

Legal & General Finance PLC  
Interim Report for the six months ended 30 June 2018

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# HY 2018

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Legal & General Finance PLC  
02338444

# LEGAL & GENERAL FINANCE PLC

## CONTENTS

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### Page

3	Directors' Report
4	Income Statement
5	Balance Sheet
6	Statements of Changes in Equity
7	Notes to the Financial Statements

Registered Office  
One Coleman Street  
London  
EC2R 5AA

Registered in England and Wales number 02338444

# LEGAL & GENERAL FINANCE PLC DIRECTORS' REPORT

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## Principal activities and business review

The principal activity of the Company is to operate as a finance company providing funding to other Legal & General Group companies. It does this by raising finance from capital markets.

In fulfilling this role the Company issues listed debt through Legal & General Group Plc's £5bn Euro Note Programme and the Company's US \$2bn Commercial Paper Programme. All of the Company's issued listed debt is listed on the London Stock Exchange and is guaranteed by Legal & General Group Plc. The Company issued no new debt other than short dated Commercial Paper during the period covered by these interim financial statements.

During the six months to 30 June 2018 the Company paid an interim dividend of £5.3m (H1 17: Interim dividend of £nil).

The directors review a range of performance indicators to monitor the performance of the Company. Profit on ordinary activities before taxation and shareholders' funds are regarded as the principal key performance indicators. The profit on ordinary activities before taxation of the Company for the period to 30 June 2018 was £0.5m (H1 17: £2.0m; FY 17: £3.4m). Shareholders' funds as at 30 June 2018 were £5.4m (H1 17: £9.2m; FY 17: £10.3m).

## Principal risks and uncertainties

The Company's business involves the acceptance and management of risk. The principal risks and uncertainties facing the Company are given below. These uncertainties are unchanged from the year ended 31 December 2017 and are explained in detail in note 18 of the company's Annual Accounts for the year ended 31 December 2017.

### a) Market infrastructure

The Company's investment and fund raising activities are reliant upon the availability of market infrastructure. The loss of a major financial centre may have a significant effect on the Company's operation and profitability.

### b) Counterparties

A number of major banks operate as counterparties for the investments of the Company. Whilst the Company ensures that it only transacts with strongly rated counterparties and it regularly reviews its exposures, the financial failure of a significant counterparty could result in disruption and financial loss.

### c) Liquidity and cash flow

Liquidity risk is the risk that the Company, though solvent, either does not have sufficient liquid financial resources available to enable it to meet its obligations as they fall due, or can only secure such liquid financial resources either at an excessive borrowing cost relative to that achieved in the recent past or that typically payable by a comparably rated borrower, or through the sale of illiquid assets at a price significantly below the fair value of such assets in the recent past. This risk can arise from adverse market conditions or an unexpected event that causes liquidity stress in other entities within the group.

## Statement of Directors' Responsibilities

The directors confirm that these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union and as issued by the IASB and that the Director's Report contains a true and fair review of the assets, liabilities and financial position of the Company. The report also includes a fair review of the information required by DTR 4.2.7, namely an indication of important events that have occurred during the first six months of the year 2018 and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year.



A. Fairhurst

For and on behalf of

Legal & General Co Sec Limited

Company Secretary

Date: 24<sup>th</sup> September 2018



G. O'Neill

Director

Date: 24<sup>th</sup> September 2018

# LEGAL & GENERAL FINANCE PLC INCOME STATEMENT

For the period ended 30 June 2018

	30.06.18	30.06.17	31.12.17
	£m	£m	£m
<b>Finance and similar income</b>			
Income from investments in group undertakings	20.3	20.1	40.7
Investment return	0.7	1.4	3.6
Other income	4.5	2.8	5.3
	<u>25.5</u>	<u>24.3</u>	<u>49.6</u>
<b>Finance and similar costs</b>			
Interest paid to group undertakings	(4.0)	(2.4)	(5.4)
Other finance costs	(18.9)	(18.4)	(37.6)
	<u>(22.9)</u>	<u>(20.8)</u>	<u>(43.0)</u>
<b>Administrative expenses</b>	<u>(2.1)</u>	<u>(1.5)</u>	<u>(3.2)</u>
<b>Profit before income tax</b>	0.5	2.0	3.4
Income tax expense	<u>(0.1)</u>	<u>(0.4)</u>	<u>(0.7)</u>
<b>Profit for the period</b>	<u>0.4</u>	<u>1.6</u>	<u>2.7</u>

There was no other comprehensive income for the period. The profit for the period attributable to owners of the Company reflects the total comprehensive income of the Company.

# LEGAL & GENERAL FINANCE PLC BALANCE SHEET

As at 30 June 2018

	Notes	30.06.18	30.06.17	31.12.17
		£m	£m	£m
<b>Non-Current Assets</b>				
Investments		601.2	601.2	601.2
<b>Current Assets</b>				
Financial investments	3	1,122.8	1,367.4	1,942.7
Other receivables		283.0	324.3	337.1
Cash and cash equivalents		99.9	0.6	1.4
		<u>1,505.7</u>	<u>1,692.3</u>	<u>2,281.2</u>
<b>Total Assets</b>		<u><b>2,106.9</b></u>	<u><b>2,293.5</b></u>	<u><b>2,882.4</b></u>
<b>Non-Current Liabilities</b>				
Borrowings	4	597.9	597.9	597.9
<b>Current Liabilities</b>				
Borrowings	4	502.0	326.5	360.2
Other payables and financial liabilities		1,001.6	1,359.9	1,914.0
		<u>1,503.6</u>	<u>1,686.4</u>	<u>2,274.2</u>
<b>Total Liabilities</b>		<u><b>2,101.5</b></u>	<u><b>2,284.3</b></u>	<u><b>2,872.1</b></u>
<b>Net assets</b>		<u><b>5.4</b></u>	<u><b>9.2</b></u>	<u><b>10.3</b></u>
<b>Equity</b>				
Retained earnings		5.4	9.2	10.3
<b>Total Equity</b>		<u><b>5.4</b></u>	<u><b>9.2</b></u>	<u><b>10.3</b></u>

The notes on pages 7 to 11 form an integral part of these financial statements.

The financial statements on pages 4 to 11 were approved by the Board of directors on 24 September 2018 and were signed on its behalf by:



G. O'Neill

Director

24 September 2018

**LEGAL & GENERAL FINANCE PLC**  
**STATEMENT OF CHANGES IN EQUITY**

**For the period ended 30 June 2018**

	Share Capital £m	Retained earnings £m	Total equity £m
As at 1 January 2018	-	10.3	10.3
Total comprehensive income for the six month period	-	0.4	0.4
Dividends	-	(5.3)	(5.3)
<b>As at 30 June 2018</b>	<b>-</b>	<b>5.4</b>	<b>5.4</b>
As at 1 January 2017	-	7.6	7.6
Total comprehensive income for the six month period	-	1.6	1.6
Dividends	-	-	-
<b>As at 30 June 2017</b>	<b>-</b>	<b>9.2</b>	<b>9.2</b>
As at 1 January 2017	-	7.6	7.6
Total comprehensive income for the year	-	2.7	2.7
Dividends	-	-	-
<b>As at 31 December 2017</b>	<b>-</b>	<b>10.3</b>	<b>10.3</b>

# LEGAL & GENERAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. Accounting policies

#### (a) Basis of preparation

The Company's financial information for the six months ended 30 June 2018 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and with IAS 34, 'Interim Financial Reporting'. The accounting policies applied are consistent with those disclosed in the 2017 financial statements of the Company except where changes have been outlined in note 2 below.

The financial information contained in this Interim Report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information for the half-year periods ended 30 June 2017 and 30 June 2018 has not been audited or reviewed by the Company's Auditor. The figures and financial information for the year ended 31 December 2017 are an extract from the latest published audited financial statements. Those accounts have been delivered to the Registrar of Companies and include the report from the Auditor, which was unqualified and did not contain a statement under either Section 498(2) or 498(3) of the Companies Act 2006.

#### (b) Going concern

The Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future (being a period of at least 12 months from the date that this half yearly financial report is approved). For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### 2. Adoption of IFRS 9 'Financial Instrument'

IFRS 9 'Financial Instruments' is the new reporting standard for financial instruments, and became effective on 1 January 2018. IFRS 9 has replaced previous financial instrument standards and interpretations covered by IAS 39 'Financial Instruments: Recognition and Measurement', bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Company has applied the new standard retrospectively with an initial application date of 1 January 2018, however, as permitted by the transition provisions of IFRS 9, the Company has elected not to restate comparative period information and the accounting policies as set out in the basis of preparation in the Company Financial Statements for the year ended 31 December 2017. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised as an adjustment to retained earnings as at 1 January 2018.

#### *Classification and measurement of financial assets*

The standard introduces new assessments for the classification and measurement of 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).

Interest income from these financial assets is included in finance and similar income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the income statement. Impairment losses are presented as separate line item in the income statement.

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 income statement. Interest income from these financial assets is included in finance and similar income using the effective interest rate method. Impairment expenses are presented as separate line item in 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 within finance and other income.

The Company has no equity instruments.

The assessment of the Company's business model was made as at the date of initial application, and then applied to those financial assets that were not derecognised before 1 January 2018. The SPPI test was performed based on facts and circumstances as at the initial recognition of the asset.

# LEGAL & GENERAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

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There has been no change in classification and measurement of the Company's financial assets as a result of the introduction of IFRS 9. Non-current financial investments and cash and cash equivalents remain at FVTPL. Current investments and other receivables continue to be held at amortised cost.

### *Classification and measurement of financial liabilities*

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

### *Impairment*

IFRS 9 introduces a new impairment model for financial assets not held at FVTPL. As a result, the Company must now determine forward looking expected credit losses (ECL) for all its financial assets held at amortised cost.

The Company measures loss allowance at an amount equal to lifetime ECLs, except for debt securities that are determined to have low credit risk at the reporting date and other debt securities for which credit risk has not increased significantly since initial recognition. In these cases, ECLs are based on the 12-month ECL, which is the ECL that results from a possible default up to 12 months after the reporting date. The Company uses relevant quantitative and qualitative information and analysis based on historical experience, and informed credit assessment including forward-looking information in order to evaluate the credit-worthiness of each security at each reporting date, to determine whether a significant increase in credit risk since origination occurred. Should this be the case, the allowance will be based on the lifetime ECL.

ECLs are calculated by considering the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD). The PD is determined by reference to third party information on available companies, or using qualitative information available to the Company, and depends on whether a financial asset requires determination of a 12-month ECL or lifetime ECL. The LGD is determined with reference to any exposure reducing instruments such as collateral or liquid assets that the counterparty may have. The EAD is determined as the amount of the loan balance outstanding at the reporting date.

The adoption of the ECL requirements of IFRS 9 did not result in the recognition of impairment losses as at the date of initial application or at the reporting date.

### **3. Financial investments**

#### **(a) Financial investments at fair value**

The fair values of quoted financial investments are based on current bid prices. If the market for a financial investment is not active, the Company establishes fair value by using valuation techniques such as recent arm's length transactions, consensus market pricing, reference to similar listed investments or discounted cash flow models.

#### **(b) Fair value hierarchy**

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

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

The table that follows presents an analysis of the assets held at fair value in accordance with the measurement technique, defined below:

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).



# LEGAL & GENERAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### (b) Fair value hierarchy (continued)

	30.06.18	30.06.17	31.12.17
	£m	£m	£m
Financial investments at fair value:			
Managed funds	1,120.3	1,365.5	1,942.4
Debt securities	-	1.8	-
Derivative assets	2.5	0.1	0.3
<b>Total financial investments</b>	<b>1,122.8</b>	<b>1,367.4</b>	<b>1,942.7</b>

### (c) Financial assets by hierarchy levels

At 30 June 2018	Carrying Value	Level 1	Level 2	Level 3
	£m	£m	£m	£m
Managed Funds	1,120.3	1,120.3	-	-
Derivative assets	2.5	-	2.5	-
<b>Total financial assets</b>	<b>1,122.8</b>	<b>1,120.3</b>	<b>2.5</b>	<b>-</b>

The Company's policy is to re-assess the categorisation of financial assets at the end of each year and to recognise transfers between levels at that point in time.

There were no transfers between levels during the period.

At 30 June 2017	Carrying Value	Level 1	Level 2	Level 3
	£m	£m	£m	£m
Managed Funds	1,365.5	1,365.5	-	-
Debt securities	1.8	-	-	1.8
Derivative assets	0.1	-	0.1	-
<b>Total financial assets</b>	<b>1,367.4</b>	<b>1,365.5</b>	<b>0.1</b>	<b>1.8</b>

At 31 December 2017	Carrying Value	Level 1	Level 2	Level 3
	£m	£m	£m	£m
Managed Funds	1,942.4	1,942.4	-	-
Derivative assets	0.3	-	0.3	-
<b>Total financial assets</b>	<b>1,942.7</b>	<b>1,942.4</b>	<b>0.3</b>	<b>-</b>

## LEGAL & GENERAL FINANCE PLC NOTES TO THE FINANCIAL STATEMENTS

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### (d) Level 3 assets measured at fair value

Level 3 assets include a small portion of debt securities where broker quotes were not supported by adequate explanations on assumptions used.

	Debt securities 30.06.18 £m	Debt securities 30.06.17 £m	Debt securities 31.12.17 £m
As at 1 January	-	1.5	1.5
Total gains for the year recognised:			
- realised and unrealised gains/(losses) in the income statement	-	0.3	0.3
- Sales	-	-	(1.8)
<b>As at 30 June/ 31 December</b>	<b>-</b>	<b>1.8</b>	<b>-</b>

# LEGAL & GENERAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 4 Borrowings

	Carrying amount 30.06.18 £m	Coupon rate 30.06.18 £m	Fair value 30.06.18 £m
<b>Core borrowings</b>			
Sterling medium term notes 2031 - 2041	597.9	5.87	811.5
<b>Operational borrowings</b>			
Euro Commercial paper	497.5	0.88	497.5
<b>Total borrowings<sup>1</sup></b>	<b>1,095.4</b>		<b>1,309.0</b>

	Carrying amount 30.06.17 £m	Coupon rate 30.06.17 £m	Fair value 30.06.17 £m
<b>Core borrowings</b>			
Sterling medium term notes 2031 - 2041	597.9	5.87	848.3
<b>Operational borrowings</b>			
Euro Commercial paper	322.0	1.22	322.0
<b>Total borrowings<sup>1,2</sup></b>	<b>919.9</b>		<b>1,170.3</b>

	Carrying amount 31.12.17 £m	Coupon rate 31.12.17 £m	Fair value 31.12.17 £m
<b>Core borrowings</b>			
Sterling medium term notes 2031 - 2041	597.9	5.87	857.3
<b>Operational borrowings</b>			
Euro Commercial paper	349.4	1.27	349.4
<b>Total borrowings<sup>1</sup></b>	<b>947.3</b>		<b>1,206.7</b>

1. Total borrowings excludes accrued interest of £4.5m (H1 17: £4.5m; FY 17: £4.5m)

2. Accrued interest on borrowings has been reclassified from non-current liabilities borrowings to current liabilities borrowings.

The sterling medium term notes are senior debt with a face value of £600m issued in the following tranches:

Issuance	Maturity	Face Value £m	Coupon rate %
December 2000 - September 2001	December 2031	350.0	5.875
April 2001	April 2033	40.0	5.750
April 2001	April 2041	10.0	5.800
April 2002	April 2033	200.0	5.875