98
To be amortised after 12 months ³	20	434	454	45	435	480

1. Disposals relate to the sale of the GI business, which was completed on 31 December 2019.

2. Detailed disclosure relating to assets of operations classified as held for sale, which are no longer amortised in accordance with the requirements of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' is included in Note 30.

3. The maturity analysis of the assets between less and more than 12 months is based on Total as at 31 December.

Balance sheet management continued

11 Financial investments and investment property

The group holds financial investments and investment property to back insurance contracts on behalf of policyholders and as group capital.

The group classifies its financial investments on initial recognition as held for trading (HFT), designated at fair value through profit or loss (FVTPL), available-for-sale (AFS) or loans and receivables. Initial recognition of financial investments is on the trade date.

The group's policy is to measure investments at FVTPL except for certain overseas assets where the related liability is valued on a passive basis (not using current information), in which case investments are classified as AFS or loans held at amortised cost. All derivatives other than those designated as hedges are classified as HFT.

Certain financial investments held by the group are designated as FVTPL as their performance is evaluated on a total return basis, consistent with asset performance reporting to the Group Investment and Market Risk Committee and the group's investment strategy. Assets designated as FVTPL include debt securities (including lifetime mortgages) and equity instruments which would otherwise have been classified as AFS and reverse repurchase agreements within loans which would otherwise be designated at amortised cost. Assets backing participating and non-participating policy-holder liabilities outside the US are designated as FVTPL. For participating contracts the assets are managed on a fair value basis to maximise the total return to policyholders over the contract life. The group's non-participating investment contract liabilities outside of the US are measured on the basis of current information and are designated as FVTPL to avoid an accounting mismatch in the income statement.

Financial investments classified as HFT and designated at FVTPL are measured at fair value with gains and losses reflected in the Consolidated Income Statement. Transaction costs are expensed as incurred.

Financial investments classified as AFS are measured at fair value with unrealised gains and losses recognised in a separate reserve within equity. Realised gains and losses, impairment losses, dividends, interest and foreign exchange movements on non-equity instruments are reflected in the Consolidated Income Statement. Directly attributable transaction costs are included in the initial measurement of the investment.

Financial investments classified as loans are either designated at FVTPL, or initially measured at fair value plus transaction costs, and subsequently measured at amortised cost using the effective interest method. The designated at FVTPL classification currently only applies to reverse repurchase agreements.

Financial investments are recognised when the group becomes a party to the contractual provisions of the instrument. Financial investments are derecognised only when the contractual rights to the cash flows from the investment expire, or when the group transfers substantially all the risks and rewards of ownership to another entity.

Financial assets, other than those measured at FVTPL, are assessed for impairment at each balance sheet date. They are impaired where there is objective evidence that, as a result of one or more events after initial recognition of the financial asset, the estimated future cash flows have been affected.

Investment property comprises land and buildings which are held for long term rental yields and capital growth, as well as right-of-use assets of the same nature. It is carried at fair value with changes in fair value recognised in the Consolidated Income Statement within investment return.

Investment property in the UK is valued bi-annually by external chartered surveyors at open market values in accordance with the 'Appraisal and Valuation Manual' of The Royal Institution of Chartered Surveyors or using internal valuations and estimates during the intervening period. Outside the UK, valuations are produced in conjunction with external qualified professional valuers in the countries concerned. In the event of a material change in market conditions between the valuation date and balance sheet date, an internal valuation is performed and adjustments made to reflect any material changes in fair value.

Right-of-use investment property assets relate to long-leasehold interests in land held solely for the purposes of the related investment property asset. The group applies the fair value model to these interests as they meet the definition of investment property under IAS 40, 'Investment Property'.

The group receives and pledges collateral in the form of cash or non-cash assets in respect of various transactions, in order to reduce the credit risk of these transactions. The amount and type of collateral required where the group receives collateral depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, where the group has contractual rights to receive the cash flows generated, is recognised as an asset in the Consolidated Balance Sheet with a corresponding liability for its repayment. Non-cash collateral received is not recognised in the Consolidated Balance Sheet, unless the counterparty defaults on its obligations under the relevant agreement.

Non-cash collateral pledged where the group retains the contractual rights to receive the cash flows generated is not derecognised from the Consolidated Balance Sheet, unless the group defaults on its obligations under the relevant agreement.

Cash collateral pledged, where the counterparty has contractual rights to receive the cash flows generated, is derecognised from the Consolidated Balance Sheet and a corresponding receivable is recognised for its return.

	Note	Shareholder 2019 £m	Non profit non-unit linked 2019 £m	With- profits 2019 £m	Unit linked 2019 £m	Total 2019 £m
Financial investments at fair value classified as:						
Fair value through profit or loss		6,035	70,255	8,615	402,307	487,212
Available-for-sale		1,716	–	–	–	1,716
Held for trading		108	11,448	115	3,157	14,828
Loans at fair value	11(ii)	632	630	397	14,718	16,377
Financial investments at fair value		8,491	82,333	9,127	420,182	520,133
Loans at amortised cost	11(ii)	437	–	–	–	437
Total financial investments		8,928	82,333	9,127	420,182	520,570
Investment property ¹		254	3,798	507	4,548	9,107
Total financial investments and investment property		9,182	86,131	9,634	424,730	529,677
Less: assets of operations classified as held for sale ¹		–	–	(7,703)	(15,903)	(23,606)
Financial investments and investment property		9,182	86,131	1,931	408,827	506,071
Expected to be recovered within 12 months ²						51,720
Expected to be recovered after 12 months ²						477,957

- Investment property includes £1,412m relating to assets of operations classified as held for sale. Detailed disclosure relating to assets of operations classified as held for sale is included in Note 30.
- The maturity analysis of the assets between less and more than 12 months is based on Total financial investments and investment property.

	Note	Shareholder 2018 £m	Non profit non-unit linked 2018 £m	With- profits 2018 £m	Unit linked 2018 £m	Total 2018 £m
Financial investments at fair value classified as:						
Fair value through profit or loss		6,526	57,560	8,976	359,054	432,116
Available-for-sale		1,537	–	–	–	1,537
Held for trading		18	4,393	51	5,603	10,065
Loans at fair value	11(ii)	371	486	45	8,304	9,206
Financial investments at fair value		8,452	62,439	9,072	372,961	452,924
Loans at amortised cost	11(ii)	456	–	–	–	456
Total financial investments		8,908	62,439	9,072	372,961	453,380
Investment property ¹		166	2,930	520	4,992	8,608
Total financial investments and investment property		9,074	65,369	9,592	377,953	461,988
Less: assets of operations classified as held for sale ¹		–	–	(7,602)	(16,923)	(24,525)
Financial investments and investment property		9,074	65,369	1,990	361,030	437,463
Expected to be recovered within 12 months ²						56,823
Expected to be recovered after 12 months ²						405,165

- Investment property includes £1,643m relating to assets of operations classified as held for sale. Detailed disclosure relating to assets of operations classified as held for sale is included in Note 30.
- The maturity analysis of the assets between less and more than 12 months is based on Total financial investments and investment property.

Investment risks on unit linked assets are borne by the policyholders. The remaining risks associated with financial investments are outlined in Note 7.

Balance sheet management continued

11 Financial investments and investment property continued

Financial investments, cash and cash equivalents include £4,408m (2018: £2,654m) of assets pledged as collateral against net derivative liability counterparty positions. The assets used as collateral are Treasury Gilts, Foreign Government Bonds, AAA and AA Corporate Bonds and Cash (2018: Treasury Gilts, Foreign Government Bonds, AAA and AA Corporate Bonds and Cash) having a residual maturity of over 24 years (2018: over 25 years). The group is entitled to receive all of the cash flows from the asset during the period when it is pledged as collateral. Further, there is no obligation to pay or transfer these cash flows to another entity. The group can decide to substitute an asset which is designated as collateral at any time, provided the relevant terms and conditions of the International Swap Dealers Association agreement are met.

Financial investments include £56,884m (2018: £43,775m) of assets that have been sold but not derecognised and are subject to repurchase agreements. The related obligation to repurchase the financial assets is included within Payables and other financial liabilities (Note 25).

Various pension risk transfer deals include collateralised structures. £7,791m (2018: £6,799m) of Corporate Bonds and Treasury Gilts are pledged as collateral in relation to these.

Financial investments have been allocated between those expected to be settled within 12 months and after 12 months in line with the expected settlement of the backed liabilities. Assets in excess of the insurance and investment contract liabilities have been classified as expected to be settled after 12 months.

(i) Financial investments at fair value

	Notes	Shareholder 2019 £m	Non profit non-unit linked 2019 £m	With- profits 2019 £m	Unit linked 2019 £m	Total 2019 £m
Equity securities		2,670	194	3,103	194,398	200,365
Debt securities ¹		5,059	69,530	5,468	206,859	286,916
Accrued interest		22	531	44	1,050	1,647
Derivative assets	13	108	11,448	115	3,157	14,828
Loans at fair value	11(ii)	632	630	397	14,718	16,377
Total financial investments at fair value		8,491	82,333	9,127	420,182	520,133

	Notes	Shareholder 2018 £m	Non profit non-unit linked 2018 £m	With- profits 2018 £m	Unit linked 2018 £m	Total 2018 £m
Equity securities		2,322	205	2,936	172,103	177,566
Debt securities ¹		5,708	56,864	5,988	185,892	254,452
Accrued interest		33	491	52	1,059	1,635
Derivative assets	13	18	4,393	51	5,603	10,065
Loans at fair value	11(ii)	371	486	45	8,304	9,206
Total financial investments at fair value		8,452	62,439	9,072	372,961	452,924

1. Non profit non-unit linked debt securities include £1.9bn (2018: £2.0bn) of commercial real estate loans and £4.7bn (2018: £3.2bn) of lifetime mortgages designated as fair value through profit and loss.

Accrued interest in the above tables represents accrued interest on debt securities only. Accrued interest on loans at fair value is included within loans at fair value.

Property investments which are held via partnerships or unit trust vehicles are also included within equity securities. A loss of £2m (2018: gain of £18m) has been recognised in the Consolidated Income Statement in respect of the movement in fair value of these investments.

Included within unit linked equity securities are £269m (2018: £214m) of debt instruments which incorporate an embedded derivative linked to the value of the group's share price.

(ii) Loans

	Shareholder 2019 £m	Non profit non-unit linked 2019 £m	With- profits 2019 £m	Unit linked 2019 £m	Total 2019 £m
Loans at amortised cost					
Policy loans	33	–	–	–	33
Other loans and receivables ¹	404	–	–	–	404
	437	–	–	–	437
Loans at fair value					
Reverse repurchase agreements	632	630	397	14,718	16,377
Total loans	1,069	630	397	14,718	16,814

	Shareholder 2018 £m	Non profit non-unit linked 2018 £m	With- profits 2018 £m	Unit linked 2018 £m	Total 2018 £m
Loans at amortised cost					
Policy loans	38	–	–	–	38
Other loans and receivables ¹	418	–	–	–	418
	456	–	–	–	456
Loans at fair value					
Reverse repurchase agreements	371	486	45	8,304	9,206
Total loans	827	486	45	8,304	9,662

1. Other loans and receivables include £316m (2018: £354m) of US commercial mortgage loans.

There are no material differences between the carrying values reflected above and the fair values of these loans.

(iii) Fair value hierarchy

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

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

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

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

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

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

The group's financial assets are valued, where possible, using standard market pricing sources, such as IHS Markit, ICE and Bloomberg, or Index Providers such as Barclays, Merrill Lynch or JPMorgan. Each uses mathematical modelling and multiple source validation in order to determine consensus prices, with the exception of OTC Derivative holdings; OTCs are marked to market using an in-house system (Lombard Oberon), external vendor (IHS Markit), internal model or Counterparty Broker marks. Where inputs to the valuation have been sourced from a market that is not suitably active the prices have been classified as Level 2. Refer to note 11 (iii) (a) for Level 3 methodology.

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

There have been no significant transfers between level 1 and level 2 in 2019 (2018: no significant transfers).

Balance sheet management continued

11 Financial investments and investment property continued (iii) Fair value hierarchy continued

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

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

2. This table includes financial investments of £22,194m and investment property of £1,412m relating to assets of operations classified as held for sale, included in Note 30.

For the year ended 31 December 2018	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	2,322	1,432	–	890
Debt securities	5,708	1,851	3,199	658
Accrued interest	33	15	15	3
Derivative assets	18	7	11	–
Loans at fair value	371	–	371	–
Investment property	166	–	–	166
Non profit non-unit linked				
Equity securities	205	194	1	10
Debt securities	56,864	7,031	36,937	12,896
Accrued interest	491	20	446	25
Derivative assets	4,393	–	4,336	57
Loans at fair value	486	–	486	–
Investment property	2,930	–	–	2,930
With-profits				
Equity securities	2,936	2,742	–	194
Debt securities	5,988	1,707	4,277	4
Accrued interest	52	15	37	–
Derivative assets	51	5	46	–
Loans at fair value	45	–	45	–
Investment property	520	–	–	520
Unit linked				
Equity securities	172,103	169,414	2,026	663
Debt securities	185,892	131,679	53,941	272
Accrued interest	1,059	502	557	–
Derivative assets	5,603	428	5,175	–
Loans at fair value	8,304	–	8,304	–
Investment property	4,992	–	–	4,992
Total financial investments and investment property at fair value^{1,2}	461,532	317,042	120,210	24,280

1. This table excludes loans (including accrued interest) of £456m, which are held at amortised cost.

2. This table includes financial investments of £22,882m and investment property of £1,643m relating to assets of operations classified as held for sale, included in Note 30.

Balance sheet management continued

11 Financial investments and investment property continued

(iii) Fair value hierarchy continued

(a) Level 3 assets measured at fair value

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

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

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

Equity securities

Level 3 equity securities amount to £2,035m (31 December 2018: £1,757m), of which the majority is made up of holdings in investment property vehicles and private investment funds. They are valued at the proportion of the group's holding of the Net Asset Value reported by the investment vehicles. Other equity securities are valued by a number of third party specialists using a range of techniques, including latest round of funding and discounted cash flow models.

Other financial investments

Lifetime mortgage (LTM) loans amount to £4,733m (31 December 2018: £3,227m). They are valued using a discounted cash flow model by projecting best-estimate net asset proceeds and discounting using rates inferred from current LTM pricing. The inferred illiquidity premiums for the majority of the portfolio range between 100 and 350bps. This ensures the value of loans at outset is consistent with the purchase price of the loan, and achieves consistency between new and in-force loans. Key inputs to the model include long-term property growth rates, property index volatility, voluntary early repayments and longevity assumptions. The valuation as at 31 December 2019 reflects a long term property growth rate assumption of RPI + 0.5%.

Private credit loans (including commercial real estate loans) amount to £10,998m (31 December 2018: £8,001m). Their valuation is outsourced to IHS Markit who use discounted future cash flows based on a yield curve. The discount factors take into consideration the z-spread of the LGIM approved comparable bond and the initial spread agreed by both parties. Unobservable inputs that go into the determination of comparators include: rating, sector, sub-sector, performance dynamics, financing structure and duration of investment. Existing private credit investments, which were executed back as far as 2011, are subject to a range of interest rate formats, although the majority are fixed rate. The weighted average duration of the portfolio is 11.5 years, with a weighted average life of 16.5 years. Maturities in the portfolio currently extend out to 2064. The private credit portfolio of assets is not externally rated but has internal ratings assigned by an independent credit team in line with internally developed methodologies. These credit ratings range from AAA to B.

Income strip assets amount to £1,326m (31 December 2018: £1,248m). Their valuation is outsourced to Knight Frank and CBRE who apply a yield to maturity to discounted future cash flows to derive valuations. The overall valuation takes into account the property location, tenant details, tenure, rent, rental break terms, lease expiries and underlying residual value of the property. The valuation as at 31 December 2019 reflects equivalent yield ranges between 2% and 12% and estimated rental values (ERV) between £10 and £337 per sq.ft.

Private placements held by the US business amount to £1,344m (31 December 2018: £938m). They are valued using a pricing matrix comprised of a public spread matrix, internal ratings assigned to each holding, average life of each holding, and a premium spread matrix. These are added to the risk free rate to calculate the discounted cash flows and establish a market value for each investment grade private placement. The valuation as at 31 December 2019 reflects illiquidity premiums between 10 and 70bps.

Commercial mortgage loans amount to £414m (31 December 2018: £275m) and are determined by incorporating credit risk for performing loans at the portfolio level and for loans identified to be distressed at the loan level. The projected cash flows of each loan are discounted along stochastic risk free rate paths and are inclusive of an option adjusted spread (OAS), derived from current internal pricing on new loans, along with the best observable inputs. The valuation as at 31 December 2019 reflects illiquidity premiums between 20 and 40bps.

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

Investment property

Level 3 investment property amounting to £9,107m (31 December 2018: £8,608m) is valued with the involvement of external valuers. All property valuations are carried out in accordance with the latest edition of the Valuation Standards published by the Royal Institute of Chartered Surveyors, and are undertaken by appropriately qualified valuers as defined therein. Whilst transaction evidence underpins the valuation process, the definition of market value, including the commentary, in practice requires the valuer to reflect the realities of the current market. In this context valuers must use their market knowledge and professional judgement and not rely only upon historic market sentiment based on historic transactional comparables.

The valuation of investment properties also include an income approach that is based on current rental income plus anticipated uplifts, where the uplift and discount rates are derived from rates implied by recent market transactions. These inputs are deemed unobservable. The valuation as at 31 December 2019 reflects equivalent yield ranges between 2% and 17% and ERV between £1 and £337 per sq.ft.

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

The group's policy is to reassess the categorisation of financial assets at the end of each reporting period and to recognise transfers between levels at that point in time.

	Equity securities	Other financial investments	Investment property	Total	Equity securities	Other financial investments	Investment property	Total
	2019	2019	2019	2019	2018	2018	2018	2018
	£m	£m	£m	£m	£m	£m	£m	£m
As at 1 January	1,757	13,915	8,608	24,280	1,451	9,888	8,337	19,676
Total gains/(losses) for the period recognised in profit:								
– in other comprehensive income	–	20	–	20	1	(18)	–	(17)
– realised and unrealised gains/(losses) ¹	50	1,314	(86)	1,278	35	(92)	50	(7)
Purchases/Additions	416	5,680	1,187	7,283	519	5,521	1,153	7,193
Sales/Disposals	(199)	(1,850)	(675)	(2,724)	(375)	(1,707)	(904)	(2,986)
Transfers into Level 3	21	5	73	99	126	295	–	421
Transfers out of Level 3	(10)	(11)	–	(21)	–	–	–	–
Other	–	–	–	–	–	28	(28)	–
As at 31 December	2,035	19,073	9,107	30,215	1,757	13,915	8,608	24,280

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

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

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

Where possible, the group assesses the sensitivity of fair values of Level 3 investments to changes in unobservable inputs to reasonable alternative assumptions. As outlined above, Level 3 investments are valued using internally-modelled valuations or independent third parties. Where internally-modelled valuations are used, sensitivities are determined by adjusting various inputs of the model and assigning them a weighting. Where independent third parties are used, sensitivities are determined as outlined below:

- Unquoted investments in property vehicles and direct holdings in investment property are valued using valuations provided by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. Reasonably possible alternative valuations have been determined using alternative yields.
- Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined by stressing key assumptions used in the valuation models.

The table below shows the sensitivity of the fair value of Level 3 assets and liabilities at 31 December 2019 to changes in unobservable inputs to a reasonable alternative.

	Fair value 2019 £m	Most significant unobservable input	Sensitivities	
			Positive impact £m	Negative impact £m
Lifetime mortgages	4,733	Illiquidity premium	329	(334)
Private credit loans	10,998	Credit spreads	625	(625)
Investment property	9,107	Equivalent rental yields	821	(804)
Other investments	5,377	Various	227	(239)
Total Level 3 investments	30,215		2,002	(2,002)

The above table demonstrates the effect of a change in one or more unobservable inputs while other assumptions remain unchanged. In reality, there may be a correlation between the unobservable inputs and other factors. It should also be noted that some of these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

Balance sheet management continued

12 IFRS 9 'Financial instruments' deferral

As required by the amendments to IFRS 4 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts', the disclosures below are presented in order to provide users of the financial statements with information which allows them to compare financial assets when IFRS 9 is not applied with those of entities applying IFRS 9.

(i) Fair value of financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. passing the 'SPPI' test):

	Financial assets passing the SPPI test ^{1,2} 2019 £m	All other financial assets ³ 2019 £m	Financial assets passing the SPPI test ^{1,2} 2018 £m	All other financial assets ³ 2018 £m
Equity securities	–	200,365	–	177,566
Debt securities	1,716	285,200	1,766	252,686
Accrued interest	8	1,639	12	1,623
Derivative assets	–	14,828	–	10,065
Loans at fair value	–	16,377	–	9,206
Total financial investments at fair value	1,724	518,409	1,778	451,146
Loans at amortised cost	437	–	456	–
Reinsurance receivables	99	–	24	–
Insurance and intermediaries receivables	67	–	205	–
Other financial assets	5,219	–	2,860	–
Total fair value of financial assets⁴	7,546	518,409	5,323	451,146

1. Financial assets classified as held for trading or that are managed and whose performance is evaluated on a fair value basis do not require an SPPI test to be performed. These assets are reported in All other financial assets.
2. For financial assets which pass the SPPI test held at 31 December 2019 there was a change in the fair value in the year of £64m (2018: £(112)m).
3. For all other financial assets held at 31 December 2019 there was a change in the fair value in the year of £45,492m (2018: £(17,918)m).
4. Financial assets exclude cash and cash equivalents and receivables under finance leases.

(ii) Credit risk information of financial assets passing the SPPI test:

	AAA 2019 £m	AA 2019 £m	A 2019 £m	BBB 2019 £m	BB or below ¹ 2019 £m	Other ² 2019 £m	Total 2019 £m
Debt securities	361	78	357	892	28	–	1,716
Accrued interest	2	–	3	3	–	–	8
Total financial investments at fair value	363	78	360	895	28	–	1,724
Loans at amortised cost	–	139	75	98	3	122	437
Reinsurance receivables	–	–	–	–	–	99	99
Insurance and intermediaries receivables	–	–	–	–	–	67	67
Other financial assets	–	3	96	3	1	5,116	5,219
Total carrying value of financial assets passing the SPPI test³	363	220	531	996	32	5,404	7,546

1. Financial assets classified as 'BB or below' are considered to be lower than investment grade, and therefore are not deemed to have low credit risk under IFRS 9.
2. Other financial assets are made up of unrated and short term receivables for which a formal credit rating is not assigned. The fair value of financial assets passing the SPPI test that are not deemed to have low credit risk as at 31 December 2019 is £43m.
3. Financial assets exclude cash and cash equivalents and receivables under finance leases. The fair value of these assets approximates to their carrying value.

	AAA 2018 £m	AA 2018 £m	A 2018 £m	BBB 2018 £m	BB or below ¹ 2018 £m	Other ² 2018 £m	Total 2018 £m
Debt securities	361	141	707	510	47	–	1,766
Accrued interest	2	1	4	5	–	–	12
Total financial investments at fair value	363	142	711	515	47	–	1,778
Loans at amortised cost	–	219	1	135	–	101	456
Reinsurance receivables	–	–	–	–	–	24	24
Insurance and intermediaries receivables	–	–	–	–	–	205	205
Other financial assets	12	14	381	17	2	2,434	2,860
Total carrying value of financial assets passing the SPPI test ³	375	375	1,093	667	49	2,764	5,323

1. Financial assets classified as 'BB or below' are considered to be lower than investment grade, and therefore are not deemed to have low credit risk under IFRS 9.
2. Other financial assets are made up of unrated and short term receivables for which a formal credit rating is not assigned. The fair value of financial assets passing the SPPI test that are not deemed to have low credit risk as at 31 December 2018 is £106m.
3. Financial assets exclude cash and cash equivalents and receivables under finance leases. The fair value of these assets approximates to their carrying value.

Balance sheet management continued

13 Derivative assets and liabilities

The group's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The group uses derivatives such as foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The group uses hedge accounting, provided the prescribed criteria in IAS 39, 'Financial instruments: Recognition and measurement' are met, to recognise the offsetting effects of changes in the fair value or cash flow of the derivative instrument and the hedged item. The group's principal uses of hedge accounting are to:

- (i) Defer in equity the changes in the fair value of derivatives designated as the hedge of a future cash flow attributable to a recognised asset or liability, a highly probable forecast transaction, or a firm commitment until the period in which the future transaction affects profit or loss or is no longer expected to occur; and
- (ii) Hedge the fair value movements in loans due to interest rate and exchange rate fluctuations. Any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the Consolidated Income Statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Consolidated Income Statement.

The relationship between the hedging instrument and the hedged item, together with the risk management objective and strategy for undertaking the hedge transaction, are documented at the inception of the transaction. The effectiveness of the hedge is documented and monitored on an ongoing basis. Hedge accounting is only applied for highly effective hedges (between 80% and 125% effectiveness) with any ineffective portion of the gain or loss recognised in the Consolidated Income Statement in the current year.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments which do not qualify for hedge accounting are recognised immediately in the Consolidated Income Statement.

Where the risks and characteristics of derivatives embedded in other contracts are not closely related to those of the host contract and the whole contract is not carried at fair value, the derivative is separated from that host contract and measured at fair value, with fair value movements reflected within investment return, unless the embedded derivative itself meets the definition of an insurance contract.

Cash inflows and outflows are presented on a net basis where the group is required to settle net or has a legally enforceable right of offset and the intention is to settle on a net basis.

Forward foreign exchange contracts – net investment hedges

The group hedges part of the foreign exchange translation exposure on its net investment in certain overseas subsidiaries, using forward foreign exchange contracts. It recognises the portion of the gain or loss which is determined to be an effective hedge through reserves within shareholders' equity, along with the gain or loss on translation of the foreign subsidiaries.

Derivative contracts – held for trading

The group uses certain derivative contracts which are effective hedges of economic exposures in accordance with the group's risk management policy, but for various reasons are not designated within a formal hedge accounting relationship. Therefore, these contracts must be designated as held for trading, and gains and losses on these contracts are recognised immediately in the Consolidated Income Statement.

	Fair values		Fair values	
	Assets ¹	Liabilities ²	Assets ¹	Liabilities ²
	2019	2019	2018	2018
	£m	£m	£m	£m
Shareholder derivatives:				
Interest rate contracts – cash flow hedges	–	–	–	1
Currency swap contracts – held for trading	44	112	–	29
Inflation swap contracts – held for trading	1	–	–	1
Other derivatives – held for trading	63	14	18	29
Total shareholder derivatives	108	126	18	60
Non profit non-unit linked derivatives:				
Interest rate contracts – held for trading	9,875	7,967	3,630	1,679
Forward foreign exchange contracts – held for trading	87	71	40	80
Currency swap contracts – held for trading	448	146	53	623
Inflation swap contracts – held for trading	987	2,280	454	793
Credit derivatives – held for trading	28	3	–	1
Other derivatives – held for trading	23	902	216	27
Total non profit non-unit linked derivatives	11,448	11,369	4,393	3,203
With-profits derivatives:				
Interest rate contracts – held for trading	88	20	44	17
Other derivatives – held for trading	27	10	7	26
Total with-profits derivatives	115	30	51	43
Unit linked derivatives:				
Interest rate contracts – held for trading	469	339	4,603	1,650
Forward foreign exchange contracts – held for trading	1,790	357	389	743
Credit derivatives – held for trading	16	52	28	56
Inflation swap contracts – held for trading	99	287	76	440
Inflation rate contracts – held for trading	11	7	–	–
Equity/index derivatives – held for trading	608	328	202	230
Other derivatives – held for trading	164	218	305	1,366
Total unit linked derivatives	3,157	1,588	5,603	4,485
Total derivative assets and liabilities	14,828	13,113	10,065	7,791

1. Derivative assets are reported in the Consolidated Balance Sheet within Financial investments and investments property (Note 11).

2. Derivative liabilities are reported in the Consolidated Balance Sheet within Payables and other financial liabilities (Note 25).

The group has entered into fixed rate borrowings denominated in USD and is therefore exposed to foreign exchange and interest rate risks. In order to hedge these risks the group has entered into a cross currency interest rate swap, enabling the exposure to be swapped into a fixed rate in its functional currency. These had a fair value liability totalling £51m (2018: £25m) and a notional amount of £1,099m (2018: £1,099m) at 31 December 2019. There was no ineffectiveness recognised in the income statement in respect of these hedges during 2019.

Balance sheet management continued

13 Derivative assets and liabilities continued

The contractual undiscounted cash flows in relation to non-unit linked derivatives have the following maturity profile. Unit linked derivatives have not been included as shareholders are not directly exposed to liquidity risks.

As at 31 December 2019	Fair values £m	Maturity profile of undiscounted cash flows					Total £m
		Within 1 year £m	1–5 years £m	5–15 years £m	15–25 years £m	Over 25 years £m	
Cash inflows							
Shareholder derivatives							
Derivative assets	108	1,137	220	1,137	–	1	2,495
Derivative liabilities	(126)	251	398	2,293	1	2	2,945
Non profit non-unit linked derivatives							
Derivative assets	11,448	6,604	8,213	20,245	10,096	8,475	53,633
Derivative liabilities	(11,369)	4,997	6,548	14,327	8,998	6,988	41,858
With-profits derivatives							
Derivative assets	115	935	73	127	64	34	1,233
Derivative liabilities	(30)	138	16	27	13	7	201
Total	146	14,062	15,468	38,156	19,172	15,507	102,365
Cash outflows							
Shareholder derivatives							
Derivative assets	108	(1,055)	(126)	(882)	–	(1)	(2,064)
Derivative liabilities	(126)	(269)	(437)	(2,438)	(1)	(2)	(3,147)
Non profit non-unit linked derivatives							
Derivative assets	11,448	(6,044)	(7,227)	(19,520)	(8,439)	(5,364)	(46,594)
Derivative liabilities	(11,369)	(5,609)	(9,675)	(18,537)	(11,865)	(9,573)	(55,259)
With-profits derivatives							
Derivative assets	115	(898)	(44)	(101)	(50)	(24)	(1,117)
Derivative liabilities	(30)	(150)	(22)	(34)	(16)	(10)	(232)
Total	146	(14,025)	(17,531)	(41,512)	(20,371)	(14,974)	(108,413)
Net shareholder derivatives cash flows		64	55	110	–	–	229
Net non profit non-unit linked derivatives cash flows		(52)	(2,141)	(3,485)	(1,210)	526	(6,362)
Net with-profits derivatives cash flows		25	23	19	11	7	85

As at 31 December 2018	Maturity profile of undiscounted cash flows						Total £m
	Fair values £m	Within 1 year £m	1–5 years £m	5–15 years £m	15–25 years £m	Over 25 years £m	
Cash inflows							
Shareholder derivatives							
Derivative assets	18	374	5	5	–	–	384
Derivative liabilities	(60)	920	4	4	–	–	928
Non profit non-unit linked derivatives							
Derivative assets	4,393	3,345	5,435	9,109	4,937	1,410	24,236
Derivative liabilities	(3,203)	4,661	4,607	12,130	7,627	1,876	30,901
With-profits derivatives							
Derivative assets	51	251	44	64	15	–	374
Derivative liabilities	(43)	591	50	87	58	41	827
Total	1,156	10,142	10,145	21,399	12,637	3,327	57,650
Cash outflows							
Shareholder derivatives							
Derivative assets	18	(361)	(4)	(5)	–	–	(370)
Derivative liabilities	(60)	(975)	(5)	(5)	–	–	(985)
Non profit non-unit linked derivatives							
Derivative assets	4,393	(3,045)	(5,250)	(8,584)	(4,280)	(1,132)	(22,291)
Derivative liabilities	(3,203)	(5,161)	(5,806)	(14,031)	(8,548)	(2,129)	(35,675)
With-profits derivatives							
Derivative assets	51	(309)	(27)	(45)	(11)	–	(392)
Derivative liabilities	(43)	(683)	(54)	(100)	(64)	(41)	(942)
Total	1,156	(10,534)	(11,146)	(22,770)	(12,903)	(3,302)	(60,655)
Net shareholder derivatives cash flows		(42)	–	(1)	–	–	(43)
Net non profit non-unit linked derivatives cash flows		(200)	(1,014)	(1,376)	(264)	25	(2,829)
Net with-profits derivatives cash flows		(150)	13	6	(2)	–	(133)

Future cash flows on the floating legs of interest rate and exchange derivatives are calculated using current spot rates, which may differ from the market expectation incorporated in the fair value.

Cash flows arising from implied events covered by credit derivatives are presented in the table above on an expected basis as cash flows within one year.

Cash inflows or outflows are presented on a net basis where the group is required to settle net or has a legally enforceable right of offset and the intention is to settle on a net basis.

Balance sheet management continued

14 Receivables and other assets

	Notes	Total 2019 £m	Total 2018 £m
Reinsurance receivables		99	24
Receivables under finance leases	14(j)	171	162
Accrued interest and rent		376	210
Prepayments and accrued income		416	595
Insurance and intermediaries receivables		67	205
Inventories ¹		2,120	1,687
Contract assets ²		223	192
Other receivables ³		5,272	2,724
Total other assets		8,744	5,799
Less: assets of operations classified as held for sale ⁴		(212)	(206)
Other assets		8,532	5,593
Due within 12 months		7,035	5,377
Due after 12 months		1,709	422

- Inventories represent house building stock including land, options on land, work in progress and other inventory.
- Contract assets represent the entity's right to consideration in exchange for goods or services that have been transferred to a customer.
- Other receivables include amounts receivable from brokers and clients for investing activities, collateral pledges, unsettled cash, FX spots and other sundry balances.
- Detailed disclosure related to assets of operations classified as held for sale is included in Note 30.

(i) Receivables under finance leases

The group leases certain investment properties to third parties. Under these agreements, substantially all the risks and reward incidental to ownership are transferred to the lessee; therefore the contracts have been classified as finance leases. At the lease commencement date, the group derecognises the investment property asset and recognises a receivable asset on its balance sheet to reflect the net investment in the lease, equal to the present value of the lease payments. The group recognises finance income over the lease term to reflect the rate of return on the net investment in the lease.

The group acts as a lessor of certain finance leases, which have a weighted average duration to maturity of 30 years as at 31 December 2019. The counterparties, as lessee, are regarded to be the economic owner of the leased assets.

The future minimum lease payments under the arrangement, together with the present value, are disclosed below:

	Total future payments 2019 £m	Unearned interest income 2019 £m	Present value 2019 £m	Total future payments 2018 £m	Unearned interest income 2018 £m	Present value 2018 £m
Within 1 year	10	(6)	4	8	(5)	3
1–2 years	10	(5)	5	8	(5)	3
2–3 years	10	(5)	5	8	(5)	3
3–4 years	10	(5)	5	8	(5)	3
4–5 years	10	(5)	5	8	(5)	3
After 5 years	210	(63)	147	215	(68)	147
Total	260	(89)	171	255	(93)	162

15 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, treasury bills and other short term highly liquid investments with maturities of three months or less from the date of acquisition.

	Shareholder	Non profit non-unit linked	With- profits	Unit linked	Total
	2019	2019	2019	2019	2019
	£m	£m	£m	£m	£m
Cash at bank and in hand	406	279	102	977	1,764
Cash equivalents	1,123	860	454	10,032	12,469
Total cash and cash equivalents	1,529	1,139	556	11,009	14,233
Less: assets of operations classified as held for sale ¹	–	–	(99)	(211)	(310)
Cash and cash equivalents	1,529	1,139	457	10,798	13,923

	Shareholder	Non profit non-unit linked	With- profits	Unit linked	Total
	2018	2018	2018	2018	2018
	£m	£m	£m	£m	£m
Cash at bank and in hand	288	521	68	1,438	2,315
Cash equivalents	1,543	1,287	233	12,710	15,773
Total cash and cash equivalents	1,831	1,808	301	14,148	18,088
Less: assets of operations classified as held for sale ¹	–	–	(67)	(700)	(767)
Cash and cash equivalents	1,831	1,808	234	13,448	17,321

1. Detailed disclosure related to assets of operations classified as held for sale is included in Note 30.

Balance sheet management continued

16 Market risk

(i) Investment performance risk

(a) Equity securities

The group controls its exposure to geographic price risks by using internal country risk exposure limits. These exposure limits are based on macroeconomic data and key qualitative indicators. The latter take into account economic, social and political environments. The table below indicates the group's exposure to different equity markets around the world. Unit linked equity investments are excluded from the table as the risk is retained by the policyholder.

	Shareholder	Non profit non-unit linked	With- profits	Total	Shareholder	Non profit non-unit linked	With- profits	Total
	2019 £m	2019 £m	2019 £m	2019 £m	2018 £m	2018 £m	2018 £m	2018 £m
Exposure to worldwide equity markets								
United Kingdom	579	47	967	1,593	388	71	855	1,314
North America	372	80	462	914	339	62	447	848
Europe	451	55	653	1,159	382	51	685	1,118
Japan	95	–	169	264	84	3	169	256
Asia Pacific	130	12	333	475	134	17	359	510
Other	60	–	221	281	66	1	228	295
Listed equities	1,687	194	2,805	4,686	1,393	205	2,743	4,341
Unlisted UK equities	88	–	–	88	70	–	–	70
Holdings in unit trusts	895	–	298	1,193	859	–	193	1,052
Total equities	2,670	194	3,103	5,967	2,322	205	2,936	5,463

(b) Debt securities

The group controls its exposure to geographic price risks by using internal country credit ratings. These ratings are based on macroeconomic data and key qualitative indicators. The latter take into account economic, social and political environments. The table below indicates the group's exposure to different debt security markets around the world. Unit linked debt securities are excluded from the table as the risk is retained by the policyholder.

Total debt securities and accrued interest	Shareholder	Non profit non-unit linked	With-profits	Total	Shareholder	Non profit non-unit linked	With-profits	Total
	2019	2019	2019	2019	2018	2018	2018	2018
	£m	£m	£m	£m	£m	£m	£m	£m
United Kingdom	1,726	37,940	3,186	42,852	2,269	31,940	3,401	37,610
USA	2,030	20,084	658	22,772	1,836	14,579	664	17,079
Netherlands	205	2,324	270	2,799	218	2,191	320	2,729
France	213	1,373	286	1,872	205	1,162	323	1,690
Germany	15	492	134	641	109	632	139	880
GIIPS:								
– Greece	–	–	–	–	2	–	–	2
– Ireland	26	975	45	1,046	40	1,247	64	1,351
– Italy	10	30	18	58	6	65	24	95
– Portugal	–	–	–	–	–	–	–	–
– Spain	1	150	23	174	8	149	24	181
Belgium	29	237	50	316	23	145	53	221
Russia	6	–	12	18	11	–	10	21
Rest of Europe	339	2,962	387	3,688	232	2,173	336	2,741
Brazil	8	44	37	89	16	48	38	102
Rest of World	473	3,368	406	4,247	766	2,949	644	4,359
Collateralised debt obligations ¹	–	82	–	82	–	75	–	75
	5,081	70,061	5,512	80,654	5,741	57,355	6,040	69,136
Analysed as:								
Debt securities	5,059	69,530	5,468	80,057	5,708	56,864	5,988	68,560
Accrued interest	22	531	44	597	33	491	52	576

1. All CDOs of £82m (2018: £75m) are domiciled in the Rest of World.

Balance sheet management continued

16 Market risk continued

(i) Investment performance risk continued

(c) Additional disclosures on shareholder and non profit non-unit linked debt securities exposure

	2019 £m	2019 %	2018 £m	2018 %
Sovereigns, supras and sub-sovereigns	12,683	17	11,615	18
Banks:				
– Tier 1	2	–	2	–
– Tier 2 and other subordinated	100	–	113	–
– Senior	5,452	7	5,036	8
– Covered	167	–	192	–
Financial services:				
– Tier 2 and other subordinated	301	–	273	–
– Senior	947	1	664	1
Insurance:				
– Tier 2 and other subordinated	242	–	160	–
– Senior	988	1	814	1
Consumer services and goods:				
– Cyclical	3,509	5	2,746	4
– Non-cyclical	7,358	10	5,272	8
– Healthcare	1,469	2	934	2
Infrastructure:				
– Social	5,798	8	5,152	8
– Economic	5,051	7	4,151	7
Technology and telecoms	4,418	6	3,542	7
Industrials	1,443	2	1,383	2
Utilities	10,778	15	9,812	16
Energy	1,166	2	1,064	2
Commodities	912	1	734	1
Oil and gas	2,203	3	1,610	3
Real estate	3,552	5	2,783	4
Structured finance ABS/RMBS/CMBS/Other	1,788	2	1,742	3
Lifetime mortgage loans	4,733	6	3,227	5
Collateralised debt obligations	82	–	75	–
Total	75,142	100	63,096	100

Analysis of Sovereigns, Supras and Sub-Sovereigns	2019	2018
	£m	£m
Market value by region		
United Kingdom	9,764	9,238
USA	1,995	1,038
Netherlands	1	37
France	28	7
Germany	310	502
GIIPS:		
– Greece	–	1
– Ireland	–	–
– Italy	11	3
– Portugal	–	–
– Spain	–	7
Russia	6	11
Rest of Europe	306	467
Brazil	4	13
Rest of World	258	291
Total	12,683	11,615

Balance sheet management continued

16 Market risk continued

(ii) Currency risk

The group has minimal exposure to currency risk from financial instruments held by business units in currencies other than their functional currencies, as nearly all such holdings are backing either insurance or investment contract liabilities or hedging.

The group operates internationally and as a result is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. The largest United States dollar currency exposures relate to the group's US business, Legal & General America. The majority of currency exposures relating to euros are held by Legal & General Investment Management (Europe) Limited, a subsidiary of Legal & General Investment Management Limited. The group does not hedge foreign currency revenues as these are substantially retained locally to support the growth of the group's business and meet local regulatory and market requirements.

Businesses aim to maintain sufficient assets in local currency to meet local currency liabilities, however movements may impact the value of the group's consolidated shareholders' equity which is expressed in sterling. This aspect of foreign exchange risk is monitored and managed centrally, against pre-determined limits. These exposures are managed by aligning the deployment of regulatory capital by currency with the group's regulatory capital requirements by currency. Currency borrowings and derivatives may be used to manage exposures within the limits that have been set.

As at 31 December 2019, the group held 15% (2018: 10%) of its total equity attributable to shareholders in currencies, mainly United States dollar and euro, other than the functional currency of the relevant business unit. The exchange risks inherent in these exposures may be mitigated through the use of derivatives, mainly forward currency contracts.

Consistent with the group's accounting policies, the profits of overseas business units (reported as functional currencies) are translated at average exchange rates and the net assets (reported as functional currencies) at the closing rate for the reporting period. A 10% increase (weakening of foreign currencies) or decrease (strengthening of foreign currencies) in these rates would increase or reduce the profit for the year and net assets as follows:

	A 10% increase in USD:GBP exchange rate		A 10% decrease in USD:GBP exchange rate	
	2019 £m	2018 £m	2019 £m	2018 £m
Profit for the year ¹	(1)	12	1	(14)
Net assets attributable to USD exposures ¹	(77)	(38)	94	47

	A 10% increase in EUR:GBP exchange rate		A 10% decrease in EUR:GBP exchange rate	
	2019 £m	2018 £m	2019 £m	2018 £m
Profit for the year ¹	-	-	-	-
Net assets attributable to EUR exposures ¹	(103)	(97)	125	119

1. Profit for the year impacts relate only to overseas business units where the functional currency is not sterling. Net asset impacts include both functional currency and non-functional currency exposures.

17 Credit risk

The credit profile of the group's assets exposed to credit risk is shown below. The credit rating bands are provided by independent rating agencies. For unrated assets, the group maintains internal ratings which are used to manage exposure to these counterparties. Unit linked assets have not been included as shareholders are not directly exposed to the associated credit risk. Additionally, assets such as equity securities, deferred acquisition costs and tax, have no exposure to the associated credit risk and therefore have also been excluded.

The carrying amount of the financial assets recorded in the financial statements represent the maximum exposure to credit risk.

Shareholder

As at 31 December 2019	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated other ¹ £m	Total £m
Government securities		314	527	35	47	26	202	1,151
Other fixed rate securities		141	618	1,246	385	165	356	2,911
Variable rate securities		56	363	65	508	5	–	997
Total debt securities¹	11(i)	511	1,508	1,346	940	196	558	5,059
Accrued interest	11(i)	2	4	5	4	3	4	22
Loans	11(ii)	32	135	448	50	–	404	1,069
Derivative assets	13	–	45	54	9	–	–	108
Cash and cash equivalents	15	16	522	790	107	–	94	1,529
Reinsurers' share of contract liabilities		–	155	163	1	–	3	322
Other assets		142	23	112	10	1	2,872	3,160
Total		703	2,392	2,918	1,121	200	3,935	11,269

1. Of the total debt securities and accrued interest that have been internally rated and unrated, £4m is rated AAA, £195m AA, £84m A, £236m BBB, £36m BB or below and £7m as other.

Non profit non-unit linked

As at 31 December 2019	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated other ¹ £m	Total £m
Government securities		1,372	6,343	17	195	1	186	8,114
Other fixed rate securities		1,126	4,724	15,044	16,903	418	11,486	49,701
Variable rate securities		330	1,934	2,737	709	33	1,239	6,982
Lifetime mortgages		–	–	–	–	–	4,733	4,733
Total debt securities¹	11(i)	2,828	13,001	17,798	17,807	452	17,644	69,530
Accrued interest	11(i)	23	55	171	240	4	38	531
Loans	11(ii)	–	126	454	50	–	–	630
Derivative assets	13	–	1,723	9,244	434	–	47	11,448
Cash and cash equivalents	15	175	211	626	4	–	123	1,139
Reinsurers' share of contract liabilities		–	4,706	460	–	–	344	5,510
Other assets		3	18	163	73	–	2,372	2,629
Total		3,029	19,840	28,916	18,608	456	20,568	91,417

1. Of the total debt securities and accrued interest that have been internally rated and unrated, £3,172m is rated AAA, £2,960m AA, £5,983m A, £5,273m BBB, £248m BB or below and £46m as other.

Balance sheet management continued

17 Credit risk continued

With-profits

As at 31 December 2019	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated other £m	Total £m
Government securities		22	1,180	27	50	27	134	1,440
Other fixed rate securities		387	717	1,325	1,187	38	65	3,719
Variable rate securities		24	233	47	3	2	–	309
Total debt securities	11(i)	433	2,130	1,399	1,240	67	199	5,468
Accrued interest	11(i)	7	10	9	16	1	1	44
Loans	11(ii)	–	79	286	32	–	–	397
Derivative assets	13	–	–	115	–	–	–	115
Cash and cash equivalents	15	2	133	415	6	–	–	556
Other assets		–	–	1	1	–	58	60
Total		442	2,352	2,225	1,295	68	258	6,640

Shareholder

As at 31 December 2018	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated other ¹ £m	Total £m
Government securities		266	1,132	34	97	45	125	1,699
Other fixed rate securities		152	871	1,178	333	154	367	3,055
Variable rate securities		77	410	374	17	4	72	954
Total debt securities ¹	11(i)	495	2,413	1,586	447	203	564	5,708
Accrued interest	11(i)	2	13	6	5	4	3	33
Loans	11(ii)	61	218	350	157	–	41	827
Derivative assets	13	–	–	18	–	–	–	18
Cash and cash equivalents	15	40	575	1,073	47	–	96	1,831
Reinsurers' share of contract liabilities		–	170	168	1	–	4	343
Other assets		204	7	100	12	1	2,187	2,511
Total		802	3,396	3,301	669	208	2,895	11,271

1. Of the total debt securities and accrued interest that have been internally rated and unrated, £1m is rated AAA, £170m AA, £77m A, £245m BBB, £46m BB or below and £28m as other.

Non profit non-unit linked

As at 31 December 2018	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated other ¹ £m	Total £m
Government securities		504	5,401	3	181	2	629	6,720
Other fixed rate securities		1,004	4,650	12,352	13,444	380	8,324	40,154
Variable rate securities		364	1,858	2,622	623	130	1,166	6,763
Lifetime mortgages		–	–	–	–	–	3,227	3,227
Total debt securities ¹	11(i)	1,872	11,909	14,977	14,248	512	13,346	56,864
Accrued interest	11(i)	21	51	162	228	4	25	491
Loans	11(ii)	–	76	386	24	–	–	486
Derivative assets	13	–	3	3,360	1,015	–	15	4,393
Cash and cash equivalents	15	149	363	1,168	50	–	78	1,808
Reinsurers' share of contract liabilities		–	4,039	84	–	–	267	4,390
Other assets		1	3	78	11	–	617	710
Total		2,043	16,444	20,215	15,576	516	14,348	69,142

1. Of the total debt securities and accrued interest that has been internally rated and unrated, £2,303m was rated AAA, £2,554m AA, £4,283m A, £3,896m BBB, £179m BB and below and £156m as other.

With-profits

As at 31 December 2018	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated other £m	Total £m
Government securities		64	1,351	32	43	27	22	1,539
Other fixed rate securities		387	705	1,353	1,177	39	76	3,737
Variable rate securities		228	373	78	5	–	28	712
Total debt securities	11(i)	679	2,429	1,463	1,225	66	126	5,988
Accrued interest	11(i)	8	15	10	18	1	–	52
Loans	11(ii)	–	–	42	3	–	–	45
Derivative assets	13	–	–	43	8	–	–	51
Cash and cash equivalents	15	2	45	238	9	–	7	301
Other assets		–	–	1	1	–	44	46
Total		689	2,489	1,797	1,264	67	177	6,483

Balance sheet management continued

17 Credit risk continued

Impairment

The group reviews the carrying value of its financial assets (other than those held at FVTPL) at each balance sheet date. If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the Consolidated Income Statement. There must be objective evidence of impairment as a result of one or more events which have occurred after the initial recognition of the asset. Impairment is only recognised if the loss event has an impact on the estimated future cash flows of assets held at amortised cost or fair value of assets classified as available for sale.

Assets which are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The table below provides information regarding the carrying value of financial assets which have been impaired and the ageing analysis of financial assets which are past due but not impaired. Unit linked assets have not been included as shareholders are not exposed to the risks from unit linked policies.

Ageing analysis

	Neither past due nor impaired £m	Past due but not impaired				Impaired £m	Carrying value £m
		0-3 months £m	3-6 months £m	6 months- 1 year £m	Over 1 year £m		
As at 31 December 2019							
Shareholder	11,117	124	9	11	8	-	11,269
Non profit non-unit linked	91,210	193	3	-	11	-	91,417
With-profits	6,598	41	-	-	1	-	6,640

	Neither past due nor impaired £m	Past due but not impaired				Impaired £m	Carrying value £m
		0-3 months £m	3-6 months £m	6 months- 1 year £m	Over 1 year £m		
As at 31 December 2018							
Shareholder	10,940	286	11	8	23	3	11,271
Non profit non-unit linked	68,966	127	7	4	38	-	69,142
With-profits	6,460	22	-	-	1	-	6,483

Offsetting

Financial assets and liabilities are offset in the Consolidated Balance Sheet when the group has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis, or to realise the asset and liability simultaneously.

The group has not entered into any financial transactions resulting in financial assets and liabilities which have been offset in the Consolidated Balance Sheet. The table below shows the financial assets and liabilities that are subject to master netting agreements in the shareholder, non profit non-unit linked and with-profits funds. Unit linked assets and liabilities have not been included as shareholders are not exposed to the risks on these policies.

	Amounts subject to enforceable netting arrangements				
	Gross and net amounts reported in the Consolidated Balance Sheet £m	Amounts under master netting arrangements but not offset			
		Related financial instruments ¹ £m	Cash collateral ² £m	Securities collateral pledged £m	Net amount £m
As at 31 December 2019					
Derivative assets	11,671	(9,846)	(543)	(1,602)	(320)
Reverse repurchase agreements	1,659	–	–	(1,647)	12
Total	13,330	(9,846)	(543)	(3,249)	(308)
Derivative liabilities	(11,525)	9,846	1,696	496	513
Repurchase agreements	(620)	–	–	620	–
Total	(12,145)	9,846	1,696	1,116	513

1. Related financial instruments represents outstanding amounts with the same counterparty which, under agreements such as the ISDA Master Agreement, could be offset and settled net following certain predetermined events.
2. Includes cash held as a collateral buffer above a target level for operational management purposes.

	Amounts subject to enforceable netting arrangements				
	Gross and net amounts reported in the Consolidated Balance Sheet £m	Amounts under master netting arrangements but not offset			
		Related financial instruments ¹ £m	Cash collateral ² £m	Securities collateral pledged £m	Net amount £m
As at 31 December 2018					
Derivative assets	4,462	(2,953)	(1,214)	(343)	(48)
Reverse repurchase agreements	902	–	–	(889)	13
Total	5,364	(2,953)	(1,214)	(1,232)	(35)
Derivative liabilities	(3,306)	2,953	109	237	(7)
Repurchase agreements	(78)	–	–	78	–
Total	(3,384)	2,953	109	315	(7)

1. Related financial instruments represents outstanding amounts with the same counterparty which, under agreements such as the ISDA Master Agreement, could be offset and settled net following certain predetermined events.
2. Includes cash held as a collateral buffer above a target level for operational management purposes.

In the tables above, the amounts of assets or liabilities presented in the Consolidated Balance Sheet are offset first by financial instruments that have the right of offset under master netting or similar arrangements with any remaining amount reduced by cash and securities collateral. The actual amount of collateral may be greater than the amounts presented in the tables above.

Balance sheet management continued

18 Insurance risk

The group is exposed to insurance risk as a consequence of offering the principal products outlined in Note 6. Insurance risk is the exposure to loss arising from experience being different to that anticipated. Detailed below are the risks associated with each of the group's segments and the associated controls operated. They are applicable to all stated products across the group.

Principal risks	Division	Controls to mitigate risks
<p>Longevity, mortality & morbidity risks</p> <p>For contracts providing death benefits, higher mortality rates would lead to an increase in claims costs. The cost of health related claims depends on both the incidence of policyholders becoming ill and the duration over which they remain ill. Higher than expected incidence or duration would increase costs over the level currently assumed in the calculation of liabilities.</p>	LGI	<p>The pricing of protection business is based on assumptions as to future trends in mortality and morbidity having regard to past experience. Underwriting criteria are defined setting out the risks that are unacceptable and the terms for non-standard risks presented by the lives to be insured. Extensive use of reinsurance is made within the UK individual protection business, placing a proportion of all risks meeting prescribed criteria. Mortality and morbidity experience is compared to that assumed within the pricing basis with variances subject to actuarial investigation.</p>
<p>For savings contracts providing minimum assured death benefits, higher mortality rates may result in an increase in claims costs.</p>	Savings ¹	<p>The pricing basis for contracts providing minimum assured death benefits include provision for future trends in mortality based on past experience. The level of mortality risk accepted within each contract is not sufficiently material to warrant formal underwriting at an individual policy level.</p>
<p>Older contracts containing a basic guaranteed benefit expressed as an amount of pension payable or a guaranteed annuity option, expose the group to interest rate and longevity risk. The cost of guarantees increases during periods when interest rates are low or when annuitant mortality improves faster than expected.</p>	Savings ¹	<p>The ultimate cost of basic guarantees provided on older contracts will depend on the take up rate of any option and the final form of annuity selected by the policyholder. The group has limited ability to control the take up of these options. Although the number of policies has reduced over the year, the value of guarantees has increased mainly due to a large reduction in interest rates over the year. As at 31 December 2019 the value of guarantees is estimated to be £39m (31 December 2018: £35m).</p>
<p>For annuity contracts, the group is exposed to the risk that mortality experience is lower than assumed. Lower than expected mortality would require payments to be made for longer and increase the cost of benefits provided. Lifetime mortgage business also explicitly has some exposure to the life expectancy of borrowers.</p>	LGR	<p>Annuity business is priced having regard to trends in improvements in future mortality. Enhanced annuities, which are priced taking account of impairments to life expectancy, are subject to specific underwriting criteria. Certain annuitant mortality risks, including enhanced annuities, are placed with reinsurers. The group regularly reviews its mortality experience and industry projections of longevity and adjusts the pricing and valuation assumptions accordingly. In pricing lifetime mortgage business, account is taken of trends in mortality rates in setting the amounts that are advanced to borrowers relative to the value of the property on which the loan is secured.</p>
<p>Persistency risk</p> <p>In the early years of a policy, lapses may result in a loss to the group, as the acquisition costs associated with the contract would not have been recovered from product margins.</p>	LGI and Savings ¹	<p>The pricing basis for protection business includes provision for policy lapses. The persistency assumption for non-participating protection business allows for the expected pattern of persistency, adjusted to incorporate a margin for adverse deviation. Actual trends in policy lapse rates are monitored with adverse trends being subject to actuarial investigation.</p> <p>For insured savings contracts, terms and conditions typically include surrender deductions to mitigate the risk. In later periods, once the acquisition costs have been recouped, the effect of lapses and surrenders depends upon the relationship between the exit benefit, if any, and the liability for that contract. Exit benefits are not generally guaranteed and the group has some discretion in determining the amount of the payment. As a result, the effect on profit in later periods is expected to be broadly neutral.</p>

1. In December 2017, the group announced the sale of its Mature Savings business to ReAssure Limited (a subsidiary of Swiss Re). The sale is subject to regulatory approval and the Part VII transfer is expected to complete in 2020. Since the announcement the group has entered into a risk transfer agreement with ReAssure Limited. Until the Part VII transfer is completed most risks are effectively transferred to ReAssure Limited by this agreement (expense and operational risks being the key ones retained by the group).

Principal risks	Division	Controls to mitigate risks
<p>Expense risk</p> <p>In pricing long term insurance business, assumptions are made as to the future cost of product servicing. A significant adverse divergence in actual expenses experience could reduce product profitability.</p>	LGR, LGI and Savings ¹	In determining pricing assumptions, account is taken of changes in price indices and the costs of employment, with stress testing used to evaluate the effect of significant deviations. Actual product servicing costs are monitored relative to the costs assumed with the product pricing basis, with variances investigated.
<p>Concentration (catastrophe) risk</p> <p>Insurance risk may be concentrated in geographic regions, altering the risk profile of the group. The most significant exposure of this type arises for group protection business, where a single event could result in a large number of related claims.</p>	LGI and General Insurance ²	Group protection business contracts include an 'event limit' capping the total liability under the policy from a single event. Excess of loss reinsurance further mitigates loss from the exposure. For general insurance business, the risk acceptance policy, terms and premiums reflect expected claims and cost associated with a location and avoids adverse selection. Additionally, exposure by location is monitored to ensure there is a geographic spread of risk. Catastrophe reinsurance cover also mitigates loss from concentrations of risk.
<p>Epidemic (catastrophe) risk</p> <p>The spread of an epidemic could cause large aggregate claims across the group's portfolio of protection businesses.</p>	LGI	The pricing basis for protection business includes an assessment of potential claims as a result of epidemic risks. Quota share and excess of loss reinsurance contracts are used by individual and group protection, respectively, to further mitigate the risk. Depending on the nature of an epidemic, mortality experience may lead to a reduction in the cost of claims for annuity business.
<p>Weather events risk</p> <p>Significant weather events such as windstorms and coastal and river floods can lead to a higher instance of claims than anticipated.</p>	General Insurance ²	The financial impacts of significant weather events are managed using excess of loss catastrophe treaties under which a portion of the costs of claims may be recovered from external insurers, although the group retains an element of the risk internally. The reinsurance is designed to provide financial protection against a modelled windstorm and coastal flood event with a return probability of 1 in 200 years.
<p>Other risks</p> <p>Subsidence risk</p> <p>The incidence of subsidence can have a significant impact on the level of claims on household policies.</p>	General Insurance ²	Underwriting criteria for general insurance business includes assessment of subsidence risk, with an appropriate premium being charged for the risk accepted in line with industry practice.

1. In December 2017, the group announced the sale of its Mature Savings business to ReAssure Limited (a subsidiary of Swiss Re). The sale is subject to regulatory approval and the Part VII transfer is expected to complete in 2020. Since the announcement the group has entered into a risk transfer agreement with ReAssure Limited. Until the Part VII transfer is completed most risks are effectively transferred to ReAssure Limited by this agreement (expense and operational risks being the key ones retained by the group).
2. On 31 May 2019, the group announced the sale of its General Insurance business to Allianz. The sale completed on 31 December 2019.

Accumulation of risks

There is limited potential for single incidents to give rise to a large number of claims across the different contract types written by the group. In particular, there is little significant overlap between the long term and short term insurance business written by the group. However, there are potentially material correlations of insurance risk with other types of risk exposure. The group's capital model seeks to measure risk correlations particularly those that would tend to be more acute as the underlying risk scenarios become more extreme. An example of the accumulation of risk is the correlation between reinsurer credit risk with mortality and morbidity exposures.

Operational risk

Operational risk is defined as loss arising from inadequate or failed internal processes, people, systems or external events. Potential for exposure to operational risk extends to all the group's businesses. The group has constructed a framework of internal controls to minimise material loss from operational risk events recognising that no system of internal control can completely eliminate the risk of error, financial loss, fraudulent action or reputational damage.

Balance sheet management continued

19 Long term insurance valuation assumptions

The group's insurance assumptions, described below, relate primarily to the UK insurance business. Assumptions have also been included for material lines of the US insurance business, Legal & General America (LGA). Other non-UK businesses do not constitute a material component of the group's operations and consideration of geographically determined assumptions is therefore not included.

(i) Non-participating business

For its non-participating business the group seeks to make prudent assumptions about its future experience based on current market conditions and recent experience. The approach used to set non-participating assumptions is generally similar to that previously used to determine the assumptions used for Solvency I. There are no material changes in this approach as a result of the Solvency II regulatory regime, which came into effect on 1 January 2016, except for the use of term and whole of life mortality improver assumptions. Assumptions incorporate prudent margins in excess of our best estimate assumptions to reduce the possibility of actual experience being less favourable than assumed. The assumptions for with-profits unit linked products continue to be on a best estimate basis, materially similar to that previously used under Solvency I (Peak 2).

Valuation rates of interest and discount rates

The valuation interest rate for each contract type is based on the yield on the assets backing the contract adjusted for the risk that asset proceeds are not received by the group. For some business, this yield is the gross redemption yield or appropriate forward yield on fixed interest securities and the running yield on variable interest securities. For other business it is the Internal Rate of Return on the portfolio of backing assets.

In 2019, the group continued to hold an additional reserve to protect against the risk on assets backing its annuity business of an uplift in defaults in the current economic environment and maintained the level of the long term default allowance at 42bps per annum (2018: 42bps) for unapproved securities and property backing non-profit business. For approved securities backing the non-profit annuity business, the allowance is 9bps per annum (2018: 9bps). For unapproved securities backing non-profit annuity business, the credit default allowances equate to 47bps per annum (2018: 51bps) when expressed over the duration of the assets held, leading to an overall total default provision of £3.2bn (2018: £2.9bn).

The group believes this total default allowance is prudent to cover all reasonably foreseeable circumstances. Similar allowances are made for the risk of default of fixed income securities backing other portfolios of liabilities.

For equity investments, the yield is based on the current dividend yield, adjusted for prudence.

For property holdings, yields are based on the rental income payable.

Mortality and morbidity

Mortality and morbidity assumptions for the UK business are set with reference to standard tables drawn up by the Continuous Mortality Investigation Bureau (CMIB), a subsidiary of the Institute and Faculty of Actuaries, and/or UK death registrations. US assumptions are set with reference to standard tables drawn up by the American Academy of Actuaries. Assumptions include an appropriate allowance for prudence. Tables are based on industry-wide mortality and morbidity experience for insured lives.

The group conducts statistical investigations of its mortality and morbidity experience, the majority of which are carried out at least annually. Investigations determine the extent to which the group's experience differs from that underpinning the standard tables, and suggest appropriate adjustments which need to be made to the valuation assumptions.

Persistency

The group monitors its persistency experience and carries out detailed investigations annually. Persistency experience can be volatile and past experience may not be an appropriate future indicator.

The group tries to balance past experience and potential future conditions by making prudent assumptions about expected long term average persistency levels.

For non-participating contracts where explicit persistency assumptions are not made, prudence is also incorporated into the liabilities by ensuring that they are sufficient to cover the more onerous of the two scenarios where the policies either remain in-force until maturity or where they discontinue at the valuation date.

Expenses

The group monitors its expense experience and carries out detailed investigations regularly to determine the expenses incurred in writing and administering the different products and classes of business. Adjustments may be made for known future changes in the administration processes, in line with the group's business plan. An allowance for expense inflation in the future is also made, taking account of both salary and price information. The expense assumptions also include an appropriate allowance for prudence.

Premiums

For those contracts where the policyholder does not have the right to vary the amount of the premium paid, full credit is taken for the premiums contractually due at the valuation date. For contracts where the policyholder has the option to vary the rate of premium, the provision is taken as being the higher of the amount calculated as if the policyholder continues to make premium payments or, alternatively, ceases to pay premiums altogether.

(ii) Participating business

For its participating business the group seeks to establish its liabilities at their realistic value in line with the requirements set out in UK Generally Accepted Accounting Principles (GAAP).

Non-economic assumptions

Non-economic assumptions are set to represent the group's best estimates of future experience.

Premiums

For those contracts where the policyholder does not have the right to vary the amount of the premium paid, full credit is taken for the premiums contractually due at the valuation date. For contracts where the policyholder has the option to vary the rate of premium, the provision is taken as being the higher of the amount calculated as if the policyholder continues to make premium payments or, alternatively, ceases to pay premiums altogether.

Economic assumptions

Realistic reporting requires a market consistent economic model. The model is calibrated using market data from a variety of market sources. This enables assumptions to be determined for the term structure of risk free interest rates, and for property and equity volatility. Risk free interest rates are determined with reference to the swap yield curve on the valuation date less a credit risk adjustment (CRA) of 11bps for 2019 (2018: swap yield curve on the valuation date less a CRA of 10bps).

Property volatility is set with reference to historic variations in property prices. Equity volatility is set so that the model reproduces observed market prices of traded equity derivatives. Correlations between asset classes are based on historic data.

Each investment scenario contains a consistent set of assumptions for investment returns and inflation.

Future bonuses

Future reversionary and terminal bonuses are consistent with the bonus policies set out in Legal and General Assurance Society Limited's (LGAS) Principles and Practices of Financial Management (PPFM).

Guaranteed annuity options

The guarantees are valued on a market consistent basis. The valuation methodology allows for the correlation between interest rates and the proportion of policyholders who take up the option.

Guaranteed cash options

The liability is determined assuming that policyholders choose the most valuable alternative between the annuity and cash available at retirement.

Value of in-force for non-participating business

The group makes a deduction from the liabilities for the expected value of future profits arising on non-participating contracts written in the with-profits part of the LGAS Long Term Fund.

The economic assumptions used to calculate the value of these profits are consistent with those used to calculate liabilities for with-profits business. Non-economic assumptions represent best estimates of expected future experience on this business.

Balance sheet management continued

19 Long term insurance valuation assumptions continued

(iii) Long term valuation assumptions

The table below sets out the current valuation assumptions used to establish the long term liabilities.

	2019	2018
Rate of interest/discount rates		
Non-participating business		
Life assurances ¹	1.07% p.a. and 2.88% p.a.	1.47% p.a. and 3.42% p.a.
Pension assurances ¹	1.00% p.a. and 2.76% p.a.	1.50% p.a. and 3.37% p.a.
Annuities in deferment	1.93% p.a.	2.61% p.a.
Annuities in deferment (RPI-linked; net rate after allowance for inflation)	(1.28)% p.a.	(0.84)% p.a.
Vested annuities	1.93% p.a.	2.61% p.a.
Vested annuities (RPI-linked; net rate after allowance for inflation)	(1.28)% p.a.	(0.84)% p.a.
US annuities ²	3.09% p.a.	4.17% p.a.
US term assurance ³	2.37%–3.05% p.a.	2.85%–3.57% p.a.
Participating business		
Risk free rate (10 years)	0.92% p.a.	1.35% p.a.
Future bonuses	Determined stochastically in line with bonus policy as stated in PPFM	Determined stochastically in line with bonus policy as stated in PPFM
UK equity volatility (10 year option term)	16.23%	18.05%
Property volatility	15.00%	15.00%
Mortality tables		
Non-participating business		
Non-linked individual term assurances ⁴		
Smokers	98% TMS08/TFS08 Sel 5	117% TMS08/TFS08 Sel 5
Non-smokers	104% TMN08/TFN08 Sel 5	107% TMN08/TFN08 Sel 5
Non-linked individual term assurances with terminal illness ^{4,5}		
Smokers	62%–104% TMS08/TFS08 Sel 5	70%–105% TMS08/TFS08 Sel 5
Non-smokers	91%–102% TMN08/TFN08 Sel 5	88%–106% TMN08/TFN08 Sel 5
Non-linked individual term assurances with critical illness (Sold until 31/12/2012) ⁶		
Smokers	112%–141% ACSL04M/F	120%–143% ACSL04M/F
Non-smokers	125%–146% ACNL04M/F	126%–151% ACNL04M/F
Non-linked individual term assurances with critical illness (Sold from 01/01/2013) ⁶		
Smokers	116%–148% ACSL04M/F Sel 2	124%–145% ACSL04M/F Sel 2
Non-smokers	130%–164% ACNL04M/F Sel 2	131%–177% ACNL04M/F Sel 2
Whole of Life Protection Plan ⁷		
Smokers	Bespoke tables based on TMS08/TFS08, AM92/AF92 and UK death registrations	Bespoke tables based on TMS08/TFS08, AM92/AF92 and UK death registrations
Non-smokers	Bespoke tables based on TMN08/TFN08, AM92/AF92 and UK death registrations	Bespoke tables based on TMN08/TFN08, AM92/AF92 and UK death registrations
Whole of Life over 50 ⁸	Bespoke tables based on ELT15, Whole of Life Protection Plan assumptions and UK death registrations	Bespoke tables based on ELT15, Whole of Life Protection Plan assumptions and UK death registrations
Annuities in deferment ⁸	73.1%–82.9% PNMA00/PNFA00	75.6%–84.2% PNMA00/PNFA00
Vested annuities ⁹		
Pension risk transfer	73.9%–82.9% PCMA00/PCFA00	76.4%–84.2% PCMA00/PCFA00
Other annuities	58.5%–95.0% PCMA00/PCFA00	59.7%–108.8% PCMA00/PCFA00
US annuities	Bespoke tables based on RP-2014 Healthy Annuitant Total table	Bespoke tables based on RP-2014 Healthy Annuitant Total table
US term assurance ¹⁰	Adjusted SOA 2014 VBT	Bespoke tables based on SOA 2014 VBT

1. A single rate is used if liabilities are negative (2019: 2.88% for Life and 2.76% for Pensions; 2018: 3.42% for Life and 3.37% for Pensions) or positive (2019: 1.00% gross (for Pension assurance) and 1.33% gross or 1.07% net (for Life assurance); 2018: 1.50% gross (for Pension assurance) and 1.85% gross or 1.47% net (for Life assurance)) throughout. The table above shows the assumption of the dominant product for the positive liabilities and the single rate for the negative liabilities. An appropriate valuation interest rate is applied at all times during the projection, i.e. when liabilities switch from being negative to positive the valuation interest rate will also switch from being high to low. The crossover point at which the margin changes direction is assessed for broad product groups but applied at a policy by policy level. There are no IFRS reserves for Workplace Savings, hence no valuation interest rate is used. For Solvency II reporting the non-unit best estimate liability is discounted using a risk free curve rather than a flat rate.
2. The valuation interest rate is the internal rate of return on the portfolio of backing assets and includes prudent adjustments for investment expense, default and re/investment risk.
3. The valuation interest rate is derived by combining the risk free yield curve (based on the USD curve specified by EIOPA for Solvency II) plus a risk adjusted spread addition based on the portfolio of assets LGA invest in. It includes prudent adjustments for investment expense, default and re/investment risk.
4. Improvement assumptions applied for 2019 of 1% for males and females (2018: 1% for males and females).
5. The percentage of the table varies with the duration that the policy has been in force for the first five years.
6. The percentage of the table varies with the duration that the policy has been in force for the first two years. For term assurance with critical illness, morbidity rates are assumed to deteriorate at a rate of 0.50% p.a. for males and 0.75% p.a. for females (2018: 0.50% p.a. for males and 0.75% p.a. for females). There is no additive loading for guaranteed term contracts post policy duration 5 (2018: 1.00%).
7. Mortality rates are assumed to reduce based on CMI2016 model with a long term annual improvement rate of 1.5% for males and 1.0% for females (2018: Mortality rates are assumed to reduce based on CMI2014 model with a long term annual improvement rate of 1.5% for males and 1.0% for females).
8. Table created by blending PCXA00 with PNXA00 tables. The base table to be used for bulk purchase annuity policies in deferment is PNMA00 up to and including age 55 and PCMA00 for age 65 and above for males. The identical method is applied to females using PNFA00 and PCFA00.
9. Mortality rates are assumed to reduce according to an adjusted version of CMIB's mortality improvement model; CMI 2017 (2018: CMI 2016) with the following parameters:
Males: Long Term Rate of 1.50% p.a. up to age 85 tapering to 0% at 110 (2018: Long Term Rate of 1.50% p.a. up to age 85 tapering to 0% at 110).
Females: Long Term Rate of 1.00% p.a. up to age 85 tapering to 0% at 110 (2018: Long Term Rate of 1.00% p.a. up to age 85 tapering to 0% at 110).
Smoothing is applied to derive initial rates using a smoothing parameter (Sk) value of 7.5 applied to L&G bespoke population data to 2017. The resulting initial rates are then adjusted to reflect socio-economic class. (2018: smoothing parameter (Sk) value of 7.5 applied to L&G bespoke population data to 2016).
Different business classes have different effective dates for applying improvers.
For individual annuities distributed through retail channels, a further allowance is made for the effect of initial selection.
The basis above is applicable up to age 90. After age 90 the basis is blended towards a bespoke table from age 105 onwards (2018: After age 90 the basis is blended towards a bespoke table from age 105 onwards).
10. For LGA business, the mortality rates are based on the SOA 2014 Valuation Basic Table (VBT). Adjustments are made for sex, select period, smoker status, policy size, policy duration and year, issue year and age.

Balance sheet management continued

19 Long term insurance valuation assumptions continued

(iii) Long term valuation assumptions continued

Persistency assumptions

Lapse rates assumptions are used in the valuation of certain classes of long term business. Where this is the case, the valuation persistency basis is set by applying a prudential margin over the best estimate assumptions. The tables below show the major products where lapse rates have been used.

For UK term assurance business, the margin acts to increase the best estimate lapse rate in the early part of a policy's lifetime (when it is treated as an asset) but to reduce the best estimate lapse rate later in the policy's lifetime (when it is treated as a liability). The crossover point at which the margin changes direction is assessed for broad product groups but applied at a policy by policy level. Any liability to reinsurers on discontinuance within the first four years from inception is allowed for explicitly in the cash flows, using the valuation lapse basis, together with a prudent allowance for clawback of commission from agents upon lapse.

For unitted business, the margin acts to either increase or decrease the best estimate lapse rates, depending upon which approach results in the higher liability. The direction of the margin is assessed for unit life business and unit pensions business separately.

A summary of the lapse basis for major classes of non-profit business is shown below. The lapse rates for unit linked business represent the decrement from in-force to surrender.

For US term assurance, a single margin is used across guaranteed period durations for a given policy. All US term assurance contracts are assumed to lapse at the end of the guaranteed period. Policies past the guaranteed period as of the valuation date are assumed to lapse on the next premium due date.

Product	2019 Average lapse rate for the policy years			
	1-5 %	6-10 %	11-15 %	16-20 %
Level term	10.5	4.8	3.3	3.0
Decreasing term	9.9	9.0	8.1	8.0
Accelerated critical illness cover	12.9	8.7	5.4	4.3
Pensions term	n/a	4.2	3.6	3.4
Whole of Life (conventional non profit)	2.5	0.8	0.7	0.7
Bond (unit linked non profit)	2.7	7.0	3.7	3.4
US term – 10 year guarantee period	6.4	6.1	n/a	n/a
US term – 15 year guarantee period	4.5	3.4	4.7	n/a
US term – 20 year guarantee period	4.6	2.8	2.4	3.3
US term – 30 year guarantee period	5.2	3.1	2.3	1.8

Product	2018 Average lapse rate for the policy years			
	1-5 %	6-10 %	11-15 %	16-20 %
Level term	9.1	5.1	3.6	3.2
Decreasing term	10.4	9.4	8.5	8.4
Accelerated critical illness cover	12.9	8.9	6.0	5.2
Pensions term	n/a	5.9	4.6	4.2
Whole of Life (conventional non profit)	2.0	0.8	0.7	0.7
Bond (unit linked non profit)	2.7	7.0	3.7	3.4
US term – 10 year guarantee period	4.3	4.7	n/a	n/a
US term – 15 year guarantee period	2.5	2.2	3.2	n/a
US term – 20 year guarantee period	2.2	1.7	1.6	2.5
US term – 30 year guarantee period	2.1	1.7	1.4	1.1

For with-profits business, the realistic valuation was the biting basis under the previous Solvency I regime and therefore detail of the long term best estimate lapse rates is given below for unitised with-profits and unit linked non-participating products. The lapse rates for unit linked business represent the decrement from in-force to surrender.

Product	2019 Average lapse rate for the policy years			
	1-5 %	6-10 %	11-15 %	16-20 %
Savings endowment (unitised with-profits)	–	–	1.0	4.0
Target cash endowment (unitised with-profits)	–	–	4.6	4.3
Savings endowment (unit linked non-participating)	–	–	1.0	4.0
Target cash endowment (unit linked non-participating)	–	–	4.6	4.3
Bond (unitised with-profits)	1.6	5.6	5.1	3.7
Bond (unit linked non-participating)	–	1.1	3.0	5.5
Individual pension regular premium (unitised with-profits)	4.4	4.4	4.4	4.4
Individual pension regular premium (unit linked non-participating)	4.9	5.4	5.0	4.9
Group pension regular premium (unitised with-profits)	13.6	14.0	14.3	14.3
Group pension regular premium (unit linked non-participating)	2.9	4.6	5.5	5.5
Individual pension single premium (unitised with-profits)	3.3	3.4	3.3	3.3
Individual pension single premium (unit linked non-participating)	4.4	4.8	4.3	4.2
Group pension single premium (unitised with-profits)	6.2	5.8	5.7	5.6
Group pension single premium (unit linked non-participating)	16.1	11.8	11.1	10.4
Trustee Investment Plan single premium (unitised with-profits)	–	13.7	15.0	15.0
Trustee Investment Plan single premium (unit linked non-participating)	–	13.7	15.0	15.0

Product	2018 Average lapse rate for the policy years			
	1-5 %	6-10 %	11-15 %	16-20 %
Savings endowment (unitised with-profits)	–	–	1.0	4.0
Target cash endowment (unitised with-profits)	–	–	4.6	4.3
Savings endowment (unit linked non-participating)	–	–	1.0	4.0
Target cash endowment (unit linked non-participating)	–	–	4.6	4.3
Bond (unitised with-profits)	1.6	5.6	5.1	3.7
Bond (unit linked non-participating)	–	1.1	3.0	5.5
Individual pension regular premium (unitised with-profits)	4.4	4.4	4.4	4.4
Individual pension regular premium (unit linked non-participating)	5.0	5.4	5.0	4.9
Group pension regular premium (unitised with-profits)	13.2	13.7	13.9	13.9
Group pension regular premium (unit linked non-participating)	3.8	5.4	6.2	6.2
Individual pension single premium (unitised with-profits)	3.3	3.4	3.3	3.3
Individual pension single premium (unit linked non-participating)	4.4	4.8	4.4	4.2
Group pension single premium (unitised with-profits)	6.1	5.7	5.6	5.6
Group pension single premium (unit linked non-participating)	16.2	12.0	11.4	10.6
Trustee Investment Plan single premium (unitised with-profits)	–	13.7	15.0	15.0
Trustee Investment Plan single premium (unit linked non-participating)	–	13.7	15.0	15.0

Endowment reserve

The endowment reserve has been set taking reasonable account of assessment of the expected future population of complaints, the expected uphold rate for these complaints, the potential impact of any Financial Ombudsmen Service decisions on referred complaints and the average compensation per complaint.

Overseas business

In calculating the long term business provisions for international long term business operation, local actuarial tables and interest rates are used.

Balance sheet management continued

20 IFRS sensitivity analysis

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

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

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

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

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

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

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

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

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

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

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

21 Insurance contract liabilities

Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract. This is the case if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, other than a scenario which lacks commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment contracts.

A number of insurance and investment contracts contain discretionary participating features (DPF) which entitle the policyholders to receive guaranteed benefits as well as additional benefits:

- the amount or timing of which is contractually at the discretion of the group; and
- which are contractually based on:
 - the performance of a specified pool of contracts or a specified type of contract;
 - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
 - the profit or loss of the company, fund or other entity which issues the contract.

Contracts with DPF are referred to as participating contracts. With-profits contracts in the UK are classified as participating.

Long term insurance

Death claims are accounted for on notification of death. Surrenders for non-linked policies are accounted for when payment is made. Critical illness claims are accounted for when admitted. All other long term claims and surrenders are accounted for when payment is due. Claims payable include the direct costs of settlement.

The change in the insurance liability reflects the reduction in liabilities due to the payment of claims in the year, offset by liabilities arising from new business. The movement also reflects assumption changes relating to variables such as claims expectations, expenses and the unwind of the previous period's expectations.

Under current IFRS requirements, insurance contract liabilities are measured using local Generally Accepted Accounting Principles (GAAP), as permitted by IFRS 4, 'Insurance contracts'.

UK

For non-participating insurance contracts, the liabilities are calculated on the basis of current information using the gross premium valuation method. This brings into account the full premiums receivable under contracts written, having prudent regard to expected lapses and surrenders, estimated renewal and maintenance costs, and contractually guaranteed benefits. For unit linked insurance contract liabilities the provision is based on the fund value together with an allowance for any excess of future expenses over charges where appropriate.

For participating contracts, the liabilities to policyholders are determined on a realistic basis in accordance with guidance previously set out in Financial Reporting Standard (FRS) 27, 'Life assurance'. Although FRS 27 is no longer an operational standard, the group has grandfathered the provisions into its IFRS reserving methodology. This includes an assessment of the cost of any future options and guarantees granted to policyholders valued on a market consistent basis. The calculation also takes account of bonus decisions which are consistent with Legal and General Assurance Society Limited's Principles and Practices of Financial Management (PPFM). The shareholders' share of the future cost of bonuses is excluded from the assessment of the realistic liability.

In determining the realistic value of liabilities for participating contracts, the value of future profits on non-participating business written in the with-profits part of the fund is accounted for as part of the calculation. The present value of future profits (PVFP) for this business is separately determined and its value is deducted from the sum of the liabilities for participating contracts and the unallocated divisible surplus.

Unitised liabilities are recognised when premiums are received and non-unitised liabilities are recognised when premiums are due.

Following the group's announcement in December 2017 to sell Mature Savings business to ReAssure Limited (a subsidiary of Swiss Re), the participating insurance contract liabilities, which is part of Mature Savings business, has been classified as held for sale. The sale is expected to complete in 2020.

Overseas

All annuity and term assurance business written by overseas subsidiaries is recognised and measured in line with those written in the UK. All other long term insurance contract liabilities for business transacted by overseas subsidiaries are determined on the basis of recognised actuarial methods which reflect local supervisory principles or, in the case of the US, on the basis of US GAAP.

Balance sheet management continued

21 Insurance contract liabilities continued

General insurance

Liabilities are established on the basis of current information. Such liabilities can never be definitive as to their timing or the amount of claims and are therefore subject to subsequent reassessment on a regular basis. Claims are accounted for in respect of all incidents up to the year end. Provision is made on the basis of available information for the estimated ultimate cost, including claims settlement expenses, claims reported but not yet settled and claims incurred but not yet reported. An unexpired risk provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums and after taking account of investment return.

On 31 May 2019 the group announced the sale of its General Insurance business to Allianz, and the transaction completed on 31 December 2019. The group continues to retain General Insurance exposure through a residual reinsurance arrangement.

Liability adequacy tests

The group performs liability adequacy testing on its insurance liabilities to ensure that the carrying amount of liabilities (less related deferred acquisition costs) is sufficient to cover current estimates of future cash flows. When performing the liability adequacy test, the group discounts all contractual cash flows and compares this amount with the carrying value of the liability. Any deficiency is immediately charged to the Consolidated Income Statement, initially reducing deferred acquisition costs and then by establishing a provision for losses.

Reinsurance

The group's insurance subsidiaries cede insurance premiums and risk in the normal course of business in order to limit the potential for losses and to provide financing. Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured. Reinsurance assets include balances due from reinsurers for paid and unpaid losses and loss adjustment expenses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded as an asset in the Consolidated Balance Sheet unless a right of offset exists, in which case the associated liabilities are reduced commensurately.

Contracts with reinsurers are assessed to determine whether they contain significant insurance risk. Contracts that do not give rise to significant transfer of insurance risk to the reinsurer are considered to be financial reinsurance and are accounted for and disclosed in a manner consistent with financial instruments.

(i) Analysis of non-participating insurance contract liabilities

	Note	Gross 2019 £m	Reinsurance 2019 £m	Gross 2018 £m	Reinsurance 2018 £m
Non-participating insurance contracts	21(iii)	78,151	(5,833)	65,301	(4,723)
General insurance contracts		77	–	346	(10)
Total non-participating insurance contract liabilities		78,228	(5,833)	65,647	(4,733)
Less: liabilities of operations classified as held for sale ¹	21(iii)	(911)	26	(940)	48
Insurance contract liabilities		77,317	(5,807)	64,707	(4,685)

1. Detailed disclosure relating to liabilities of operations held for sale is included in Note 30.

(ii) Expected non-participating insurance contract liability cash flows

	Date of undiscounted cash flows				Total £m
	0–5 years £m	5–15 years £m	15–25 years £m	Over 25 years £m	
As at 31 December 2019					
Non-participating insurance contracts	16,961	32,216	22,524	21,180	92,881
Non-participating insurance contract liabilities	16,961	32,216	22,524	21,180	92,881

	Date of undiscounted cash flows				Total £m
	0–5 years £m	5–15 years £m	15–25 years £m	Over 25 years £m	
As at 31 December 2018					
Non-participating insurance contracts	13,626	25,819	19,535	19,673	78,653
General insurance contracts ¹	130	2	–	–	132
Non-participating insurance contract liabilities	13,756	25,821	19,535	19,673	78,785

1. Excludes unearned premium reserve £204m for which there are no cash flows.

Non-participating insurance contract undiscounted cash flows are based on the expected date of settlement.

Amounts under unit linked contracts are generally repayable on demand and the group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due. However, the terms of funds investing in less liquid assets permit the deferral of redemptions for predefined periods in circumstances where there are not sufficient liquid assets within the fund to meet the level of requested redemptions. Accordingly, unit linked liabilities have been excluded from the table.

(iii) Movement in non-participating insurance contract liabilities

	Gross 2019 £m	Reinsurance 2019 £m	Gross 2018 £m	Reinsurance 2018 £m
As at 1 January	65,301	(4,723)	62,145	(5,316)
New liabilities in the year	11,474	(1,638)	9,622	(743)
Liabilities discharged in the year	(3,640)	319	(3,399)	263
Unwinding of discount rates	1,687	(125)	1,385	(136)
Effect of change in non-economic assumptions	(1,058)	529	(1,912)	1,181
Effect of change in economic assumptions	4,906	(228)	(2,729)	117
Foreign exchange adjustments	(225)	24	222	(21)
Modelling and methodology changes	(322)	17	35	(72)
Other	28	(8)	(68)	4
Total as at 31 December	78,151	(5,833)	65,301	(4,723)
Less: liabilities of operations classified as held for sale ¹	(911)	26	(940)	48
As at 31 December	77,240	(5,807)	64,361	(4,675)
Expected to be settled within 12 months (net of reinsurance) ²	2,207		1,557	
Expected to be settled after 12 months (net of reinsurance) ²	70,111		59,021	

1. Detailed disclosure related to the liabilities of operations classified as held for sale is included in Note 30.

2. The expected maturity analysis between within and after 12 months is based on the Total non-participating insurance contract liabilities and reinsurance as at 31 December.

22 Investment contract liabilities

Under current IFRS requirements, participating investment contract liabilities are measured using local GAAP, as permitted by IFRS 4, 'Insurance Contracts'. In the UK, participating investment contract liabilities are determined in accordance with guidance previously set out in FRS 27, 'Life Assurance', including a value for guarantees, in the same way as participating insurance contracts. Although FRS 27 is no longer an operational standard, the group has grandfathered the provisions into its IFRS reserving methodology.

Non-participating investment contract liabilities are measured at fair value. For unit linked liabilities, fair value is determined by reference to the value of the underlying net asset values of the group's unitised investment funds at the balance sheet date. For non linked liabilities, fair value is based on a discounted cash flow analysis which incorporates an appropriate allowance for credit default risk.

Claims are not included in the income statement but are deducted from investment contract liabilities. The movement in investment contract liabilities consists of claims incurred in the year less the corresponding elimination of the policyholder liability originally recognised in the balance sheet and the investment return credited to policyholders.

Following the group's announcement in December 2017 to sell the Mature Savings business to ReAssure Limited (a subsidiary of Swiss Re), participating investment contract liabilities, which are a part of Mature Savings business, have been classified as held for sale.

Balance sheet management continued

22 Investment contract liabilities continued

(i) Analysis of non-participating investment contract liabilities

	Gross 2019 £m	Reinsurance 2019 £m	Gross 2018 £m	Reinsurance 2018 £m
Total non-participating investment contracts	339,271	(149)	311,494	(183)
Less: liabilities of operations classified as held for sale ¹	(18,677)	146	(18,414)	131
Non-participating investment contract liabilities	320,594	(3)	293,080	(52)
Expected to be settled within 12 months (net of reinsurance) ²	48,035		53,414	
Expected to be settled after 12 months (net of reinsurance) ²	291,087		257,897	

1. Detailed disclosure relating to the liabilities of operations classified as held for sale is included in Note 30.

2. The expected maturity analysis between within and after 12 months is based on the Total non-participating investment contract liabilities.

Amounts under unit linked contracts are generally repayable on demand and the group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due. However, the terms of funds investing in less liquid assets permit the deferral of redemptions for predefined periods in circumstances where there are not sufficient liquid assets within the fund to meet the level of requested redemptions. Accordingly cash flows of unit linked liabilities have not been reported.

The presented fair values of the non-participating investment contract liabilities reflect quoted prices in active markets and they have been classified as level 1 in the fair value hierarchy.

(ii) Movement in investment contract liabilities

	Gross 2019 £m	Reinsurance 2019 £m	Gross 2018 £m	Reinsurance 2018 £m
As at 1 January	316,071	(183)	341,796	(317)
Reserves in respect of new business	46,975	(6)	45,476	(3)
Amounts paid on surrenders and maturities during the year	(67,620)	75	(58,626)	126
Investment return and related benefits ¹	48,654	(35)	(12,327)	11
Management charges	(235)	–	(248)	–
Total as at 31 December	343,845	(149)	316,071	(183)
Less: liabilities of operations classified as held for sale ²	(23,251)	146	(22,991)	131
Total as at 31 December	320,594	(3)	293,080	(52)

1. Investment return and related benefits is disclosed on a total basis including discontinued operations. In the Consolidated Income Statement, the investment return for discontinued operations is included within 'Profit after tax from discontinued operations'.

2. Detailed disclosure relating to the liabilities of operations classified as held for sale items is included in Note 30.

23 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs. Borrowings are subsequently stated at amortised cost. The difference between the net proceeds and the redemption value is recognised in the income statement over the borrowing period using the effective interest rate method.

Borrowings comprise core borrowings such as subordinated bond issues and long term unsecured senior debt and operational borrowings such as commercial paper issuance and bank borrowings under both committed and uncommitted debt facilities, including bank overdrafts. Borrowings secured on specific assets/cash flows are included as non recourse borrowings.

(i) Analysis by type

	Borrowings excluding unit linked borrowings	Unit linked borrowings	Total 2019	Borrowings excluding unit linked borrowings	Unit linked borrowings	Total 2018
	2019 £m	2019 £m	2019 £m	2018 £m	2018 £m	2018 £m
Core borrowings	4,091	–	4,091	3,922	–	3,922
Operational borrowings	1,042	7	1,049	993	61	1,054
Total borrowings	5,133	7	5,140	4,915	61	4,976
Less: liabilities of operations classified as held for sale ¹	(29)	–	(29)	(28)	–	(28)
Borrowings	5,104	7	5,111	4,887	61	4,948

1. Detailed disclosure relating to liabilities of operations classified as held for sale is included in Note 30.

£208m of interest expense was incurred during the period (2018: £203m) on borrowings excluding non recourse and unit linked borrowings. The total finance costs incurred in the year were £269m (2018: £238m), which also includes £13m of finance costs on lease liabilities.

(ii) Analysis by nature

(a) Core borrowings

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

1. £47m (2018: £41m) of the group's subordinated and senior borrowings are held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total core borrowings in the table above.

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

Balance sheet management continued

23 Borrowings continued

(ii) Analysis by nature continued

(a) Core borrowings continued

Subordinated borrowings

5.875% Sterling undated subordinated notes

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

10% Sterling subordinated notes 2041

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

5.5% Sterling subordinated notes 2064

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

5.375% Sterling subordinated notes 2045

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

5.25% US Dollar subordinated notes 2047

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

5.55% US Dollar subordinated notes 2052

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

5.125% Sterling subordinated notes 2048

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

3.75% Sterling subordinated notes 2049

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

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

Senior borrowings

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

(b) Operational borrowings

	Carrying amount 2019 £m	Interest rate 2019 %	Fair value 2019 £m	Carrying amount 2018 £m	Interest rate 2018 %	Fair value 2018 £m
Short term operational borrowings						
Euro Commercial Paper	200	0.93	200	293	0.93	293
Non recourse borrowings						
Consolidated Property Limited Partnerships	58	2.36	58	57	2.46	57
Later Living portfolio	72	3.47	72	76	3.45	76
CALA revolving credit facility	178	3.37	178	188	3.37	188
Class B Surplus Notes	489	4.33	489	296	5.61	296
Affordable Homes revolving credit facility	29	2.66	29	–	–	–
L&G Homes Limited revolving credit facility	16	3.44	16	–	–	–
Bank loans and overdrafts	–	–	–	83	–	83
Total operational borrowings¹	1,042		1,042	993		993
Less: liabilities of operations classified as held for sale ²	(29)	2.36	(29)	(28)	2.46	(28)
Operational borrowings	1,013		1,013	965		965

1. Unit linked borrowings with a carrying value of £7m (2018: £61m) are excluded from the analysis above as the risk is retained by policyholders. Operational borrowings including unit linked borrowings are £1,020m (2018: £1,026m).
2. Disclosure related to liabilities of operations classified as held for sale is included in Note 30.

Non recourse borrowings

- Consolidated Property Limited Partnerships loans have a charge on the assets of the relevant Property Fund.
- Loan facilities to Later Living portfolio have a charge on all assets of each individual SPV company.
- CALA Group (Holdings) Limited's revolving credit facility is secured by way of a bond and floating charge, and guarantees and fixed charges granted by CALA Group Limited and its main subsidiaries (CALA 1999 Limited, CALA Limited, and CALA Management Limited). A number of other bonds and floating charges, fixed securities, debentures and share pledges over land and assets have been granted by certain subsidiaries of CALA Group Limited in favour of the lenders.
- The Class B Surplus Notes have been issued by a US subsidiary of the group as part of a coinsurance structure for the purpose of US statutory regulations. The notes were issued in exchange for bonds of the same value from an unrelated party, included within financial investments on the group's Consolidated Balance Sheet.
- The revolving credit facility to Affordable Homes is subject to agreed covenants, the breach of which could result in a charge on the land and work in progress of L&G Affordable Homes (Development 2) Limited.
- The revolving credit facility to L&G Homes Limited is secured by way of a charge on the land assets of L&G Homes Limited.

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

Balance sheet management continued

23 Borrowings continued (iii) Analysis by maturity

	Carrying amount £m	Maturity profile of undiscounted cash flows					Total £m
		Within 1 year £m	1–5 years £m	5–15 years £m	15–25 years £m	Over 25 years £m	
As at 31 December 2019							
Subordinated borrowings							
10% Sterling subordinated notes 2041 (Tier 2)	312	(13)	–	–	(300)	–	(313)
5.5% Sterling subordinated notes 2064 (Tier 2)	589	–	–	–	–	(600)	(600)
5.375% Sterling subordinated notes 2045 (Tier 2)	603	(6)	–	–	–	(600)	(606)
5.25% US Dollar subordinated notes 2047 (Tier 2)	648	(9)	–	–	–	(641)	(650)
5.55% US Dollar subordinated notes 2052 (Tier 2)	380	(4)	–	–	–	(377)	(381)
5.125% Sterling subordinated notes 2048 (Tier 2)	399	(3)	–	–	–	(400)	(403)
3.75% Sterling subordinated notes 2049 (Tier 2)	598	(2)	–	–	–	(600)	(602)
Senior borrowings							
Sterling medium term notes 2031–2041	609	(11)	–	(590)	(10)	–	(611)
Client fund holdings of group debt	(47)	–	–	–	–	–	–
Total core borrowings	4,091	(48)	–	(590)	(310)	(3,218)	(4,166)
Operational borrowings							
Euro Commercial Paper	200	(200)	–	–	–	–	(200)
Non recourse borrowings							
Consolidated Property Limited Partnerships	58	–	(58)	–	–	–	(58)
Later Living portfolio	72	(37)	(35)	–	–	–	(72)
CALA revolving credit facility	178	(180)	–	–	–	–	(180)
Class B Surplus Note	489	–	(60)	(165)	(266)	–	(491)
Affordable Homes revolving credit facility	29	–	(29)	–	–	–	(29)
L&G Homes limited revolving credit facility	16	–	(16)	–	–	–	(16)
Total operational borrowings	1,042	(417)	(198)	(165)	(266)	–	(1,046)
Less: borrowings of operations classified as held for sale ¹	(29)	–	29	–	–	–	29
Operational borrowings	1,013	(417)	(169)	(165)	(266)	–	(1,017)
Total borrowings excluding unit linked borrowings²	5,104	(465)	(169)	(755)	(576)	(3,218)	(5,183)
Contractual undiscounted interest payments		(201)	(1,246)	(2,315)	(1,835)	(933)	(6,530)
Total contractual undiscounted cash flows		(666)	(1,415)	(3,070)	(2,411)	(4,151)	(11,713)

1. Detailed disclosure related to liabilities of operations classified as held for sale is included in Note 30.

2. Unit linked borrowings are excluded from the analysis above as the risk is retained by policyholders.

As at 31 December 2018	Maturity profile of undiscounted cash flows						Total £m
	Carrying amount £m	Within 1 year £m	1–5 years £m	5–15 years £m	15–25 years £m	Over 25 years £m	
Subordinated borrowings							
5.875% Sterling undated subordinated notes (Tier 2) ¹	405	(6)	–	–	–	(400)	(406)
10% Sterling subordinated notes 2041 (Tier 2)	312	(13)	–	–	(300)	–	(313)
5.5% Sterling subordinated notes 2064 (Tier 2)	589	–	–	–	–	(600)	(600)
5.375% Sterling subordinated notes 2045 (Tier 2)	603	(6)	–	–	–	(600)	(606)
5.25% US Subordinated notes 2047 (Tier 2)	659	(10)	–	–	–	(667)	(677)
5.55% US Subordinated notes 2052 (Tier 2)	387	(4)	–	–	–	(392)	(396)
5.125% Sterling subordinated notes 2048 (Tier 2)	399	(3)	–	–	–	(400)	(403)
Senior borrowings							
Sterling medium term notes 2031–2041	609	(11)	–	(590)	(10)	–	(611)
Client fund holdings of group debt	(41)	–	–	–	–	–	–
Total core borrowings	3,922	(53)	–	(590)	(310)	(3,059)	(4,012)
Operational borrowings							
Euro Commercial Paper	293	(293)	–	–	–	–	(293)
Bank Loans and overdrafts	83	(83)	–	–	–	–	(83)
Non recourse borrowings							
Consolidated Property Limited Partnerships	57	–	(58)	–	–	–	(58)
Later living portfolio	76	(15)	(61)	–	–	–	(76)
CALA revolving credit facility	188	(188)	–	–	–	–	(188)
Class B Surplus Note	296	–	–	–	(296)	–	(296)
Total operational borrowings	993	(579)	(119)	–	(296)	–	(994)
Less: borrowings of operations classified as held for sale ²	(28)	–	28	–	–	–	28
Operational borrowings	965	(579)	(91)	–	(296)	–	(966)
Total borrowings excluding unit linked borrowings³	4,887	(632)	(91)	(590)	(606)	(3,059)	(4,978)
Contractual undiscounted interest payments		(195)	(1,240)	(2,050)	(1,358)	(715)	(5,558)
Total contractual undiscounted cash flows		(827)	(1,331)	(2,640)	(1,964)	(3,774)	(10,536)

1. These notes were redeemed in full on 1 April 2019.

2. Detailed disclosure related to liabilities of operations classified as held for sale is included in Note 30.

3. Unit linked borrowings are excluded from the analysis above as the risk is retained by policyholders.

The maturity profile above is calculated on the basis that a facility to refinance a maturing loan is not recognised unless the facility and loan are related. If refinancing under the group's credit facilities was recognised, then all amounts shown as repayable within one year would be reclassified as repayable between one and five years. Unit linked borrowings are excluded from the analysis as the risk is retained by the policyholders.

Undiscounted interest payments are estimated based on the year end applicable interest rate and spot exchange rates.

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

Balance sheet management continued

23 Borrowings continued (iv) Movement in borrowings

	2019 £m	2018 £m
As at 1 January	4,976	3,997
Cash movements:		
– Proceeds from borrowings	1,309	960
– Repayment of borrowings	(958)	(325)
– Net (decrease)/increase in bank loans and overdrafts	(137)	57
Non-cash movements:		
– Acquisition ¹	–	210
– Amortisation and other non cash-items	15	(15)
– Foreign exchange rate movements	(59)	74
– Other	(6)	18
Total borrowings as at 31 December	5,140	4,976
Less: liabilities of operations classified as held for sale ²	(29)	(28)
Total borrowings	5,111	4,948

1. Includes borrowings in CALA Homes which have been consolidated following the stepped acquisition of CALA Homes in 2018.

2. Detailed disclosure related to liabilities of operations classified as held for sale is included in Note 30.

24 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

The group operates a number of defined benefit and defined contribution pension schemes in the UK and overseas. The assets of all UK defined benefit schemes are held in separate trustee administered funds which are subject to regular actuarial valuations every three years, updated by formal reviews at reporting dates. The actuarial assumptions used in the triennial valuation would normally be consistent or more prudent than those used for the purposes of IAS 19, 'Employee Benefits' reporting.

The liability recognised in the Consolidated Balance Sheet in respect of the defined benefit pension schemes is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, provided any surplus in the Fund and Scheme is not restricted. Plan assets exclude the insurance contracts issued by the group. The defined benefit obligation is calculated actuarially each year using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The discount rate is based on market yields of high quality corporate bonds which are denominated in the currency in which the benefits will be paid, and that have terms to maturity which approximate to those of the related pension liability.

The group pays contractual contributions in respect of defined contribution schemes. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(i) Analysis of provisions

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

1. Detailed disclosure related to liabilities of operations classified as held for sale is included in Note 30.

(ii) Retirement benefit obligations**Defined contribution schemes**

The group operates the following principal defined contribution pension schemes in the UK and overseas:

- Legal & General Group Personal Pension Plan (UK);
- Legal & General Staff Stakeholder Pension Scheme (UK);
- Legal & General America Inc. Savings Plan (US); and
- CALA defined contribution pension scheme

Contributions of £66m (2018: £54m) were charged as expenses during the year in respect of defined contribution schemes.

Defined benefit schemes

The group operates the following defined benefit pension schemes in the UK and overseas:

- Legal & General Group UK Pension and Assurance Fund (the Fund). The Fund was closed to new members from January 1995; the last full actuarial valuation was as at 31 December 2015;
- Legal & General Group UK Senior Pension Scheme (the Scheme). The Scheme was, with a few exceptions (principally transfers from the Fund), closed to new members from August 2000 and finally closed to new members from April 2007; the last full actuarial valuation was as at 31 December 2015;
- Legal & General America Inc. Cash Balance Plan (US); the last full actuarial valuation was as at 31 December 2018; and
- CALA Retirement and Death Benefits Scheme (UK). This scheme closed to new members from 31 December 2007 and closed to future accrual on 31 December 2015; the last triennial actuarial valuation was as at 6 April 2018.

The UK defined benefit schemes operate within the UK pensions' regulatory framework.

Certain of the following disclosures have only been presented in relation to the fund and the scheme, as they represent the most significant defined benefit scheme obligations.

The UK Fund and Scheme were closed to future accrual on 31 December 2015. As part of this arrangement, payments to the Fund and Scheme in respect of future accruals ceased from this date and were replaced with a company contribution payment of between 5% and 15% into a defined contribution arrangement. In addition, as part of the closure, the company will contribute an additional £3m per annum until 31 December 2024 towards the deficit.

The assets of all UK defined benefit schemes are held in separate trustee administered funds to meet long term pension obligations to past and present employees. Trustees are appointed to the schemes and have a responsibility to act in the best interest of the scheme beneficiaries. The trustees' long term objectives are to minimise the risk that there are insufficient assets to meet the liabilities of the scheme over the longer term, control the on-going operational costs of the schemes and to maximise investment returns for the beneficiaries within an acceptable level of risk.

Balance sheet management continued

24 Provisions continued

(ii) Retirement benefit obligations continued

The total number of members of the Fund and Scheme was:

	2019	2018
Employed deferreds	140	171
Deferreds	3,113	3,292
Pensioners	3,669	3,657
Total	6,922	7,120

The group works closely with the trustees to develop an investment strategy for each UK scheme in order to meet the long term objectives of the trustees as noted above. Each UK scheme has a Statement of Investment Principles which governs the mix of assets and limits for each class of asset. As noted below, the asset mix of the UK defined benefit schemes is primarily split between investment funds including Liability Driven Investment (LDI) funds and unit trusts, equities and property. The main goal of the use of LDI is to hedge movements in the liabilities due to changes in interest rate and inflation expectations. On a gilts flat measure, including hedging from annuities, the Fund hedged on average 72% (over the year) of the impact of changes in interest rate and inflation expectations on its total liabilities. Similarly, on a gilts flat measure, including hedging from annuities, the Scheme hedged on average 75% (over the year) of the impact of changes in interest rate and inflation expectations on its total liabilities.

Additionally, certain parts of the liabilities of the scheme are secured by way of annuities purchased from the group. These annuities are not recognised as an asset for IAS 19 purposes, but at 31 December 2019 the value of these annuities, on an IAS 19 basis, was £944m (2018: £858m).

The Fund and Scheme expose the group to a number of risks:

Risk	Detail
Uncertainty in benefit payments	The value of the group's liabilities for post-retirement benefits will ultimately depend on the amount of benefits paid out. This in turn will primarily depend on the level of inflation and how long individuals live.
Volatility in asset values	The group is exposed to future movements in the values of assets held in the Fund and Scheme to meet future benefit payments.
Uncertainty in cash funding	Movements in the values of the obligations or assets may result in the group being required to provide higher levels of cash funding, although changes in the level of cash required can often be spread over a number of years. In addition, the group is also exposed to adverse changes in pension regulation.

These risks are managed within the risk appetite of the Fund and Scheme. The sensitivity of the net obligations to changes in any of the variables are monitored and action is taken if any risk moves outside of the appetite.

Annuities are purchased to mitigate risks for certain parts of the pension liabilities which passes the risks from the Fund and Scheme onto the group.

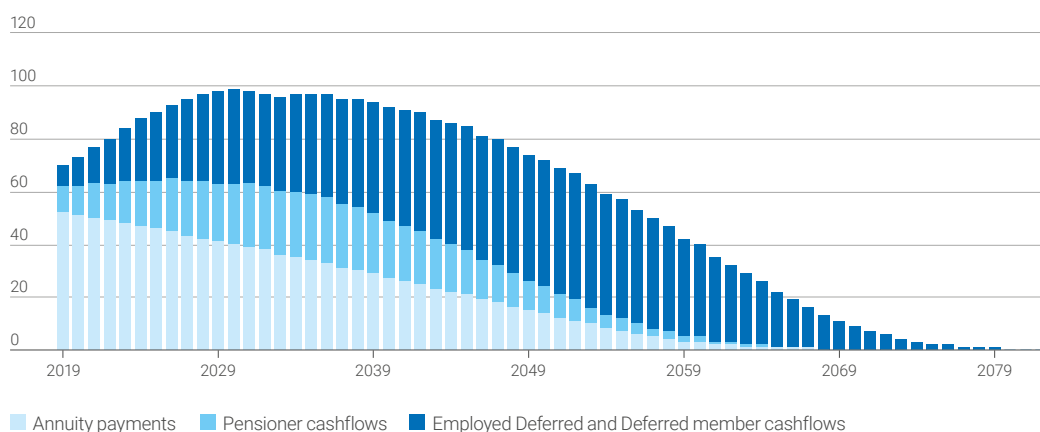
Full actuarial valuations are carried out on the Fund and Scheme every three years, updated by formal reviews at each reporting date. The actuarial assumptions used in the triennial valuation would normally be more prudent than those used for the purposes of IAS 19 reporting. Where the Fund or Scheme are in deficit following the triennial valuations, the group and the trustee agree a deficit recovery plan. Both the Fund and Scheme have formal deficit recovery plans which aim to make good the deficits over a certain period of time. The triennial valuation at 31 December 2015 showed a total funding deficit for both the Fund and Scheme of £599m. As a result of this, a recovery plan was agreed of £77m a year until 2024. The latest triennial valuation at 31 December 2015 was completed on 15 August 2017.

Defined benefit schemes

The Fund and the Scheme liabilities have an average duration of 18.5 years (2018: 19.1 years) and 18.0 years (2018: 18.7 years) respectively. The expected undiscounted benefits payments to members of the Fund and Scheme, including pensions in payment secured by annuities purchased from the group, are shown in the unaudited chart below:

Undiscounted benefit payments

Projected benefit payments (£m)



The benefits paid from the defined benefit schemes are based on percentages of the employees' final pensionable salary for each year of credited service. The group has no liability for retirement benefits other than for pensions. The Fund and Scheme account for all of the UK and over 90% of worldwide assets of the group's defined benefit schemes.

The principal actuarial assumptions for the Fund and Scheme were:

	Fund and Scheme 2019 %	Fund and Scheme 2018 %
Rate used to discount liabilities	2.08	2.88
Rate of increase in pensions in payment (pre-2006 service)	3.61	3.69
Rate of increase in deferred pensions (pre-2006 service)	3.67	3.81
Rate of general inflation (RPI)	3.02	3.23
Post retirement mortality		
2019: 75% / 85% (Male/Female) (Fund) and 70% / 80% (Male/Female) (Scheme) of PCMA/PCFA 00 with improvement at CMI 2017 base date 2015, with initial improvement factor A = 0.14% / 0.19% (Male/Female) (Fund) and 0.17% / 0.26% (Male/Female), smoothing factor Sk = 7.5, long term rates 1.5% p.a. males and 1.0% p.a. females; and tapering linearly down to nil between ages 90 and 120.		
2018: 75% / 85% (Male/Female) (Fund) and 70% / 80% (Male/Female) (Scheme) of PCMA/PCFA 00 with improvement at CMI 2016 base date 2015 with long term rates 1.5% p.a. males and 1.0% p.a. females, with tapering linearly down to nil between ages 90 and 120.		

This equates to average life expectancy as follows:

	Fund and Scheme 2019 years	Fund and Scheme 2018 years
Normal retirement age	60.0	60.0
Male life expectancy at retirement age	87.7	87.7
Female life expectancy at retirement age	89.0	88.8
Male life expectancy at 20 years younger than retirement age	89.8	89.8
Female life expectancy at 20 years younger than retirement age	90.4	90.2

Balance sheet management continued

24 Provisions continued

(ii) Retirement benefit obligations continued

	Fund and Scheme 2019 £m	CALA Homes and Overseas 2019 £m	Fund and Scheme 2018 £m	CALA Homes and Overseas 2018 £m
Movement in present value of defined benefit obligations				
As at 1 January	(2,183)	(120)	(2,543)	(32)
Acquisition ¹	–	–	–	(87)
Current service cost	(3)	(2)	(3)	(2)
Past service credit/(cost)	16	–	–	(1)
Interest expense	(61)	(4)	(60)	(4)
Actuarial remeasurement (recognised in Consolidated Statement of Comprehensive Income)				
– Change in financial assumptions	(283)	(17)	186	5
– Change in demographic assumptions	19	1	30	–
– Experience	(3)	(2)	14	(7)
Benefits paid	123	7	193	10
Exchange differences	–	2	–	(2)
As at 31 December	(2,375)	(135)	(2,183)	(120)
Movement in fair value of plan assets				
As at 1 January	1,092	99	1,282	27
Acquisition ¹	–	–	–	77
Expected return on plan assets at liability discount rate	31	3	30	4
Actuarial remeasurement (recognised in Consolidated Statement of Comprehensive Income)	213	10	(107)	(4)
Employer contributions	79	7	80	4
Benefits paid	(123)	(7)	(193)	(10)
Exchange differences	–	(1)	–	1
As at 31 December	1,292	111	1,092	99
Gross pension obligations	(1,083)	(24)	(1,091)	(21)
Gross pension obligations included in provisions	(1,083)	(24)	(1,091)	(21)
Annuity obligations insured by LGAS	944	–	858	–
Gross defined benefit pension deficit	(139)	(24)	(233)	(21)
Deferred tax on defined benefit pension deficit	24	4	41	1
Net defined benefit pension deficit	(115)	(20)	(192)	(20)

1. Acquisition in 2018 relates to CALA Homes defined benefit obligations and fair value of plan assets following stepped acquisition of CALA Homes in March 2018.

During 2019 annuities were purchased from the group. A premium of £78m (2018: £59m) was paid from the assets of the Fund and the Scheme to purchase these annuities. These annuities are not recognised as an asset for IAS 19 purposes and so the actuarial remeasurement recognised in the Consolidated Statement of Comprehensive Income includes allowance for this premium payment as well as annuity receipts over 2019 of £55m (2018: £50m).

The effect on the defined benefit obligation of the Fund and Scheme of assuming reasonable alternative assumptions in isolation is shown below. Opposite sensitivities are broadly symmetrical, but larger sensitivities are not necessarily broadly proportionate due to the existence of maxima and minima for inflation linked benefits. These sensitivities have been calculated to show the movement in the defined benefit obligation in isolation, and assuming no other changes in market conditions at the accounting date. This is unlikely in practice – for example, a change in discount rate is unlikely to occur without any movement in the value of the assets held by the Fund and Scheme.

	2019 £m	2018 £m
1 year increase in longevity	(78)	(78)
0.1% decrease in the rate used to discount liabilities	(32)	(40)
0.1% increase in the rate of general inflation (RPI)	(16)	(20)

The historic funding and experience adjustments are as follows

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Present value of defined benefit obligations	(2,510)	(2,303)	(2,575)	(2,660)	(2,317)
Fair value of plan assets	1,403	1,191	1,309	1,421	1,186
Gross pension obligations included in provisions	(1,107)	(1,112)	(1,266)	(1,239)	(1,131)
Experience adjustments on plan liabilities	(5)	7	22	76	38
Experience adjustments on plan assets	223	(111)	4	240	(62)

The fair value of the plan assets at the end of the year is made up as follows:

	Valuation based on quoted market price		Valuation based on other than quoted market price	
	Fund and Scheme £m	CALA Homes and Overseas £m	Fund and Scheme £m	CALA Homes and Overseas £m
As at 31 December 2019				
Equities	131	25	-	-
Bonds	-	9	-	-
Investment funds	1,100	64	-	-
Properties	-	3	53	-
Cash and cash equivalents	8	10	-	-
Fair value of plan assets	1,239	111	53	-

	Valuation based on quoted market price		Valuation based on other than quoted market price	
	Fund and Scheme £m	CALA Homes and Overseas £m	Fund and Scheme £m	CALA Homes and Overseas £m
As at 31 December 2018				
Equities	113	21	-	-
Bonds	-	9	-	-
Investment funds	913	60	-	-
Properties	-	4	52	-
Cash and cash equivalents	14	5	-	-
Fair value of plan assets	1,040	99	52	-

The bond assets are all AAA rated as at 31 December 2019 (31 December 2018: AAA rated).

Employer contributions of £86m (2018: £84m) have been made during 2019. Employer contributions of £85m are expected to be paid to the plan during 2020.

The following amounts have been charged to the income statement:

	Fund and Scheme 2019 £m	CALA Homes and Overseas 2019 £m	Fund and Scheme 2018 £m	CALA Homes and Overseas 2018 £m
Current service costs	3	2	3	2
Past service (credit)/costs	(16)	-	-	1
Net interest expense	30	1	29	-
Total amounts included in other expenses	17	3	32	3

Balance sheet management continued

25 Payables and other financial liabilities

Derivative liabilities and repurchase agreements are measured at fair value, with changes in fair value recognised in profit or loss.

The fair value of derivative liabilities is derived using broker quotes or models such as option pricing models, simulation models or a combination of models. The inputs for these models include a range of factors which are deemed to be observable, including current market and contractual prices for underlying instruments, period to maturity, correlations, yield curves and volatility of the underlying instruments.

Repurchase agreements are valued based on the discounted cash flows expected to be paid, using an observable market interest rate, in line with the value of the underlying security.

Collateral repayable on short position reverse repurchase agreements and other financial liabilities balances, including FX spots, broker and other payables, are measured at amortised cost. The carrying value of these liabilities approximates their fair value.

Trail commission represents a liability for the present value of future commission costs on distribution agreements with intermediaries, recognised in the balance sheet on inception of the contract. At each subsequent reporting date the liability is remeasured, with changes reflected in profit or loss.

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

1. The repurchase agreements are presented gross, however they and their related assets (included within debt securities) are subject to master netting arrangements. The vast majority of the repurchase agreements are unit linked.
2. Other financial liabilities includes trail commission, lease liabilities, reinsurance payables and collateral repayable on short position reverse repurchase agreements. The value of collateral repayable on short position reverse repurchase agreements was £7,673m (2018: £4,883m).
3. Disclosure relating to liabilities of operations classified as held for sale is included in Note 30.
4. The maturity analysis of the liabilities between less and more than 12 months is based on the Total payables and other financial liabilities.

Fair value hierarchy

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

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

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

Significant transfers between levels

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

26 Leases

The group leases office buildings, vehicles, IT equipment and investment properties under non-cancellable operating lease agreements, with remaining terms ranging from 1 to 238 years. The group has elected to make use of the recognition exemptions as permitted by the standard in respect of short term leases (lease contracts with a term of 12 months or less), and lease contracts for which the underlying asset is of low value. Such leases are not recognised on the consolidated balance sheet but the group recognises the associated lease payments as an expense over the lease term.

As a lessee, the group recognises leases on the balance sheet as 'right-of-use' assets and lease liabilities. The right-of-use assets are either classified as property, plant and equipment or investment property.

The right-of-use assets' value is initially recognised as the calculated value of the lease liabilities, initial direct costs and incentives received. The right-of-use assets are subsequently accounted for in accordance with the cost model in IAS 16, 'Property, Plant and Equipment' or as investment property under IAS 40, 'Investment Property'. The group also assesses right-of-use assets classified as property, plant and equipment for impairment when such indicators exist.

The initial measurement of the lease liabilities is made up of the present value of lease payments to be made over the lease term, including fixed and variable lease payments and excluding lease incentive receivables. The group uses the incremental borrowing rate as a discount rate for calculating the lease liabilities. The lease liabilities are unwound over the term of the lease giving rise to an interest expense. Additionally, the liabilities are reduced when lease payments are made. The group reassesses the carrying amount of lease liabilities and right-of-use assets if certain events occur that modify the original assumptions used to calculate the lease balances upon initial recognition.

Extension and termination options are included in various leases across the group. These are generally used to maximise operational flexibility in terms of managing the assets used in the group's operations. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor. Approximately 37% of leases have extension options and 76% of leases have termination options.

The table below describes the nature of the group's leasing activities by type of right-of-use asset recognised on balance sheet within property, plant and equipment:¹

Carrying amount	Office buildings	IT	Vehicles	Total
	£m	£m	£m	£m
As at 1 January 2019²	214	58	5	277
Additions	4	–	–	4
Depreciation for the period	(22)	(12)	(2)	(36)
Disposals ³	(5)	–	–	(5)
Decrease due to currency translation	(2)	–	–	(2)
As at 31 December 2019	189	46	3	238

1. Excludes investment property right-of-use assets, which are presented as part of the Investment property disclosure in Note 11.

2. Reflects the implementation of IFRS 16, effective 1 January 2019.

3. The disposal relates to the sale of the General Insurance business to Allianz, which completed on 31 December 2019.

The maturity profile of lease liabilities is presented in the table below. Lease liabilities are included within Payables and other financial liabilities (Note 25).¹

As at 31 December	Undiscounted lease payments	Unpaid finance charge	Present value
	2019 £m	2019 £m	2019 £m
Within 1 year	46	(11)	35
1–2 years	45	(10)	35
2–3 years	43	(9)	34
3–4 years	33	(7)	26
4–5 years	31	(6)	25
After 5 years	321	(200)	121
Total lease liabilities	519	(243)	276

1. Includes investment property lease liability.

Interest expense of £13m on lease liabilities is included in the current year's finance cost.

At 31 December 2019 the group had committed to leases which had not yet commenced with a total future cash outflow of £102m. Income from sub-leasing right-of-use assets is presented within Investment return (see Note 32).

Balance sheet management continued

27 Management of capital resources

Solvency II

The group is required to measure and monitor its capital resources on a regulatory basis and to comply with the minimum capital requirements of regulators in each territory in which it operates. At a group level, Legal & General had to comply with the requirements established by the Solvency II Framework Directive, as adopted by the Prudential Regulation Authority (PRA).

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

The table below shows the 'shareholder view' of the group Own Funds, Solvency Capital Requirement (SCR) and Surplus Own Funds, based on the Partial Internal Model, Matching Adjustment and Transitional Measures on Technical Provisions (TMTP) (recalculated as at end December 2019).

The Solvency II results are estimated and unaudited.

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

	2019 £bn	2018 £bn
Tier 1 Own Funds	12.4	11.5
Tier 2 subordinated liabilities ¹	3.9	3.5
Eligibility restrictions	(0.2)	(0.2)
Solvency II Own Funds^{2,3}	16.1	14.8
Solvency Capital Requirement	(8.8)	(7.9)
Solvency II surplus	7.3	6.9
SCR coverage ratio⁴	184%	188%

1. Tier 2 subordinated liabilities include redemption of a £0.4bn and an issuance of £0.6bn during the year.

2. Solvency II Own Funds do not include an accrual for the final dividend of £753m (31 December 2018: £704m) declared after the balance sheet date.

3. Solvency II Own Funds allow for a risk margin of £5.9bn (31 December 2018: £5.5bn) and TMTP of £5.7bn (31 December 2018: £5.2bn).

4. Coverage ratio is based on unrounded inputs.

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

On a proforma basis, which includes the contribution of with-profits fund and that of the final salary pension schemes in the group's Own Funds and corresponding SCR in the group's SCR, the coverage ratio at 31 December 2019 is 179% (31 December 2018: 181%).

On 6 December 2017 the group announced the sale of its Mature Savings business to ReAssure Limited (a subsidiary of Swiss Re). ReAssure Limited assumed the economic exposure of the business from 1 January 2018 via a risk transfer agreement. It is expected that the formal transfer of the business will be completed in 2020, subject to satisfaction of normal conditions for a transaction including court sanction. The transfer will be effected by way of a Part VII transfer under the Financial Services markets Act 2000. The impact of the risk transfer agreement is reflected in both Own Funds and SCR.

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

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

	2019 £bn	2018 £bn
IFRS shareholders' equity¹	9.4	8.6
Remove DAC, goodwill and other intangible assets and associated liabilities	(0.5)	(0.8)
Add IFRS carrying value of subordinated borrowings ²	3.5	3.3
Insurance contract valuation differences ³	5.2	5.1
Difference in value of net deferred tax liabilities	(0.5)	(0.3)
SCR for with-profits fund and final salary pension schemes	(0.8)	(0.8)
Other ⁴	-	(0.1)
Eligibility restrictions ⁵	(0.2)	(0.2)
Solvency II Own Funds⁶	16.1	14.8

1. Value is as per the Consolidated Balance Sheet.

2. Treated as available capital on the Solvency II balance sheet as the liabilities are subordinate to policyholder claims.

3. Differences in the measurement of technical provisions between IFRS and Solvency II.

4. Reflects valuation differences on other assets and liabilities, predominantly in respect of borrowings measured at fair value under Solvency II which are largely offsetting in 2019.

5. Relating to the Own Funds of non-insurance regulated entities that are subject to local regulatory rules.

6. Solvency II Own Funds do not include an accrual for the final dividend of £753m (31 December 2018: £704m) declared after the balance sheet date.

Capital management policies and objectives

The group aims to manage its capital resources to maintain financial strength, policyholder security and relative external ratings advantage. The group also seeks to maximise its financial flexibility by maintaining strong liquidity and by utilising a range of alternative sources of capital including equity, senior debt, subordinated debt and reinsurance.

Capital measures

The group measures its capital on a number of different bases, including those which comply with the regulatory frameworks within which the group operates and those which the directors consider most appropriate for managing the business. The measures used by the group include:

Accounting and Economic bases

Management use financial information prepared on both an IFRS and Economic Capital basis to manage capital and cash flow usage and to determine dividend paying capacity.

The group maintains a risk-based capital model that is used to calculate the group's Economic Capital position and support the management of risk within the group. This modelling framework, suitably adjusted for regulatory constraints, also meets the needs of the Solvency II regime. Our Economic Capital model has not been reviewed by the Prudential Regulatory Authority (PRA), nor will it be.

Regulatory bases

The financial strength of the group's insurance subsidiaries is measured under various local regulatory requirements (see below).

Basis of regulatory capital and corresponding regulatory capital requirements

In each country in which the group operates, the local insurance regulator specifies rules and guidance for the minimum amount and type of capital which must be held by insurance subsidiaries in excess of their insurance liabilities. The minimum capital requirements have been maintained at all times throughout the year. This helps to ensure that payments to policyholders can be made as they fall due.

The required capital is calculated by either assessing the additional assets which would be required to meet the insurance company's liabilities in specified, stressed financial conditions, or by applying fixed percentages to the insurance company's liabilities and risk exposures. The requirements in the different jurisdictions in which the group operates are detailed below:

Group regulatory basis

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

Balance sheet management continued

27 Management of capital resources continued

Solvency II continued

UK regulatory basis

At the balance sheet date, required capital for the life business was based on the Solvency II Framework Directive, as adopted by the PRA. All material EEA insurance firms, including Legal and General Assurance Society Limited, and Legal and General Assurance (Pensions Management) Limited (LGIM's insurance subsidiary) are required to hold eligible own funds in excess of their Solvency Capital Requirement, calculated on an Internal Model basis. These firms, as well as the non-EEA insurance firm (Legal & General Reinsurance Company Limited (LGRe) based in Bermuda) contribute over 93% of the group's SCR.

US regulatory basis

Required capital is determined to be the Company Action Level Risk Based Capital (RBC) based on the national Association of Insurance Commissioners RBC model. RBC is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations, taking into account its size and risk profile. The calculation is based on applying factors to various asset, premium, claims, expense and reserve items, with higher factors used for those items with greater underlying risk and lower factors for less risky items.

Bermudan regulatory basis

Bermudan regulated insurers are required to hold sufficient capital to meet 120% of the Bermudan Solvency Capital Requirement (BSCR). The BSCR model follows a standard formula framework; capital attributed to each risk is calculated by applying specified stresses to the assets and liabilities. The individual risk elements (excluding operational risk) are combined using a covariance matrix and then added to an operational risk charge.

28 Acquisitions

Business combinations are accounted for using the purchase method, under which the acquirer recognises the acquiree's fair value of the identifiable assets, liabilities and contingent liabilities at the acquisition date. Purchased goodwill is recognised as an asset on the Consolidated Balance Sheet and is carried at cost less any accumulated impairment losses in accordance with IAS 36, 'Impairment of Assets'.

Private equity investment vehicles classified as subsidiaries are those entities over which the group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. Profits or losses of subsidiary undertakings sold or acquired during the year are included in the consolidated results up to the date of disposal or from the date of gaining control.

Accelerated Digital Ventures Limited

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

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

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

29 Disposals

IndiaFirst Life Insurance Company Limited

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

Legal & General Insurance Limited

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

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

The GI balance sheet on disposal is presented below:

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

Balance sheet management continued

30 Held for sale and discontinued operations

On 6 December 2017 the group announced the sale of its Mature Savings business to ReAssure Limited, a subsidiary of Swiss Re for £650m. The sale is expected to finalise in 2020 following the completion of the Part VII transfer. Up until the Part VII we continue to recognise operating profit in relation to the Mature Savings business, reflecting the unwind of expected underlying profits, and which will offset the final profit on disposal.

The total balances classified as held for sale, and as discontinued operations, as a result of the transaction are presented below.

(i) Assets and liabilities of operations classified as held for sale

	2019 £m	2018 £m
Deferred acquisition costs	438	438
Investments in associates and joint ventures accounted for using the equity method ¹	–	33
Investment property	1,412	1,643
Financial investments	22,194	22,882
Reinsurers' share of contract liabilities	172	179
Cash and cash equivalents	310	767
Other assets ²	318	292
Assets of operations classified as held for sale	24,844	26,234
Assets in consolidated funds ³	4,903	3,067
Total assets of the disposal group	29,747	29,301
Insurance contract and related liabilities ⁴	6,125	6,243
Investment contract liabilities ⁵	23,251	22,991
Operational borrowings	29	28
Payables and other financial liabilities	434	424
Other liabilities ²	276	156
Liabilities of operations classified as held for sale	30,115	29,842
Total net liabilities of the disposal group	(368)	(541)

1. In 2018, Investment in associates and joint ventures accounted for using the equity method represented group's stake in IndiaFirst Life Insurance Company Limited. The disposal completed in 2019.

2. Other assets and other liabilities include current and deferred tax balances.

3. Included in Total assets of the disposal group are assets in consolidated funds, which are held by the Mature Savings business and disclosed within Financial investments on the Consolidated Balance Sheet. The group controls these funds and therefore consolidates 100% of the assets with any non-controlling interest recognised in the Net asset value attributable to unit holders. Following the disposal of the Mature Savings business, the group currently anticipates that it will retain control of these funds and so will continue to consolidate 100% of the assets while increasing the Net asset attributable to unit holders.

4. Insurance contract liabilities include participating insurance contracts, unallocated divisible surplus relating to with-profits business net of the value of in-force non-participating contracts.

5. Investment contract liabilities include participating and non-participating investment contracts.

In addition to the Mature Savings business, on 31 May 2019 the group announced the sale of its General Insurance business to Allianz group. The transaction completed on 31 December 2019.

The results of Mature Savings and General Insurance businesses have been classified as discontinued operations.

(ii) Financial performance of discontinued operations

	2019 £m	2018 £m
Revenue ¹	4,225	(760)
Expenses ²	(4,197)	812
Profit before tax	28	52
Tax expense	(5)	(9)
Profit after tax from discontinued operations	23	43
Total comprehensive income from discontinued operations	23	43

1. Revenue includes investment return.

2. Expenses include change in insurance and investment contract liabilities.

(iii) Cash flow information of discontinued operations

	2019 £m	2018 £m
Net cash inflow/(outflow) from operating activities	35	(34)
Net cash inflow/(outflow) from investing activities	–	(24)
Net cash inflow/(outflow) from financing activities	–	30

Additional financial information

31 Segmental analysis

The group provides a segmental analysis to enhance the understanding of the financial statements.

Under the requirements of IFRS 8, 'Operating segments', operating and reportable segments are presented in a manner consistent with the internal reporting provided to the chief operating decision maker, which has been identified as the Board of Legal & General Group Plc.

Reportable segments

The group has four reportable segments that are continuing operations, comprising LGR, LGIM, LGC and LGI, as set out in Note 2. Group central expenses and debt costs are reported separately. Transactions between reportable segments are on normal commercial terms, and are included within the reported segments.

Continuing operations exclude the results of the Mature Savings and General Insurance divisions which have been classified as discontinued following the group's announcements to sell these businesses to ReAssure Limited (a subsidiary of Swiss Re) and Allianz respectively.

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

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

(a) Profit/(loss) for the year

	LGR £m	LGIM £m	LGC £m	LGI £m	Group expenses and debt costs £m	Total continuing operations £m
For the year ended 31 December 2019						
Operating profit/(loss)[#]	1,569	423	363	314	(394)	2,275
Investment and other variances	43	(9)	91	(234)	(58)	(167)
Losses attributable to non-controlling interests	–	–	–	–	(24)	(24)
Profit/(loss) before tax attributable to equity holders	1,612	414	454	80	(476)	2,084
Tax (expense)/credit attributable to equity holders	(234)	(81)	(75)	12	81	(297)
Profit/(loss) for the year	1,378	333	379	92	(395)	1,787

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

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

Additional financial information continued

31 Segmental analysis continued

(ii) Revenue

Revenue comprises of the following:

Net premiums earned

Revenue from insurance and investment contracts has been described in section (e) of this Note.

Investment return

Investment return has been described in Note 32 of this report.

Fees from fund management and investment contracts*

The group generates revenue from acting as the investment manager for clients. Fees charged on investment management services are based on the contractual fee arrangements applied to assets under management and recognised as revenue as the services are provided. The group's income from investment contracts is primarily derived from fees for administration and managing of funds in pension plans. Revenue generated on investment contracts is recognised as services are provided. No significant judgements are applied on the timing or transaction price. In the instances of performance fees where revenue is subject to meeting a certain performance threshold, such revenue is not recognised until the condition has been met, and it is highly probable that no significant reversal of amounts would occur. Variable costs directly related to securing new contracts are capitalised and amortised over the estimated period over which the revenue is expected to be generated.

Transaction fees are charged to implement trades for clients. Such fees are charged at the time the transaction takes place and are based on the size of the underlying contract.

House building*

House building revenue arises from the sale of residential properties and land, and is recognised net of discounts and sales incentives. Sales of private houses are recognised on legal completion. Following the implementation of IFRS 15, 'Revenue from Contracts with Customers', the sale proceeds of part exchange properties are also included in revenue. Sales of social housing, where multiple units are developed and sold under a contractual agreement with a single customer, typically a housing association, are recognised over time in accordance with construction progress. Sales of land and commercial property are recognised on unconditional exchange, namely when contracts are exchanged or missives concluded and, where appropriate, construction is complete. The transaction price is determined using extensive research and expert judgement, current market values and regional variations.

Warranties are provided on all properties and range from 2–10 years. Due to their features, these do not represent separate performance obligations.

Professional services fees*

The group's professional services fees revenue arises from professional services provided by employed surveyors and third party providers, panel management fees and administration fees. These fees are based on fee scales or contracts. Revenue is recognised when the service has been rendered.

In addition, the group derives professional fees from facilitation of mortgage arrangements and related products such as conveyancing. These are based on an agreement/contract and could be tiered based on volume. The obligation in such instances is satisfied on completion of the mortgage/service, at which point the revenue is recognised. There is no significant judgement applied on the timing or amount of fee recognised.

Insurance broker*

Fees are charged on each performance obligation offered to the customer as per agreed structure. Revenue for placement services is recognised at the point in time when the intermediary has satisfied its performance obligation, that is when the terms of the insurance policy have been agreed contractually by the insurer and policyholder, and the insurer has a present right to payment from the policyholder. No significant judgements are applied on the timing or transaction price.

* Contracts are either expected to last one year or less, or reflect the right to consideration from a customer in an amount that corresponds directly with the value of the performance completed to date. As permitted under IFRS 15, the transaction price allocated to any unsatisfied contracts is not disclosed.

(a) Total revenue

	Notes	2019 £m	2018 £m
Total income		66,786	894
Share of profit/(loss) from associates and joint ventures net of tax	45	(17)	(15)
(Loss)/gain on acquisition and disposal of subsidiaries, associates and joint ventures	28, 29	(51)	(20)
Total revenue from continuing operations		66,718	859

(b) Total income

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

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

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

(c) Fees from fund management and investment contracts

For the year ended 31 December 2019	LGIM £m	LGI £m	LGC and other ¹ £m	Total continuing operations £m
Investment contracts	73	1	–	74
Investment management fees	903	–	(166)	737
Transaction fees	23	–	–	23
Total fees from fund management and investment contracts²	999	1	(166)	834

For the year ended 31 December 2018	LGIM £m	LGI £m	LGC and other ¹ £m	Total continuing operations £m
Investment contracts	75	1	–	76
Investment management fees	813	–	(114)	699
Transaction fees	42	–	(15)	27
Total fees from fund management and investment contracts ²	930	1	(129)	802

1. LGC and other includes LGC income, intra-segmental eliminations and group consolidation adjustments.
2. Fees from fund management and investment contracts are a component of Total revenue from continuing operations disclosed in Note 31 (ii)(a).

Additional financial information continued

31 Segmental analysis continued

(ii) Revenue continued

(d) Other operational income from contracts with customers

	LGR £m	LGIM £m	LGI £m	LGC and other £m	Total continuing operations £m
For the year ended 31 December 2019					
House building	–	–	–	1,056	1,056
Professional services fees	2	2	91	–	95
Insurance broker	–	–	34	–	34
Total other operational income from contracts with customers¹	2	2	125	1,056	1,185

	LGR £m	LGIM £m	LGI £m	LGC and other £m	Total continuing operations £m
For the year ended 31 December 2018					
House building	–	–	–	981	981
Professional services fees	3	3	155	–	161
Insurance broker	–	–	29	–	29
Total other operational income from contracts with customers¹	3	3	184	981	1,171

1. Total other operational income from contracts with customers is a component of Total revenue from continuing operations disclosed in Note 31 (ii)(a) and excludes the share of profit from associates and joint ventures and gain on acquisition of subsidiaries, associates and joint ventures.

(e) Gross written premiums on insurance contracts

Gross written premium represents the total premiums written by the group before deductions for reinsurance.

Long term insurance premiums are recognised as revenue when due for payment. General insurance premiums are accounted for in the period in which the risk commences. Estimates are included for premiums not notified by the year end and provision is made for the anticipated lapse of renewals not yet confirmed. Those proportions of premiums written in a year which relate to periods of risk extending beyond the end of the year are carried forward as unearned premiums.

Premiums received relating to investment contracts are not recognised as income, but are included in the balance sheet investment contract liability.

Outward reinsurance premiums from continuing operations are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured.

	LGR £m	LGI ¹ £m	Total continuing operations £m
For the year ended 31 December 2019			
Gross written premiums	12,407	2,796	15,203

	LGR £m	LGI £m	Total continuing operations £m
For the year ended 31 December 2018			
Gross written premiums	10,263	2,580	12,843

1. Includes £66m of gross written premiums relating to a residual reinsurance treaty following the disposal of the General Insurance business.

32 Investment return

Investment return includes fair value gains and losses, excluding fair value movements attributable to available-for-sale (AFS) investments, dividends, rent and interest. Dividends are accrued on an ex-dividend basis. Interest and rent are included on an accruals basis. Interest income for financial assets which are not classified as fair value through profit or loss (FVTPL) is recognised using the effective interest method.

The group earns an investment return from holdings in financial instruments and property investments, held to either back insurance and investment contracts on behalf of policyholders or deliver returns on group capital.

	2019 £m	2018 £m
Dividend income	5,389	5,204
Interest income on financial investments at fair value through profit or loss	5,181	4,897
Other investment income/(expense) ¹	128	(500)
Gains/(losses) on financial investments designated at fair value through profit or loss	45,411	(23,149)
Gains/(losses) on derivative instruments designated as held for trading	197	(36)
Realised gains/(losses) on financial assets designated as available-for-sale	30	(9)
Financial investment return	56,336	(13,593)
Rental income	441	444
Net fair value (losses)/gains on properties	(92)	63
Property investment return	349	507
Total investment return	56,685	(13,086)
Less: investment return from discontinued operations	(3,671)	1,243
Investment return from continuing operations	53,014	(11,843)

1. Includes interest income of £53m (2018: £26m) on financial investments designated as available-for-sale. There was no significant impairment on assets classified as available-for-sale during the year.

Additional financial information continued

33 Tax

The tax shown in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income comprises current and deferred tax.

Current tax

Current tax comprises tax payable on current year profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous periods. Current tax is recognised in the Consolidated Income Statement unless it relates to items which are recognised in the Consolidated Statement of Comprehensive Income or directly in equity.

Deferred tax

Deferred tax is calculated on differences between the accounting value of assets and liabilities and their respective tax values. Deferred tax is also recognised in respect of unused tax losses to the extent it is probable that future taxable profits will arise against which the losses can be utilised. Deferred tax is charged or credited to the Consolidated Income Statement, except when it relates to items charged or credited to the Consolidated Statement of Comprehensive Income or charged or credited directly in equity.

Tax attributable to policyholders and equity holders

The total tax expense shown in the group's Consolidated Income Statement includes income tax borne by both policyholders and shareholders. This has been apportioned between that attributable to policyholders' returns and equity holders' profits. This represents the fact that the group's long-term business in the UK pays tax on policyholder investment return, in addition to the corporation tax charge charged on shareholder profit. The separate presentation is intended to provide more relevant information about the tax that the group pays on the profits that it makes. For this apportionment, the equity holders' tax on long-term business is estimated by applying the statutory tax rate to profits attributed to equity holders. This is considered to approximate the corporation tax attributable to shareholders as calculated under UK tax rules. The balance of income tax associated with UK long-term business is attributed to income tax attributable to policyholders' returns and approximates the corporation tax attributable to policyholders as calculated under UK tax rules.

Use of estimates

Tax balances include the use of estimates and assumptions which affect items reported in the Consolidated Balance Sheet and Consolidated Income Statement. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates.

For tax this includes the determination of liabilities/recoverables for uncertain tax positions and estimation of future taxable income supporting deferred tax asset recognition.

As the group operates internationally, it is exposed to uncertain tax positions and changes in legislation in the jurisdictions in which it operates. The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on interpretation of legislation, management experience and professional advice. The directors have assessed the group's uncertain tax positions and are comfortable that the provisions in place are not material individually or in aggregate, and that a reasonable possible alternative outcome in the next financial year would not have a material impact to the results of the group.

Tax rates

The table below provides a summary of the standard corporate income tax rates of territories we operate in.

	2019	2018
UK ¹	19.0%	19.0%
USA	21.0%	21.0%
Bermuda	0.0%	0.0%
Hong Kong	16.5%	16.5%
Ireland	12.5%	12.5%
Japan	30.62%	30.86%

1. A reduction in the UK corporation tax rate to 17% from 1 April 2020 has been enacted in UK law. Rates between 19% and 17% have been applied to UK temporary differences to calculate UK deferred tax assets and liabilities on the basis of when temporary differences are expected to reverse.

(i) Tax charge in the Consolidated Income Statement

	2019 £m	2018 £m
Current tax	478	358
Deferred tax		
– Origination or reversal of temporary differences in the year	113	(123)
– Impact of reduction in UK and US corporate tax rates on deferred tax balances	(2)	11
Total deferred tax	111	(112)
Adjustment to equity holders' tax in respect of prior years	9	(36)
Total tax charge¹	598	210
Less: tax attributable to policyholder returns		
– Continuing operations	(72)	(53)
– Discontinued operations	(224)	163
	(296)	110
Total tax charge attributable to equity holders	302	320
Less: tax from discontinued operations attributable to equity holders	(5)	(9)
Tax from continuing operations attributable to equity holders	297	311

1. Total tax charge comprises tax attributable to continuing operations of £369m (2018: £358m) and a discontinued operations charge of £229m (2018: £148m credit).

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

	Continuing operations 2019 £m	Total 2019 £m	Continuing operations 2018 £m	Total 2018 £m
Profit before tax attributable to equity holders	2,084	2,112	2,076	2,128
Tax calculated at 19.00% (2018: 19.00%)	396	401	394	404
Adjusted for the effects of:				
Recurring reconciling items:				
Income not subject to tax	(4)	(4)	–	–
(Lower)/higher rate of profits taxed overseas ¹	(117)	(117)	(55)	(55)
Non-deductible expenses	2	2	5	5
Differences between taxable and accounting investment gains	(10)	(10)	(4)	(4)
Property income attributable to minority interests	4	4	–	–
Foreign tax	6	6	–	–
Unrecognised tax losses	14	14	–	–
Non-recurring reconciling items:				
Income not subject to tax	(6)	(6)	(10)	(10)
Non-deductible expenses	6	6	5	5
Adjustments in respect of prior years ²	9	9	(35)	(36)
Impact of changes in corporate tax rates on deferred tax balances	(2)	(2)	11	11
Other	(1)	(1)	–	–
Tax attributable to equity holders	297	302	311	320
Equity holders' effective tax rate³	14.3%	14.3%	15.0%	15.0%

- The lower rate of tax on overseas profits is principally driven by the 0% rate of taxation arising in our Bermudan reinsurance company, which provides our business with regulatory capital flexibility for both our PRT business and our US term insurance business. This is partially offset by the effect of the higher tax rate for our US operations taxed at 21%.
- Adjustments in respect of prior years relate to revisions to earlier estimates.
- Equity holders' effective tax rate is calculated by dividing the tax attributable to equity holders over profit before tax attributable to equity holders.

The UK standard rate of corporation tax is used in the above reconciliation as a significant proportion of the group's profits are earned and are taxable in the UK, which is also the main domicile for the group.

Additional financial information continued

33 Tax continued

(ii) Deferred tax – Consolidated Balance Sheet

Deferred tax assets and liabilities have been recognised/(provided) for temporary differences and unused tax losses. The recognition of deferred tax assets in respect of temporary differences and tax losses are supported by management's best estimate of future taxable profits to absorb the losses in future years. Deferred tax assets and liabilities presented on the Consolidated Balance Sheet have been offset to the extent it is permissible under the relevant accounting standards. The net movement in deferred tax assets and liabilities during the year is as follows:

	Net tax liability as at 1 January 2019 £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to equity £m	Acquisitions/ disposals £m	Net tax liability as at 31 December 2019 £m
Deferred acquisition expenses	25	10	–	–	35
– UK	(40)	–	–	–	(40)
– Overseas	65	10	–	–	75
Difference between the tax and accounting value of insurance contracts	(577)	(57)	1	3	(630)
– UK	(171)	(25)	(5)	3	(198)
– Overseas	(406)	(32)	6	–	(432)
Unrealised gains on investments	(72)	(97)	(15)	–	(184)
Excess of depreciation over capital allowances	12	1	–	2	15
Excess expenses	21	(1)	–	–	20
Accounting provisions and other	(28)	(16)	–	–	(44)
Trading losses ¹	163	55	(1)	–	217
Pension fund deficit	41	(24)	11	–	28
Acquired intangibles	(4)	2	–	–	(2)
Total net deferred tax liabilities²	(419)	(127)	(4)	5	(545)
Less: net deferred tax liabilities of operations classified as held for sale	97	90	–	(5)	182
Net deferred tax liabilities	(322)	(37)	(4)	–	(363)
Presented on the Consolidated Balance Sheet as:					
– Deferred tax assets	7	1	–	–	8
– UK deferred tax liabilities	(144)	(50)	5	–	(189)
– Overseas deferred tax liabilities	(185)	12	(9)	–	(182)

1. Trading losses include deferred tax on UK trade and US operating losses of £4m (2018: £4m) and £213m (2018: £159m) respectively.

2. Total net deferred tax liabilities are presented gross of held for sale liabilities in 2019. Disclosure relating to liabilities of operations classified as held for sale is included in Note 30.

	Net tax liability as at 1 January 2018 ¹ £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to equity £m	Acquisitions ² £m	Net tax liability as at 31 December 2018 £m
Deferred acquisition expenses	15	6	4	–	25
– UK	(40)	–	–	–	(40)
– Overseas	55	6	4	–	65
Difference between the tax and accounting value of insurance contracts	(334)	(216)	(27)	–	(577)
– UK	(69)	(96)	(6)	–	(171)
– Overseas	(265)	(120)	(21)	–	(406)
Unrealised gains on investments	(282)	202	8	–	(72)
Excess of depreciation over capital allowances	15	(3)	–	–	12
Excess expenses	31	(10)	–	–	21
Accounting provisions and other	(33)	27	–	(22)	(28)
Trading losses ²	31	126	6	–	163
Pension fund deficit	70	(7)	(22)	–	41
Acquired intangibles	(2)	(2)	–	–	(4)
Total net deferred tax liabilities³	(489)	123	(31)	(22)	(419)
Less: net deferred tax liabilities of operations classified as held for sale	262	(165)	–	–	97
Net deferred tax liabilities	(227)	(42)	(31)	(22)	(322)
Presented on the Consolidated Balance Sheet as:					
– Deferred tax assets	7	–	–	–	7
– UK deferred tax liabilities	(13)	(80)	(29)	(22)	(144)
– Overseas deferred tax liabilities	(221)	38	(2)	–	(185)

1. US deferred tax liabilities in respect of deferred acquisition costs and non-participating insurance contracts have been restated following the change in accounting policy for LGIA term assurance reserves. The net tax impact to overseas deferred tax liabilities is a reduction of £116m at 31 December 2017.
2. Trading losses include deferred tax on UK trade and US operating losses of £4m (2017: £4m) and £159m (2017: £27m) respectively.
3. Total net deferred tax liabilities are presented gross of held for sale liabilities in 2018. Detailed disclosure relating to liabilities of operations classified as held for sale is included in Note 30.

Unrecognised deferred tax assets

The group has the following unrelieved tax losses and deductible temporary differences carried forward as at 31 December 2019. No deferred tax asset has been recognised in respect of these as at 31 December 2019 (or 31 December 2018), as it is not probable that there will be suitable taxable profits emerging in future periods against which to relieve them. These tax assets will only be recognised if it becomes probable that suitable taxable profits will arise in future periods. The potential deferred tax asset unrecognised as at 31 December 2019 is £42m (2018: £31m).

	Gross 2019 £m	Tax 2019 £m	Gross 2018 £m	Tax 2018 £m
Trading losses ¹	171	27	80	14
Capital losses	61	12	69	14
Unrelieved interest payments on debt instruments	14	3	14	3
Unrecognised deferred tax assets ²	246	42	163	31

1. Of the unrecognised deferred tax asset on trading losses £13m (2018: £0m) relate to US trading losses which are expected to expire between 2026 and 2032.
2. Unrecognised deferred tax assets include UK balances of £23m (2018: £25m) and trading losses arising overseas of £19m (2018: £6m).

Additional financial information continued

(iii) Current tax – Consolidated Balance Sheet

	2019 £m	2018 £m
Tax recoverable within 12 months	276	230
Tax recoverable after 12 months	298	271
Total current tax assets	574	501
Less: current tax assets of operations classified as held for sale ¹	(106)	(83)
Current tax assets	468	418

	2019 £m	2018 £m
Tax due within 12 months	91	133
Tax due after 12 months	50	40
Total current tax liabilities	141	173
Less: current tax liabilities of operations classified as held for sale ¹	(34)	(2)
Current tax liabilities	107	171

1. Detailed disclosure on liabilities of operations classified as held for sale items is included in Note 30.

(iv) Tax charged directly in equity

	Note	2019 £m	2018 £m
Current tax		(25)	(7)
Deferred tax	33(ii)	4	31
Tax recognised directly in equity¹		(21)	24

1. Tax recognised directly in equity of £16m relates to continuing operations and £5m to discontinued operations.

34 Auditors' remuneration

	2019 £m	2018 £m
Remuneration receivable by the Company's auditors for the audit of the consolidated and company financial statements	1.2	1.1
Remuneration receivable by the Company's auditors and its associates for the supply of other services to the Company and its associates, including remuneration for the audit of the financial statements of the Company's subsidiaries:		
The audit of the Company's subsidiaries	5.9	4.9
Audit related assurance services – required by national or EU legislation	0.8	0.8
Audit related assurance services – other	1.1	0.6
Other assurance services	0.3	0.2
Total assurance services	9.3	7.6
Tax compliance services	–	0.1
Other tax services	–	0.1
Services related to corporate finance transactions	–	0.9
Other services not covered above	0.2	0.4
Total non-assurance services	0.2	1.5
Total remuneration	9.5	9.1

35 Employee information

	2019	2018
Monthly average number of staff employed during the year:		
UK ¹	8,884	7,974
USA	819	744
Europe	27	11
Other	47	41
Worldwide employees	9,777	8,770

	Note	2019 £m	2018 £m
Wages and salaries		674	581
Social security costs		75	63
Share-based incentive awards	36	39	38
Defined benefit pension costs	24	86	84
Defined contribution pension costs	24	65	54
Total employee related expenses		939	820

1. Headcount attributable to CALA Group (Holdings) Limited is included in the 2019 monthly average for the full year compared to only 9 months in 2018.

36 Share-based payments

The fair value at the date of grant of the equity instrument is recognised as an expense, spread over the vesting period of the instrument. The total amount to be expensed is determined by reference to the fair value of the awards, excluding the impact of any non-market vesting conditions. At each balance sheet date, the group revises its estimate of the number of equity instruments which are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment is made to equity. On vesting or exercise, the difference between the expense charged to the income statement and the actual cost to the group is transferred to retained earnings. Where new shares are issued, the proceeds received are credited to share capital and share premium.

(i) Description of plans

The group provides a number of equity settled share-based long term incentive plans for directors and eligible employees.

The Savings Related Share Option Plan (ShareSave) allows employees to enter into a regular savings contract over three and/or five years, coupled with a corresponding option over shares of the group. The grant price is equal to 80% of the quoted market price of the group shares on the invitation date. Fair value is calculated using the Black-Scholes model.

Nil Cost Options can be granted to senior managers under the Performance Share Plan (PSP), based upon individual and company performance. Pre the 2014 award, the number of performance shares transferred to the individual at the end of the three year vesting period was dependent on the group's relative Total Shareholder Return (TSR). New performance conditions attached to awards from 2014 result in the number of options that vest being equally dependent on the group's relative TSR and Earnings per Share (EPS)/Dividend per Share (DPS) growth. In addition, the awards vest after the end of the three year performance period and become exercisable in thirds over three, four and five years. Further changes were made to the performance conditions for awards granted in 2018. The number of options that vest in respect of these awards is equally dependent on the group's relative TSR and EPS growth (subject to Solvency II objectives). The majority of awards vest after the end of the three year performance period and become exercisable in thirds in year three, four and five. Awards granted to Executive Directors and Persons Delivering Managerial Responsibilities vest after three years but any options that vest will not become exercisable until year five.

The Share Bonus Plan (SBP) awards conditional shares, restricted shares, combined awards of CSOP options and restricted shares and combined awards of CSOP options and nil-paid options. Recipients of restricted shares are entitled to both vote and receive dividends. Fair value is calculated as the market value on the grant date, adjusted to reflect the eligibility for dividend payments. Conditional Share awards, which include awards to Executive Directors, do not have voting or dividend rights.

Under the HMRC tax-advantaged Employee Share Plan (ESP), UK employees may elect to purchase group shares from the market at the prevailing market price on a monthly basis. The group supplements the number of shares purchased by giving employees one free matching share for every one share purchased up to the first £20 of the employees' contributions and one free matching share for every two shares purchased with contributions between £20 and £125. There is currently no match on contributions between £125 and £150. From time to time, the group may make an award of free shares. Both the free and matching shares must be held in trust for three years. The fair value of awarded shares is equal to the market value on award date.

Additional financial information continued

36 Share-based payments continued

The fair values of the share awards made during the year have been calculated using the following assumptions:

	SAYE	PSP
Award date	5 April 2019	16 April 2019
Weighted average share price (pence)	286.3	285.4
Weighted average exercise price (pence)	217.0	n/a
Expected volatility	25%	18%
Expected life	3–5 years	3–5 years
Risk free investment rate	0.72–0.81%	0.79%
Dividend yield	6.0%	5.5%

(ii) Total recognised expense

The total recognised expense relating to share-based payments in 2019 was £39m (2018: £38m) before tax, all of which related to equity settled share schemes. This is broken down between the group's plans as detailed below:

	2019 £m	2018 £m
Share bonus plan (SBP)	25	24
Performance share plan (PSP)	10	10
Employee share plan (ESP)	2	2
Savings related share option scheme (SAYE)	2	2
Total share-based payment expense	39	38

(iii) Outstanding share options

	SAYE Options 2019	Weighted average exercise price 2019 p	CSOP Options 2019	Weighted average exercise price 2019 p	SBP Options 2019	Weighted average exercise price 2019 p
Outstanding at 1 January	12,839,984	199	4,051,676	254	397,647	–
Granted during the year	6,256,244	217	1,056,968	287	159,752	–
Forfeited during the year	(800,507)	210	–	–	–	–
Exercised during the year	(4,574,015)	188	(1,233,728)	243	(126,918)	–
Expired during the year	(405,471)	203	(304,052)	256	(12,154)	–
Outstanding at 31 December	13,316,235	210	3,570,864	267	418,327	–
Exercisable at 31 December	35,527	191	7,365	188	73,577	–
Weighted average remaining contractual life (years)	3		8		8	

Exercised during the year includes 1,360,646 options, which were predominantly CSOP options linked to SBP which have been settled using employee scheme shares.

	SAYE Options 2018	Weighted average exercise price 2018 p	CSOP Options 2018	Weighted average exercise price 2018 p	SBP Options 2018	Weighted average exercise price 2018 p
Outstanding at 1 January	12,604,142	193	3,963,940	257	358,611	–
Granted during the year	4,163,957	212	1,396,946	269	103,791	–
Forfeited during the year	(863,280)	202	–	–	–	–
Exercised during the year	(2,333,913)	194	(6,117)	245	(12,768)	–
Expired during the year	(730,922)	196	(1,303,093)	281	(51,987)	–
Outstanding at 31 December	12,839,984	199	4,051,676	254	397,647	–
Exercisable at 31 December	66,991	205	3,252	118	25,851	–
Weighted average remaining contractual life (years)	2		8		8	

Exercised during the year includes 18,885 options which were predominantly CSOP options linked to SBP which have been settled using employee scheme shares.

(iv) Total options

Options over 17,305,426 shares (2018: 17,289,307 shares) are outstanding under CSOP, SAYE and SBP as at 31 December 2019. These options have a range of exercise prices between 0p and 267p (2018: 0 and 254p) and maximum remaining contractual life up to 2029 (2018: 2028).

37 Share capital, share premium and employee scheme treasury shares

An equity instrument is any contract which evidences a residual interest in the net assets of an entity. It follows that a financial instrument is treated as equity if:

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on unfavourable terms; and
- the instrument is either a non-derivative which contains no contractual obligation to deliver a variable number of own equity instruments, or is a derivative which will be settled only by the group exchanging a fixed amount of cash, or other financial assets, for a fixed number of its own equity instruments.

Where any group entity purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to shareholders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to shareholders, net of any directly attributable incremental transaction costs and the related income tax effects. Shares held on behalf of employee share schemes are disclosed as such on the Consolidated Balance Sheet.

(i) Share capital and share premium

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

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

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

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

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

Additional financial information continued

37 Share capital, share premium and employee scheme treasury shares continued

(ii) Employee scheme treasury shares

The group uses the Employee Share Ownership Trust (ESOT) and the Legal & General Group Employee Share Plan (ESP) to purchase and hold shares of the group for delivery to employees under various employee share schemes. Shares owned by these vehicles are included at cost in the Consolidated Balance Sheet and are shown as a deduction from shareholders' equity. They are disclosed as employee scheme treasury shares until they vest to employees. Share-based liabilities to employees may also be settled via purchases directly from the market or by the issue of new shares.

The ESOT has waived its voting rights and its rights to some of the dividends payable on the shares it holds. Employees are entitled to dividends on the shares held on their behalf within the ESP.

	2019 Number of shares	2019 £m	2018 Number of shares	2018 £m
As at 1 January	27,476,097	52	23,275,545	40
Shares purchased	7,762,925	20	6,631,399	17
Shares vested	(4,048,974)	(7)	(2,430,847)	(5)
As at 31 December	31,190,048	65	27,476,097	52

38 Non-controlling interests

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

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

39 Other liabilities

	2019 £m	2018 £m
Accruals	431	375
Deferred income	49	53
Other	384	248
Total other liabilities	864	676
Less: liabilities of operations classified as held for sale ¹	(60)	(57)
Other liabilities	804	619
Due within 12 months ²	772	595
Due after 12 months ²	92	81

1. Detailed disclosure relating to liabilities of operations classified as held for sale is included in Note 30.

2. The maturity analysis of the liabilities between less and more than 12 months is based on the Total other liabilities as at 31 December.

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

	2019 £bn	2018 £bn
Assets under management ¹	1,196	1,015
Derivative notionals ^{1,2}	(336)	(304)
Third party assets ^{1,3}	(379)	(284)
Other ^{1,4}	63	53
Total financial investments, investment property and cash and cash equivalents	544	480
Less: assets of operations classified as held for sale ⁵	(24)	(25)
Financial investments, investment property and cash and cash equivalents	520	455

1. These balances are unaudited.

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

3. Third party assets are those that LGIM manage on behalf of others which are not included on the Group's Consolidated Balance Sheet.

4. Other includes assets that are managed by third parties on behalf of the group, other assets and liabilities related to financial investments, derivative assets and pooled funds.

5. Detailed disclosure relating to assets of operations classified as held for sale is included in Note 30.

41 Related party transactions

(i) Key management personnel transactions and compensation

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

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

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

	2019 £m	2018 £m
Salaries	12	10
Post-employment benefits	–	–
Share-based incentive awards	7	6
Key management personnel compensation¹	19	16

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

(ii) Services provided to and by related parties

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

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

The group has the following material related party transactions:

- Annuity contracts issued by Legal and General Assurance Society Limited for consideration of £78m (2018: £59m) purchased by the group's UK defined benefit pension schemes during the period, priced on an arm's length basis;
- Loans outstanding from related parties at 31 December 2019 of £83m (2018: £201m), with a further commitment of £16m;
- The group has total other commitments of £1,213m to related parties (2018: £837m), of which £749m has been drawn at 31 December 2019 (2018: £507m).

42 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.

Additional financial information continued

43 Commitments

(i) Capital commitments

	2019 £m	2018 £m
Authorised and contracted commitments not provided for in respect of investment property development, payable after 31 December:		
– Long term business	581	632

(ii) Lease commitment receivable – payments to be received under operating leases

Under other agreements, the group, as the lessor, is considered to substantially retain all the risks and reward of ownership of the underlying asset, therefore these contracts have been classified as operating leases.

The future undiscounted minimum lease payments under such arrangements are disclosed below:

	Total future payments 2019 £m	Total future payments 2018 £m
Within 1 year	381	400
1–2 years	373	398
2–3 years	357	382
3–4 years	344	349
4–5 years	326	326
After 5 years	4,674	4,751
Total lease commitment receivable	6,455	6,606

Lease commitments payable are disclosed as part of the lease disclosure in Note 26.

44 Subsidiaries

The Companies Act 2006 requires disclosure of information about the group's subsidiaries, associates, joint ventures and other significant holdings. A complete list of the group's subsidiaries, associates, joint ventures and significant holdings in this context is provided in Notes 44 and 45.

Subsidiaries are those entities (including special purpose entities, mutual funds and unit trusts) over which the group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. Profits or losses of subsidiary undertakings sold or acquired during the year are included in the consolidated results up to the date of disposal or from the date of gaining control. The interests of parties, other than the group, in investment vehicles, such as unit trusts, are classified as liabilities and appear as 'Net asset value attributable to unit holders' in the Consolidated Balance Sheet. The basis by which subsidiaries are consolidated in the group financial statements is outlined in the basis of preparation (Note 1).

The particulars of the company's subsidiaries, mutual funds and partnerships that have been consolidated as at 31 December 2019 are listed below. The main territory of operation of subsidiaries incorporated in England and Wales is the UK. For overseas subsidiaries the principal country of operation is the same as the country of incorporation. All subsidiaries have a 31 December year end reporting date and are 100% owned, unless stated otherwise. The registered office of all subsidiaries in England and Wales is One Coleman Street, London EC2R 5AA, United Kingdom, and in Ireland is Dillon Eustace, 33 Sir John Rogerson's Quay, Dublin 2, Ireland, unless otherwise noted. All subsidiaries are held through intermediate holding companies unless noted that they are held directly by the company. Subsidiaries that are consolidated where the group owns less than 50% of the ordinary share capital, are consolidated based on an assessment of control normally arising from special rights attaching to the class of share owned, other contractual arrangements and factors such as the purpose of the investee, the nature of its relevant activities, voting rights (including potential voting rights) and substantive and protective rights.

The group reassesses the appropriateness of the consolidation of an investee whenever facts and circumstances indicate that there has been a change in the relationship between the group and the investee which affects control.

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
Country of incorporation: England and Wales				
245 Hammersmith Road Nominee 1 Limited	Dormant company	Ordinary	31-Dec	100.0
245 Hammersmith Road Nominee 2 Limited	Dormant company	Ordinary	31-Dec	100.0
245 HR GP LLP	Limited liability partnership	Partnership	31-Dec	100.0
Antham 1 Limited	Investment vehicle	Ordinary	31-Dec	100.0
Banner (Spare) Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
Banner Construction Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
Banner Developments Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
Banner Freehold Limited ¹	Letting and operating of leased real estate	Ordinary	31-Dec	100.0
Banner Homes Bentley Priory Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
Banner Homes Central Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
Banner Homes Group Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
Banner Homes Limited ¹	Dormant company	Ordinary	31-Dec	100.0
Banner Homes Midlands Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
Banner Homes Southern Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
Banner Homes Ventures Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
Banner Management Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
BQN Limited	Development of building projects	Ordinary	31-Dec	100.0
BTR Core Limited	Investment vehicle	Ordinary	31-Dec	100.0
Bucklers Park Estate Management Company Limited	Management of real estate	Limited by guarantee	31-May	100.0
CALA (ESOP) Trustees Limited ¹	Financial intermediation	Ordinary	31-Dec	100.0
CALA 1 Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
CALA Group (Holdings) Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
CALA Homes (Chiltern) Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
CALA Homes (Midlands) Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
CALA Homes (North Home Counties) Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
CALA Homes (South Home Counties) Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
CALA Homes (Southern) Limited ¹	Non-trading company	Ordinary	31-Dec	100.0
CALA Homes (Thames) Limited ¹	Non-trading company	Ordinary	31-Dec	100.0
CALA Homes (Yorkshire) Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
CALA Properties Banbury Limited ¹	Dormant company	Ordinary	31-Dec	100.0
Cardiff Interchange Limited	Dormant company	Ordinary	31-Dec	100.0
Care Secured Limited ¹	Development of building projects	Ordinary	31-Dec	100.0
Chineham General Partner Limited	Dormant company	Ordinary	31-Dec	100.0
Chineham Shopping Centre Limited Partnership	Investment vehicle	Partnership	31-Dec	100.0
City & Urban Developments Limited	Holding company	Ordinary	31-Dec	100.0
CleverMover Limited	Provision of services	Ordinary	31-Dec	100.0
Cross Trees Park (Shrivenham) Management Company Limited	Property Management	Limited by guarantee	31-Dec	100.0
Ealing Shopping Centre Limited Partnership	Limited partnership	Partnership	31-Dec	100.0
Finchwood Park Management Company Limited ²	Residents property management	Limited by guarantee	31-Dec	100.0
Finovation UK Limited ³	Pension tracing and transfer service	Ordinary	31-Dec	100.0
Florence (building) Basingstoke Limited (UK) ⁴	Development of real estate	Ordinary	31-Dec	100.0
GO ETF Solutions LLP	Investment management	Partnership	31-Dec	100.0
Gresham Street General Partner Limited	General Partner	Ordinary	31-Dec	100.0
Gresham Street Limited Partnership	Limited partnership	Partnership	31-Dec	100.0
Haut Investments 2 Limited	Holding company	Ordinary	31-Dec	100.0
Haut Investments Limited	Holding company	Ordinary	31-Dec	100.0
Investment Discounts On Line Limited	Insurance agents and brokers	Ordinary	31-Dec	100.0
IPIF Trade General Partner Limited	General Partner	Ordinary	31-Dec	100.0
IPIF Trade Nominee Limited	Non-trading company	Ordinary	31-Dec	100.0

1. Registered office: Cala House, 54 The Causeway, Surrey, TW18 3AX

2. Registered office: Discovery House, Crossley Road, Stockport, Greater Manchester, England, SK4 5BH

3. Registered office: Unit 15495 13 Freeland Park, Wareham Road, Poole, BH16 6FA

4. Registered office: 30 Finsbury Square, London, EC2A 1AG

Additional financial information continued

44 Subsidiaries continued

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
Jimcourt Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
Latchmore Park Nominee No.1 Limited	Non-trading company	Ordinary	31-Dec	100.0
Legal & General (Caerus) Limited ⁴	Institutional fund management	Ordinary	31-Dec	100.0
Legal & General (PMC Trustee) Limited	Dormant company	Ordinary	31-Dec	100.0
Legal & General (Portfolio Management Services) Limited	Institutional fund management	Ordinary	31-Dec	100.0
Legal & General (Portfolio Management Services) Nominees Limited	Dormant company	Ordinary	31-Dec	100.0
Legal & General (Strategic Land Harpenden) Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General (Strategic Land North Horsham) Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General (Strategic Land) Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General (Unit Trust Managers) Limited	Unit trust management	Ordinary	31-Dec	100.0
Legal & General (Unit Trust Managers) Nominees Limited	Non-trading company	Ordinary	31-Dec	100.0
Legal & General Affordable Homes (Development 2) Limited	Construction of domestic building	Ordinary	31-Dec	100.0
Legal & General Affordable Homes (Development) Limited	Domestic building construction	Ordinary	31-Dec	100.0
Legal & General Affordable Homes (Operations) Limited	Building projects development	Ordinary	31-Dec	100.0
Legal & General Affordable Homes Limited	Building projects development	Ordinary	31-Dec	100.0
Legal & General Capital Investments Limited ⁶	Holding company	Ordinary	31-Dec	100.0
Legal & General Co Sec Limited ⁶	Dormant company	Ordinary	31-Dec	100.0
Legal & General Development Assets Holdings Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General Employee Benefits Administration Limited	Non-trading company	Ordinary	31-Dec	100.0
Legal & General Estate Agencies Limited ⁶	Mortgage finance companies	Ordinary	31-Dec	100.0
Legal & General Finance PLC ⁶	Treasury operations	Ordinary	31-Dec	100.0
Legal & General Financial Advice Limited	Mortgage finance companies	Ordinary	31-Dec	100.0
Legal & General FX Structuring (SPV) Limited	Special Purpose Vehicle	Ordinary	31-Dec	100.0
Legal & General GP LLP	Development of building projects	Partnership	31-Dec	100.0
Legal & General Holdings No.2 Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General Home Finance Administration Services Limited	Provision of services	Ordinary	31-Dec	100.0
Legal & General Home Finance Holding Company Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General Home Finance Limited	Mortgage finance companies	Ordinary	31-Dec	100.0
Legal & General Homes (Services Co) Limited	Provision of services	Ordinary	31-Dec	100.0
Legal & General Homes Communities (Arborfield) Limited	Building projects development	Ordinary	31-Dec	100.0
Legal & General Homes Communities (Crowthorne) Limited	Development of building projects	Ordinary	31-Dec	100.0
Legal & General Homes Communities (Didcot) Limited	Development of building projects	Ordinary	31-Dec	100.0
Legal & General Homes Communities (Shrivenham) Limited	Development of building projects	Ordinary	31-Dec	100.0
Legal & General Homes Communities Limited	Development of building projects	Ordinary	31-Dec	100.0
Legal & General Homes Holdings Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General Homes Modular Limited	Development of modular housing	Ordinary	31-Dec	100.0
Legal & General Insurance Holdings Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General Insurance Holdings No. 2 Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General International (Holdings) Limited ⁵	Holding company	Ordinary	31-Dec	100.0
Legal & General International Limited ⁵	Holding company	Ordinary	31-Dec	100.0
Legal & General Investment Management (Holdings) Limited ⁶	Holding company	Ordinary	31-Dec	100.0
Legal & General Investment Management Funds ICVC	Open ended investment company	Ordinary	31-Dec	100.0
Legal & General Investment Management Limited	Institutional fund management	Ordinary	31-Dec	100.0
Legal & General Later Living Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General Leisure Fund Trustee Limited	Trustee	Ordinary	31-Dec	100.0
Legal & General Life Fund Limited Partnership	Limited partnership	Partnership	31-Dec	100.0
Legal & General LTM Structuring (SPV) Limited	Special Purpose Vehicle	Ordinary	31-Dec	100.0
Legal & General Middle East Limited ⁶	Holding company	Ordinary	31-Dec	100.0
Legal & General Overseas Holdings Limited ⁵	Holding company	Ordinary	31-Dec	100.0
Legal & General Overseas Operations Limited ⁶	Holding company	Ordinary	31-Dec	100.0

1. Registered office: Cala House, 54 The Causeway, Surrey, TW18 3AX

4. Registered office: 30 Finsbury Square, London, EC2A 1AG

5. Registered office: 30 Finsbury Square, London, EC2P 2YU

6. Directly held by Legal & General Group Plc. All other subsidiaries are held through intermediate holding companies

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
Legal & General Partnership Holdings Limited ⁴	Holding company	Ordinary	31-Dec	100.0
Legal & General Partnership Services Limited	Provision of services	Ordinary	31-Dec	100.0
Legal & General Pension Fund Trustee Limited	Dormant company	Ordinary	31-Dec	100.0
Legal & General Pension Scheme Trustee Limited	Dormant company	Ordinary	31-Dec	100.0
Legal & General Pensions Limited	Limited Company	Ordinary	31-Dec	100.0
Legal & General Property Limited	Development of building projects	Ordinary	31-Dec	100.0
Legal & General Property Partners (Industrial Fund) Limited	General Partner	Ordinary	31-Dec	100.0
Legal & General Property Partners (Industrial) Nominees Limited	Dormant company	Ordinary	31-Dec	100.0
Legal & General Property Partners (IPIF GP) LLP	Investment in UK real estate	Partnership	31-Dec	100.0
Legal & General Property Partners (Leisure GP) LLP	Fund general partner	Partnership	31-Dec	100.0
Legal & General Property Partners (Leisure) Limited	Development of building projects	Ordinary	31-Dec	100.0
Legal & General Property Partners (Life Fund) Limited	Investment vehicle	Ordinary	31-Dec	100.0
Legal & General Property Partners (Life Fund) Nominee Limited	Investment vehicle	Ordinary	31-Dec	100.0
Legal & General Property Partners (UKPIF Geared) Limited	Investment in UK real estate	Ordinary	31-Dec	100.0
Legal & General Property Partners (UKPIF Geared Two) Limited	Investment in UK real estate	Ordinary	31-Dec	100.0
Legal & General Property Partners (UKPIF Two) Limited	Investment in UK real estate	Ordinary	31-Dec	100.0
Legal & General Property Partners (UKPIF) Limited	Investment in UK real estate	Ordinary	31-Dec	100.0
Legal & General Re Holdings Limited ⁵	Holding company	Ordinary	31-Dec	100.0
Legal & General Resources Limited	Provision of services	Ordinary	31-Dec	100.0
Legal & General Retail Investments (Holdings) Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General Senior Living Limited	Holding company	Ordinary	31-Dec	100.0
Legal & General Share Scheme Trustees Limited ^{5,6}	Dormant company	Ordinary	31-Dec	100.0
Legal & General Surveying Services Limited	Provision of services	Ordinary	31-Dec	100.0
Legal & General Trustees Limited	Fund trustee	Ordinary	31-Dec	100.0
Legal & General UK PIF Two GP LLP	Limited partnership	Partnership	31-Dec	100.0
Legal and General Assurance (Pensions Management) Limited	Long-term business	Ordinary	31-Dec	100.0
Legal and General Assurance Society Limited	Long-term and general insurance	Ordinary	31-Dec	100.0
LGIM Commercial Lending Limited	Commercial lending	Ordinary	31-Dec	100.0
LGIM Corporate Director Limited	Non-trading company	Ordinary	31-Dec	100.0
LGIM International Limited	Institutional fund management	Ordinary	31-Dec	100.0
LGIM Real Assets (Operator) Limited	Development of building projects	Ordinary	31-Dec	100.0
LGIM Real Assets Limited	Development of building projects	Ordinary	31-Dec	100.0
LGP Newco Limited	Dormant company	Ordinary	31-Dec	100.0
LGPL Cornwall Limited ⁴	Investment vehicle	Ordinary	31-Dec	100.0
LGV Capital Limited ⁴	Venture and development capital	Ordinary	31-Dec	100.0
LGV Capital Partners Limited ⁴	Venture and development capital	Ordinary	31-Dec	100.0
ND7 Limited	Development of building projects	Ordinary	31-Dec	100.0
New Bailey (East) Management Company Limited	Investment Company	Limited by guarantee	31-Dec	100.0
New Bailey (West) Management Company Limited	Investment Company	Limited by guarantee	31-Dec	100.0
New Life Mortgage Funding Limited ⁵	Mortgage finance companies	Ordinary	31-Dec	100.0
Northampton General Partner Limited	Investment vehicle	Ordinary	31-Dec	100.0
Northampton Shopping Centre Limited Partnership	Limited partnership	Partnership	31-Dec	100.0
NSC Building A Limited	Real estate trading	Ordinary	31-Dec	100.0
NSC Building B Limited	Real estate trading	Ordinary	31-Dec	100.0
Old Cornwall Limited ⁴	Investment vehicle	Ordinary	31-Dec	100.0
Performance Retail (General Partner) Limited	Development of building projects	Ordinary	31-Dec	100.0
Performance Retail (Nominee) Limited	Dormant company	Ordinary	31-Dec	100.0
Performance Retail Limited Partnership	Limited partnership	Partnership	31-Dec	100.0
PRLP GP LLP	Limited partnership	Partnership	31-Dec	100.0
Red Ahead Storage Shed Limited	Manufacturing of sheds	Ordinary	30-Jun	100.0

4. Registered office: 30 Finsbury Square, London, EC2A 1AG

5. Registered office: 30 Finsbury Square, London, EC2P 2YU

6. Directly held by Legal & General Group Plc. All other subsidiaries are held through intermediate holding companies.

Additional financial information continued

44 Subsidiaries continued

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
Senior Living (Bramshott Place) Limited ⁷	Dormant company	Ordinary	31-Dec	100.0
Senior Living (Caddington) Limited	Dormant company	Ordinary	31-Dec	100.0
Senior Living (Chandlers Ford) Limited	Development of building projects	Ordinary	31-Dec	100.0
Senior Living (Durrants) Limited ⁷	Dormant company	Ordinary	31-Dec	100.0
Senior Living (Exeter) Limited ⁷	Dormant company	Ordinary	31-Dec	100.0
Senior Living (Freelands) Limited ⁷	Dormant company	Ordinary	31-Dec	100.0
Senior Living (Great Leighs) Limited	Development of real estate	Ordinary	31-Dec	100.0
Senior Living (Ledian Farm) Limited ⁷	Dormant company	Ordinary	31-Dec	100.0
Senior Living (Matchams) Limited	Development of building projects	Ordinary	31-Dec	100.0
Senior Living (Sonning Common) Limited	Development of real estate	Ordinary	31-Dec	100.0
Senior Living (Tattenhall) Limited ⁷	Development of building projects	Ordinary	31-Dec	100.0
Senior Living (Tunbridge Wells) Limited	Development of real estate	Ordinary	31-Dec	100.0
Senior Living (Turvey) Limited	Development of real estate	Ordinary	31-Dec	100.0
Senior Living (Warwick Gates) Limited ⁷	Development of building projects	Ordinary	31-Dec	100.0
Senior Living Finance 1 Limited	Dormant company	Ordinary	31-Dec	100.0
Senior Living Medici Holdco Limited ⁷	Dormant company	Ordinary	31-Dec	100.0
Senior Living Medici Limited ⁷	Dormant company	Ordinary	31-Dec	100.0
Senior Living Urban (Bath) Limited	Development of real estate	Ordinary	31-Dec	100.0
Senior Living Urban (Epsom) Limited	Development of real estate	Ordinary	31-Dec	100.0
Senior Living Urban (Walton) Limited	Development of real estate	Ordinary	31-Dec	100.0
Stratford City Offices (No. 2) General Partner Limited	General Partner	Partnership	31-Dec	100.0
Stratford City Offices (No. 2) Limited Partnership	Limited partnership	Partnership	31-Dec	100.0
Synergy Gracechurch Limited ⁵	Investment vehicle	Ordinary	31-Dec	100.0
Tattenhall Care Village LLP	Trading company	Partnership	31-Dec	100.0
Terminus Road (Nominee 1) Limited	Dormant company	Ordinary	31-Dec	100.0
Terminus Road (Nominee 2) Limited	Dormant company	Ordinary	31-Dec	100.0
The Advantage Collection Limited ¹	Domestic building construction	Ordinary	31-Dec	100.0
The Pathe Building Management Company Limited	Investment vehicle	Ordinary	31-Dec	100.0
Warwick Gates LLP	Trading company	Partnership	31-Dec	100.0
Whitegates (Holdings) Limited ⁵	Dormant company	Ordinary	31-Dec	100.0
L&G Real Capital Builder Fund	Unit trust	Unit	31-Dec	99.9
L&G European Equity Income Fund	Unit trust	Unit	31-Dec	99.7
L&G Future World Sustainable Opportunities	Unit trust	Unit	31-Dec	99.0
103 Wardour Street Retail Investment Company Limited	Investment vehicle	Ordinary	31-Dec	99.0
Accelerated Digital Ventures Limited ⁸	Venture Capital investing	Ordinary	31-Dec	97.0
L&G UK Smaller Companies Trust	Unit trust	Unit	31-Dec	96.9
L&G Growth Trust	Unit trust	Unit	31-Dec	94.5
L&G European Trust	Unit trust	Unit	31-Dec	94.2
L&G Future World ESG UK Index	Unit trust	Unit	31-Dec	94.1
L&G Future World Gender in Leadership UK Index	Unit trust	Unit	31-Dec	94.1
L&G Real Income Builder Fund	Unit trust	Ordinary	31-Dec	93.4
L&G Future World ESG Developed Index	Unit trust	Unit	31-Dec	86.4
L&G UK Alpha Trust	Unit trust	Unit	31-Dec	85.3
L&G UK Special Situations Trust	Unit trust	Unit	31-Dec	77.3
L&G Cash Trust	Unit trust	Unit	31-Dec	76.0
L&G Asian Income Trust	Unit trust	Unit	31-Dec	74.3
L&G European Index Trust	Unit trust	Unit	31-Dec	73.4
L&G Multi-Asset Target Return Fund	Unit trust	Unit	31-Dec	69.4
L&G US Index Trust	Unit trust	Unit	31-Dec	65.4
LGIM Global Corporate Bond Fund	Open ended investment company	Ordinary	31-Dec	65.0

1. Registered office: Cala House, 54 The Causeway, Surrey, TW18 3AX

5. Registered office: 30 Finsbury Square, London, EC2P 2YU

7. Registered office: The Stanley Building, 7 St Pancras Square, London, N1C 4AG

8. Registered office: Electric Works, Concourse Way, Sheffield, S1 2BJ

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
LGIM OEIC Global Corporate Bond	Open ended investment company	Unit	31-Dec	64.7
L&G Future World Equity Factors Index Fund	Unit trust	Unit	31-Dec	60.6
L&G Dynamic Bond Trust	Unit trust	Unit	31-Dec	60.4
L&G Global Developed Four Factor Scientific Beta Index Fund	Authorised Contractual Schemes	Ordinary	31-Dec	60.4
L&G Ethical Trust	Unit trust	Unit	31-Dec	50.0
ECV Partnerships Tattenhall Limited ⁷	Limited partnership	Partnership	31-Dec	50.0
ECV Partnerships Warwick Limited ⁷	Limited partnership	Partnership	31-Dec	50.0
T P Property Services Limited ⁹	Property services	Ordinary	31-Dec	50.0
Thorpe Park Developments Limited ⁹	Property Development Company	Ordinary	31-Dec	50.0
Thorpe Park Holdings Limited ⁹	Holding company	Ordinary	31-Dec	50.0
TP 2005 Limited ⁹	Dormant company	Ordinary	31-Dec	50.0
UKPIF Two Founder Partner LP	Limited partnership	Partnership	31-Dec	50.0
L&G High Income Trust	Unit trust	Unit	31-Dec	49.4
L&G Global Real Estate Dividend Index Fund	Unit trust	Unit	31-Dec	45.4
L&G UK Equity Income Fund	Unit trust	Unit	31-Dec	44.0
L&G Multi Manager Balanced Trust	Unit trust	Unit	31-Dec	39.5
L&G Emerging Markets Government Bond (US\$) Index Fund	Unit trust	Unit	31-Dec	38.1
L&G Fixed Interest Trust	Unit trust	Unit	31-Dec	37.5
L&G Japan Index Trust	Unit trust	Unit	31-Dec	35.5
L&G Global Infrastructure Fund	Unit trust	Unit	31-Dec	33.9
L&G Global Emerging Markets Index Fund	Unit trust	Unit	31-Dec	33.3
L&G UK Mid Cap Index Fund	Unit trust	Unit	31-Dec	31.7
L&G Emerging Markets Government Bond (Local Currency) Index Fund	Unit trust	Unit	31-Dec	30.8
L&G Future World Multi-Index ⁴	Unit trust	Unit	31-Dec	30.7
L&G Future World Multi-Index ⁵	Unit trust	Unit	31-Dec	27.4
L&G Mixed Investment 0-20% Fund	Unit trust	Unit	31-Dec	25.3
L&G Pacific Index Trust	Unit trust	Unit	31-Dec	24.8
Sapphire Campus Management Company Limited	Investment vehicle	Ordinary	31-Dec	9.5
Country of incorporation: Hong Kong				
Legal & General Investment Management Asia Limited ¹⁰	Institutional fund management	Ordinary	31-Dec	100.0
Country of incorporation: Ireland				
Finovation Limited ¹¹	Pension tracing and transfer service	Ordinary	31-Dec	100.0
L&G Future World Global Credit Fund – UK	QIAIF ¹²	Ordinary	31-Dec	100.0
L&G Multi Asset Core 20 Fund	ICAV ¹³	Ordinary	31-Dec	100.0
L&G Multi Asset Core 45 Fund	ICAV ¹³	Ordinary	31-Dec	100.0
L&G Multi Asset Core 75 Fund	ICAV ¹³	Ordinary	31-Dec	100.0
Legal & General Fund Managers (Ireland) Limited ¹⁵	Institutional fund management	Ordinary	31-Dec	100.0
Legal & General ICAV	ICAV ¹³	Ordinary	31-Dec	100.0
Legal & General UCITS Managers (Ireland) Limited	Institutional fund management	Ordinary	31-Dec	100.0
LGIM (Ireland) Risk Management Solutions Plc	Management company	Ordinary	31-Dec	100.0
LGIM 2020 Fixed Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2020 Inflation Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2020 Real Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2024 Leveraged Index Linked Gilt Fund	QIAIF ¹²	Ordinary	31-Dec	100.0

4. Registered office: 30 Finsbury Square, London, EC2A 1AG

5. Registered office: 30 Finsbury Square, London, EC2P 2YU

7. Registered office: The Stanley Building, 7 St Pancras Square, London, N1C 4AG

9. Registered office: Europa House, 20 Esplanade, Scarborough, North Yorkshire, YO11 2AQ

10. Registered office: Room 902, 9th Floor, Chinachem Tower, 34-37 Connaught Road Central, Hong Kong

11. Registered office: Dogpatch Labs, Unit 1, The Chq Building, North Wall Quay, Dublin 1, D01Y6H7

12. Qualifying Investor Alternative Investment Fund

13. Irish Collective Asset-management Vehicle

15. Registered office: Grand Canal House, 1 Upper Grand Canal Street, Dublin 4, Ireland

Additional financial information continued

44 Subsidiaries continued

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
LGIM 2025 Fixed Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2025 Inflation Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2025 Real Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2030 Fixed Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2030 Inflation Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2030 Leveraged Index Linked Gilt Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2030 Real Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2034 Leveraged Index Linked Gilt Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2035 Fixed Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2035 Inflation Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2035 Real Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2037 Leveraged Index Linked Gilt Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2038 Leveraged Gilt Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2040 Fixed Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2040 Inflation Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2040 Leveraged Index Linked Gilt Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2040 Real Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2042 Leveraged Gilt Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2042 Leveraged Index Linked Gilt Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2045 Fixed Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2045 Leveraged Gilt Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2045 Real Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2047 Leveraged Index Linked Gilt Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2049 Leveraged Gilt Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2050 Fixed Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2050 Inflation Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2050 Leveraged Index Linked Gilt Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2050 Real Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2055 Fixed Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2055 Leveraged Gilt Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2055 Leveraged Index Linked Gilt Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2055 Real Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2060 Fixed Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2060 Inflation Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2060 Leveraged Gilt Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2060 Real Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2062 Leveraged Index Linked Gilt Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2068 Leveraged Gilt Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM 2068 Leveraged Index Linked Gilt Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Active Gilts All Stocks Fund AH	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Bespoke Active Credit Fund AM	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Bespoke Active Credit Fund BP	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Bespoke Active Credit Fund BS	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Credit And Liquidity – Fund BN	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Credit And Liquidity – Fund BM	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM ETF Managers Limited ¹⁶	Investment management	Ordinary	31-Dec	100.0
LGIM Euro 2030 Real Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Fixed Long Duration Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Fixed Short Duration Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund A	QIAIF ¹²	Ordinary	31-Dec	100.0

12. Qualifying Investor Alternative Investment Fund

16. Registered office: 2 Grand Canal Square, Dublin 2, D02 A342

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
LGIM Hedging – Fund AC	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund AK	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund AN	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund AO	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund AP	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund AQ	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund AR	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund AS	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund AU	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund AV	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund AW	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund AY	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund AZ	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund B	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund BA	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund BB	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund BF	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund BH	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund BJ	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund BR	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund C	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund DC	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund H	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund I	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund J	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund L	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund M	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund O	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund P	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund Q	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund R	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund V	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund W	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund WH	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund WS	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund WT	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging – Fund ZZ	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging Fund AE	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging Fund AI	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging Fund BG	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging Fund BI	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging Fund BL	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging Fund BT	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging Fund BU	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging Fund BV	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging Fund CI	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging Fund CJ	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging Fund CK	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging Fund CL	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging Fund DJ	QIAIF ¹²	Ordinary	31-Dec	100.0

12. Qualifying Investor Alternative Investment Fund

Additional financial information continued

44 Subsidiaries continued

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
LGIM Hedging Fund DK	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging Fund DL	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Hedging Fund AT	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Leveraged Gilt Plus Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Leveraged Index Link Gilt Plus Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Leveraged Synthetic Equity Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM LEVERAGED SYNTHETIC EQUITY FUND (GBP)	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Liquidity Funds plc	OEUC ¹⁴	Ordinary	31-Dec	100.0
LGIM Managers (Europe) Limited	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM MATURING BUY & MNTN CR FD 2020-2024	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM MATURING BUY & MNTN CR FD 2025-2029	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Maturing Buy & MNTN CR FD 2030-2034	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Maturing BUY & MNTN CR FD 2035-2039	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM MATURING BUY & MNTN CR FD 2040-2054	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Real Long Duration Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Real Short Duration Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund AQ	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund BA	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund BB	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund BF	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund CA	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund CB	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund CC	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund CD	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund CE	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund CF	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund CG	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund CH	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund CP	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund CR	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund CU	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund CW	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund DB	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund DD	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund DE	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund DF	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund DG	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund DH	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund M	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Solutions Fund P	QIAIF ¹²	Ordinary	31-Dec	100.0
LGIM Synthetic Leveraged Credit Fund	QIAIF ¹²	Ordinary	31-Dec	100.0
L&G Europe ex UK Equity UCITS ETF ¹⁶	Exchange Traded Funds	Ordinary	31-Dec	98.8
L&G Global Equity UCITS ETF ¹⁶	Exchange Traded Funds	Ordinary	31-Dec	98.3
L&G Asia Pacific ex Japan Equity UCITS ETF ¹⁶	Exchange Traded Funds	Ordinary	31-Dec	95.9
Sterling Liquidity Plus Fund	OEUC ¹⁴	Ordinary	31-Dec	81.7
US Dollar Liquidity Fund	OEUC ¹⁴	Ordinary	31-Dec	66.4
Euro Liquidity Fund	OEUC ¹⁴	Ordinary	31-Dec	58.3

12. Qualifying Investor Alternative Investment Fund

14. Open Ended Umbrella Investment Company

16. Registered office: 2 Grand Canal Square, Dublin 2, D02 A342

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
L&G Frontier Markets Equity Fund	ICAV ¹³	Ordinary	31-Dec	57.1
Sterling Liquidity Fund	OEUIC ¹⁴	Ordinary	31-Dec	55.1
L&G Asia Pacific Ex Japan Equity Index Fund	ICAV ¹³	Ordinary	31-Dec	54.9
L&G Japan Equity UCITS ETF ¹⁶	Exchange Traded Funds	Ordinary	31-Dec	54.7
L&G North American Equity Index Fund	ICAV ¹³	Ordinary	31-Dec	32.2
Country of incorporation: Japan				
Legal & General Investment Management Japan KK ¹⁷	Investment management	Ordinary	31-Dec	100.0
Country of incorporation: Jersey				
Access Development General Partner Limited ¹⁸	Fund general partner	Ordinary	31-Dec	100.0
Atlantic Quay Three Limited ¹⁹	Investment vehicle	Ordinary	31-Dec	100.0
Bishopsgate Long Term Property Fund general Partner Limited ¹⁹	Fund general partner	Ordinary	31-Dec	100.0
Bishopsgate Long Term Property Fund Nominees No 1 Limited ¹⁹	Real estate operator	Ordinary	31-Dec	100.0
Bishopsgate Long Term Property Fund Nominees No 2 Limited ¹⁹	Real estate operator	Ordinary	31-Dec	100.0
Canary Property Unit Trust ²⁰	Unit trust	Unit	31-Dec	100.0
Chineham Shopping Centre Unit Trust ²¹	Unit trust	Unit	31-Dec	100.0
Gracechurch Property Limited ²⁰	Investment vehicle	Ordinary	31-Dec	100.0
Gresham Street Unit Trust ²¹	Unit trust	Unit	31-Dec	100.0
Northampton Shopping Centre Unit Trust ²¹	Unit trust	Unit	31-Dec	100.0
Procession House One Unit Trust ²¹	Unit trust	Unit	31-Dec	100.0
SCBD S6 Trust ²⁰	Unit trust	Unit	31-Dec	100.0
Senior Living (Liphook) Limited ²²	Investment vehicle	Ordinary	31-Dec	100.0
Sheffield Vulcan House SPV Limited ¹⁹	Limited Company (Jersey)	Ordinary	30-Jun	100.0
Synergy Gracechurch Holdings Limited ²⁰	Investment vehicle	Ordinary	31-Dec	100.0
Vantage General Partner Limited ¹⁸	Fund general partner	Ordinary	31-Dec	100.0
Stratford City Offices Jersey Unit Trust ²⁰	Unit trust	Unit	31-Dec	100.0
Performance Retail Unit Trust ²¹	Unit trust	Unit	31-Dec	50.1
Country of incorporation: Luxembourg				
L&G Absolute Return Bond Plus Fund ²³	SICAV ²⁴	Ordinary	31-Dec	100.0
L&G Buy & Maintain Credit Fund ²³	SICAV ²⁴	Ordinary	31-Dec	100.0
L&G Emerging Markets Bond Fund ²³	SICAV ²⁴	Ordinary	31-Dec	100.0
L&G Euro High Alpha Corporate Bond Fund ²³	SICAV ²⁴	Ordinary	31-Dec	100.0
L&G Future World Global Credit Fund ²³	SICAV ²⁴	Ordinary	31-Dec	100.0
L&G UK Core Plus Bond Fund ²³	SICAV ²⁴	Ordinary	31-Dec	100.0
Legal & General SICAV ²³	SICAV ²⁴	Ordinary	31-Dec	100.0
L&G Absolute Return Bond Fund ²³	SICAV ²⁴	Ordinary	31-Dec	97.0
L&G Commodity Index Fund ²³	SICAV ²⁴	Ordinary	31-Dec	95.3
L&G Future World Global Equity Focus Fund ²³	SICAV ²⁴	Ordinary	31-Dec	68.8
L&G Emerging Markets Short Duration Bond Fund ²³	SICAV ²⁴	Ordinary	31-Dec	65.8

13. Irish Collective Asset-management Vehicle

14. Open Ended Umbrella Investment Company

16. Registered office: 2 Grand Canal Square, Dublin 2, D02 A342

17. Registered office: 22F Toranomon Kotohira Tower, 1-2-8 Toranomon, Minato-ku, Tokyo, 105-0001, Japan

18. Registered office: 11-15 Seaton Place, St Helier, Jersey, JE4 0QH

19. Registered office: 12 Castle Street, St Helier, Jersey, JE2 3RT

20. Registered office: Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST

21. Registered office: 44-47 Esplanade, St Helier, Jersey, JE4 9WG

22. Registered office: One, The Esplanade, St Helier, Jersey, JE2 3QA

23. Registered office: 2-4 Rue Eugene Ruppert, Luxembourg, L - 2453, Luxembourg

24. Societe d'investissement a capital variable

Additional financial information continued

44 Subsidiaries continued

Company name	Nature of business	Share class	Year end reporting date	% of equity shares held by the group
Country of incorporation: Scotland				
CALA 1999 Limited ²⁵	Holding company	Ordinary	31-Dec	100.0
CALA Group Limited ²⁵	Domestic building construction	Ordinary	31-Dec	100.0
CALA Homes (East) Limited ²⁶	Domestic building construction	Ordinary	31-Dec	100.0
CALA Homes (North) Limited ²⁶	Domestic building construction	Ordinary	31-Dec	100.0
CALA Homes (Scotland) Limited ²⁶	Non-trading company	Ordinary	31-Dec	100.0
CALA Homes (West) Limited ²⁶	Domestic building construction	Ordinary	31-Dec	100.0
CALA Homes Limited ²⁶	Domestic building construction	Ordinary	31-Dec	100.0
CALA Land Investments (Bearsden) Limited ²⁵	Domestic building construction	Ordinary	31-Dec	100.0
CALA Land Investments Limited ²⁵	Development of building projects	Ordinary	31-Dec	100.0
CALA Limited ²⁵	Head office	Ordinary	31-Dec	100.0
CALA Management Limited ²⁵	Domestic building construction	Ordinary	31-Dec	100.0
CALA Properties (Holdings) Limited ²⁶	Domestic building construction	Ordinary	31-Dec	100.0
CALA Ventures Limited ²⁵	Non-trading company	Ordinary	31-Dec	100.0
UK PIF FGP LLP ²⁷	Investment vehicle	Partnership	31-Dec	100.0
UKPIF Two Founder GP Limited ²⁷	Fund general partner	Ordinary	31-Dec	100.0
LGV Capital Partners (GP) LLP ²⁸	Domestic building construction	Partnership	31-Dec	100.0
LGV Capital Partners (Scotland) Limited ²⁸	Dormant company	Ordinary	31-Dec	100.0
Country of incorporation: USA				
Banner Life Insurance Company ²⁹	Long-term business	Ordinary	31-Dec	100.0
FBV Financing-1, LLC ³⁰	Reinsurance	Ordinary	31-Dec	100.0
FBV Financing-2, LLC ³⁰	Reinsurance	Ordinary	31-Dec	100.0
First British Vermont Reinsurance Company II, Limited ³¹	Reinsurance	Ordinary	31-Dec	100.0
First British Vermont Reinsurance Company III, Limited ³⁰	Reinsurance	Ordinary	31-Dec	100.0
Global Index Advisors Inc. ³²	Investment advisory	Ordinary	31-Dec	100.0
Legal & General America Inc. ³³	Holding company	Ordinary	31-Dec	100.0
Legal & General Investment Management America Inc ³³	Institutional fund management	Ordinary	31-Dec	100.0
Legal & General Investment Management United States (Holdings), Inc ³³	Holding company	Ordinary	31-Dec	100.0
William Penn Life Insurance Company of New York Inc ³⁴	Long-term business	Ordinary	31-Dec	100.0
Country of incorporation: Bermuda				
First British Bermuda Reinsurance Company II Limited ³⁵	Reinsurance	Ordinary	31-Dec	100.0
First British Bermuda Reinsurance Company III Limited ³⁵	Reinsurance	Ordinary	31-Dec	100.0
Legal & General Reinsurance Company Limited ³⁶	Reinsurance	Ordinary	31-Dec	100.0
Legal & General Resources Bermuda Limited ³⁶	Provision of services	Ordinary	31-Dec	100.0
Legal & General SAC Limited ³⁶	Reinsurance	Ordinary	31-Dec	100.0

25. Registered office: Adam House, 5 Mid New Cultins, Edinburgh, EH11 4DU

26. Registered office: Johnstone House, 52-54 Rose Street, Aberdeen, AB10 1HA

27. Registered office: 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ

28. Registered office: 110 Queen Street, Glasgow, G1 3BX

29. Registered office: 1701 Research Boulevard, Rockville, Maryland 20850, United States

30. Registered office: 850 New Burton Road, Suite 201, Dover, Delaware 19904, United States

31. Registered office: Marsh Management Services, 100 Bank Street, Suite 610, Burlington, Vermont 05402, United States

32. Registered office: 29 North Park Square, Ste.201, Marietta, Georgia 30060, United States

33. Registered office: Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle, Delaware 19801, United States

34. Registered office: 100 Quentin Roosevelt Blvd, PO Box 519, Garden City, New York 11530, United States

35. Registered office: Clarendon House, 2 Church Street, Hamilton HM11, Bermuda

36. Registered office: 19 Par La Ville Road, Hamilton HM11, Bermuda

45 Associates and joint ventures

Associates are entities over which the group has significant influence but which it does not control. It is presumed that the group has significant influence where it has between 20% and 50% of the voting rights in the investee unless indicated otherwise. Joint ventures are entities where the group and other parties have joint control over their activities. The basis by which associates and joint ventures are consolidated in the group financial statements is outlined in the basis of preparation (Note 1).

The group has the following significant holdings classified as associates and joint ventures which have been included as financial investments, investments in associates or investments in joint ventures. The gross assets of these companies are in part funded by borrowings which are non-recourse to the group.

Company name	Country of incorporation	Accounting treatment	Investment type	Year end reporting date	Share class	% of equity shares held by the group
Bracknell Property Unit Trust ^{1,2}	Jersey	FVTPL	Joint Venture	31-Dec	Units	50.9
245 Hammersmith Road Limited Partnership ³	England and Wales	FVTPL	Joint Venture	31-Dec	Partnership	50.0
Peel Holdings (Media) Limited ⁴	England and Wales	Equity Method	Joint Venture	31-Mar	Ordinary	50.0
Access Development Limited Partnership ⁵	Jersey	Equity Method	Joint Venture	31-Dec	Ordinary	50.0
Central St Giles Unit Trust ⁶	Jersey	FVTPL	Joint Venture	31-Dec	Units	50.0
Bruntwood SciTech Limited ⁷	England and Wales	Equity Method	Joint Venture	30-Sep	Ordinary	50.0
Oxford University Property Development Limited ⁸	England and Wales	Equity Method	Joint Venture	31-Dec	Ordinary	50.0
CALA Evans Restoration Limited ⁹	England and Wales	Equity Method	Joint Venture	30-Jun	Ordinary	50.0
Winchburgh Developments (Holdings) Limited ¹⁰	Scotland	Equity Method	Joint Venture	31-Dec	Ordinary	50.0
Inspired Villages Group Limited ³	England and Wales	FVTPL	Associate	31-Dec	Ordinary	49.9
Guild Living Limited ³	England and Wales	FVTPL	Associate	31-Dec	Ordinary	49.9
Kao Data Limited ¹¹	England and Wales	FVTPL	Associate	31-Dec	Ordinary	49.5
Salary Direct Holdings Limited ¹²	England and Wales	FVTPL	Associate	31-Dec	Ordinary	45.4
Smartr365 Finance Limited ¹³	Jersey	Equity Method	Associate	31-Mar	Ordinary	42.5
Pemberton Asset Management Holdings Limited ¹⁴	Jersey	FVTPL	Associate	31-Dec	Ordinary	40.0
English Cities Fund ³	England and Wales	FVTPL	Associate	31-Dec	Units	35.4
Swandon Way Unit Trust ¹⁵	Jersey	Equity Method	Associate	31-Dec	Units	33.0
Smugglers Way Unit Trust ¹⁵	Jersey	Equity Method	Associate	31-Dec	Units	33.0
Newcastle Science Central Developments LLP ¹⁶	England and Wales	FVTPL	Associate	31-Dec	Ordinary	33.0
NTR Wind Management Limited ¹⁷	Ireland	FVTPL	Associate	31-Mar	Ordinary	25.0
Caresourcer Limited ¹⁸	Scotland	Equity Method	Associate	31-Dec	Ordinary	20.0
Current Health Limited ¹⁹	Scotland	Equity Method	Associate	31-Dec	Ordinary	14.0
Sennen Finance Designated Activity Company ²⁰	Ireland	Equity Method	Joint Venture	30-Jun	–	–

1. Bracknell Property Unit Trust is classified as a Joint Venture because the group does not control the entity.

2. Registered office: 40 Esplanade, St Helier, Jersey, JE2 3QB

3. Registered office: One Coleman Street, EC2R 5AA

4. Registered office: Peel Dome Intu Trafford Centre, Traffordcity, Manchester, United Kingdom, M17 8PL

5. Registered office: 11–15 Seaton Place, St Helier, Jersey, JE4 0QH

6. Registered office: Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST

7. Registered office: Union, Albert Square, Manchester, England, M2 6LW

8. Registered office: University Offices, Wellington Square, Oxford, United Kingdom, OX1 2JD

9. Registered office: Johnstone House, 52–54 Rose Street, Aberdeen, AB10 1HA

10. Registered office: Marathon House Olympic Business Park, Drybridge Road, Dundonald, Kilmarnock, United Kingdom, KA2 9AE

11. Registered office: Kao Data Campus, London Road, Harlow, United Kingdom, CM17 9NA

12. Registered office: 35–37 New Street, St Helier, Jersey, JE2 3RA

13. Registered office: 1 Queen Caroline Street, Hammersmith, London, United Kingdom, W6 9YN

14. Registered office: 44 Esplanade, St Helier, Jersey JE4 9WG

15. Registered office: 11–15 Seaton Place, St Helier, Jersey, JE4 0QH

16. Registered office: Finance And Planning, Newcastle University, King's Gate, Newcastle Upon Tyne, United Kingdom, NE1 7RU

17. Registered office: Burton Court, Burton Hall Drive, Sandyford, Dublin D18 Y2T8

18. Registered office: Codebase, 38 Castle Terrace, Edinburgh, City Of Edinburgh, EH3 9DR

19. Registered office: 125 Princess Street, Edinburgh, EH2 4AD

20. Registered office: 1–2 Victoria Buildings, Haddington Road, Dublin 4, D04 XN32

Additional financial information continued

45 Associates and joint ventures continued

(i) Financial information

Summarised financial information for associates and joint ventures accounted for under the equity method is shown below:

	Associates 2019 £m	Joint ventures 2019 £m	Associates 2018 £m	Joint ventures 2018 £m
Current assets	3	179	–	71
Non-current assets	125	1,260	–	1,046
Current liabilities	61	171	–	72
Non-current liabilities	–	702	–	520
Profit from continuing operations – total	(18)	43	–	30
Profit from continuing operations – group's share	(3)	20	–	15
Total comprehensive income – total	(18)	43	–	30
Total comprehensive income – group's share	(3)	20	–	15

The associates and joint ventures have no significant contingent liabilities to which the group is exposed. The group has no commitments to provide funding to associates and joint ventures other than the ones included in Note 41.

(ii) Other significant holdings

The group has the following other significant holdings which have been included as financial investments.

Company name	Country of incorporation	Year end reporting date	Share class	% of equity shares held by the group
Mithras Investment Trust ¹	England and Wales	31-Dec	Ordinary	27.8
Bishopsgate Long Term Property Limited Partnership ²	Jersey	31-Dec	Partnership	25.0

1. The net asset value at 31 December 2019 was £4.2m (2018: £4.2m) and the registered office is 1 Northumberland Avenue, Trafalgar Square, London, WC2N 5BW
2. The net asset value at 31 December 2019 was £93.7m (2018: £103.8m) and the registered office is 12 Castle Street, St Helier, Jersey, JE2 3RT

46 Interests in structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominating factor in deciding who controls the entity, such as when voting rights might relate to administrative tasks only and the relevant activities are directed by means of contractual arrangement. The group has interests in investment vehicles which, depending upon their status, are classified as either consolidated or unconsolidated structured entities as described below:

- Debt securities, consisting of traditional asset backed securities, together with securitisation and debentures and Collateralised Debt Obligations (CDOs);
- Investment funds, largely being unit trusts;
- Specialised investment vehicles, analysed between Irish Collective Asset-management Vehicles (ICAVs), Open Ended Investment Companies (OEICs), Societes d'Investissement a Capital Variables (SICAVs), Specialised Investment Funds (SIFs) and Property limited partnerships.

All of the group's holdings in the above vehicles are subject to the terms and conditions of the respective investment vehicle's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investment vehicles. The investment manager makes investment decisions after extensive due diligence of the underlying investment vehicle, including consideration of its strategy and the overall quality of the underlying investment vehicle's manager.

All of the investment vehicles in the investment portfolio are managed by portfolio managers who are compensated by the respective investment vehicles for their services. Such compensation generally consists of an asset based fee and a performance related incentive fee, and is reflected in the valuation of the investment vehicles.

(a) Interests in consolidated structured entities

The group has determined that where it has control over an investment vehicle, that investment is a consolidated structured entity. The group has not provided, and has no intention to provide, financial or other support to any other structured entities which it does not consolidate.

(b) Interests in unconsolidated structured entities

As part of its investment activities, the group also invests in unconsolidated structured entities. As at 31 December 2019, the group's interest in such entities reflected on the group's Consolidated Balance Sheet and classified as financial investments held at fair value through profit or loss was £15,784m (2018: £13,396m). A summary of the group's interests in unconsolidated structured entities is provided below:

	Financial investments 2019 £m	Financial Investments 2018 £m
Debt securities		
Analysed as:		
Asset backed securities	2,508	2,634
Securitisations and debentures	136	115
CDOs	95	94
Investment funds		
Analysed as:		
Unit trusts	9,577	8,465
Property limited partnerships	589	546
Exchange traded funds	52	60
Specialised Investment Vehicles		
Analysed as:		
ICAVs	91	57
OEICs	2,297	1,255
SICAVs	262	134
SIFs	2	4
Property limited partnerships	175	32
Total	15,784	13,396

Additional financial information continued

46 Interests in structured entities continued

(b) Interests in unconsolidated structured entities continued

Management fees received for investments that the group manages also represent interests in unconsolidated structured entities, and the group always maintains an interest in those funds which it manages. Where the group does not manage the investments, its maximum exposure to loss is the carrying amount in the group Consolidated Balance Sheet. Where the group does manage these investments, the maximum exposure is the underlying balance sheet value, together with future management fees.

The table below shows the assets under management of those structured entities which the group manages, together with investment management fees received from external parties.

	Investment management		Investment management	
	AUM 2019 £m	fees 2019 £m	AUM 2018 £m	fees 2018 £m
Investment funds	61,161	137	45,394	112
Specialised Investment Vehicles				
Analysed as:				
OEICs	479	1	516	2
SICAVs	980	1	612	1
Property limited partnerships	4,149	21	4,068	18
Other ¹	9,269	18	4,992	8
Total	76,038	178	55,582	141

1. Other relates to AUM and investment management fees from ACS and ICAVs as well as ETFs. The 2018 Other AUM balance has been amended to accurately reflect the total value of holdings in unconsolidated funds. The amendment has no impact on related management fees.

No significant sponsorship has been provided to any of the above entities. The group has not, and has no intention, to provide any significant financial or other support to any other structured entities which it does not consolidate.

In addition to the above, the group has an exposure of £269m (2018: £224m) related to special purpose vehicles classified as joint ventures and accounted for using the equity method, with a carrying value on the group Consolidated Balance Sheet as at 31 December 2019 of £nil (2018: £nil).

Company Balance Sheet

As at 31 December 2019	Notes	2019 £m	2018 £m
Non-current assets			
Investments in subsidiaries	7	8,950	8,465
Loans to subsidiaries	7	702	714
Current assets			
Receivables	8	1,538	1,364
Derivative assets	11	44	2
Other financial investments		25	163
Cash and cash equivalents		2	2
Total assets		11,261	10,710
Non-current liabilities			
Payables: amounts falling due after more than one year	9	4,404	3,959
Current liabilities			
Payables: amounts falling due within one year	10	188	138
Derivative liabilities	11	112	29
Total liabilities		4,704	4,126
Net assets		6,557	6,584
Equity			
Share capital	13	149	149
Share premium	13	1,000	992
Revaluation reserve		2,459	2,459
Capital redemption and other reserves		134	118
Retained earnings		2,815	2,866
Total equity		6,557	6,584

The notes on pages 245 to 249 form an integral part of these financial statements.

The financial statements on pages 243 to 249 were approved by the directors on 3 March 2020 and were signed on their behalf by:



Sir John Kingman
Chairman



Nigel Wilson
Group Chief Executive Officer



Stuart Jeffrey Davies
Group Chief Financial Officer

Additional financial information continued

Company Statement of Changes in Equity

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Share-based payment reserve £m	Revaluation reserve £m	Retained earnings £m	Total equity £m
For the year ended 31 December 2019								
As at 1 January 2019	149	992	17	20	81	2,459	2,866	6,584
Profit for the financial year	-	-	-	-	-	-	946	946
Net movement in cross-currency hedge	-	-	-	12	-	-	-	12
Options exercised under share option schemes	-	8	-	-	-	-	-	8
Shares vested and transferred from share-based payment reserve	-	-	-	-	(35)	-	1	(34)
Employee scheme treasury shares: -Value of employee services	-	-	-	-	39	-	-	39
Dividends	-	-	-	-	-	-	(998)	(998)
As at 31 December 2019	149	1,000	17	32	85	2,459	2,815	6,557

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Share-based payment reserve £m	Revaluation reserve £m	Retained earnings £m	Total equity £m
For the year ended 31 December 2018								
As at 1 January 2018	149	988	17	(9)	69	2,459	2,703	6,376
Profit for the financial year	-	-	-	-	-	-	1,085	1,085
Addition to hedging reserve: cross-currency hedge	-	-	-	29	-	-	-	29
Options exercised under share option schemes	-	4	-	-	-	-	-	4
Shares vested and transferred from share-based payment reserve	-	-	-	-	(26)	-	10	(16)
Employee scheme treasury shares: -Value of employee services	-	-	-	-	38	-	-	38
Dividends	-	-	-	-	-	-	(932)	(932)
As at 31 December 2018	149	992	17	20	81	2,459	2,866	6,584

1 Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and derivative financial assets and financial liabilities measured at fair value through profit and loss.

There were no material critical accounting estimates used or judgements made by management in the preparation of these financial statements.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise price of share options, and how the fair value of goods or services received was determined).
- The requirement of paragraphs 91 to 99 of IFRS 13 fair value measurement, where equivalent disclosures are included in the consolidated financial statements of the group.
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows),
 - 16 (a statement of compliance with all IFRS),
 - 38 in respect of paragraph 79(a)(iv) (outstanding shares comparative),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 111 (cash flow statement information), and
 - 134–136 (capital management disclosures);
- IAS 7, 'Statement of cash flows';
- IFRS 7 'Financial Instrument Disclosures';
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group and key management compensation.

The company's financial statements have been prepared in compliance with Section 394 and 396 of the Companies Act 2006 adopting the exemption of omitting the income statement conferred by Section 408 of that Act.

The company's financial statements have been prepared on a going concern basis.

Financial assets

On initial recognition, financial assets are measured at fair value. Subsequently, they can be measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The classification depends on two criteria:

- (i) the business model within which financial assets are managed; and
- (ii) their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest' (SPPI)).

A debt instrument is measured at amortised cost if it meets the following conditions:

- (i) it is held within a business model that has an objective to hold financial assets to collect contractual cash flows; and
- (ii) the contractual terms of the financial asset result in cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

A debt security is measured at FVOCI if it meets the following conditions:

- (i) it is held for collection of contractual cash flows and for selling the financial assets; and
- (ii) the asset's cash flows represent solely payments of principal and interest.

Movements in the carrying amount are recognised in other comprehensive income except for the recognition of impairment gains or losses and interest revenue which are recognised in the income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement.

Assets that are held at FVTPL include derivative assets which are held for trading (HFT) and financial assets that fail both the business model and SPPI tests. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in the income statement.

The company has no equity instruments.

Loans and receivables are initially recognised at fair value and subsequently held at amortised cost using the effective interest method.

Impairment

For financial assets held at amortised cost or FVOCI the company reviews the carrying value of its assets at each balance sheet date. For such assets, the company determines forward looking expected credit losses (ECL), based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

Additional financial information continued

1 Accounting policies continued

The company measures loss allowance at an amount equal to lifetime ECLs, except for debt securities that are determined to have low credit risk at the reporting date and other debt securities for which credit risk has not increased significantly since initial recognition. In these cases, ECLs are based on the 12-month ECL, which is the ECL that results from a possible default up to 12 months after the reporting date. The company uses relevant quantitative and qualitative information and analysis based on historical experience, and informed credit assessment including forward-looking information in order to evaluate the credit-worthiness of each security at each reporting date, to determine whether a significant increase in credit risk since origination occurred. Should this be the case, the allowance will be based on the lifetime ECL.

ECLs are calculated by considering the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD). The PD is determined by reference to third party information on available companies, or using qualitative information available to the company, and depends on whether a financial asset requires determination of a 12-month ECL or lifetime ECL. The LGD is determined with reference to any exposure reducing instruments such as collateral or liquid assets that the counterparty may have. The EAD is determined as the amount of the loan balance outstanding at the reporting date.

Investment income

Investment income includes dividends and interest. Dividends receivable from group companies are recognised in the period in which the dividends are declared and approved at the general meeting or paid. Interest income is recognised using the effective interest method.

Distributions

Dividend distribution to the company's shareholders is recognised as a liability in the period in which the dividends are authorised and are no longer at the discretion of the company.

Interest expense

Interest expense reflects the underlying cost of borrowing, based on the effective interest method and includes payments and receipts made under derivative instruments which are amortised over the interest period to which they relate.

Investment in subsidiary undertakings

Investments in subsidiaries are held at cost less accumulated impairment losses.

Derivative financial instruments

The company's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The company uses derivatives such as foreign exchange forward contracts and interest rate swap contracts to hedge these exposures.

Changes in the fair value of any derivative instruments are recognised immediately in the income statement.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs. Borrowings classified as liabilities are subsequently stated at amortised cost. The difference between the net proceeds and the redemption value is recognised in the income statement over the borrowing period using the effective interest method.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future periods has been entered into by the subsidiary.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities expressed in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Non-monetary items are maintained at historic rates. Exchange gains or losses are recognised in the income statement.

Pension costs

The company participates in the group defined benefit schemes which are recognised on the Balance Sheet of Legal & General Resources Limited. These are multi-employer defined benefit schemes for which the company's share of the underlying assets and liabilities cannot be separately identified. Therefore the company's cost of participation has been treated as that of a defined contribution scheme for reporting purposes.

In addition to these schemes the company also contributes to defined contribution schemes. The company charges the costs of its pension schemes against profit as incurred. Any difference between the cumulative amounts charged against profits and contribution amounts paid is included as a provision or prepayment in the balance sheet.

The assets of the defined benefit schemes and the defined contribution schemes are held in separate trustee administered funds, which have been subject to regular valuation every three years and updated by formal reviews at reporting dates by qualified actuaries.

Share-based payments

The company operates a number of share-based payment plans on behalf of its subsidiaries. The fair value of the equity instruments granted is spread over the vesting period of the instrument and treated as a capital contribution to the respective subsidiary. The total capital contribution is determined by reference to the fair value of the awards, excluding the impact of any non-market vesting conditions. The capital contribution to the subsidiaries is accounted for as an increase in the investment in the parent company's financial statements.

At each balance sheet date, the company revises its estimate of the number of equity instruments which are expected to become exercisable. It recognises the impact of the revision of original estimate, if any, in the cost of the investment in the subsidiary and a corresponding adjustment is made to equity over the remaining vesting period. On vesting or exercise, the difference between the accumulated capital contribution and the actual cost to the company is transferred to retained earnings. Where new shares are issued, the proceeds received are credited to share capital and share premium. Any capital contribution is subsequently recharged to the respective subsidiary as incurred and the corresponding cost of investment is reduced.

2 Dividends

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

1. The dividend proposed has not been included as a liability in the balance sheet.

3 Directors' emoluments and other employee information

Full disclosures of Legal & General Group Plc directors' emoluments are contained within those parts of the Directors' Report on Remuneration which are described as having been audited. At 31 December 2019 there were no remuneration payments outstanding with directors of the company (2018: £nil). The company has no other employees (2018: nil).

4 Pensions

The company participates in the following pension schemes in the UK, which are operated by the group:

- Legal & General Group Personal Pension Plan
- Legal & General Staff Stakeholder Pension Scheme
- Legal & General Group UK Pension and Assurance Fund (the Fund). The Fund was closed to new members from January 1995; last full actuarial valuation as at 31 December 2015.
- Legal & General Group UK Senior Pension Scheme (the Scheme). The Scheme was, with a few exceptions (principally transfers from the Fund), closed to new members from August 2000 and finally closed to new members from April 2007; last full actuarial valuation as at 31 December 2015.

These schemes operate within the UK pensions' regulatory framework.

There were no contributions prepaid or outstanding at either 31 December 2019 or 31 December 2018 in respect of these schemes.

The Fund and Scheme were closed to future accrual on 31 December 2015. The sponsoring employer is Legal & General Resources Limited and a deficit in respect of these schemes for the year ended 31 December 2019 of £115m (2018: £192m) is recognised on that company's Balance Sheet. Further information is given in Note 24 of the group's consolidated financial statements.

Additional financial information continued

5 Share-based payments

The full disclosures required by IFRS 2 'Share-based Payment' are provided in the group's consolidated financial statements (Note 36).

The total expense retained by the company in relation to share-based payments was £nil (2018: £nil).

6 Auditors' remuneration

Remuneration receivable by the company's auditors for the audit of the company's financial statements is not presented. The group's consolidated financial statements disclose the aggregate remuneration receivable by the company's auditors for the audit of the group's financial statements, which include the company's financial statements (Note 34).

The disclosure of fees payable to the auditors and its associates for other (non-audit) services has not been made because the group's consolidated financial statements are required to disclose such fees on a consolidated basis.

7 Non-current assets

	Investments	Loans to	Total	Investments	Loans to	Total
	in subsidiaries	subsidiaries		in subsidiaries	subsidiaries	
	2019	2019	2019	2018	2018	2018
	£m	£m	£m	£m	£m	£m
As at 1 January	8,465	714	9,179	7,717	720	8,437
Additions ¹	485	–	485	748	–	748
Transfer from/(to) current assets	–	(12)	(12)	–	(6)	(6)
As at 31 December	8,950	702	9,652	8,465	714	9,179

1. Additions represent capital injections into group undertakings.

Full disclosure of the company's investments in subsidiary undertakings is contained in Note 45 of the Group's consolidated financial statements.

8 Receivables

	2019	2018
	£m	£m
Amounts owed by group undertakings ¹	1,372	1,276
Corporation tax	73	53
Deferred tax	9	12
Other debtors	84	23
Receivables	1,538	1,364

1. Amounts owed by group undertakings are repayable at the request of either party and include a £1,100m (2018: £961m) interest bearing balance with a current interest rate of LIBOR-12.5 bps.

9 Payables: amounts falling due after more than one year

	Note	2019	2018
		£m	£m
Subordinated borrowings	12	3,492	3,333
Amounts owed to group undertakings ¹		912	626
Payables: amounts falling due after more than one year		4,404	3,959

1. Amounts owed to group undertakings falling due after more than one year are unsecured and include £901m (2018: £601m) of interest bearing balances with current interest rates between 2.39% and 6.12% (2018: 5.71% and 6.12%).

10 Payables: amounts falling due within one year

	Note	2019	2018
		£m	£m
Amounts owed to group undertakings ¹		99	111
Accrued interest on subordinated borrowings	12	37	21
Other payables		52	6
Payables: amounts falling due within one year		188	138

1. Amounts owed to group undertakings falling due within one year are interest free and repayable at the request of either party.

11 Derivative assets and liabilities

	Contract/ notional amount 2019 £m	Fair values	
		Assets	Liabilities
		2019 £m	2019 £m
Currency swap contracts – held for trading	3,853	44	112
Derivative assets and liabilities		44	112

	Contract/ notional amount 2018 £m	Fair values	
		Assets	Liabilities
		2018 £m	2018 £m
Forward foreign exchange contracts – held for trading	358	2	–
Currency swap contracts – held for trading	1,099	–	29
Derivative assets and liabilities		2	29

The descriptions of each type of derivative are given in Note 13 of the group's consolidated financial statements.

12 Borrowings

	Carrying amount 2019 ¹ £m	Coupon rate 2019 %	Fair value 2019 ¹ £m	Carrying amount 2018 ¹ £m	Coupon rate 2018 %	Fair value 2018 ¹ £m
Subordinated borrowings²						
5.875% Sterling undated subordinated notes (Tier 2)	–	–	–	405	5.88	409
10% Sterling subordinated notes 2041 (Tier 2)	312	10.00	353	312	10.00	366
5.5% Sterling subordinated notes 2064 (Tier 2)	589	5.50	726	589	5.50	569
5.375% Sterling subordinated notes 2045 (Tier 2)	603	5.38	691	603	5.38	627
5.25% US Dollar subordinated notes 2047 (Tier 2)	648	5.25	704	659	5.25	612
5.55% US Dollar subordinated notes 2052 (Tier 2)	380	5.55	405	387	5.55	356
5.125% Sterling subordinated notes 2048 (Tier 2)	399	5.13	459	399	5.13	401
3.75% Sterling subordinated notes 2049 (Tier 2)	598	3.75	613	–	–	–
Total subordinated borrowings	3,529		3,951	3,354		3,340

1. Includes accrued interest on subordinated borrowings of £37m (2018: £21m).

2. Further details on the Subordinated borrowings of the company are provided in Note 23 of the group's consolidated financial statements.

13 Share capital and share premium

A summary of the company's ordinary share capital, share premium and options over the company's ordinary share capital are disclosed in Note 37 of the group's consolidated financial statements.

Directors' report

The Directors' report required under the Companies Act 2006 comprises this Directors' report, and certain other disclosures in the Strategic Report and the Notes to the group consolidated financial statements, including:

- an outline of important events that have occurred during the year (pages 22 to 41)
- an indication of likely future developments (pages 22 to 41)
- employee engagement (pages 50 to 51)
- post-balance sheet events (Note 44)
- directors' biographies (pages 56 and 57)
- workforce engagement (pages 64 to 65)
- stakeholders (pages 14 to 15)
- section 172 statement (pages 62 to 64)

Articles of Association

The company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. The company's Articles of Association were last amended at its AGM held on 26 May 2016.

Conflicts of interest

In accordance with the Companies Act 2006, the Board has adopted a policy and procedure for the disclosure and authorisation (if appropriate) of conflicts of interest, and these have been followed during 2019.

Powers of directors

The directors (as detailed on pages 56 and 57) may exercise all powers of the company subject to applicable legislation and regulation and the company's Articles of Association.

Appointment and replacement of directors

With regards to the appointment and replacement of directors, the company is governed by its Articles of Association, the Companies Act 2006 and related legislation. Directors may be appointed by an ordinary resolution of the company or by the Board, in each case subject to the provisions of the company's Articles of Association. The company may, by way of special resolution, remove any director before the expiration of his or her period of office. The company's Articles of Association (in line with the UK Corporate Governance Code) require all the directors to retire from office at each Annual General Meeting of the company.

Share capital

As at 31 December 2019, the company's issued share capital comprised 5,965,349,607 ordinary shares each with a nominal value of 2.5 pence. Details of the ordinary share capital can be found in Note 37 to the group consolidated financial statements.

At the 2019 AGM, the company was granted authority by shareholders to purchase up to 596,089,531 ordinary shares, being 10% of the issued share capital of the company as at 29 March 2019. In the year to 31 December 2019, no shares were purchased by the company. This authority will expire at the 2020 AGM. As such, a resolution is proposed in the Notice of AGM seeking shareholder approval to renew this authority.

At the 2019 AGM, the directors were given the power to allot shares up to an amount of £49,674,127, being 33% of the issued share capital of the company as at 29 March 2019. This authority will also expire at the 2020 AGM. As such, a resolution is proposed in the Notice of AGM seeking shareholder approval to renew this authority.

Further resolutions are proposed, as set out in the Notice of AGM, that will, if approved by shareholders, authorise the directors to issue shares up to the equivalent of 10% of the company's issued share capital as at 31 March 2020 for cash without offering the shares first to existing shareholders in proportion to their holdings.

Detailed explanatory notes to these resolutions are set out in the Notice of AGM.

Other than the above, the directors have no current intention of issuing further share capital and no issue will be made which would effectively alter control of the company without prior approval of shareholders in a general meeting.

Interests in voting rights

Information on major interests in shares provided to the company under the Disclosure Guidance and Transparency Rules (DTR) of the UK Listing Authority is published via a Regulatory Information Service and on the company's website: legalandgeneralgroup.com. As at 31 December 2019, the company had been advised of the following significant direct and indirect interests in the issued share capital of the company:

	Number of ordinary shares of 2.5p	% of capital ¹	Total interest in issued share capital
Capital Group Companies Inc.	353,497,431	5.93	Indirect
BlackRock Inc.	298,315,445	5.00	Indirect

1. Using the voting rights figure as at 31 December 2019, as announced to the London Stock Exchange on 2 January 2020, of 5,965,349,607.

No material changes to the interests have been disclosed between 31 December 2019 and 3 March 2020.

Dividend

The company may, by ordinary resolution in a general meeting, declare dividends in accordance with the respective rights of the members, but no dividend can exceed the amount recommended by the Board. The directors propose a final dividend for the year ended 31 December 2019 of 12.64 pence per ordinary share which, together with the interim dividend of 4.93 pence per ordinary share paid to shareholders on 26 September 2019, will make a total dividend for the year of 17.57 pence (2018: 16.42 pence). Subject to shareholder approval at the AGM, the final dividend will be paid on 4 June 2020 to shareholders on the share register on 24 April 2020 provided that the Board of directors may cancel payment of the dividend at any time prior to payment in accordance with the Articles of Association, if it considers it necessary to do so for regulatory capital purposes.

Related party transactions

Details of related party transactions are set out in Note 41 to the group consolidated financial statements.

Rights and obligations attaching to shares

The rights and obligations relating to the company's ordinary shares are set out in the Articles of Association. A copy of the Articles of Association can be requested from the Company Secretary at the company's registered office.

Holders of ordinary shares are entitled to attend, speak and vote at general meetings. In a vote on a show of hands, every member present in person or every proxy present, who has been duly appointed by a member, will have one vote and on a poll every member present in person or by proxy shall have one vote for every ordinary share held. These rights are subject to any special terms as to voting upon which any shares may be issued or may at the relevant time be held and to any other provisions of the company's Articles of Association. Under the Companies Act 2006 and the Articles of Association, directors have the power to suspend voting rights and, in certain circumstances, the right to receive dividends in respect of shares where the holder of those shares fails to comply with a notice issued under section 793 of the Companies Act 2006.

The Board can decline to register a transfer of any share which is not a fully paid share. In addition, registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules and where the number of joint holders exceeds four. The Board may also refuse to register the transfer of a certificated share unless:

- a) the instrument of transfer is duly stamped and is left at the company's registered office or such other place as the Board may from time to time determine, accompanied by the certificate for the share to which it relates and such evidence as the Board may reasonably require to show the right of the transfer or to make the transfer;
- b) the instrument of transfer is in respect of only one class of share; and
- c) the number of joint holders does not exceed four.

Subject to the provisions of the Companies Act 2006, all or any of the rights attaching to an existing class of shares may be varied from time to time, either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of that class (excluding any treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares.

Shares acquired through the employee share plans rank equally with all other ordinary shares in issue. Zedra Trust Company (Guernsey) Limited, as trustee of the Legal & General Employees' Share Ownership Trust, held 0.49% of the issued share capital of the company as at 3 March 2020 in trust for the benefit of the executive directors, senior executives and employees of the group. The trustee of Legal & General Employees' Share Ownership Trust has waived the right of that trust to receive dividends on unallocated shares it holds. The voting rights in relation to these shares are exercised by the trustee. The trustee may vote or abstain from voting, or accept or reject any offer relating to shares, in any way it sees fit, without incurring any liability and without being required to give reasons for its decision. Under the rules of the Legal & General Group Employee Share Plan (the 'Plan'), eligible employees are entitled to acquire shares in the company. Plan shares are held in trust for participants by Link Market Services Trustees Limited, which held 0.23% of the issued share capital of the company as at 3 March 2020. Voting rights are exercised by the trustees on receipt of the participants' instructions. If a participant does not submit an instruction to the trustees, no vote is registered. In addition, the trustees do not vote on any unawarded shares held under the Plan as surplus assets.

The company is not aware of any agreements between shareholders which may result in restrictions on the transfer of securities and/or voting rights.

Change of control

There are no agreements between the company and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) in the event of a takeover bid, except for those relating to normal notice periods. The rules of the company's share plans contain provisions under which options and awards to participants, including executive directors, may vest on a takeover or change of control of the company or transfer of undertakings. The company has a committed £1 billion bank syndicated credit facility which is terminable if revised terms cannot be agreed with the syndicate of banks in a 30-day period following a change of control. As at 4 March 2020, the company has no borrowings under this facility. There are no change of control conditions in the terms of any of the company's outstanding debt securities. The terms of the company's agreements with its banking counterparties, under which derivative transactions are undertaken, include in some instances the provision for termination of transactions upon takeover/ merger depending on the rating of the merged entity. The company does not have any other committed banking arrangements, either drawn or undrawn, which incorporate any change of control conditions.

Use of financial instruments

Information on the group's risk management process is set out on pages 42 to 47. More details on risk management and the financial instruments used are set out in Notes 16 to 18 of the group consolidated financial statements.

Indemnities

The company has agreed to indemnify, to the extent permitted by law, each of the directors against any liability incurred by a director in respect of acts or omissions arising in the course of their office. Qualifying pension scheme indemnities (as defined in section 235 of the Companies Act 2006) apply, to the extent permitted by law, to certain directors of the companies of the company's pension schemes. The indemnities were in force throughout 2019 and remain so. Copies of the deeds containing the relevant indemnity are available for inspection at the company's registered office and will also be available at the AGM.

Requirements of Listing Rule 9.8.4

Information to be included in the annual report and accounts under Listing Rule 9.8.4 may be found as follows:

Relevant Listing Rule	Page
LR 9.8.4R (12)	251
LR 9.8.4R (13)	251

Political donations

No political donations were made during 2019.

Forward-looking statements

The Directors' report is prepared for the members of the company and should not be relied upon by any other party or for any other purpose. Where the Directors' report includes forward-looking statements, these are made by the directors in good faith based on the information available to them at the time of their approval of this report. Such statements should be treated with caution due to the inherent uncertainties underlying such forward-looking statements.

Insurance

The company has arranged appropriate directors' and officers' liability insurance for directors. This is reviewed annually.

Greenhouse gas disclosures (GHG)

Global GHG emissions data

tCO ₂ e Emissions from	Jan-Dec 2019	Jan-Dec 2018
Scope 1	15,226	12,447
Scope 2	23,716	28,982
Scope 3 – Business travel	7,223	7,316
Total CO ₂ e (scope 1, 2, 3)	46,165	48,744
Intensity ratio: kgCO ₂ e emissions per policy	3.79	4.27
Fugitive emissions	413	856

Global energy data

Energy (MWh)	Jan-Dec 2019
Electricity	92,951
Gas	53,404
Total energy use	146,355

Methodology

We have reported on the emission sources required under the Companies Act 2006 Strategic Report and Directors' Report Regulations 2013 and have followed the requirements of the Streamlined Energy & Carbon Reporting (SECR) framework. We have used the GHG Protocol Corporate Accounting and Reporting Standard to calculate our GHG emissions and applied the emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2019.

Please refer to our TCFD report, CSR report and CDP Disclosure for an overview of the types of measures taken to improve our energy efficiency.

Disability

We give full and fair consideration to applications for employment made by disabled persons. Our policies support the employment, promotion and career development of disabled persons, as well as supporting employees who become disabled during the course of their employment. We make reasonable adjustments, as required under the Equality Act 2010, for disabled employees, including seeking redeployment in the event that reasonable adjustments are not possible. We offer appropriate training, including training in relation to equality, and will make adjustments to this training where required.

Independent auditors

The company's auditors have expressed their willingness to continue in office and the Audit Committee has recommended their reappointment to the Board. Resolutions to reappoint KPMG LLP as auditor to the company and to authorise the directors to determine their remuneration are proposed for the forthcoming AGM.

Directors' interests

The Directors' report on remuneration on pages 82 to 113 provides details of the interests of each director, including details of current incentive schemes and long-term incentive schemes, the interests of directors in the share capital of the company and details of their share interests, as at 4 March 2020.

Annual General Meeting

The Company's AGM will be held on Thursday, 21 May 2020 at 11am at The British Medical Association, BMA House, Tavistock Square, Bloomsbury, London, WC1H 9JP.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Accounts, including the Directors' report on remuneration and the financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), and the company financial statements in accordance with United Kingdom (UK) Generally Accepted Accounting Practice (GAAP) (UK Accounting Standards, comprising FRS 101 'Reduced Disclosures Framework', and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group and the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the EU have been followed for the group financial statements and UK Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable, relevant, reliable and prudent;
- assess the group and company's ability to continue as a going concern and whether the use of the going concern basis is appropriate, as well as disclose, if applicable, matters relating to going concern; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements and the Directors' report on remuneration comply with the Companies Act 2006, as regards to the group financial statements and Article 4 of the IAS Regulation.

They are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The directors are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the group's and the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's and the company's position and performance, business model and strategy.

Each of the directors who held office at the date this report was approved, whose names and functions are listed in the Board of directors section, confirm that, to the best of their knowledge:

- the company's financial statements, which have been prepared in accordance with UK GAAP (UK Accounting Standards, comprising FRS 101 'Reduced Disclosures Framework' and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group
- the Strategic report includes a fair review of the development and performance of the business and the position of the group and the company, together with a description of the principal risks and uncertainties that it faces

Fair, balanced and understandable

In accordance with the principles of the 2018 UK Corporate Governance Code, we have processes and procedures in place to ensure that the information presented in the annual report is fair, balanced and understandable. We describe these processes and procedures on page 77.

On the advice of the Audit Committee, the Board considers that the annual report, as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the group position, performance, business model and strategy.

Critical accounting estimates, key judgements and significant accounting policies

Our critical accounting estimates, key judgements and significant accounting policies conform with IFRS and are set out on page 132 of the consolidated financial statements. The directors have reviewed these policies and applicable estimation techniques and have confirmed them to be appropriate for the preparation of the 2019 consolidated financial statements.

Disclosure of information to auditors

As far as each of the directors in office at the date of this Directors' Report is aware, there is no relevant audit information (as defined by section 418 (3) of the Companies Act 2006) of which the company's auditors are unaware, and each such director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Going concern

The Strategic report on pages 1 to 53 of this report includes information on the group structure and business principles, the performance of the business areas, the impact of regulation and principal risks and uncertainties.

The group performance detailed on page 1 includes information on the group financial results, financial outlook, cash flow and balance sheet position. The consolidated financial statements include information on the group financial investments and investment property (Note 11), derivatives (Note 13), cash and cash equivalents (Note 15), asset risk (Note 7), market, credit and insurance risks (Notes 16 to 18) and borrowings (Note 23).

In line with IAS 1 'Presentation of financial statements', and revised FRC guidance on 'risk management, internal control and related financial and business reporting', management has taken into account all available information about the future for a period of at least, but not limited to, 12 months from the date of approval of the financial statements when assessing the group ability to continue as a going concern.

Details of the main risks affecting the group and how we manage and mitigate them are set out in 'Managing risks' on pages 42 to 47.

Having assessed the main risks and other matters discussed in connection with the Group Board viability statement set out on page 45, in accordance with the 2018 UK Corporate Governance Code and the FRC guidance, the directors considered it appropriate to adopt the going concern basis of accounting when preparing the financial statements.

The Directors' report and Strategic report were approved by the Board, and signed on its behalf.

By order of the Board



G J Timms
Company Secretary

Shareholder information

Annual General Meeting

The 2020 AGM will be held on Thursday, 21 May 2020 at 11am at The British Medical Association, BMA House, Tavistock Square, Bloomsbury, London, WC1H 9JP. The AGM provides the Board with the opportunity to meet shareholders. The Board regards the AGM as an important opportunity to communicate directly with private investors. The Notice of Meeting and all other details for the AGM are available at: legalandgeneralgroup.com (the website).

Dividend information

Dividend per share

This year the directors are recommending the payment of a final dividend of 12.64 pence per share. If you add this to your interim dividend of 4.93 pence per share, the total dividend recommended for 2019 will be 17.57 pence per share (2018: 16.42 pence per share). The key dates for the payment of dividends are set out in the important dates section on page 255.

Communications

Internet

Information about the company, including details of the current share price, is available on the website, legalandgeneralgroup.com.

Investor relations

Private investors should contact the Registrar with any queries. Institutional investors can contact the investor relations team by email: investor.relations@group.landg.com.

Financial reports

The company's financial reports are available on the website. The Annual Report and Accounts are sent to those shareholders who have elected to receive paper copies. Alternatively, shareholders may elect to receive notification by email by registering on landgshareportal.com. If you receive more than one copy of our communications, it could be because you have more than one record on the share register. To avoid duplicate mailings, please contact the Registrar, who can arrange for your accounts to be amalgamated.

Registrar

Link Asset Services is the Registrar and offers many services to make managing your shareholding easier and more efficient.

Share Portal

The Share Portal is a secure online site where you can manage your shareholding quickly and easily. You can:

- view your holding and get an indicative valuation
- change your address
- arrange to have dividends paid into your bank account
- request to receive shareholder communications by email rather than post
- view your dividend payment history
- make dividend payment choices
- buy and sell shares and access a wealth of stock market news and information
- register your proxy voting instruction
- download a stock transfer form.

To register for the Share Portal just visit landgshareportal.com. You will need your Investor Code, which can be found on your share certificate or by contacting Link Asset Services.

Customer support centre

Alternatively, you can contact Link Customer Support Centre which is available to answer any queries you have in relation to your shareholding:

By phone – 0371 402 3341*

By email – landgshares@linkgroup.co.uk

By post – Link Asset Services, The Registry,
34 Beckenham Road, Beckenham, Kent BR3 4TU

Sign up to electronic communications

Help us save paper and get your shareholder information quickly and securely by signing up to receive your shareholder communications by email.

Registering for electronic communications is very straightforward. Just visit www.landgshareportal.com. All you need is your Investor Code, which can be found on your share certificate or dividend confirmation.

Corporate sponsored nominee

The corporate sponsored nominee allows you to hold shares in the company without the need for a share certificate and enables you to benefit from shorter market settlement periods. Individual shareholders hold their Legal & General shares in a nominee holding registered in the name of Link Market Services Trustees Limited. To join or obtain further information, contact the Registrar. You will be sent a booklet outlining the terms and conditions under which your shares will be held.

Dividend payment options

Re-invest your dividends

Link's Dividend Re-investment Plan offers a convenient way for shareholders to build up their shareholding by using dividend money to purchase additional shares. The plan is provided by Link Asset Services, a trading name of Link Market Services Trustees Limited which is authorised and regulated by the Financial Conduct Authority.

For more information and an application pack, please call 0371 402 3341.* Alternatively you can email landgshares@linkgroup.co.uk or log on to www.landgshareportal.com.

It is important to remember that the value of shares and income from them can fall as well as rise and you may not recover the amount of money you invest. Past performance should not be seen as indicative of future performance. This arrangement should be considered as part of a diversified portfolio.

Shareholder information continued

Choose to receive your next dividend in your local currency

If you live outside the UK, Link has partnered with Deutsche Bank to provide you with a service that will convert your sterling dividends into your local currency at a competitive rate. You can choose to receive payment directly into your local bank account or, alternatively, you can be sent a currency draft.

You can sign up for this service on the Share Portal (by clicking on 'your dividend options' and following the on-screen instructions) or by contacting the Customer Support Centre.

For further information contact Link

By phone – UK – 0371 402 3341*

By email – landgshares@linkgroup.co.uk

Buy and sell shares

A simple and competitively priced service to buy and sell shares is provided by Link Asset Services. There is no need to pre-register and there are no complicated application forms to fill in. By visiting linksharedeal.com you can also access a wealth of stock market news and information free of charge.

For further information on this service, or to buy and sell shares, visit linksharedeal.com or call 0371 664 0445.**

This is not a recommendation to buy and sell shares and this service may not be suitable for all shareholders. The price of shares can go down as well as up and you are not guaranteed to get back the amount you originally invested. Terms, conditions and risks apply.

Link Asset Services is a trading name of Link Market Services Trustees Limited, which is authorised and regulated by the Financial Conduct Authority. This service is only available to private shareholders resident in the European Economic Area, the Channel Islands or the Isle of Man.

* Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open 9am to 5.30pm, Monday to Friday excluding public holidays in England and Wales.

** Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open 8am to 4.30pm Monday to Friday excluding public holidays in England and Wales.

Important dates:

23 April 2020	• Ex-dividend date (final dividend)
24 April 2020	• Record date
13 May 2020	• Last day for DRIP elections
21 May 2020	• Annual General Meeting
4 June 2020	• Payment of final dividend for 2019 (to members registered on 24 April 2020)
5 August 2020	• Half-year results 2020
13 August 2020	• Ex-dividend date (interim dividend)
14 August 2020	• Record date
24 September 2020	• Payment of interim dividend for 2020 (to members registered on 14 August 2020)

Share fraud warning

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

Have you been:

- contacted out of the blue;
- promised tempting returns and told the investment is safe;
- called repeatedly; or
- told the offer is only available for a limited time?

If so, you might have been contacted by fraudsters.

1. Reject cold calls

If you've been cold called with an offer to buy or sell shares, chances are it's a high risk investment or a scam. You should treat the call with extreme caution. The safest thing to do is to hang up.

2. Check the firm on the FS register at fca.org.uk/register

The Financial Services Register is a public record of all the firms and individuals in the financial services industry that are regulated by the FCA.

3. Get impartial advice

Think about getting impartial financial advice before you hand over any money. Seek advice from someone unconnected to the firm that has approached you.

If you suspect that you have been approached by fraudsters, please tell the FCA using the share fraud reporting form at fca.org.uk/scamsmart where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have lost money to investment fraud, you should report it to Action Fraud on 0300 123 2040 or online at actionfraud.police.uk.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme.

Find out more at fca.org.uk/scamsmart.

General information

Capital gains tax: for the purpose of calculating UK capital gains tax, the market value on 31 March 1982 of each share was 7.996 pence after adjusting for the 1986 capitalisation issue and the 1996 and 1999 sub-divisions, but not reflecting any rights taken up under the 2002 rights issue.

Close company provisions: The company is not a close company within the terms of the Corporation Tax Act 2010.

Registered office: One Coleman Street, London EC2R 5AA. Registered in England and Wales, No. 01417162.

Shareholder offer line: For details of shareholder offers on Legal & General products, call 0800 107 6830.

Alternative Performance Measures

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

Group adjusted operating profit

Definition

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

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

Closest IFRS measure

Profit before tax attributable to equity holders.

Reconciliation

Note 2 – Supplementary operating profit information – section (i).

Return on Equity (ROE)

Definition

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

Closest IFRS measure

Calculated using:

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

Reconciliation

Calculated using profit attributable to equity holders for the year of £1,834m (2018: £1,827m) and average equity attributable to the owners of the parent of £8,974m (2018: £8,048m).

Assets under management

Definition

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

Closest IFRS measures

- Financial investments
- Investment property
- Cash and cash equivalents

Reconciliation

Note 40 – Reconciliation of Assets under management to Consolidated Balance Sheet financial investments, investment property and cash and cash equivalents.

Net release from operations

Definition

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

Closest IFRS measure

Profit before tax attributable to equity holders.

Reconciliation

Note 2 – Supplementary operating profit information – sections (ii) and (iii).

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 – Supplementary operating profit information – section (i).

Glossary

* These items represent an alternative performance measure (APM)

Ad valorem fees

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

Adjusted profit before tax attributable to equity holders*

Refer to the alternative performance measures section.

Advisory assets

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

Alternative performance measures (APMs)

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

Annual premium

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

Annual premium equivalent (APE)

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

Annuity

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

Assets under administration (AUA)

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

Assets under management (AUM)*

Refer to the alternative performance measures section.

Back book acquisition

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

Bundled DC solution

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

Bundled pension schemes

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

CAGR

Compound annual growth rate.

Credit rating

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

Deduction and aggregation (D&A)

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

Defined benefit pension scheme (DB scheme)

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

Defined contribution pension scheme (DC scheme)

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

Derivatives

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

Direct investments

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

Dividend cover

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

Earnings per share (EPS)

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

Eligible Own Funds

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

Employee engagement index

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

ETF

LGIM's European Exchange Traded Fund platform.
Euro Commercial paper

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

FVTPL

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

Full year dividend

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

Generally accepted accounting principles (GAAP)

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

Gross written premiums (GWP)

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

Group adjusted operating profit*

Refer to the alternative performance measures section.

ICAV – Irish Collective Asset-Management Vehicle

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

Index tracker (passive fund)

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

International financial reporting standards (IFRS)

These are accounting guidelines and rules that companies and organisations follow when completing financial statements.

They are designed to enable comparable reporting between companies, and they are the standards that all publicly listed groups in the European Union (EU) are required to use.

Key performance indicators (KPIs)

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

LGA

Legal & General America.

LGAS

Legal and General Assurance Society Limited.

LGC

Legal & General Capital.

LGI

Legal & General Insurance.

LGI new business

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

LGIA

Legal & General Insurance America.

LGIM

Legal & General Investment Management.

LGR

Legal & General Retirement, which includes Legal & General Retirement Institutional (LGR I) and Legal & General Retirement Retail (LGR R).

LGR new business

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

Liability driven investment (LDI)

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

Lifetime mortgages

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

Matching adjustment

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

Mortality rate

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

Net release from operations*

Refer to the alternative performance measures section.

New business surplus/strain

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

Open architecture

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

Overlay assets

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

Pension risk transfer (PRT)

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

Platform

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

Present value of future new business premiums (PVNBP)

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

Purchased interest in long term business (PILTB)

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

Real assets

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

Release from operations

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

Return on Equity (ROE)*

Refer to the alternative performance measures section.

Risk appetite

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

Single premiums

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

Solvency II

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

Solvency II capital coverage ratio

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

Solvency II capital coverage ratio (proforma basis)

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

Solvency II capital coverage ratio (shareholder view basis)

In order to represent a shareholder view of group solvency position, the contribution of with-profits funds and our defined benefit pension schemes are excluded from both, the group's Own Funds and the group's solvency capital requirement, by the amount of their respective solvency capital requirements, in the calculation of the SCR coverage ratio. This incorporates the impacts of a recalculation of the Transitional Measures on Technical Provisions based on end of period economic conditions. The shareholder view basis does not reflect the regulatory capital position as at 31 December 2019. This will be submitted to the PRA in April 2020.

Solvency II new business contribution

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

Solvency II risk margin

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

Solvency II surplus

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

Solvency Capital Requirement (SCR)

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

Total shareholder return (TSR)

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

Transitional Measures on Technical Provisions (TMTP)

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

Unbundled DC solution

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

With-profits funds

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

Yield

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

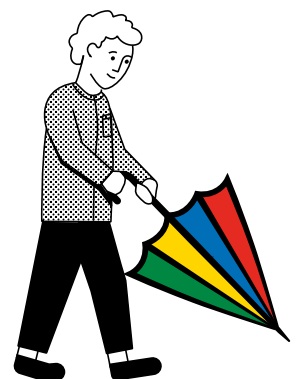
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