Creating possibilities

for a more secure future

LEGAL & GENERAL GROUP PLC | ANNUAL REPORT AND ACCOUNTS 2016

We're the world's tenth largest asset manager and a leader in providing financial solutions for companies, institutions and individuals.

We're not only a manager of long-term investment funds, but we also manage risk. Our success in doing this means we can aim to create attractive returns for investors and excellent value for customers.

We want to be economically and socially useful by addressing some of the greatest challenges facing society, through helping people achieve financial security and investing in jobs, homes and urban regeneration.

FINDING WHAT YOU NEED ONLINE

Our Reporting Centre
brings together all our key reports, presentations and videos, not only for the latest results but for previous years. The latest videos feature our Group Chief Executive Officer and Chief Financial Officer, giving their analysis of our recent results.

www.legalandgeneralgroup.com/investors/reporting-centre

Our Fast Read
has a concise summary of the annual report, highlighting strategy, performance and how the company is structured.

www.legalandgeneralgroup.com/2016fastread

Contents

Welcome

Sir John Kingman became our new Chairman on 24 October 2016.

I am delighted and privileged to have been asked to be Chairman of such a successful and respected company. In my previous roles, I have worked with Legal & General for many years, and I know how special the group's culture is.

I would like to thank my predecessor, John Stewart, for his wise leadership as Chairman over the last six years, taking the group from the depths of the financial crisis to consolidating its position as a highly successful UK financial services group. I also want to thank Rudy Markham, the group's longest-standing non-executive director, for his great service in acting as a hugely effective interim Chairman for five months during 2016.

The group's strategy continues to be very successful. Our commitment to being economically and socially useful will continue to be embedded in the company's values and culture. Our businesses have formidable further potential. Working with Nigel Wilson and the wider Board in the next phase of our development, we continue to build growth for our business, its shareholders, customers and employees.

Profit growth continues

We started 2016 with the implementation of the new Solvency II capital regime. The strength of our capital base enabled our balance sheet to demonstrate its resilience to market volatility through 2016 and provide a strong platform for business growth. I'm pleased to report that we increased operating profit by 7% to £1,562 million and IFRS profit after tax by 7% to £1.3 billion, with adjusted earnings per share now 22.20p (2015: 18.58p).

Since the financial crisis, the group has been able steadily to rebuild its dividend, with annual compound growth of 23% from 2009 to 2015. Having reached this level, the Board has 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 14.35p for 2016, 7% higher than 2015.

Recent Board changes

Page 52 of this report describes recent Board changes in full. In 2016, Olaf Swantee, Stuart Popham and Liz Zlatkus stood down from the Board and Richard Meddings leaves at the 2017 AGM. Julia Wilson has succeeded Rudy Markham as Senior Independent Director. Rudy remains on the Board until the AGM. I would like to thank everyone for their important contributions and especially thank Mark Gregory who retires from the Board on 9 March, being replaced as Group CFO by Jeff Davies. New Board appointments in 2016 were Lesley Knox and Philip Broadley, with Toby Strauss joining in January 2017 and Kerrigan Procter who joins the board as an Executive Director on 9 March 2017.

An impressive management team

Since my appointment was announced, I've worked closely with the management teams across our businesses and have met many of our employees. I've been hugely impressed by their hard work, professionalism and specialist knowledge, which enable us to focus on looking after the financial security of over 15 million people in the UK, US and India. Our employees make Legal & General the exceptional group it is today.

A confident future

The company's strategy has benefited by taking advantage of the opportunities offered by long-term growth drivers. I believe the UK and the US are very attractive markets where we can take advantage of the many investment and growth opportunities which continue to emerge. I'm looking forward to my first AGM in May and hope to see as many of you as possible there.

Sir John Kingman
Chairman

SEE THE VIDEO

Sir John Kingman discusses his appointment and recent activities.

www.legalandgeneralgroup.com/investors/shareholder-centre.asp

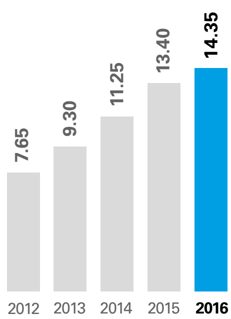
Annual General Meeting 2017
11am on 25 May 2017, at the Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ

Dividend policy
We're a long-term business and set our dividend annually, according to agreed principles, which we set out in our results.

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 Earnings'.

Full year dividend

Five year progress (pence)



10.35p

Final dividend to be paid on 5 June 2017 (2015: 9.99p). Our dividend policy is described above.

At a glance

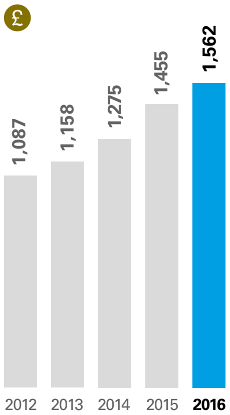
Group performance

Key performance indicators (KPIs) are defined as the 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.

£ Key measure in the remuneration of executives

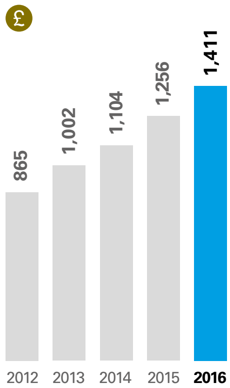
Operating profit*
(£m)

£



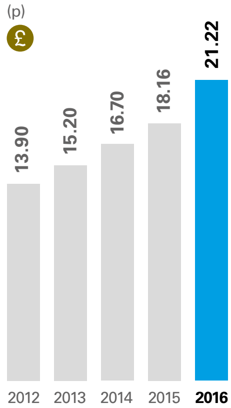
Net release from operations*
(£m)

£



Unadjusted earnings per share
(p)

£



Adjusted earnings per share is 22.20p*

Adjusted return on equity*

19.6% £

(2015: 17.7%)

Unadjusted return on equity is 18.8%

Full year dividend

14.35p

(2015: 13.40p)

Profit before tax attributable to equity holders*

£1,582m £

(2015: £1,355m)

Worldwide employee engagement index

76%

(2015: 67%)

Comprises the UK, US and India

Total shareholder return (TSR)*

29% £

(2015: 114%)

Over the three-year periods ended 31 December 2015 and 31 December 2016

These are other indicators of financial strength. We include other measures here which we believe are important to the group's performance.

Solvency II capital surplus

£5.7bn

(2015: £5.5bn)

Figures are pre-accrual of proposed final dividend. Incorporates an estimate of recalculating the Transitional Measures for Technical Provisions, see page 185 for more details

As at 31 December 2016

Solvency II capital coverage ratio (shareholder basis)*

171%

(2015: 176%)

Shareholder basis as at 31 December 2016

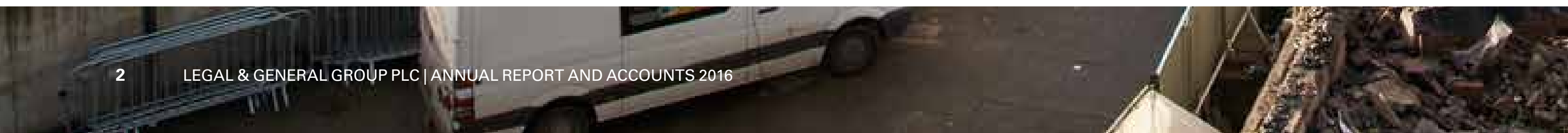
Standard & Poor's financial strength

AA-

(2015: AA-)

Standard & Poor's financial strength rating for Legal & General Assurance Society Limited

*These are 'Alternative Performance Measures' – see glossary on pages 237 to 240 for detail



FINANCIAL INFORMATION

A more detailed financial review can be found on pages 32 to 39 of this Annual Report and Accounts

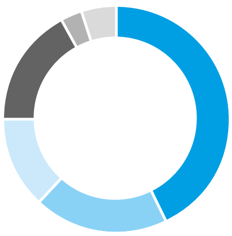
Our business

We have six businesses that work together to help our customers achieve financial security, through building assets or giving people financial protection.

While our businesses are predominantly UK based, we're growing rapidly in the US and have less mature international businesses in Europe, the Gulf and Asia.

Group operating profit from divisions*

£**1,902**m



*2016 operating profit of £1,562 million includes £1,902 million from divisions, less £340 million from group-level investment projects, interest and expenses.

Legal & General Retirement (LGR)

Our corporate business provides pensions derisking solutions for defined benefit pension schemes. Our individual business helps customers manage retirement assets, including a growing lifetime mortgage business.

£**54.4**bn

assets

Legal & General Investment Management (LGIM)

Provides investment management for pension schemes and institutional clients, manages auto-enrolled pension schemes and retail investments. We also have a successful real assets investment business.

£**894**bn

assets under management

Legal & General Capital (LGC)

Aims to increase the risk-adjusted returns on the group's principal balance sheet. Direct investments focus on housing, infrastructure and SME financing.

£**1.1**bn

assets managed in direct investments. Over the whole group, £10.0 billion has been invested.

Legal & General Insurance (LGI)

Provides life insurance products for around five million UK customers and over one million in the US. Our UK group protection business provides insurance cover for around two million employees.

£**2.4**bn

gross written premiums UK and US only

General Insurance

Provides household insurance and other personal insurances. We have around 1.3 million UK customers.

£**326**m

gross written premiums

Savings

Our savings business looks after traditional life and pensions savings products.

£**31**bn

assets under management in mature savings

Nigel Wilson on creating possibilities

WATCH THE VIDEO

Nigel Wilson discusses our 2016 results and the group's strategy

www.legalandgeneralgroup.com/investors/video_nigel_wilson_fyr2016.asp

Nigel Wilson has been Group Chief Executive Officer since June 2012 and believes that the company is extremely well placed to benefit from opportunities in UK and global markets. He talks about the need to boost investment in infrastructure and find solutions to some challenging pension issues, delivering real financial security for everyone.

Q Nigel, how should shareholders be feeling about your 2016 results?

A We've delivered a terrific financial performance with profit before tax increasing by 17% to £1.6 billion, and IFRS profit after tax by 7% to 1.3 billion with a return on equity of 19%. We remain the UK's biggest investment manager for UK pension schemes, are No 1 in retail protection, bulk annuities and liability driven investments (LDI). And we're steaming ahead in newer businesses such as lifetime mortgages and auto-enrolled pensions. Our successful results and our strong capital position mean that we're again able to recommend an increased dividend for shareholders.

Q Has Brexit already affected your business and what is likely to happen in the future?

A Our Board saw Brexit as a distinct possibility and were ready for any fallout. No business can isolate itself from geo-political events of this scale. However, we believe that our exposure to risks from the EU market is limited. The UK remains a fantastic place to operate and there are excellent opportunities to increase investment and build economic growth. I believe the UK is crying out for more productive jobs, better housing and modern infrastructure. In addition, opportunities still exist to expand our footprint internationally, especially in US and Asian markets. We're not complacent about economic risks and political uncertainty right across the world, but believe that the UK can perform strongly if we adopt a positive attitude to seizing business opportunities.

Q So are you changing your strategy?

A The Board reviews our business strategy with me regularly and remains convinced that we're on the right course. Our strategy is based upon six global growth drivers which are long term in nature and we see as being resistant to short-term economic changes. These growth drivers help generate business growth and increased earnings. Good examples are our 'global demographics' growth driver, which inspires us in our pensions risk transfer business and the 'technical innovation' growth driver which means we're implementing low cost operating models in our back offices including straight-through processing.

"We've committed ourselves to a £15 billion programme of direct investments in housing, infrastructure and SME financing and we've already invested over £10 billion..."

Nigel Wilson
CEO, Legal & General

Q How important are international markets to you compared to the UK?

A Our skills in managing risks and looking after assets have been developed in the UK, but I believe they can be replicated internationally. There are approximately $70 trillion of investment assets across the globe. Our aim is to double our share from around 1.5% ($1.1 trillion). The US has many of the UK's market characteristics, such as increasingly unaffordable defined benefit (DB) pensions and a need to build assets in defined contribution (DC) schemes. Asia represents around one third of global wealth and has massive potential to expand DC pension assets and sovereign wealth funds.

Q Do you think that pensions are still in crisis?

A DB pension schemes both in the private sector and the public sector are struggling to meet the expensive promises that they've made to employees and pensioners. The total UK DB private sector pension deficit is estimated by PwC to be £560 billion at 31 December 2016. We are able to offer a full range of derisking solutions from better matching assets to liabilities, to LDI, to buying out liabilities using bulk annuities. The harsh reality is that the DB model is broken, so we also help companies set up more affordable DC schemes, where we're a market leader in auto-enrolment, with over two million members in all our DC schemes.

Q What have you achieved in rebuilding Britain?

A We're totally committed to rebuilding Britain and creating new jobs, homes and communities. Because we need to match our long-term pensions liabilities with better yielding returns, we've committed ourselves to a £15 billion programme of direct investments in housing, infrastructure and SME financing. We've already put over £10 billion into direct investments. Some key schemes I'm really proud of in 2016 are our urban regeneration projects in Salford, Cardiff and Bracknell, with future projects being set up in Walthamstow and Bristol. Some particularly exciting developments are the new science park in Newcastle and our plans to develop modular homes.

Q Are you doing enough to keep your customers happy?

A Our commitment through the 'technological innovation' growth driver is designed to make sure that we deliver exceptional service to customers. This not only involves building slick digital application processes but making sure that all our back office systems are fast and efficient and are designed with customers' needs in mind. We were voted by consumers as 'best life insurance provider' and 'best home insurance provider' at the January 2017 Moneyfacts Consumer Awards.

REGENERATION
OUR £400 MILLION CARDIFF SCHEME

INFRASTRUCTURE

We aim to have regeneration projects in 10 major cities by 2021.

See pages 17 to 19

How we see ourselves

…from a traditional insurance company…

2006

£233bn
assets under management

Top 50
global asset manager

2/3
of AUM in index funds

UK
focus

…to a top 10 global asset manager, with expertise in managing risk

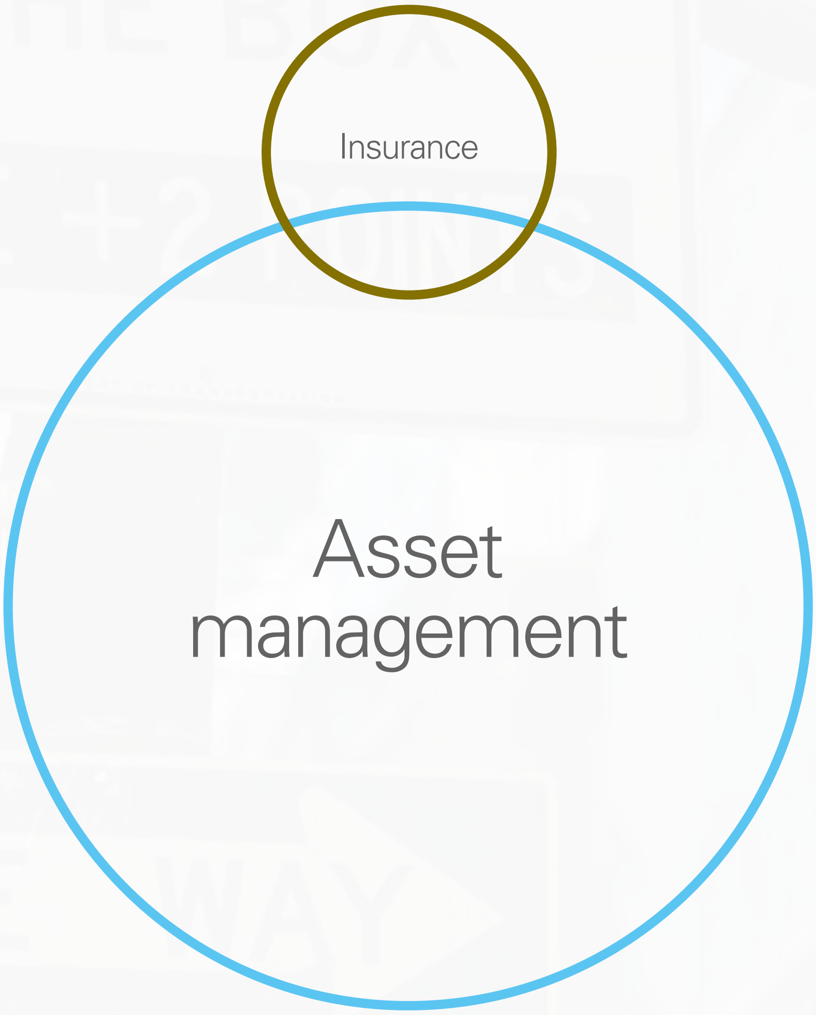
2016

£894bn
assets under management

Top **10**
global asset manager

1/3
of AUM in index funds

UK, US
focus



What we do

We are a diversified group whose business model combines asset management and risk expertise

We combine our asset and credit management capabilities with our deep understanding of longevity risk – the science of life expectancy.

Asset management

We're one of the world's largest asset managers and are experts in managing credit risk.

Our investment expertise covers a wide spectrum of asset classes including equities, fixed income, commercial property and cash.

+

Longevity expertise

We're recognised as a leading longevity and mortality expert.

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

=

Our unique space

Combining asset management and risk expertise allows us to help clients de-risk pensions.

We're able to do this because we understand both the asset and liability side of pensions.

We believe no other company in the world can partner with clients on their full de-risking journey.

- Top 10 global asset manager
- Around 3,000 institutional clients
- World No 5 in Index funds
- UK's No 1 pensions investment manager
- Over two million DC pension customers
- 0.7 million retail investment customers

- One million people where we provide pension income
- No 1 in UK retail life insurance with a 26% market share
- Five million UK individual insurance customers
- Two million employees in UK group protection schemes
- Four million people covered in India
- 1.2 million US term life customers

- Market leaders in global risk transfer – No 1 in the UK
- A leading global provider of LDI – 45% market share in the UK
- 55% of our defined benefit pension clients have been with LGIM for over 10 years

PENSION DE-RISKING

More information on the pension de-risking life cycle can be found on page 15

External influences on our business

Our long-term strategy is driven by six global growth drivers. However, in the short and medium term, global political and economic factors create opportunities for growth and present risks which need to be managed.

Growth drivers

GLOBAL DEMOGRAPHICS

Ageing populations mean that pension savings need to last longer. The number of people in the UK aged 75 and over is projected to rise to nearly 10 million by 2040.

GLOBALISATION OF ASSET MARKETS

Global wealth assets exceed $70 trillion. Our share is around 1.5%, so we're exporting more of our skills internationally.

CREATING NEW REAL PRODUCTIVE ASSETS

There's an urgent need to invest in infrastructure and urban regeneration. Pension assets need to be invested over the very long term and we can improve returns and benefit the economy by investing in this way.

REFORM OF THE WELFARE STATE

Many families that rely on state benefits struggle to survive financially following death, disability or long-term sickness. Greater use of private insurance can help to build financial independence.

TECHNOLOGICAL INNOVATION

Consumers are increasingly seeking digital access and low-cost solutions for financial services products.

PROVIDING TODAY'S CAPITAL

In recent years, equity investment capital has been in short supply. Institutional funds need stable long-term returns. Investing in start-up businesses creates the companies of the future and stimulates economic growth.

External influences on our business

Brexit

Before the EU referendum, our Board met to analyse potential outcomes, seeing Brexit as a distinct possibility. We believe that Brexit has had a limited impact on our business and that the UK continues to present outstanding prospects for investment and business growth. As a UK and US focused business, our exposure to risks from the EU marketplace is minimal and there are compelling opportunities to invest outside the EU.

It is uncertain to the degree that Brexit may affect the legislative frameworks for our retail, corporate and investment business and may affect employment law and financial regulation. We anticipate European Solvency II regulations will remain in place until 2019, when the UK will be able to prioritise regulatory changes for financial services.

Global politics

We are keeping a close watch on the possible impacts on our business and financial markets arising from the new US president and administration. We are also aware of any instability in equity markets arising from forthcoming elections in Germany, France and the Netherlands which could potentially destabilise markets.

The global and UK economy

2016 was marked by a gradual improvement in growth, with interest rate rises put on hold. In 2017, global inflation could move higher, matched by interest rate hikes in the US. The UK market has remained resilient since the EU vote, although the weakness in sterling could fuel inflation and could potentially impact growth prospects. It remains to be seen whether the impending withdrawal from the EU single market in 2019 could weaken business, investment and employment growth.

What makes us different

Our business is built on understanding people. How long they live, what risks they are comfortable with and their changing needs throughout life. We aim to see things before others do and create far-sighted approaches to better manage our assets and meet our customers' needs.

Our skills and experience give us the ability to build scale in fund assets

Pensions

Insurance

Real assets

Retail funds

Breadth of capabilities

Corporate pensions

Pensions risk transfer

Real assets

Insurance

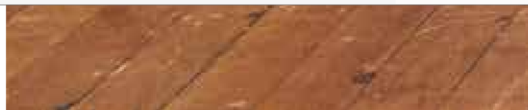
Responsible and economically useful

Acting responsibly

Community partnerships

Investment stewardship

Infrastructure



Attracting funds
Our distinct capabilities in managing assets and insurance risk attract funds from a wide range of institutions and individuals, not only in the UK but also in the US. We're a top 10 global player by assets under management, which drives growth in fee income, operational cash and profits.

Pensions
Helping pension schemes, their members and retired people is a crucial part of our business. We help customers and pension schemes in many ways. We manage mandates from institutions and pension schemes. We provide pension buy-ins and buyouts and individual pension plans.

Insurance premiums
As the UK's No 1 life insurer we collect premiums through group protection schemes, individual life insurance and general insurance plans. Our mortgage club is the UK's largest stand-alone distributor of mortgage products and we're one of the biggest UK providers of lifetime mortgages. Our scale gives us added power to offer customers low costs.

Retail asset management
Our UK retail fund investment business has become a top five business for net sales, giving retail investors access to our renowned index, multi asset and fixed-interest funds.

Pensions risk transfer
We offer DB pension schemes investment solutions at every stage of their scheme's life cycle. Our pension derisking capabilities include matching scheme liabilities and assets using LDI solutions and longevity risk management.

Securing payments to employees with bulk annuities
Our buy-in, buyout and longevity insurance solutions mean that we can assume some, or all, of a firm's liability for paying pensions. Our annuity portfolio is now £54.4 billion strong.

Moving to defined contribution
DC pensions are the future – for the private sector and the public sector – in the US as well as the UK. We have two million DC customers across 9,500 schemes, with UK DC assets of £57.1 billion and a rapidly growing US DC business.

Managing mortality and longevity risk
We believe our mortality expertise is a key contributor to our success in life insurance, annuities, pensions and lifetime mortgages. Our longevity science and mortality teams have built up unparalleled expertise in modelling risk.

A real commitment
Our commitment to being responsible is embedded into our business in everything we do. From our investments which create a better society, to our community work and our good-value products which are designed to give people independence and financial security.

Active ownership
We aim to improve the performance of the companies we invest in through responsible board behaviour and commitment to good environmental, social and governance practices.

Socially useful
Our products benefit people across all wealth groups and are not just for the wealthy. Some of the biggest names in retail such as Tesco and John Lewis trust us with their auto-enrolled pensions. And our insurance products mean people can maintain financial security following a claim.

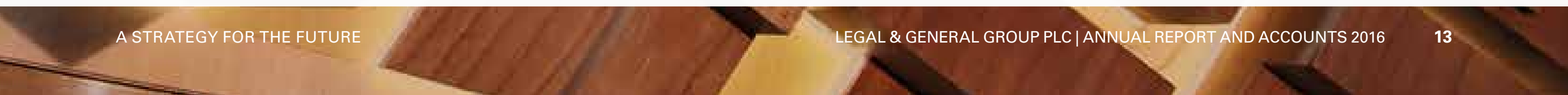
Real assets
We create real assets that generate better investment returns for our long-term money and help build towns, businesses, jobs and communities through urban regeneration.

A strategy for the future

Our strategy	Achieve market leadership in global pensions de-risking	Diversify by increasing assets and earnings internationally	Improve returns and change people's lives by creating real assets
Growth driver	GLOBAL DEMOGRAPHICS	GLOBALISATION OF ASSET MARKETS	CREATING NEW REAL PRODUCTIVE ASSETS
Rationale	DB pensions are in crisis with an estimated £560 billion of private sector deficits exacerbated by low interest rates; and the ageing population, illustrated by the projected doubling of over 75s in the UK between 2015 and 2050.	Global wealth assets exceed $70 trillion. We're successful in the UK and the US, but we've just around a 1.5% share globally and we're exporting our skills internationally.	We seek to invest the group's £54.4 billion pension annuity assets in higher performing risk-adjusted classes. Direct investments can offer better and more predictable returns to shareholders and can create economic benefits.
What we do	We offer investment solutions at every stage of a scheme's life cycle. From the growth phase, through de-risking with LDI and bulk annuities, right to the setting up of new DC schemes.	We're expanding our international businesses in the US, Europe, the Gulf and Asia, using our asset management and risk management skills.	Because we need to invest annuity assets, for example, for 20, 30 or 40 years to match pension liabilities, we invest our principal balance sheet in housing, infrastructure and SME finance to create new matching assets.
Progress	• 45% share of LDI market, worldwide market leader • Auto-enrolment boosts DC customers to 2.2m • Acquisition of £2.9bn UK Aegon annuity portfolio • £750m ICI pension buy-in	• $146.5bn AUM in the US • Four of top five US DB pension fund clients • Won US DC mandates • Second distribution agreement in Japan • International AUM of £177bn, up 45%	• £10 billion of £15 billion commitment reached • Entered £600 million build-to-rent joint-venture schemes in Walthamstow, Salford and Bristol • Invested as part of major schemes in London Gateway Port (£400m), Salford (£246m) and Newcastle (£350m)

Our strategy is unchanged. It still inspires us to help people achieve financial security and makes us economically and socially useful to society. And it's still underpinned by long-term growth drivers that continue to hold true, despite any short-term economic and political turmoil.

Our strategy	Drive earnings growth through a market leading insurance business	Build a truly digital business to drive efficiency and engage with customers	Build economic growth and earnings by investing in Britain's future
Growth driver	REFORM OF THE WELFARE STATE	TECHNOLOGICAL INNOVATION	PROVIDING TODAY'S CAPITAL
Rationale	Many families will struggle to survive financially following death, disability or sickness. Company and individual insurance cover can safeguard financial independence.	Consumers often choose companies that can offer low prices and digital access. We believe that the market will favour businesses that build low-cost, efficient digital operating models.	Investment capital has been in short supply in recent years. Yet the UK economy needs jobs, long-term infrastructure, better housing and investment capital to fund businesses.
What we do	We provide life insurance cover for death, critical illness and long-term sickness and disability for individuals and companies. We aim to work closely with government to provide better financial safeguards for consumers.	Our digital strategy for customers allows insurance customers to obtain quotes, apply for policies and review and renew them using mobile and digital technology. We are increasing efficiency in our admin operations through building low cost digital processes.	We invest the group's regulatory balance sheet to create new jobs, businesses and homes. We partner with alternative asset management groups, lend funds to mid-sized UK businesses and work with property developers to drive urban regeneration.
Progress	• 26% share of individual life protection UK market • Retail protection direct sales up 7%, GI direct sales up 20% • Mortgage Club sold 1 in 5 UK mortgages • Top 10 player in US term life market with 1.2 million customers	• Sales of lifetime mortgages through our digital platform exceeded £600m • Investment/partnership with Fintech auto-enrolled pension provider • Low cost model, with average of 80% life insurance straight-through processing	• Achieved €1.2 billion commitments through partnership in Pemberton SME fund • Modular homes business launched • Infrastructure projects: Bracknell, Newcastle • Partnership with NTR, financing 10 onshore wind farms



Making sure pension promises are kept

Tackling the trillion pound pension crisis by taking the risk out of paying company pensions

DE-RISKING PENSIONS

Pension derisking helps pension trustees secure and protect their members' benefits enabling companies to manage down DB pension liabilities. Read more at www.legalandgeneral.com/pensionrisktransfer/

Managing the risks
Taking on the responsibility for pension scheme liabilities exposes us to the risks that members may live longer than anticipated or that we experience defaults in the investments held to meet those liabilities. As well as our capabilities to evaluate and price for longevity, we actively use reinsurance to manage aggregate exposures. Our credit experts in LGIM assess and manage default risks.

Defined benefit (DB) pension schemes continue to pose problems for companies. We help them take the risk out of their pension obligations at all stages of a scheme's lifecycle.

Only 13% of UK DB schemes are still open to new members, yet £1.3 trillion of fund assets remain in UK private sector schemes. Liabilities continue to weaken companies' balance sheets. According to PwC, UK private sector pension deficits increased by an estimated £90 billion in 2016 to £560 billion. In the public sector, pension liabilities have reached £1.5 trillion.

We help pension trustees to offer their members the reassurance of knowing that their pension income is safeguarded. As an asset manager that specialises in managing insurance risk, we believe we're better placed than our competitors to achieve this.

Rolls-Royce's long-term risk management strategy

In late 2016, we completed a £1.1 billion buyout with the Vickers Group Pension Scheme, part of the Rolls-Royce Group, covering over 11,000 members.

This buyout is a great example of a long-term de-risking strategy paying off. The transaction demonstrated how we work with pension schemes at all stages of their journey, guiding them to more successful outcomes than may have initially been thought possible. It underlines that the objective of buyout is fully achievable even when markets appear volatile. The Vickers scheme was a long-standing LGIM client. We supported the trustees over many years, starting in 2007 with an LDI mandate to de-risk the scheme which ultimately culminated in a full buyout. The relationship enabled us to provide certainty to the scheme during the transition period to buyout. LGIM continues to manage £12 billion in assets for the for the trustees of the main Rolls-Royce UK pension fund.

Pension de-risking life cycle

Legal & General Retirement

Index & multi-asset funds → LDI → Active fixed → Longevity insurance → Buy-in → Buyout → Investment in real assets

Legal & General Investment Management

Legal & General Capital

Index and multi-asset funds	LDI	Active fixed	Longevity insurance	Buy-in	Buyout	Real assets
With index and multi-asset funds, pension schemes invest efficiently in a wide range of asset classes. These funds are often used earlier in a pension scheme's journey plan to target outperformance versus its liabilities.	Through LDI, a pension scheme manages its liability risks, such as interest rate and inflation risk. LDI is often a pension scheme's first step in managing risk and ensuring that members' benefits are better protected.	As a pension scheme matures, it will begin to transition its portfolio into investments that more closely match the scheme's liabilities, such as bonds. Through active fixed income mandates schemes target outperformance in their bond portfolios.	Once a scheme has managed interest rate, inflation and investment risk, longevity risk is often its most pronounced risk exposure. Through longevity insurance, pension schemes protect against the risk that their members live longer than projected.	A buy-in is often the first step that a scheme will take in transferring full risk to us. In a buy-in, a pension scheme receives insurance over a specified proportion of its liabilities.	In a buyout, we take over responsibility for meeting all of a scheme's obligations. The trustees can then wind up the scheme and the company can remove the liability from its balance sheet.	We invest the capital that backs our buy-in/out business in projects, such as infrastructure, housing and urban regeneration. Our ambition to be a socially and economically useful investor lies at the heart of our business.

An integrated solution for DB pension schemes

We work with pension schemes at all stages of their journey, ensuring they keep making progress towards their ultimate objectives. This avoids delays where providers are not joined up.

We are the market leader for managing DB pension assets, with a 32% market share. 55% of our clients have been with us for at least 10 years.

Our innovative and effective solutions mean DB pension schemes stay with at all stages of their lifecycle:

1. In a scheme's growth phase we help them achieve growth with an asset mix based around our index funds.

2. As schemes mature and cash flow becomes more difficult, our LDI solutions help achieve a better balance between liabilities and assets.

3. The majority of UK pension schemes say 'self-sufficiency is their main long-term objective'. Our 'Solutions' team move them towards this aim, with a more fixed interest based investment strategy.

4. Finally, for those schemes that would like to fully settle their liabilities, we can buy out the scheme's liabilities, taking them off the company's balance sheet and assuming responsibility ourselves for paying members' pensions.

The UK leader in pensions solutions

We developed one of the UK's first LDI strategies in 2001 and have grown into the largest LDI manager in the UK, with a 45% market share in 2016. LDI solutions are now 46% of LGIM's assets under management and we have 120 solutions specialists who work closely with our client relationship, investment, insurance and retirement teams to design the most effective solutions.

Working together helps solve the problems that others can't

Our key advantage over other financial services groups is that we bring together the expertise from a traditional asset manager and a specialist risk management group. Our clients can benefit from a fully integrated de-risking approach. Our clients benefit from the expertise and skills right across our asset management, retirement and real assets businesses.

Pensions risk transfer: a huge growth opportunity

In 2016, we completed £3.7 billion of pension buy-in and buyout business. We completed a number of substantial deals with important clients, such as Rolls-Royce and ICI, a transaction which we completed despite the turbulence created by Brexit. Buyouts either bring new assets in or keep assets within the Legal & General Group.

Auto enrolment: a huge success
Auto-enrolment has been a successful government strategy where by the end of December 2016, 7.1 million employees were automatically enrolled in the UK. We now have over 2.2 million DC pension customers, the majority of whom have been auto-enrolled.

> It's no surprise that solving the DB pensions problem is a key priority for CFOs."
>
> **Hymans Robertson, July 2016**

With around £2 trillion in DB liabilities still sitting on companies' balance sheets, a massive potential market will exist for many years to come. We aim to maintain the competitive advantages that we have over our competitors in this market:

1. We are a diverse financial services group, not a monoline business
2. Our asset origination and sourcing capabilities enable us to offer pension schemes attractive pricing
3. We have a panel of 11 reinsurance partners that bring another dimension to what we can offer clients
4. We're financially strong and stable
5. We're committed to this business for the long term, taking a long-term view when working with pension schemes
6. We make economically and socially useful investments
7. We're a global de-risking business with considerable scale and capacity
8. We continue to innovate, helping schemes put in place the arrangement that suits them best

Our view is that the key to success in this market is relationship building. We help trustees, sponsoring companies and their advisers make informed decisions, rather than adopting a sales-driven process based solely on price. In fact, our belief is that companies often find that 'price is often less than expected' and they look to increase the amount of risk they transfer to us through buy-ins and buyouts. In 2016 we won four out of the six main industry awards for pension de-risking.

The new world of DC schemes

We're well placed to benefit from the rapid growth of the UK DC market, which is expanding by 13% per annum. We have a 16% market share of the DC market with over £57 billion in assets.

The market is moving irresistibly from DB to DC. Auto-enrolment is a key driver for growth in DC, where by 2020 there is estimated to be over ten million people auto-enrolled in the UK, with minimum contribution levels of 8% of salary. We can offer 'investment only' solutions as well as 'bundled' solutions.

Within the DC market, better economics and governance is driving client demand for 'bundled' propositions, and by 2025 it is estimated that over 80% of UK assets will be 'bundled'. We're able to offer both 'bundled' and 'investment only' solutions, allowing us to support clients with a broad range of requirements.

Widening auto-enrolment's reach

Auto-enrolment is now reaching the very smallest employers, including those with only one or two employees. Our marketing strategy is based around three areas:

1. SMEs Our digital strategy allows small contract based schemes to integrate their payroll data directly with our back office systems. Our investment and partnership with SmartPensions' digital first approach has helped automate our systems to benefit small employers.

2. Escalation Contribution levels will rise substantially in April 2018 and 2019, with total contributions going up from 2% to 8%. This should enable us to build scale by growing assets.

3. Winning large schemes We aim for our low charges and quality of service to give us a distinct advantage over other companies. In 2016, we won the 200,000 employee Tesco scheme.

Using digital processes to make pension saving achievable for all
Achieving excellence in technology continues to underpin our overall strategy. Our investment in the digital SmartPension platform illustrates our desire to invest in high-achieving, innovative technology that has a positive impact on the wider UK economy.

SmartPension has built a powerful digital platform which has made auto enrolment scalable and affordable for small employers and their employees with minimum cost and disruption, thereby making saving for the future achievable for more UK workers.

Contributing to the UK economy

Investing long term into Britain's future

Why we invest in real assets

We have over £6 billion of shareholder funds and over £54.4 billion in annuity assets. This is capital which supports our long-term insurance business. By moving our investments from traded assets such as government and corporate debt to direct investments, we can deliver higher future profits through a better risk-adjusted return on capital as well as increasing the amount of capital we invest.

At the same time we can demonstrate our commitment to being economically and socially useful by helping to close the UK investment funding gap. This gap in UK investment affects: firstly the UK's ability to build homes, where the UK is only building around half the new accommodation we need; secondly, the UK's need for urban regeneration to improve lives of our communities right across the UK; thirdly we need to invest in small businesses to create real jobs and improve productivity and incomes.

Our £15 billion direct investment programme

In 2014 we made a commitment to invest £15 billion in direct investments and have already put in £10 billion over the medium-term into long-term projects. The need for greater investment in the UK is apparent:

- There is an estimated £11 billion annual shortfall in the money needed to overcome the housing crisis
- Around £100 billion of investment is needed to regenerate our towns and cities
- According to a government estimate, between 2014 and 2020, £40 billion to £50 billion could be spent on renewable electricity generation capacity
- SMEs need an estimated £125 billion to create the new businesses and jobs to make Britain competitive

The government and the banks have not had the capacity to fund these projects, but there is a large amount of institutional cash available.

INVESTING LONG TERM MONEY TO GROW THE UK ECONOMY

In 2016, Legal & General Retirement put £2 billion into direct investments to match their long-term annuity liabilities.

> To address the housing crisis at least 300,000 new homes are needed annually for the foreseeable future."

House of Lords 'Building more homes' report, July 2017

£**10.0**bn

Put into direct investment schemes since 2014 as part of a £15 billion commitment to rebuild Britain.

The importance of build-to-rent

It's important to improve housing supply across all tenures and we're committed to both the build-to-sell and build-to-rent sectors, providing high-quality private properties as well as affordable and social housing.

In 2016 we entered the-build-to rent market through a joint venture project with PGGM. This has created a housing pipeline of nearly 800 new homes across all projects, with a total capital commitment of over £250 million. In Walthamstow, East London, we launched a major development which is expected to deliver 440 new homes, in Salford we acquired a site from English Cities Fund and in Bristol we acquired a build-to-rent development site planning to provide 168 one, two and three bedroom new homes.

Creating modern modular homes

The UK needs to build around 300,000 new homes a year, yet is barely achieving half that figure. Part of the reason is linked to the shortage of materials and skilled labour. In 2016, we started building our modular housing business based in Yorkshire. We are using sustainable, durable modern materials with environmentally friendly construction techniques to build higher quality, energy efficient, lower cost housing. Constructed using cross laminated timber, the first homes are due to be completed later in 2017.

How our major cities benefit from urban regeneration

In 2014 and 2015 we launched major urban regeneration projects in Bracknell, Salford, Cardiff and Leeds as well as key projects in Liverpool, Wakefield, Plymouth and Canning Town. In 2016 we increased our investment into East London with plans to create over 40,000 jobs and 11,000 new homes. We have jointly invested in a number of projects including DP World's new £400 million London Gateway port on the Thames estuary, a new £246 million Transport for London building in Stratford and a £63 million 26-storey student accommodation development for Queen Mary University.

Improving the nation's infrastructure

In June 2016 we announced plans of a partnership with Newcastle City Council and Newcastle University to build and jointly finance the £350 million Newcastle Science Central development. This will create

Cardiff: a city of the future

In September 2015 our joint venture partnership with Cardiff-based developer, Rightacres, planned the delivery of a £400 million Central Square master plan for the City of Cardiff Council's regeneration scheme.

The scheme is set to create over 10,000 local jobs and facilitate significant economic growth. It includes a new £83 million HQ for BBC Wales accommodating 1,200 employees.

Our commitment to Cardiff not only includes urban regeneration and housing projects but extends to employing 1,400 people in our Cardiff office.

Watch the video: www.legalandgeneralgroup.com/2016fastread

4,000 jobs, 500,000 square feet of office space and 450 new homes and is being delivered through the Government's Regeneration Investment Organisation.

Successful partnerships that help rebuild Britain's economy

Our joint equity partnership with Pemberton has enabled €1.2 billion of long-term capital to be raised, providing much needed finance to small and medium-sized enterprises across the UK and other EU countries. A second fund by Pemberton has been set up to lend £500 million to UK mid-sized businesses.

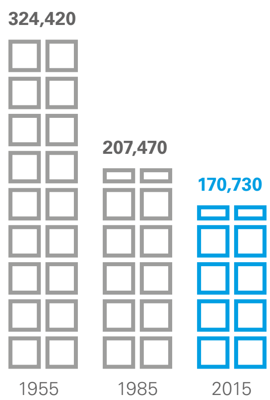
A successful partnership with Dutch pension fund manager, PGGM, has helped provide increased levels of capital for our build-to-rent projects in Salford, Bristol and Walthamstow by creating a 50:50 joint venture.

Clean energy

We have helped develop a clean energy platform by partnering with NTR to jointly invest into a €250 million fund for onshore wind projects in Ireland and the UK. The project became operational in 2016 and 2017.

Managing the risks
Property market, lending and loan default risks are inherent to our investment strategy. We have, over the years through our Real Assets team, built significant expertise in property markets. Combined with our credit capability we're able to assess the risks in each transaction and the quality of security that we may take. Through selective partnering, we're also able to draw on sector expertise to reduce execution risks.

UK home building volumes



Source: www.gov.uk/government/statistical-data-sets/live-tables-on-house-building

Table 241: permanent dwellings completed, by tenure, United Kingdom, historical calendar year series.

Bracknell's remarkable transformation

In 2014 we began completely transforming Bracknell town centre which was showing signs of ageing and was in need of regeneration. Work continued in 2016.

The new development in the north of Bracknell Town Centre will comprise almost 600,000 square feet of new retail and leisure space, which represents an investment of over £200 million. Retailers signed up include Fenwicks, Marks & Spencer, Primark, Waitrose and H&M.

We're also building 1,000 new homes at Crowthorne, near Bracknell and are providing additional funding for infrastructure projects at the Crowthorne site, including a primary school, community centre, care home and over 100 acres of public green open spaces.

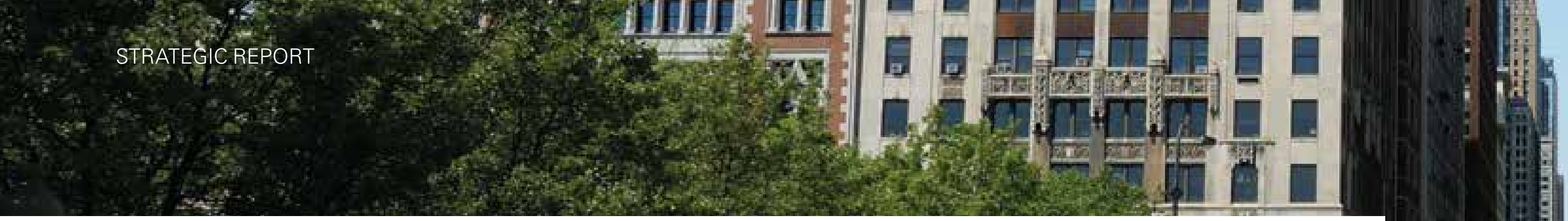
Tim Wheadon, Chief Executive Bracknell Forest Council, said:

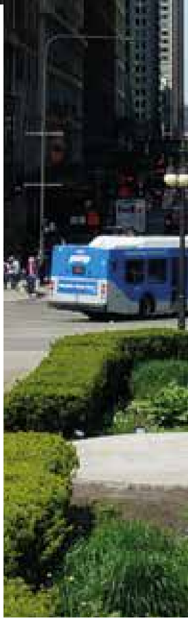
"What this does is to fulfil a massive need in the borough. I'm looking forward to the residents actually coming into the town centre and seeing the fruition of the vision we've had."

David Ogles, a Customer Support Officer involved in the construction project spoke with enthusiasm about the new development:

"I've lived in Bracknell for 32 years now and it's very long overdue. We'll get more people back into Bracknell."

Watch the video:
www.legalandgeneralgroup.com/2016fastread





Reaching out to worldwide markets

Expanding our US businesses and bringing our capabilities to growing markets

It's a great time to expand our businesses in attractive markets across the world.

Our investment management business has £894 billion ($1.1 trillion) in global assets making us the tenth largest worldwide asset manager. However we only have around a one per cent share of global invested wealth assets which were assessed in 2016 as being around $70 trillion.

We believe the key to growing our assets is to diversify and export our skills and experience into areas of the world which are already established markets or which are expanding rapidly. Our international business already accounts for 20% of our AUM and we intend to increase this percentage substantially.

Our success in growing US markets

Our US investment management business was founded in 2006 and we started marketing our active fixed income and LDI capabilities to US DB schemes in 2009. We are a leading US pension solutions provider with an established active fixed income track record and more recently a strong reputation in index strategies. We have $146.5 billion assets under management as at 31 December 2016.

US pension plans are just getting started on their de-risking journey and there will be lots of opportunities to grow our DB business further.

Expanding our US DC business

The US DC market represents a great opportunity for us, with a total market size of $10 trillion in AUM. We're already seeing demand for our index strategies and are well positioned to offer a range of retirement income solutions as the US DC market continues to diversify.

Growth beyond the UK and US

In 2016 we deepened our existing relationships in Europe and the Gulf, with significant appointments across our index, active fixed income and multi-asset businesses. The launch of our 'ICAV'(see glossary on page 238) in August 2016 is enabling us to widen our client reach internationally via these pooled funds. Our 2017 focus is to establish more strategic partnerships to build market share in US, Europe, the Gulf and Asia. We aim to build on our pooled and segregated solutions in key markets to reach a wider client base.

Our 2017 focus is to establish more strategic partnerships to build market share in US, Europe, the Gulf and Asia. We aim to leverage pooled and segregated solutions in key markets across a wider client base and focus on DC and retail distributions solutions.

Reaching into Asia Pacific and emerging markets

Our strategy in Asian markets continues to focus on building relationships with large sovereign and institutional investors in the region. We are entering growing markets such as China and

INTERNATIONAL GROWTH

Our 'globalisation' growth driver inspires international expansion in insurance, asset management, pension risk transfer and real assets.

www.legalandgeneralgroup.com/investors/strategy.html

US Infrastructure

In the US, we're now making direct investments to match long-dated liabilities. In August 2016 LGIM completed their first US infrastructure transaction. In the first ever educational private-public partnership we undertook to double the size of the University of California to accommodate 10,000 students and expand its research and teaching programmes. The extension comprises 1.2 million square feet of academic, classroom and laboratory facilities as well as housing and dining units.

more established markets such as Japan. In 2016 we started to establish a Japanese operation, recruiting a new Head of Japan, and we now have a regional office in Tokyo. We are also developing our trading and fund management capabilities in Hong Kong.

Our overall strategy is to look for opportunities in countries that have relatively low barriers to entry.

Pensions risk transfer in the US

In April 2016 we entered into our second US pension risk transfer deal. The 'Pension Plan for Lay Employees and Sisters and Brothers within the Diocese of Palm Beach' concluded a deal for approximately $65 million. We began providing retirement payments under a group annuity contract to the Diocese's retirees. This followed our successful entry into the US market in October 2015 with our $450 million agreement with the US subsidiary of Royal Philips. Later in 2016 we wrote a further five deals totalling $383 million.

We expect the demand for pension risk transfer deals to increase rapidly in the US and intend to be a major player as we steadily grow our position in this market.

The US is a key market for Legal & General and we're positioned for growth. Our rapidly growing investment management business, our US life insurance company, our US pension risk transfer operations and our real assets business are all preparing for expansion.

$1.6 trillion

US pension liabilities in 410 of the largest 'Fortune 1000' DB schemes totalled over $1.6 trillion at the end of 2016. Source: WillisTowersWatson, February 2017.

Managing the risks
As we continue to internationalise our businesses, we're alert to the risks presented from differing legislative and regulatory environments, and cultural values. We seek to manage these operational risks through combining our well established operating platforms with local expertise in our chosen markets, alongside continued investment in our system capabilities, business processes and people.

Making our Insurance business global

In the UK we're the market leader in retail life insurance, achieved through a multi distribution strategy, scale, underwriting and reassurance capabilities and a strong focus upon technology to deliver excellence in service.

We want to leverage the expertise that has made us the UK's No 1 life insurer and apply that expertise to build a direct-to-consumer business that complements the already successful US broker term life business. We are top 10 player in the US term life market, with 1.2 million policies and $1.2 billion in gross written premiums.

Building financial resilience for all

Our winning retail businesses help people achieve financial independence

Many people are unprepared for financial shocks

Many people in the UK are unable to withstand the financial impact of a death, long-term sickness, disability or unemployment in the family. Not only are people faced with living on dramatically reduced incomes but the cost to the state is huge. Over 100 million days a year are lost to sickness, with mental health problems being a significant contributor. Macmillan Cancer Support reports that 83% of people diagnosed with cancer suffer a net loss of nearly £600 a month during the course of their illness.

Our market-leading life insurance business

With the savings ratio in the UK at a record low at 3.8%, we believe that insurance can be the best answer to avoiding financial shocks. Our retail life insurance business has been the market leader for over 10 years and has a 26% market share. With over five million customers, we continued our success in 2016 due to our multi-distribution channel strategy, our scale, experience in underwriting and dedication to delivering digital solutions to improve customer experience. Our group protection business provides insurance cover for over two million employees in over 3,300 corporate schemes.

Putting customers in control
In 2016 we upgraded 'My Account' allowing customers to take control of changing details online and via mobile devices, for insurance, investment and pension plans.

We had over two million customer visits to the site by the end of September, with 450,000 new customers signing up to the service.

'My Account' enables auto-enrolled pension customers and holders of ISAs and unit trusts to monitor fund performance and change funds. Insurance customers can view their policy details, payment schedules and download documents online. In addition, all customers can update their address, marital status and contact details or send us a secure message.

Improving financial education in schools

It has been common for children to leave school with little knowledge of how finance works.

We have been working with schools in London, Surrey and South Wales to teach children the harsh realities of managing money. How to organise a monthly budget, the importance of saving and insurance and how taxation works.

16 million

More than 16 million adults in the UK have savings of less than £100, a study by the Money Advice Service (MAS) has found. (BBC News September 2016).

Providing workplace protection

We're firmly committed to the workplace health and wellbeing market, investing in our business and improving the employee and employer experience through digital developments. We're fully engaged with government through the 'Working Lives' paper, as well as specific dialogue around products and services that may help support and alleviate the welfare bill. Developing additional products and services that help treat mental wellbeing in the same way as physical wellbeing in the workplace is equally important. We're supporting, sponsoring and developing capability to help employers, employees and advisers with tools to keep people happily and healthily in work.

Digital innovation drives efficiency

Our direct insurance business now makes up over 18% of our protection business. We aim to build a best in class digital marketing function enabling cost effective customer acquisition. This digital eco-system will enable customers to research, buy and service their products through any digital medium they choose. Our technology drives our excellent customer service with market leading point of sale decisions, making it ever easier for customers and advisers to do business with us. It's because of our digital approach that we have successfully partnered with a wide range of distributors.

> "Our multi-channel, multi-product business uses technology to deliver great customer service with cost and scale efficiencies"

Bernie Hickman,
CEO, Legal & General Insurance

80%

On average, 80% of our customers receive an immediate decision at point-of-sale that they can be accepted for life cover, without any further questions.

Financial independence

People often lack confidence when faced with decisions about their finances. In 2016 the Financial Conduct Authority published the results of their Financial Advice Market Review in the "light of concerns that the market for financial advice in the UK was not working well for all consumers." Jackie Noakes led our response to this review as one of the 'Expert Panel Members'. Jackie's focus was on how all consumers can get easier access to the help they need.

"I'm delighted with the excellent progress we've made in growing and diversifying our business in 2016. Our focus on embedding digital technology into our business has been a key enabler for our growth strategy."

Cheryl Agius
Managing Director, General Insurance

Diversifying in general insurance

In 2016 we remained a leading online provider of household insurance cover. We now obtain 39% of new customers through online transactions. An extension of our buy-to-let product in to the online and broker channels has provided new opportunities in this market. While our key focus is on household and buy-to-let, we have extended the range of the general insurance products we offer which now include pet and travel cover.

We work closely with bank and building society partners to help people find suitable insurance cover. In 2016 we signed strategic distribution agreements with a number of partners including Coventry and Skipton Building societies as well as Sainsbury's Bank. In addition, our partnership with Prestige will deliver £85 million gross written premiums over five years.

The UK's largest mortgage club

Our mortgage club has relationships with 67 different lenders who help our distribution partners find appropriate mortgages for their customers. In 2016 £53 billion of mortgages were facilitated by our mortgage club, representing a 20% share of the UK mortgage market. The wide reach of this business is shown through our database of over 10,000 mortgage brokers. We also help customers through our surveying business where in 2016 we arranged approximately 520,000 valuations, up 8% on 2015.

Investing in digital retail funds

On 1 January 2017, we sold Cofunds, our digital investment fund platform. The group's digital savings strategy has now been simplified to help consumers save for the future, using funds offered by our investment management business. We are starting to see momentum in our retail savings business, which was ranked 13th in the market when it was transferred to LGIM in 2014.

Technology and changing consumer behaviour are transforming the savings market, with increasing convergence between pensions and other forms of savings such as ISAs. Consequently, we're developing a direct proposition which will build on relationships with existing customers as they move through their working lives into retirement.

Our fast-growing lifetime mortgage business

We entered the lifetime mortgage market in the second quarter of 2015, writing over £200 million of business in the first year. Since then we've tripled this to over £600 million, with more than 12,000 accounts. Market opportunities are still very attractive, with £1.5 trillion of housing equity held by over 55s.

Our proposition is to help elderly people boost their retirement funds for a variety of purposes: paying off loans, home improvements, improving their quality of life, helping their families or using for home care costs. Our average customer is 71 years old, using the money raised to pay off existing mortgage debt.

Our successful lifetime mortgage business was recognised in 2016 by both 'Mortgage Strategy' and 'Your Mortgage', who both named us as 'Best Equity Release Lender'. Some reasons for our success are:

1. Our competitive interest rates
2. Our financial stability and brand
3. Leading the way in providing digital application services in this market
4. The strength of our distribution, enhanced by our recent partnership with Santander
5. Having our own Surveying Services business means customers benefit from seamless service

Managing the risks
In providing insurance products we have to make assumptions about how long people may live, how healthy they will be, or events that could give a higher rate of claims than we'd normally expect. We seek to price and underwrite our insurance products to take account of these risk factors, and use reinsurance to manage significant exposures. 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.

How Jim and Gill used a lifetime mortgage to help their family.

Jim and Gill celebrated their 52nd wedding anniversary in March 2016 and saw using the equity in their home as a way to help their granddaughter take a first step on the housing ladder. Lifetime mortgages can be a excellent way to transfer wealth across generations.

Jim said: "The reason that we wanted to get the lifetime mortgage was to help a member of our family. You're using the value of your house to help your family. That is what it is all about." Gill added:

"Our granddaughter was looking for a house and no way could they save the deposit, which is the reason we did it for her."

Jim and Gill's granddaughter, Becca, said: "It's made a massive difference to our lives – we've got our own independence."

Our desire is that people have the peace of mind in their retirement years of knowing that they will have a sustainable income that will meet their needs and expectations as they live out their final years.

See the video:
www.landghomefinance.com/videos

Acting responsibly

Making a real difference to people's lives

Our mission is to make a real difference to people's lives, to help them achieve long-term financial security and to improve their quality of life within their communities.

Our business culture is based upon four key principles which determine how we aim to conduct our business.

To be customer led. We want our customers to be at the heart of everything we do.

To be economically and socially useful. We want our products, services and investments to show both economic and social value.

To be fair and transparent. We aim to treat our customers, investors, suppliers, communities and regulators with integrity and openness.

To be inclusive. We value inclusiveness and embrace difference where our people are engaged and empowered to deliver business results.

What we believe in

Our four key principles enable us to develop practical solutions to social responsibility issues:

Delivering financial resilience

Our core business mission is to help people achieve financial security through insurance and by saving for a better future.

Improving social mobility and equality of opportunities

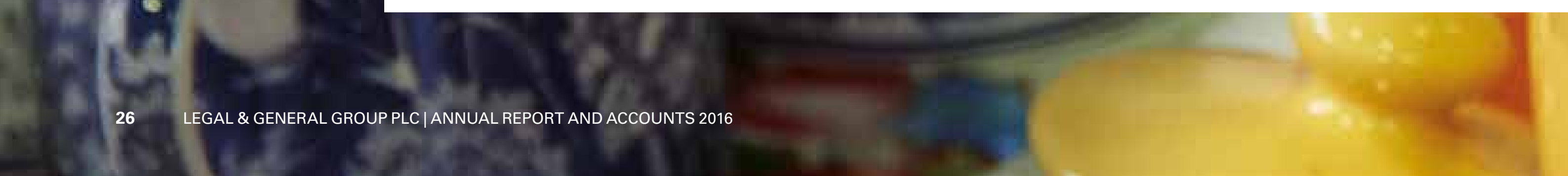
Our aim is to provide products and services that are accessible to a wide range of social groups through competitive pricing. We're committed to improving financial education. Our direct investments aim to improve people's lives across different age groups and social classes.

Trust, transparency and ethical business behaviour

We demand the highest standards of ethical behaviour from our board, employees and all our stakeholders.

Diversity

We're committed to diversity in gender, ethnicity, religious belief, sexual orientation and disability and are working to build a fully inclusive company that encourages all people to build successful careers appropriate to their skills and talents.



Right: New Horizons
New Horizons are a South-Wales based day-care centre for people with physical disabilities.

The service users of New Horizons told us how we could improve our processes to better take account of the needs of people with vulnerabilities. The result was that people in the home said they felt empowered by being given a voice when dealing with large companies for the first time in their lives. See the video: www.legalandgeneral.com/2016fastread

Helping vulnerable customers

Our vulnerable customer committee helps improve our products and services we provide to meet the needs of people with vulnerabilities, such as the elderly, people with disabilities and the recently bereaved. We want all our employees to acquire an understanding of the needs of vulnerable people.

Creating a low carbon future

We're committed to reducing our impact on environmental and climate risk. We have set ourselves low carbon targets and have made clean energy a key part of our direct investment strategy.

Community development

We encourage people in all our UK and international businesses to support their communities through volunteering and fundraising. In this way we can reach out to some of the most vulnerable people and groups in society.

Responsibility in investment

As one of the largest investors on the UK stock market and a major global investor, we invest in most sectors and many large companies. We therefore seek to influence boards to act in an ethical and responsible way, focusing on all aspects of environmental, social and governance issues. We believe that ethical behaviour can create better returns for investors.

Measuring our commitment to society

Core belief	Principle	Measure	2014	2015	2016
Improving social mobility and equality of opportunities	Economically and socially useful and inclusive	Cumulative total direct investments in UK infrastructure	£5.7bn	£7.2bn	£10.0bn
Trust, transparency and ethical business behaviour	Fair and transparent	Total global tax contribution	£794m	£947m	£1,151m
Diversity	Inclusive	Female representation on board	23%	27%	27%
Helping vulnerable customers	Economically and socially useful and inclusive	Employees participating in vulnerable customer training	n/a	n/a	6,122
Creating a low carbon future	Fair and transparent	Total CO_2 emissions	38,035.66 tonnes	54,161.60 tonnes	50,381.00 tonnes
Community development	Economically and socially useful	Contributions into UK non-profit organisations	£2.8m	£2.6m	£3.0m
		Contributions into US non-profit organisations	$0.9m	$0.8m	$1.5m
Responsibility in investment	Fair and transparent	Meeting with boards of UK companies on corporate governance issues	590	543	500

Focus on corporate governance – active ownership

As a leading investor, LGIM believes we have a responsibility not just to our clients but to society as a whole. We use our scale and influence to encourage the companies in which we invest to develop resilient strategies, think longer term and consider all of their stakeholders. We also work towards improving wider market standards, policies and regulations because we believe that good governance protects and enhances long-term prospects for our clients.

Our independent Corporate Governance team, led by Sacha Sadan, focused on three key initiatives in 2016: climate change, board accountability and diversity, and executive remuneration.

Climate change was a key topic with our clients during 2016. We made a Climate Impact Pledge, detailing our commitment towards engaging with the largest companies who hold the key to a low-carbon future. For those who do not meet the required standard over time, this means voting against the Chairman. This applies to all of LGIM's global equities.

Board composition and quality are critical elements of company success. We want to ensure that directors are contributing to board discussions and that their actions are aligned with shareholder interests. To this end, we met companies and produced thought pieces to encourage company directors to consider important factors that can help them become top performers, including diversity, succession planning and more effective board reviews.

We also want companies to improve the link between pay and long-term performance. Alongside our regular engagement activities, we asked companies to publish the pay ratio between the median employee and the CEO. We also published our revised pay principles and distributed them to the UK's largest 350 listed companies.

ACTIVE OWNERSHIP

See our Corporate Governance report:

www.lgim.com/uk/en/capabilities/corporate-governance-responsible-investment/

Our Governance team held

500

meetings including

39%

with companies outside the UK

23%

UK companies voted against (at least one resolution)

47%

discussing environmental and social issues

Gender Diversity

2016	Female	Male
Directors	3	8
Senior leaders	57	189
All employees	3,383	3,479
2015		
Directors	3	8
Senior leaders	60	191
All employees	3,310	3,390

Employee engagement

Over 6,800 people in our businesses in the UK, US and India took part in our annual 'What Matters' Employee Survey, with an overall response rate of 85%. The 2016 worldwide 'Employee Engagement Index' increased from 67% in 2015 to 76% in 2016. This increase in scores reflects the hard work undertaken by our business divisions to support our people through change by offering an agile, flexible and working environment, whilst equipping them with tools to work positively through change. This focus will continue over next year as we share our strategic goals and ambitions whilst supporting managers and peoples' wellbeing.

Inclusion and diversity

We strive to be a vibrant business that values inclusiveness and embraces difference, where our employees are engaged and empowered to deliver business results because better business decisions come from a diverse set of views. We recognise that we have more to do, to achieve our goal of creating an inclusive workplace, where all our employees can be themselves, realise their potential and deliver their best performance.

Our diversity and inclusion activities focus on the following three areas:

1. Culture – creating the right culture for diversity and inclusion to flourish – inclusion is one of our business principles

2. Communication – engaging our leaders and employees in the diversity agenda with our 50/50 by 2020 network

3. Insight – understanding where we're now, setting targets and measuring our progress towards becoming more diverse

OUR DIVERSITY AND INCLUSION ACHIEVEMENTS IN 2016

Working towards our targets in 2017

- Four women were promoted or hired into the most senior management roles in 2016
- 25% of the women in our talent pool have taken on new roles or expanded responsibilities
- 40% of our senior succession pool are women
- All business divisions have nominated a sponsor and have an action plan for increasing gender diversity in place

Broadening the agenda in 2017

In 2017 we will continue to work toward achieving our Women in Finance targets but also broaden our agenda to look at how we can increase the representation of ethnic minority colleagues in our business, as well as making our work place more inclusive for everyone.

Employee wellbeing

Our health and wellbeing programme encourages employees to be fit, happy and well; emotionally, physically and mentally. We perform best by leading healthy, balanced lifestyles. In 2016 3,100 people took advantage of free BUPA health checks. Mental health was a key priority, supporting 'Mental Health Week' and rolling out three mental health first aid training courses and we joined the Government's 'Expert Advisory Group' for supporting good mental health in the workplace. Our 'Stepjockey' stairclimbing campaign encouraged physical health.

Learning and development

Our aim is to create a culture where talent thrives and ambition can be fulfilled. We encourage our people to take ownership of their career and development and provide a variety of learning opportunities to support this, including on-the-job experiences and support with professional qualifications. Our Learning Hub has thousands of resources to aid our people's development, including e-learning and on-line books, as well as access to our face-to-face training catalogue. We develop the skills and knowledge of our people through business-aligned initiatives including curriculums focused on change management, wellbeing and resilience, recruitment and selection and new ways of working.

Human rights

Our respect for human rights is embedded in how we do business. We're a signatory to the UN Global Compact for all our worldwide operations and are committed to upholding globally accepted human rights principles.

Tax matters

Taxes provide public revenues for governments to meet economic and social objectives. Paying and collecting taxes is an important part of our role as a business responsibly operating within and contributing to society.

Our total tax contribution during 2016 was £1,151 million. £560 million of taxes paid are a cost borne by the group and £591 million of taxes were collected and paid by the group to tax authorities on behalf of employees and customers.

Tax strategy and tax risk management

We aim for our tax affairs to be sustainable in the long term, well governed and transparent. Our published tax strategy is clear about what we will and won't do.

Our updated tax strategy supplement, available online from our reporting centre, outlines how we manage our tax affairs in line with this strategy.

Our tax strategy applies to all of our group businesses and our approach to tax in our role as a significant investor in other companies.

Transparency

The tax affairs of large businesses continue to be under scrutiny by a wide range of stakeholders. We aim to help our stakeholders understand our tax affairs by providing information and explanations in addition to those required by legislation and regulation.

Further to the UK's implementation of the OECD's BEPS recommendations on country-by-country reporting (CbCR) we will report this data to HMRC for the first time during 2017. This widely implemented requirement enables more effective risk assessment by tax authorities and is a welcome development in tax transparency. We continue to voluntarily disclose information on our taxes paid and profits analysed by country.

GRACE STEVENS
CHIEF TAX OFFICER

In 2016 our total tax contribution was

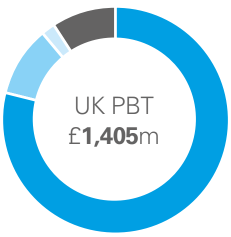
£1,151m

of which 93% was paid by our UK businesses and 7% by our overseas businesses.

Total tax contributions by country

The charts below show the £560 million of taxes borne, analysed by type of payment for UK businesses and by country for overseas businesses. Further country by country detail is available in our CSR report.

UK

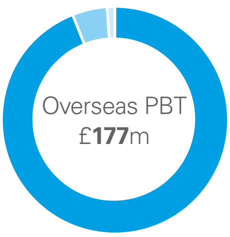


- Profit taxes borne £409m
- Property and other taxes borne £54m
- Irrecoverable VAT and premium taxes £10m
- Payroll taxes borne £48m

Our total tax contribution by UK businesses in 2016 was £1,066m, including £521m of taxes borne and £545m taxes of collected. The £409m profits taxes borne includes withholding tax suffered by UK businesses on overseas investment income.

The majority of our business and profits arise in the UK. UK profit before tax attributable to equity holders totalled £1,405m with an associated tax charge of £274m, resulting in an effective tax rate of 19.5%.

Overseas



- USA £37.0m
- Netherlands £2.1m
- Bermuda £0.36m

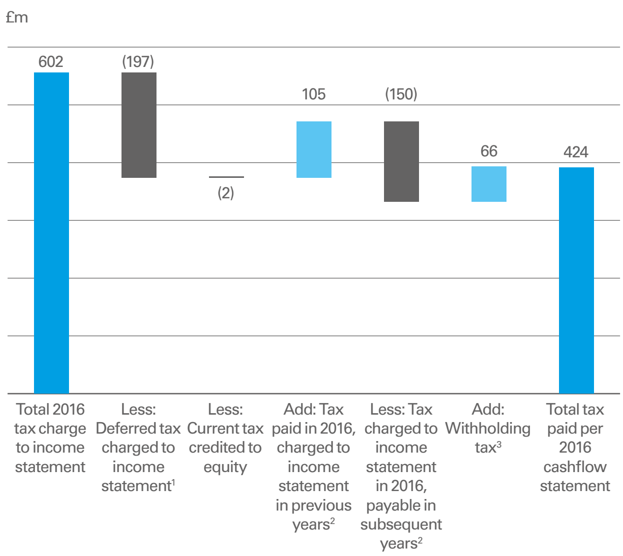
Our total tax contributions by overseas businesses in 2016 was £85m, including taxes borne of £39m and taxes collected of £46m.

Profit before tax of overseas businesses attributable to equity holders totalled £177m with an associated tax charge of £43m, resulting in an effective tax rate of 24.3%.

This reflects higher rates of tax in the US and Netherlands, offset by a nil rate of tax in Bermuda.

Reconciliation of total tax charge to tax paid

The group's total tax charge disclosed in this annual report, which relates to profits based taxes, is reconciled to the total profits taxes paid by the group as follows:



1. The deferred tax charge is a non-cash charge required by accounting standards which recognises tax which may become payable in future periods but for which no current liability to pay tax under relevant tax legislation exists at 31 December 2016.
2. Mostly UK corporate tax paid in quarterly instalments, two within the year and two after the year-end, resulting in a timing difference between the tax charge and tax payments.
3. Withholding tax suffered on overseas income in 2016 is reported as tax paid in 2016. Tax for which refund claims can be made under relevant double tax treaties is recognised as recoverable and is not included within the tax charge.

Mark Gregory discusses key highlights

WATCH THE VIDEO

Mark Gregory answers questions on Legal & General's 2016 results.

www.legalandgeneralgroup.com/investors/video_mark_gregory_fyr2016.asp

Mark looks back at the group's financial performance in 2016 and discusses our financial strategy.

Q Mark, in 2016, there's been a continued strong growth by the group in cash and earnings. How sustainable is this going forward?

A It's been another great year, with operating profit up 7% at £1.6 billion, IFRS profit after tax up 7% to £1.3 billion, adjusted earnings per share (EPS) up 19% to 22.2p and net release from operations up 12% to £1.4 billion. We had many achievements throughout the year, with our businesses making good progress. This was against a backdrop of a number of external challenges, the unpredictability of the market's reaction to Brexit and the US elections. We have built our business model and our strategy around six core drivers of growth, which are largely unaffected by those sort of economic and political 'shocks'. Instead they are driven by long-term macro trends such as ageing populations and the need to encourage more saving and retirement planning. These present further ongoing opportunities for us. The challenge is to continue to execute the strategy efficiently. I'm confident the strong performance of the group is sustainable going forward.

Q This was the first year that Solvency II has been in use, has it had any impact on the business?

A Solvency II was implemented on 1 January 2016. However, it is important to remember that our actual risk profile did not change, but Solvency II did change the regulatory measurement of those risks. The main business affected by the Solvency II regime is Legal & General Retirement. However, our strategy to reinsure the majority of longevity risk for new business has mitigated some of the increase in capital we would otherwise have needed to hold for the business. We continue to ensure all business we write exceeds our own returns on capital hurdle rates.

Q The dividend policy changed in March 2016, so why did you move to a formulaic interim dividend?

A Last March we announced we were moving to a new dividend policy because our previous one was time-dated. The Board adopted a policy that will deliver a progressive dividend, reflecting the group's medium-term underlying business growth, including net release from operations and operating earnings.

In August, at the Interim results we announced an implementation change to our dividend payments. From 2016 onwards, the interim dividend will be formulaic, being 30% of the prior year's dividend. This means we will make a discretionary decision once a year for the final dividend, reflecting the long-term nature of the business.

> I've really enjoyed my time here and truly believe that I'm leaving the company in great shape. During my long career with Legal & General, I've been fortunate to have had a wide variety of roles: running large functions such as our UK customer services, being CEO of our Savings business and latterly as Group CFO. During that time I've had the pleasure and privilege to work with terrific people. I'd like to say 'thank you' to employees right across the group and in particular, the finance community, for their tireless hard work and professionalism."

Mark Gregory
CFO of Legal & General

Q How do you view the group's debt strategy and debt capacity?

A It's important to maintain an appropriate level of gearing within the group; in doing so we consider the implications on our capital structure, our credit rating and our liquidity requirements. We use a balance of short-dated Euro Commercial Paper and long-dated debt to meet our borrowing and operational requirements. We consider a variety of debt instruments. We have flexibility in our debt strategy given considerable regulatory headroom and adequate rating agency headroom within our existing capital structure. We aim to have a diversified range of debt investors. We prefer benchmark size issues and ensure that we diversify the maturity and call dates.

Q The group has for some time talked about responsible, transparent tax management. Why is this important to you?

A Responsible tax management is the right thing to do from both an ethical and business perspective. Paying taxes responsibly fits with our wider business purpose. We believe that if our tax affairs are sustainable, well-governed and transparent, we can deliver value to shareholders and meet our objectives on tax for other stakeholders, including tax authorities, customers and employees. Tax is important to many people. Because we want them to understand how we manage our tax affairs, we publish a range of tax information including our group tax strategy. We've done this on a voluntary basis for a number of years and have sought to make improvements each year. We very much welcome the new UK requirement that all large companies follow suit.

Q In December 2016 you announced a change in auditors. What was behind this?

A The Competitions and Markets Authority require mandatory re-tendering of auditors every 10 years and the EU require mandatory audit firm rotation. Following a tender process, we're proposing that KPMG become our new auditors for the financial year ending 31 December 2018. PwC will continue to audit the group for 2017, subject to approval at the AGM.

Q The group has talked a lot about its 'decluttering' programme. What did you achieve in 2016 and what are your future plans?

A Over the last two years, 'decluttering' has involved disposing of a number of operations we no longer regard as core. These include our SIPP business, Suffolk Life; Cofunds; and our overseas insurance businesses in Ireland, France, Germany, Egypt and the Gulf. We have also reached an agreement in principle for the sale of our business in the Netherlands, subject to Works Council advice and regulatory approval. In the same period, we announced significant capital investments. These included putting funds in UK infrastructure assets, writing record volumes of new annuity business and investing in technologies such as clean energy and in innovation funds such as Accelerated Digital Ventures and Cambridge Innovation Capital.

Q Looking forward, IFRS 4 Phase II, or what is now known as IFRS 17, has been a long awaited change to the accounting standards for insurance companies and is due to be implemented in 2021. What are the important facts to know about it?

A After many years it looks like the International Accounting Standards Board (IASB) will issue IFRS 17 this year. The new rules will apply to all of the group's insurance products and will change the profile of how and when we recognise profits over the life of an insurance contract. Whilst the standard is not expected to apply until 2021, this will mean we will have to produce a balance sheet as at 31 December 2019 under the new accounting standard. We have begun our implementation project to build our technical interpretations and the necessary system developments, in a timely and efficient way.

Strong investment and trading activity

LGR new business

£8.5bn

(2015: £2.9bn)

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 annuity and bulk pension risk transfer. Lifetime mortgage advances represent the amount lent to the borrower upon completion.

	2016 £m	2015 £m
Back book acquisitions	2,945	–
Pension risk transfer	3,685	2,417
Individual annuities	378	327
Lifetime mortgage advances	620	201
Longevity insurance	900	–
Total LGR new business	**8,528**	**2,945**

LGIM total AUM

£894bn

(2015: £746bn)

Assets under management (AUM) including notional derivative positions represent the total value of assets on which LGIM earns ad valorem fees.

	2016 £bn	2015 £bn
Index	320	274
Active fixed income	135	107
Solutions	412	338
Real assets	19	18
Active equities	8	9
Total LGIM AUM[1]	**894**	**746**

1. See glossary on page 238 for definitions.

Direct investments

£10.0bn

(2015: £7.2bn)

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

	2016 £bn	2015 £bn
Legal & General Capital	1.1	0.9
Legal & General Retirement	8.1	5.7
Legal & General America	0.8	0.6
Total direct investments	**10.0**	**7.2**

Gross written premiums on insurance business (GWP)

£3.1bn

(2015: £3.1bn)

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

	2016 £m	2015 £m
UK Retail protection	1,179	1,112
UK Group protection	333	330
General insurance	326	337
France protection	–	168
Netherlands protection	52	46
US protection	897	773
Longevity insurance	321	326
Total GWP on insurance business	**3,108**	**3,092**

Savings assets

£109bn

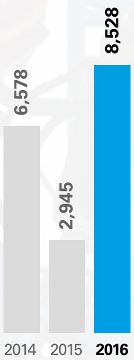
(2015: £108bn)

Assets represent the total amount of money held within all of our savings products. These funds are invested by a number of investment managers, including LGIM.

	2016 £bn	2015 £bn
Platforms[1]	83	77
Mature retail savings[2]	31	29
Suffolk Life	–	9
Consolidation adjustment[3]	(5)	(7)
Total Savings assets	**109**	**108**

1. Platforms includes Cofunds and Investor Portfolio Services (IPS) which were sold on 1 January 2017.
2. Mature retail savings products include with-profits products, bonds and retail pensions.
3. Consolidation adjustment represents Suffolk Life and Mature Retail savings assets already included in the platforms assets.

LGR Total New Business
(£m)

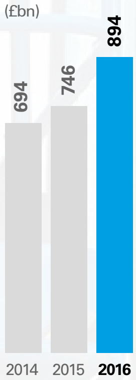


Legal & General Retirement (LGR)

New business sales more than doubled

In 2016, LGR continues to experience strong growth. Single premiums of £7.0 billion included a £1.1 billion pension buyout for the Vickers Group Pension Scheme, the biggest of 2016, further £1.5 billion pension buy-ins with ICI, and the acquisition of an existing £2.9 billion annuity portfolio from Aegon. The Lifetime mortgage business has grown rapidly with sales of £620 million (2015: £201 million). International expansion continues with six US deals written in 2016, totalling $448 million. Individual annuity sales were 16% higher at £378 million (2015: £327 million). In addition, LGR wrote a £900 million longevity insurance transaction in December 2016 and reinsured longevity risk at the same time.

LGIM Total AUM
(£bn)



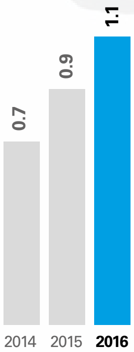
Legal & General Investment Management (LGIM)

Strong performance in year of challenging markets

LGIM experienced another year of strong growth with total AUM increasing by 20% to £894 billion (2015: £746 billion).

Total external net inflows were positive at £29.2 billion (2015: £37.7 billion), despite challenging market conditions, particularly in the first half of the year. International AUM performed strongly, increasing to £177 billion with net inflows of (£14.5 billion). LGIM America performed particularly strongly and Europe, the Gulf and Asia all had positive flows.

LGC direct investments
(£bn)



Legal & General Capital (LGC)

Continued growth in core sectors

LGC direct investments increased by 31% to £1.1 billion. During 2016, LGC established a Build to Rent partnership with PGGM, acquiring three sites in Salford, Bristol and Walthamstow, as well as L&G Homes, including the Build to Sell and modular homes platforms. In infrastructure, significant progress was made in the development of existing assets and new investments were made in Newcastle, Leeds and Cardiff. In SME Finance, Pemberton completed the final close of its inaugural European Mid-Market Debt Fund with €1.2 billion of commitments.

LGI GWP*
(£m)

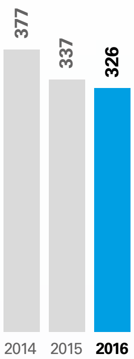
Legal & General Insurance (LGI)

UK Retail protection maintains its market-leading position

We remain the largest provider of retail protection in the UK and a top 10 player in the US term life market. Legal & General Insurance GWP grew by 9%, driven by further growth in the UK retail protection business plus favourable foreign exchange translation effects in the US. In the UK, our direct distribution channel delivered Retail Protection new business APE growth of 7%.

*UK and US protection only.

General Insurance GWP
(£m)

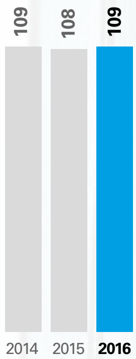


General Insurance

Market driven price increases and increased competition hit volumes

General Insurance GWP has declined by 3% compared with 2015 to £326 million. Disciplined pricing in an increasingly competitive market driven by persistent benign weather conditions has negatively impacted volumes. During 2016, we signed five year partnership agreements with a number of UK building societies, including Coventry and Skipton, to provide general insurance products to their members.

Savings assets
(£bn)



Savings

Improved persistency and higher inflows in mature savings assets

Savings assets increased by 1% overall to £109 million. Mature savings assets are £31 billion, up 4% from 2015 as favourable market movements have helped to mitigate the impact of net outflows. Net outflows of £3.0 billion, were marginally below 2015 due to the reducing maturity profile of some products, particularly Endowments. Platform assets increased by 9% to £83 billion. These assets relate to the Cofunds business which was disposed of on 1st January 2017.

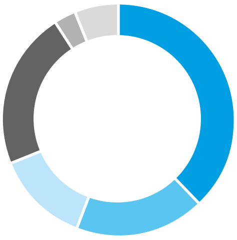
Sustainable returns

Net release from operations

£1,411m

(2015: £1,256m)

Businesses net release from operations



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-profit 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 and Legal & General Netherlands. 2015 included dividends remitted from Legal & General France, which was disposed of on 31 December 2015. Release from operations was previously referred to as operational cash.

New business surplus

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.

Net release from operations

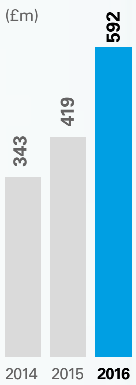
Net release from operations is defined as release from operations plus new business surplus. Net release from Operations was previously referred to as Net Cash.

KPI Purpose: Net release from operations supports the ability of the group to pay dividends to shareholders

	Release from operations 2016 £m	New business surplus 2016 £m	Net release from operations 2016 £m	Release from operations 2015 £m	New business surplus 2015 £m	Net release from operations 2015 £m
Legal & General Retirement (LGR)	**433**	**159**	**592**	374	45	419
Legal & General Investment Management (LGIM)	**308**	**(22)**	**286**	303	(22)	281
Legal & General Capital (LGC)	**214**	**–**	**214**	187	–	187
Legal & General Insurance (LGI)	**317**	**23**	**340**	328	25	353
General Insurance	**42**	**–**	**42**	41	–	41
Savings	**104**	**(5)**	**99**	125	(9)	116
From divisions	**1,418**	**155**	**1,573**	1,358	39	1,397
Group investment projects, interest and expenses	**(162)**	**–**	**(162)**	(141)		(141)
Total	**1,256**	**155**	**1,411**	1,217	39	1,256

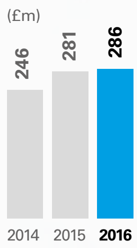
FINANCIAL INFORMATION
Detailed information on net release from operations can be found on page 116

Businesses net release from operations (£m)



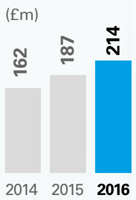
Legal & General Retirement (LGR)

Net release from operations has increased by 41% to £592 million reflecting the increased scale of the business and the release of prudential margins over best estimate assumptions. In addition, a strong new business surplus of £159 million was driven by a number of large deals completed during the year and refinements to our business model, including more longevity reinsurance and sourcing attractively-priced assets.



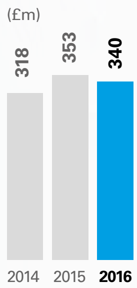
Legal & General Investment Management (LGIM)

LGIM net release from operations increased by 2% to £286 million (2015: £281 million). Revenues grew by 7% driven by a strong market performance and positive net flows, partly offset by fee rate pressures and lower transaction related revenues, both driven by external factors. The business maintained its cost income ratio at 49% reflecting cost growth driven by investment across the business and higher volume related costs.



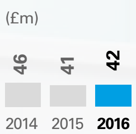
Legal & General Capital (LGC)

Net release from operations for LGC represents the operating profit of the business net of tax. The average balance of LGC assets, excluding treasury, has grown from £4.2 billion in 2015 to £4.8 billion in 2016 and the assumed average return on assets has fallen from 5.3% to 5.0%. LGC's operating profit from CALA Homes, which is based on the asset-level PBT, has increased its contribution to net release from operations by 164%. This has resulted in an overall 61% increase in the net release from operations generated by the Direct Investment portfolio and 14% growth for LGC overall.



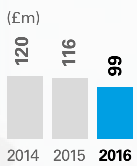
Legal & General Insurance (LGI)

Net release from operations has decreased by 4%, driven by changes to the modelling for reinsurance contracts in the UK protection business in 2015. These changes ensured sufficient prudence is being held in later years and resulted in a higher proportion of release from operations being deferred to later years of the contracts. Dividends remitted from our Dutch and US businesses increased by £49 million compared with 2015 and also benefitted from favourable foreign exchange translation.



General Insurance

Net release from operations for General Insurance represents the post-tax operating profit of the business. 2% growth in net release from operations is driven by lower weather event-related claims compared to prior year.



Savings

Savings net release from operations has reduced by 15% as we continue to manage the run-off of the mature non profit and with-profit businesses and due to margin pressure in the Digital business. New business strain of £5 million decreased from £9 million in 2015 in line with lower levels of new business and active management of the cost base of the business.

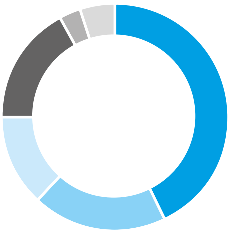
A growth story

Operating profit

£1,562m

(2015: £1,455m)

Businesses operating profit*



*2016 operating profit of £1,562 million includes £1,902 million from divisions, less £340m from group level investments projects interest and expenses.

Operating profit

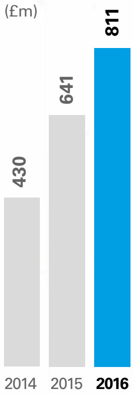
Operating profit measures the pre-tax profit excluding the impact of investment volatility, economic assumption changes and exceptional items. Operating profit, therefore, reflects longer term economic assumptions changes in insurance risks such as mortality and longevity for the group's insurance businesses and shareholder funds, except for LGA which excludes unrealised investment returns to align with the liability measurement under US GAAP. Variances between actual and smoothed assumptions are reported below operating profit. Exceptional income and expenses which arise outside the normal course of business in the year, such as merger and acquisition, start-up and closure costs, are excluded from operating profit.

KPI purpose: operating profit provides an insight into the group's ability to generate cash flows to support dividends

2016	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other[1] £m	Operating profit/(loss) after tax £m	Tax expense/ (credit) £m	Operating profit/(loss) before tax £m
Legal & General Retirement (LGR)	**592**	**34**	**40**	**6**	**672**	**139**	**811**
Legal & General Investment Management (LGIM)	**286**	**(1)**	**–**	**–**	**285**	**81**	**366**
Legal & General Capital (LGC)	**214**	**–**	**–**	**–**	**214**	**43**	**257**
Legal & General Insurance (LGI)	**340**	**(11)**	**5**	**(108)**	**226**	**91**	**317**
General Insurance	**42**	**–**	**–**	**–**	**42**	**10**	**52**
Savings	**99**	**4**	**8**	**(32)**	**79**	**20**	**99**
From divisions	**1,573**	**26**	**53**	**(134)**	**1,518**	**384**	**1,902**
Group Debt Costs	**(138)**	**–**	**–**	**–**	**(138)**	**(34)**	**(172)**
Group investment projects and expenses	**(24)**	**–**	**–**	**(59)**	**(83)**	**(19)**	**(102)**
Adjusted Total	**1,411**	**26**	**53**	**(193)**	**1,297**	**331**	**1,628**
Kingswood Closure Costs	**–**	**–**	**–**	**(53)**	**(53)**	**(13)**	**(66)**
Total	**1,411**	**26**	**53**	**(246)**	**1,244**	**318**	**1,562**
2015							
Legal & General Retirement (LGR)	419	13	114	(20)	526	115	641
Legal & General Investment Management (LGIM)	281	(1)	1	(2)	279	76	355
Legal & General Capital (LGC)	187	–	–	–	187	46	233
Legal & General Insurance (LGI)	353	(14)	(45)	(74)	220	95	315
General Insurance	41	–	–	–	41	10	51
Savings	116	(9)	–	(21)	86	21	107
From divisions	1,397	(11)	70	(117)	1,339	363	1,702
Group Debt Costs	(122)				(122)	(31)	(153)
Group investment projects and expenses	(19)	–	–	(50)	(69)	(17)	(86)
Adjusted Total	1,256	(11)	70	(167)	1,148	308	1,463
Kingswood Closure Costs	–	–	–	(6)	(6)	(2)	(8)
Total	1,256	(11)	70	(173)	1,142	313	1,455

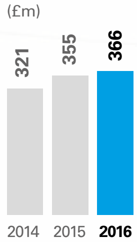
1. Investment gains and losses, profits and losses retained by international subsidiaries, certain restructuring costs and other.

Businesses operating profit (£m)



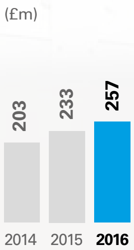
Legal & General Retirement (LGR)

LGR operating profit has increased by 27% to £811 million reflecting strong new business growth, strong direct investment acquisition, and longevity experience which was more favourable than our pricing assumptions. We also benefited from favourable mortality experience compared to our best estimate assumptions. However, we have not made any material adjustments to our forward-looking longevity assumptions.



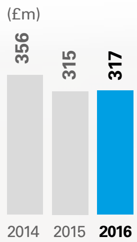
Legal & General Investment Management (LGIM)

LGIM continued to invest across the business, focusing on areas which will provide growth and diversification in future. Higher AUM driven by favourable market movements as well as positive net flows have contributed to 3% growth in operating profit, compensating for external pressures driven by market uncertainty.



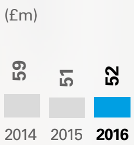
Legal & General Capital (LGC)

Operating profit for LGC is calculated on an actual PBT basis for its trading businesses or based on medium term investment return assumptions for its asset investments. LGC operating profit has grown by 10%, primarily driven by a 31% increase in direct investments, across all sectors. In housing the growth is largely driven by trading at CALA Homes, which achieved record trading profits in the year. The Infrastructure growth has arisen from the build-out of existing assets and from new investments. The increase in operating profit from SME Finance primarily relates to the Pemberton platform. The operating profit on LGC's traded assets declined driven by the asset mix and a reduction in our long term return assumptions.



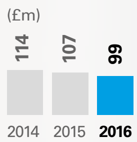
Legal & General Insurance (LGI)

Insurance operating profit is broadly flat year-on-year at £317 million. A lower release from the back book and poor claims experience on our Group Protection business, was offset by the impact of changes to reinsurance modelling in 2015 which reduced 2015 operating profit by £93 million. In addition, the US business benefitted from favourable foreign exchange translation following depreciation of Sterling against the US Dollar. The 2015 result included £12 million of operating profit from our French business which we disposed of in that year.



General Insurance

General insurance operating profit has increased by 2% driven by lower weather event-related claims compared to prior year.



Savings

Savings operating profit has reduced by 7% driven by margin pressure in the Digital business, particularly from institutional clients and due to the decline in the maturing book of business.

Disciplined investment of capital

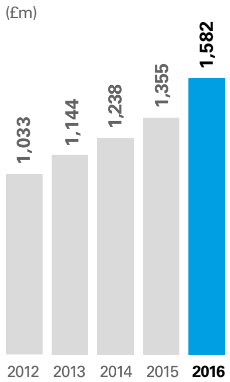
Profit before tax (PBT) attributable to equity holders*

£1,582m

(2015: £1,355m)

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

Profit before tax attributable to equity holders is up 17% on 2015 driven by the increase in operating profits and favourable investment variances caused by FX gains on LGC's traded US dollar assets, together with strong returns on its traded equity assets portfolio. These are partly offset by the impact of a decline in government bond yields, which are used in the calculation of reserves for the Protection business, and the net loss on disposal on M&A activity.



Adjusted return on equity (ROE)

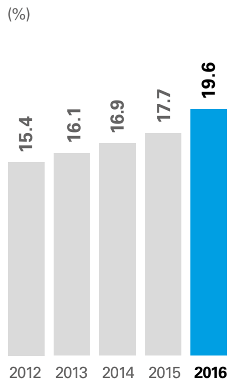
19.6%

(2015: 17.7%)

Represents adjusted return on equity excluding the one-off impact from M&A

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

The group continues to demonstrate careful use of capital across all divisions, with return on equity increasing to 19.6%, excluding the impact of M&A activity during the year. This is up 2.0 percentage points on 2015. Including the impact of M&A, the ROE was 18.8%.



Adjusted earnings per share (EPS)

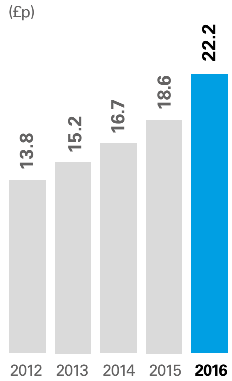
22.2p

(2015: 18.6p)

Represents earnings per share excluding the one-off impact from M&A

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

EPS increased by 19% (22.2p excluding the one-off impact of mergers and acquisitions), driven by a 16% increase in the group profit after tax (up from £1,094 million in 2015 to £1,265 million in 2016). Including the impact of mergers and acquisitions, the EPS was 21.2p.



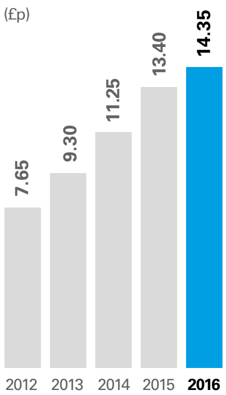
Full year dividend

14.35p

(2015: 13.40p)

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

In line with our new progressive dividend policy reflecting the group's expected medium-term underlying business growth, including net release from operations and operating earnings, the Board has recommended an increase of 7% in the full year to 14.35p (2015: 13.40p). The cost of the full year dividend is £616 million (2015: £797 million).



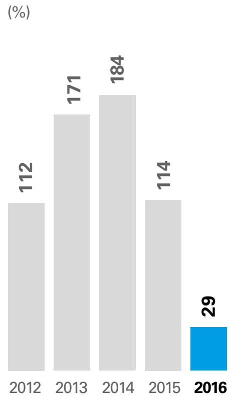
Total shareholder return (TSR)

29%

(2015: 114%)

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

We delivered a TSR of 29% over a three year period (as at 30th December 2016) outperforming nearly all of our UK peers, despite an 8% decrease in our share price during 2016.



Solvency II surplus and coverage (shareholder basis)*

£5.7bn

(2015: £5.5bn)

171%

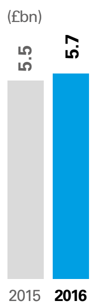
(2015: 176%)

*Represents Solvency II surplus and coverage on a "shareholder view" basis. This includes the estimated impact of recalculating the Transitional Measures for Technical Provisions, see page 185 for more details.

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

The group's capital position remains strong with a £5.7 billion Solvency II surplus (2015: £5.5 billion) and a 171% coverage ratio (2015: 176%) on a 'shareholder view' basis. The movement in Solvency II coverage ratio has been impacted by adverse market movements arising from the decline in interest rates.

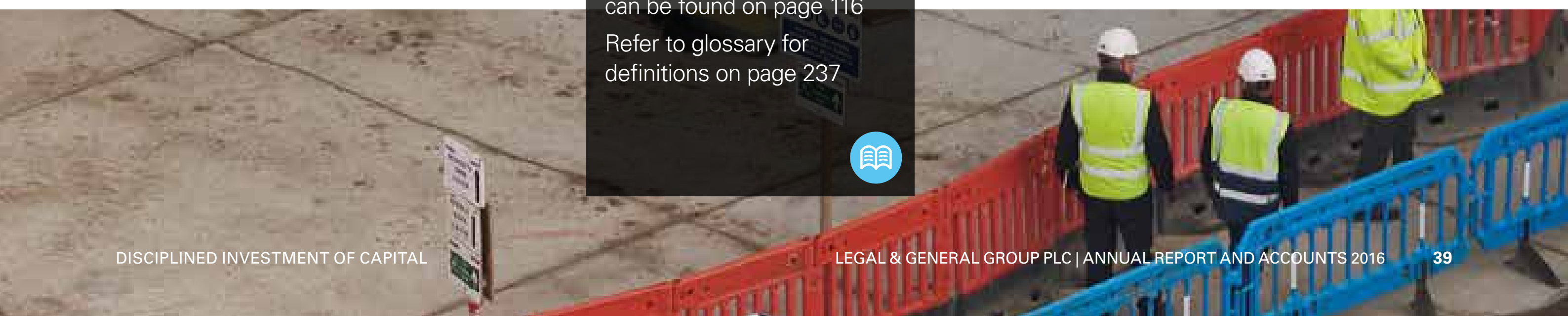
When stated on a pro-forma basis the group's coverage ratio is 165% (2015: 169%).

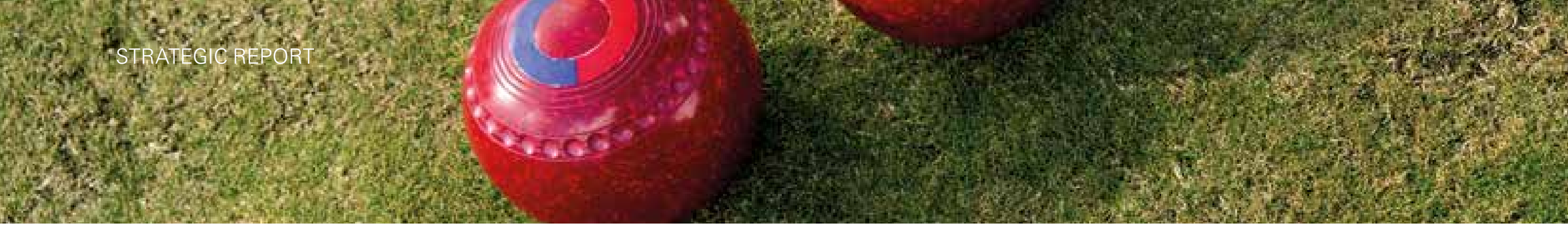


FINANCIAL INFORMATION

Detailed information on net release from operations can be found on page 116

Refer to glossary for definitions on page 237





Simon Gadd reviews the risk landscape

SIMON GADD
GROUP CHIEF RISK OFFICER

Simon Gadd was appointed Group Chief Risk Officer in 2013. He leads a team of 150 risk professionals who provide our businesses with expert advice and guidance on risk and capital management, alongside ensuring risk taking remains within acceptable parameters.

Q Simon, can you update us on the group's risk profile?

A 2016 has seen continued growth across our businesses, particularly in pensions risk transfer and lifetime mortgages, and we have made further investments in the UK's infrastructure. The group's core risk profile, however, continues to reflect those risks for which we have a deep understanding including annuitant longevity and credit portfolio management.

Q And to what degree is your risk profile impacted by the external environment?

A Obviously factors like financial market volatility and the low interest rate environment can have an impact, but a core element of our risk management framework is scenario planning, and this ensured for example that we were well prepared for a range of financial market conditions in the run up to and post the EU referendum.

Q How different are the risks in your international markets?

A The international markets we have entered are those in which we have a proven track record in the UK, and for which we have built up significant knowledge of the risks. But there will always be some differences. Alongside the group recruiting local expertise, a key role of my team is to provide objective review and challenge to ensure we're cognisant of these risk factors.

Q The Solvency II regime has now been in place for over a year. How is it all bedding in?

A The main change for Legal & General under Solvency II has been the introduction of risk adjusted measures to determine regulatory capital requirements, which the group is permitted to calculate using its own risk based capital model, known as an internal model. We have been using risk based capital for many years as a tool in running our businesses, and we have incorporated new Solvency II derived measures in our frameworks for the allocation of capital amongst our businesses, setting our risk appetite and evaluating large transactions.

Solvency II, itself, remains fundamentally a new regime and we expect further development as regulatory understanding of its practical operation evolves.

Q Can you elaborate on some of the dynamics underpinning the capital requirements under Solvency II?

A Our internal model seeks to ensure that we hold sufficient capital reserves to survive our assessment of a worse case 1-in-200 year event. For example, the impact of scenarios similar to the Great Depression, the recent financial crisis or an epidemic like the Spanish Flu outbreak in 1919–1920. The capital requirement is in addition to our best estimate of the reserves that we need to hold to meet anticipated obligations to customers and other liabilities. Solvency II rules also require us to hold a risk margin. This creates more inherent volatility to be managed on the Solvency II balance sheet.

Q Finally, what are the key risks on your radar for 2017?

A Political events look set to dominate 2017, with potential for shocks to financial markets as they seek to evaluate the impacts for global trade and growth. Central bank responses to changing economic indicators and the reactions of financial markets will also be a key area to watch. Cyber crime also continues to be a risk for the financial services as a whole, and the regulatory change agenda is set to continue.

Our business is to manage risks

We summarise below our core risk exposures and our risk management approach.

Our risk landscape

We are exposed to longevity, mortality, morbidity and household insurance risks transferred to us by customers of our annuities, protection and general insurance businesses; Investment risks, from holding portfolios of assets to meet our obligations to our customers and to deliver returns to shareholders; and 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 we directly engage in house building, we are also exposed to construction risk. We illustrate the nature of insurance risks on page 42.

Our risk management framework

Centred on our risk appetite, our risk management framework comprising formal risk policies; risk assessment and scenario planning processes; defined reporting procedures; and risk oversight activities, is designed to enable us to select those risks that can give us sustainable returns and to closely manage those risks that are unrewarded and to optimise the capital that we hold so that we can deliver our strategy. We expand on our approach to scenario planning on page 42.

Our risk-based capital model

We assess on an ongoing basis the capital that we need to hold above our liabilities to meet the group's strategic objectives and ensure continued solvency.

Our model seeks to measure by business line and risk type, the capital we assess as being required to survive a worse case 1-in-200 year event, taking account of correlations between risks. Pages 42 and 43 provide further details our model and how we integrate it with our risk management framework.

Our risk appetite

We have clearly defined quantitative and qualitative expressions for the types of risk that we're prepared to be exposed to in pursuit of our business strategy, the minimum capital coverage that we wish to maintain and the degree of volatility of earnings that we will seek to avoid. Further information is provided on page 42.

Our principal risks and uncertainties

An assessment of principal risks and uncertainties along with the associated trends and outlooks, and the steps we take in mitigation is on pages 44 and 45.

A more detailed review of the group's inherent risk exposures and high level control processes are set out at notes 8 and 18 of the financial statements.

FINDING WHAT YOU NEED

Detailed information can be found in our risk supplement. Please visit: www.legalandgeneralgroup.com/investors/reporting-centre/

In prior years within this section, we have included descriptions of the risks we face, how our risk management framework operates, as well as a narrative description of our appetite in relation to our main risk areas. As our risk management processes and policies are well established, the reality is that these descriptions do not significantly change from year to year. Accordingly, we have created a 'Risk management supplement' that contains all of these narrative descriptions, which can be found within our 'Corporate Reporting Centre'.

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 cost of capital.
Minimum return on equity over the planning cycle.

Strategy: We have an appetite for risks we understand and are rewarded for, and which are consistent with delivery of our strategic objectives.
Maximum economic capital to be deployed over the planning cycle.

Capital: We aim to maintain an appropriate buffer of capital resources over the minimum regulatory and economic capital requirements.
Minimum statutory and economic 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.
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.
Customer and reputation risk dashboard.

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

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

Further information on our appetite for specific risks can be found in the 'Risk management supplement': www.legalandgeneralgroup.com/reporting-centre/supplements

Planning for Uncertainty

While the nature of our core risks are relatively constant, external factors particularly those impacting financial markets can change the quantum of exposures. When adverse events arise, the speed and timing can often leave little time to respond. Therefore an important element of the group's approach to risk management is scenario analysis, where we assess the possible range of outcomes from uncertain future events and develop proactive actions that we may take to ensure we continue to operate within our risk appetite.

Ahead of the UK referendum on membership of the EU we recognised the uncertainty to the outcome would increase investment market volatility, trigger potential changes in interest rates and could lead to significant movements in currency markets. We analysed the relationships between these risk factors, how our business could be impacted and the potential implications for our earnings and capital requirements. We also identified the management actions that we could take, and as the referendum approached, we selectively hedged equity and currency positions to control exposures to downside risks.

Whilst scenario analysis can never completely remove uncertainty, having a clear plan of action that may be taken as a scenario evolves, ensures the group is well positioned to respond to emerging threats and can take advantage of any market dislocations that may arise.

Managing Insurance Risks

The pricing of long-term life insurance business requires assumptions to be made for future trends in the life expectancy and general health of those that we insure, and assessing the lives that we underwrite relative to those assumptions. We also make assumptions on how long business will be retained. We are inherently exposed to the risk that actual experience may diverge to our assumptions.

In our pension risk transfer businesses we are exposed to longevity risk, the risk that those that we insure live longer than we anticipate.

Whilst we're living longer, our experience of annuitant mortality is performing well relative to pricing, and as rates of mortality improvement move slowly, we have time to respond to emerging trends.

Our risk based capital requirement for longevity effectively reflects our assessment of the additional capital that we may need should our assumptions for future life expectancy prove to be materially incorrect. Under Solvency II, the risk margin requirements mean that longevity can be unattractive to add new risk to our balance sheet. Currently, however, we retain US longevity risk as it diversifies well against US mortality risk and back book UK longevity risk.

Our exposure to mortality and morbidity risk, the risk of premature death or serious illness of our policyholders mostly arises in our UK Workplace Protection and US Term Insurance businesses, where the risks we're exposed to are epidemic and poor underwriting. We seek to reinsure our catastrophe risks and closely manage our underwriting processes to minimise the risk of error. Our UK Retail Protection business is extensively reinsured, such that we retain low levels of exposure to mortality and morbidity risks on our balance sheet.

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 risks to which we are exposed may evolve over the planning cycle; the impacts of a range of more extreme stresses and scenarios on those risks; and the consequential impacts on the group's solvency position. The ORSA process is integrated into our business risk and capital management activities and aligned with the strategic planning process to inform forward looking decision-making. As such, it is a key business management tool for the group.

Capital Management

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

Group Board viability statement

The group strategy is developed, and economic decisions are made, based on long term expected assumptions. This reflects the group's business model which combines managing credit, longevity and mortality risks over long term relationships. The group is subject to external regulation including the Prudential Regulatory Regime for Insurers which requires the group to manage and monitor these longer term risks to ensure that it can continue to meet its policyholder obligations.

Against this background, the Directors have made an assessment of the viability of the company (in accordance with the provisions of the Combined Code) with reference to the current position and the potential impact of the principal risks identified, the execution of the group's strategy, the risk appetite of the board and the processes and controls in place to mitigate the principal risks and uncertainties as detailed in this Strategic Report.

This assessment covers a three year timeframe which is underpinned by the detailed business plan for 2017-2019 which includes all of the group's key metrics across performance, capital, solvency and liquidity. The Directors have no reason to believe that the group will not be viable over a longer period. Given the inherent uncertainty which increases as longer timeframes are considered, the Directors consider three years to be an appropriate timeframe upon which they can report with a reasonable degree of confidence.

The business plan, which is underpinned by the group's strategy and reflects the principal risks detailed on pages 44 and 45 respectively, is built from the ground up on a divisional basis. The directors use the plan to assess the prospects of the group through the strategic planning process. The strategic planning process includes an annual review of the ongoing plan with full Board participation as part of the Group Board Strategy Day. Part of the Board's role is to consider whether the plan continues to be reflective of changes in macroeconomic trends. The latest annual review process was approved in January 2017 which resulted in the detailed business plan for 2017 through to 2021.

The business plan includes a number of assumptions in line with the overall group strategy including:

- Growth in the international asset management and insurance businesses
- Growth in the investment in real assets
- Continued optimisation of capital strategies for Solvency II
- Completion of the de-cluttering of the non-core activities

The Board receives regular updates from the business units and the risk committee in the normal course of business to perform ongoing monitoring of performance across all metrics and to consider changes in macroeconmic trends or strategy.

Whilst the business plan represents the Board's best estimate of the group's future prospects, stress and scenario testing is carried out on the plan as part of the group's Own Risk and Solvency Assessment (ORSA) considering the potential impact of aspects of the principal risks facing the business. These stresses included a prolonged period of weak global economic growth, deflation, disorderly defaults in geographic regions and other geopolitical events. The results of these stresses showed that the group would be able to withstand the impact, over the forecast period, by making adjustments in its operating activity in the normal course of business.

Based upon this assessment the Directors confirm that they have a reasonable expectation that the group will continue in operation and meet its liabilities, as they fall due, over the next three years.

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 8 and 18 of the financial statements.

Risks and uncertainties	Trend and outlook	Mitigation
Reserves and our assessment of capital requirements may require revision as a result of changes in experience, regulation or legislation. The writing 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. Actual experience may require recalibration of these assumptions impacting profitability. Management estimates are also required in the derivation of Solvency II capital metrics. These include modelling simplifications to reflect that it is not possible to perfectly model the external environment, with adjustment necessitated where new data emerges. Forced changes in reserves can also arise from regulatory or legislative intervention impacting capital requirements and profitability.	We regularly appraise the assumptions underpinning the business that we write. Certain extreme events, however, could require us to adjust our reserves. For example in our annuities business, while recent trend data suggests the rate of longevity improvement may be slowing, we're inherently exposed to the risk that a dramatic advance in medical science beyond that anticipated leads to an unexpected change in life expectancy. This could require adjustment to reserves as improvements in mortality emerged. In our protection businesses, the emergence of new factors with potential to cause widespread mortality/morbidity or significant policy lapse rates may similarly require us to re-evaluate reserves.	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 remain focused on developing a comprehensive understanding of longevity science and continue to evolve and develop our underwriting capabilities for our protection business. Our use of reinsurance also acts to reduce the impacts of significant variations in life expectancy and mortality. The sensitivities of our business to selected scenarios are set out on page 164.
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, loss 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.	2016 has seen volatility in financial markets as they have responded to uncertainties in the global economy and political events, such as the UK referendum on membership of the EU. For Legal & General the vote to leave has little direct impact on trading, as our customer base is located very largely in the UK, the US and Asia. It is, however, probable that a potentially lengthy period of negotiation and an uncertain outcome will create ongoing uncertainty for financial markets and the broader UK economy in which we operate; with potential for asset price shifts should uncertainty lead markets to reappraise their value. Potential also exists for renewed financial stress in Europe driven by political events and residual weaknesses in the Euro currency banking systems. Broader geo-political events also have potential to cause shocks to financial markets, with stressed conditions having potential to create illiquidity in bond markets exaggerating the impacts of any significant market correction.	We model our business plans across a broad range of economic scenarios and take account of alternative economic outlooks within our overall business strategy. Our ORSA process plays an integral part in our business planning ensuring a clear link between capital sufficiency and the nature of risks to which we may be exposed. As set out within the Strategic Report on pages 10 to 25, we have sought to ensure focus upon those market segments that we expect to be resilient in projected conditions. For example, investing in real assets provides both enhanced returns to our 'slow money' and reduces exposure to the volatilities of traded investments. We cannot, however, completely eliminate risk. Sensitivities to interest rates, exposure to worldwide equity markets and currencies are set out on page 164, page 148 and page 151, respectively.
In dealing with issuers of debt and other types of counterparty the group is exposed to the risk of financial loss. A systemic default event within the corporate sector, or a major sovereign debt event, could result in dislocation of bond markets, significantly widening credit spreads and in extreme scenarios trigger defaults impacting the value of bond portfolios. We are also exposed to banking, money market and reinsurance counterparties, and settlement, custody and other bespoke business services, a failure of which could expose us to both financial loss and operational disruption of our business processes. 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.	A material deterioration in economic conditions inherently increases potential for a widening in credit spreads as financial markets price for increased uncertainty, which in turn may impact our Solvency II balance sheet surplus. Current factors that may trigger a reassessment include the changing global economic outlook with uncertainties following the UK referendum on EU membership and other political events potentially exacerbating down side risks; a renewed banking crisis within the Euro zone area; and default on debt linked to emerging markets.	We actively manage our exposure to default risks within our bond portfolios, setting selection criteria and exposure limits, and using the capabilities of LGIM's global credit team to ensure the risks are effectively controlled, and if appropriate trade out to improve credit quality. We also seek to closely manage risks to our Solvency II balance sheet through monitoring factors that could give rise to a heightened level of default risk. However, we can never completely eliminate default risks or their impacts to our Solvency II balance sheet, although we seek to hold a strong balance sheet that we believe to be prudent for a range of adverse scenarios.

Risks and uncertainties	Trend and outlook	Mitigation
Changes in regulation or legislation may have a detrimental effect on our strategy. Legislation and government fiscal policy influence our product design, the period of retention of products and required reserves for future liabilities. Regulation defines the overall framework for the design, marketing, taxation and distribution of our products; and the prudential capital that we hold. Significant changes in legislation or regulation may increase our cost base, reduce our future revenues and impact profitability or require us to hold more capital. The prominence of the risk increases where change is implemented without prior engagement with the sector. The nature of long-term business can also result in some changes in regulation, and the re-interpretation of regulation over time, having a retrospective effect on our in-force books of business, impacting future cash generation.	There remains a significant regulatory change agenda, both from the EU and from within the UK. Current changes in EU driven regulation include GDPR, UCITS V, MIFID II and PRIIPS. While over the longer term, the UK exit from the EU will potentially lead to a re-writing of some legislation, until the UK formally leaves and the UK Government legislates otherwise, EU derived legislation will remain in force. There is also the risk that EU exit negotiation proposals have unintended consequences for the operation of the UK financial services sector. There also continues to be significant change in the tax environment including the global implementation of the OECD BEPS recommendations and the prospect of significant US tax reform. With regard to UK regulation, alongside the PRA ensuring the effective operation of Solvency II, the FCA continues to focus on its approach to consumer regulation, with the inherent risk that thematic reviews of historic industry practices lead to unanticipated additional costs.	We are supportive of regulation in the markets in which we operate where it ensures trust and confidence and can be a positive force on business. We seek to actively participate with government and regulatory bodies in the UK and Europe to assist in the evaluation of change so as to develop outcomes that meet the needs of all stakeholders. Internally, we evaluate change as part of our formal risk assessment processes, with material matters being considered at the Group Risk Committee and the Group Board. Our internal control framework seeks to ensure ongoing compliance with relevant legislation and regulation. We cannot, however, completely eliminate the risks that controls may fail or that historic accepted practices may be reappraised by regulators, resulting in sanction against the group.
New entrants may disrupt the landscape of the markets in which we operate. As has been seen in other business sectors, it is possible that alternative digitally enabled providers of financial service products emerge with lower cost business models or innovative service propositions and capital structures disrupting the current competitive landscape.	There is already strong competition in all 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. We are also cognisant of the potential for entry by scale overseas competitors who may have lower return on capital requirements and be unconstrained by Solvency II.	We are executing a digital strategy, using platforms that allow for growth and high scale. Alongside our direct insurance business that enable customers to purchase our protection products on-line, we continue to enhance our online capabilities for auto-enrolment, investment platforms and individual retirement products ensuring focus on customer engagement and the digital experience.
A material failure in our business processes or IT security may result in unanticipated financial loss or reputation damage. We have constructed our framework of internal controls to minimise the risk of unanticipated financial loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage. We are also inherently exposed to the risk that third parties may seek to disrupt our online business operations, steal customer data or perpetrate acts of fraud using digital media.	Our plans for growth and the digitalisation of our businesses, together with the regulatory change agenda, inherently increase the profile of operational risks across our businesses. We continue to invest in our system capabilities and business processes to ensure that we meet the expectations of our customers; comply with regulatory, legal and financial reporting requirements; and mitigate the risks of loss or reputational damage from operational risk events and external cyber threats.	Our risk governance model seeks to ensure that business management are actively engaged in maintaining an appropriate control environment, supported by risk functions led by the Group Chief Risk Officer, with independent assurance from Group Internal Audit. The work of the Group Audit Committee in the review of the internal control system is set out on page 64. 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.

Governance

Contents

New Horizons day-care centre

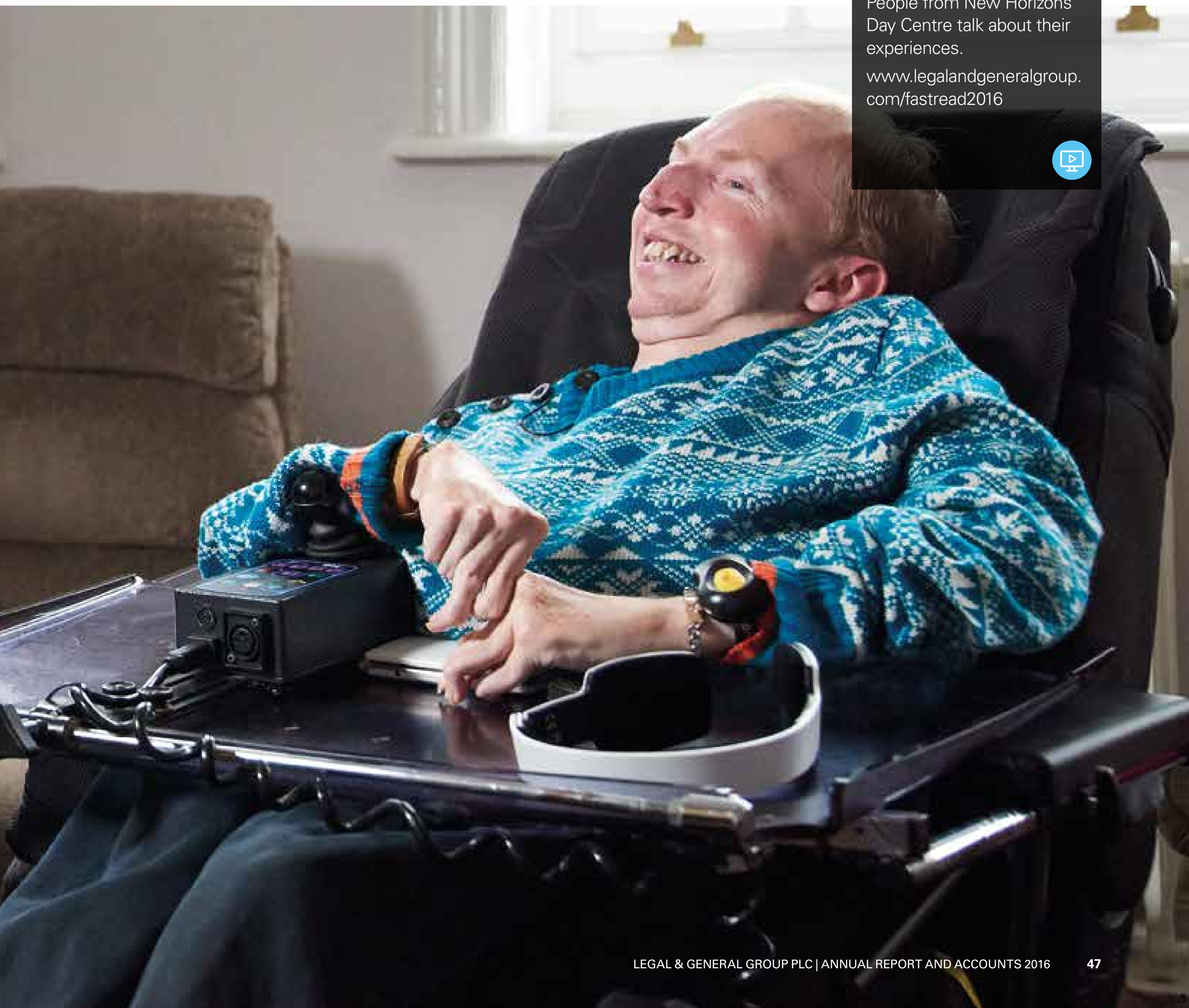
Our commitment to inclusion and diversity means that we seek to improve how we help vulnerable customers.

Our customer services team in Cardiff wanted to offer better service to vulnerable customers by understanding their needs and preferences. By working with New Horizons, a day-care centre in Hên Goleg, Barry they learnt to appreciate the realities that people with physical disabilities face on a daily basis. One service user in the day centre said: "We felt needed in a way. When Legal & General came in and gave us this voice it was really empowering."

WATCH THE VIDEO

People from New Horizons Day Centre talk about their experiences.

www.legalandgeneralgroup.com/fastread2016



Board of Directors

Sir John Kingman
Chairman
Appointed 24 October 2016
C N

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

John is a World Fellow of Yale University and a member of the Prime Minister's Council for Science and Technology.

External appointments:
- Royal Opera House Covent Garden Foundation (Trustee)
- UK Research and Innovation (Non-executive Chair)

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

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

Previous appointments include, McKinsey & Co (where clients included BP, Citibank, Cadbury's, Santander, Kingfisher, Courtaulds, Whitbread and Globe Investment Trust); Group Commercial Director of Dixons Group plc; Managing Director of Stanhope Properties plc; Chief Executive, Corporate of Guinness Peat Aviation (G.P.A.); and Managing Director of Viridian Capital. Nigel was also Deputy Chief Executive and Chief Financial Officer at UBM.

In 2015 and 2016 Nigel was a member of the Prime Minister's Business Advisory Group.

Mark Gregory
Chief Financial Officer
Appointed in January 2009; appointed CFO in July 2013

Skills and experience:
Mark was appointed Group Chief Financial Officer on 1 July 2013. Mark was previously Chief Executive Officer, Savings and joined the Board in January 2009. He joined Legal & General in 1998 and has held a variety of Divisional Finance Director roles and served as group Financial Controller, Communications and Resources Director, Resources and International Director and UK Service Operations Director. From 2006, he was Managing Director, With-Profits. Prior to joining Legal & General, he worked in senior financial and business development roles at companies including Kingfisher Plc and ASDA. He is a qualified chartered accountant.

Mark Zinkula
Chief Executive Officer, LGIM
Appointed in September 2012

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

External appointments:
- The Investment Association (Board member)

Committee membership key
- A Audit
- C Corporate Governance
- N Nomination
- R Remuneration
- Ri Risk
- ● Committee Chairman

Carolyn Bradley
Independent non-executive director
Appointed in December 2014
N R

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

External appointments:
- Marston's PLC (Non-Executive Director)
- The Mentoring Foundation (Non-Executive Director)
- Cancer Research UK (Trustee)
- Majid Al Futtaim Retail LLC (Non-Executive Director)
- Cambridge Judge Business School Advisory Board (Member)

Philip Broadley
Independent non-executive director
Appointed July 2016
A N Ri

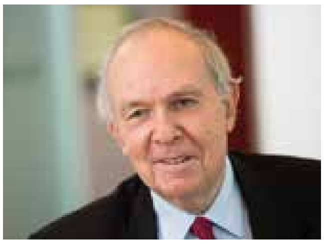
Skills and experience:
Philip was appointed to the Board in July 2016. He has extensive insurance experience having spent over 14 years in senior roles in insurance including as Group Finance Director at Old Mutual plc and prior to that as Group Finance Director of Prudential plc. Philip currently serves as a member of the Oxford University Audit and Scrutiny Committee and is a member of the Code Committee of The Takeover Panel as well as the Panel's Finance Committee. He is also a Fellow of the Institute of Chartered Accountants in England and Wales.

External appointments:
- Eastbourne College (Incorporated)

Lesley Knox
Independent non-executive director
Appointed June 2016
A N R

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

External appointments:
- Centrica plc (Non-Executive Director and Chair of the Remuneration Committee)
- Thomas Cook Group plc (Non-Executive Director)
- Grosvenor Group (Chair)



Rudy Markham

Independent non-executive director

Appointed in October 2006; Senior Independent Director until May 2016; Interim Chairman 1 June – 24 October 2016

N R Ri

Skills and experience:
Rudy was appointed to the Board in October 2006 and served as Interim Chairman from 1 June to 24 October 2016. Rudy is a Fellow of the Chartered Institute of Management Accountants (CIMA) and the Association of Corporate Treasurers. He was awarded the CIMA Lifetime Contribution to Management Accounting Award in 2005. Former roles include: Chief Financial Officer, Director of Strategy and Technology and Treasurer of Unilever PLC; Chairman and CEO of Unilever Japan; Chairman of Unilever Australia; Chairman of Moorfields Eye Hospital and Independent Non-Executive of Standard Chartered PLC.

External appointments:
- AstraZeneca PLC (Senior Independent Director and Chair of the Audit Committee)
- Corbion nv (Supervisory Board Vice Chairman)
- United Parcel Service Inc (Director)

Richard Meddings

Independent non-executive director

Appointed in December 2014

A C N R Ri

Skills and experience:
Richard was appointed to the Board in December 2014. He is a qualified chartered accountant and has over 30 years' banking and financial services experience, most recently having spent 12 years on the Board of Standard Chartered, almost eight as its Finance Director. Former roles include: Group Financial Controller of Barclays; Chief Operating Officer, of Barclays' Wealth Management, Premium Retail and Life Assurance businesses; Group Finance Director of Woolwich and Senior Independent Director and Chairman of the Audit Committee of 3i Group plc.

External appointments:
- HM Treasury (Non-Executive Director and Chair of the Audit Committee)
- Governing Council of the International Chamber of Commerce, UK (Member)
- Deutsche Bank (Member of the Supervisory Board and Chair of the Audit Committee)
- Teach First (Trustee)

Julia Wilson

Senior independent non-executive director

Appointed in November 2011; Senior Independent Director from May 2016

A C N

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

External appointments:
- 3i Group plc

Other Board members during the year were:

Stuart Popham – retired from the Board on 31 December 2016
Olaf Swantee – retired from the Board on 26 May 2016
John Stewart – retired as Chairman on 1 June 2016
Lizabeth Zlatkus – retired from the Board on 31 August 2016

Director appointments post year end

Toby Strauss

Independent non-executive director

Appointed 1 January 2017

A N Ri

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

External appointments:
- Macmillan Cancer Support (Trustee)

Jeff Davies

Chief Financial Officer-elect

Appointment effective 9 March 2017

Skills and experience:
Jeff will be appointed Group Chief Financial Officer on 9 March 2017. He was previously a senior partner of Ernst & Young LLP 'EY) and led their European risk and actuarial insurance services. Prior to joining EY in 2004, he held a number of senior actuarial roles at Swiss Re Life & Health. He is a Fellow of the Institute of Actuaries.

Kerrigan Procter

Chief Executive Officer, LGR

Appointment effective 9 March 2017

Skills and experience:
Kerrigan will be appointed to the Board on 9 March 2017. He has been CEO of LGR since January 2013. He was previously 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.

Geoffrey Timms

Group General Counsel and Company Secretary

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

Letter from the Chairman

I am delighted to present this year's Corporate Governance report.

First, I should like to extend my thanks to John Stewart for his wise stewardship of the company for over six years. I should also like to thank Rudy Markham for stepping in to provide leadership of the Board over the summer until I took up my appointment in late October. I am immensely grateful to them both and I intend to continue their work ensuring the highest corporate governance standards, striving to remain at the forefront of best practice.

As Chairman, it is my role to ensure the highest standards of governance are promoted by the Board and that these standards cascade through the group. As we have seen over recent years, governance best practice continues to evolve and 2016 has been no exception, with the publication of the 2016 UK Corporate Governance Code (the '2016 Code') in April, which applies to accounting periods beginning on or after 17 June 2016. We have chosen to comply with the Code earlier than required and so, while we will report against the version of the Code published in 2014 (the '2014 Code') this year, I am pleased to confirm we also complied with the 2016 Code.

Our approach to governance

Corporate governance is part of our way of working and underpins how we conduct our business every day, our culture and our behaviour.

The Board's role is to lead the company and oversee the governance of the group. It plays a key role in ensuring that the tone for the group's culture and values is set from the top. The role of management is to deliver the strategy within the framework and standards set by the Board. At the heart of good governance is our culture; at Legal & General, it's not just what we do that's important, it's also how we do it.

Our governance framework means we have a robust decision-making process and a clear framework within which decisions can be made. This is achieved via our delegated authority framework, which ensures that decisions are taken by the right people and at the right level and that there is clear accountability up to the Board.

Through the governance framework, the Board is then able to assess whether we're making decisions in the right way, with the right considerations underpinning them.

The Board is supported by the Corporate Governance Committee which considers matters relating to the group's governance on behalf of the Board. During the year, the Committee supported the Board in assessing the results of the Board and Committee evaluations, subsidiary board composition and analysis of the emerging regulatory governance requirements and best practice.

Julia Wilson and I have met a range of our shareholders in recent months. The investor community continues to be a crucial force in shaping corporate governance and, as an investor, LGIM plays a key role in setting the standards for investor stewardship. As a Board, we're mindful of the expectations of our shareholders as well as our wider stakeholder group including regulators, customers, our staff and the wider community. We place great value on open and constructive two-way dialogue with shareholders, providing them with an opportunity to discuss particular areas of interest or concern as they arise.

Board appointments and succession planning

The Board has continued to evolve in 2016 with a number of changes to its composition. The refreshed membership provides us with further deepening of expertise and a renewed energy to progress our strategy. I should like to take this opportunity once again to thank the following directors who served on the Board but who retired during the year: Stuart Popham, Olaf Swantee and Lizabeth Zlatkus along with my predecessor, John Stewart. Their diligent service contributed to the continued good governance of the group and provide an excellent foundation upon which the Board can further build.

Sir John Kingman
Chairman

"Our governance framework means we have a robust decision-making process and a clear framework within which decisions can be made."

Sir John Kingman,
Chairman

Governance report

The UK Corporate Governance Code – committed to the highest standards

The principles of the 2014 Code are the standards against which we measured ourselves during the year. We also chose to comply early with the 2016 Code. The information on the following pages demonstrates how we apply the principles of the Code in practice. The information required under Disclosure Guidance and Transparency Rule 7.2.6 can be found in the directors' report on pages 231 to 234. Each year, the Board reviews the group's corporate governance framework and compliance with the Code and the table on pages 56 and 57 sets out at a high level how we have complied with each of the principles of the 2014 Code.

Governance is an important element of 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. It is the Board's responsibility to ensure we have an appropriate governance framework in place to continue to support our day-to-day operations and protect 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 and to the date of this report. In particular, John Stewart stepped down as Chairman. Rudy Markham took on the role of Interim Chairman until Sir John Kingman took over as John Stewart's successor. During the year, Lesley Knox and Philip Broadley joined the Board and on 1 January 2017 Toby Strauss joined as non-executive director. Jeff Davies and Kerrigan Procter will join the Board ahead of the AGM in May 2017. The biographies of all these directors are detailed on pages 48 to 49 and show the strength and depth of skills and experience they have brought to the Board. When considering the appointments of new directors, the Board has been mindful of the contribution each new appointee will bring to the Board in light of the changing environment in which the business operates. In particular, the Board has remained cognisant of the need to maintain a well-balanced Board with the right mix of individuals who can apply their wider business knowledge and experiences to the oversight and guidance of the delivery of the group's strategy.

Board announcements during the year and to the date of this report

4 February 2016	• Mark Gregory announces his intention to retire in January 2017
3 March 2016	• Rudy Markham announces his intention to retire at the conclusion of the 2017 AGM • Julia Wilson appointed to succeed Rudy Markham as Senior Independent Director effective from the conclusion of the 2016 AGM • Olaf Swantee announces his intention to retire from the conclusion of the 2016 AGM
20 May 2016	• Lesley Knox appointed as Independent Non-Executive Director effective 1 June 2016
26 May 2016	• John Stewart announces his intention to retire as Chairman from 1 June 2016 • Rudy Markham to assume the role of Interim Chairman
28 June 2016	• Sir John Kingman appointed as Chairman, subject to the advice of the Cabinet Office Advisory Committee on Business Appointments
8 July 2016	• Philip Broadley appointed Independent Non-Executive Director effective immediately and succeed Julia Wilson as Chair of the Audit Committee following a short handover • Lizabeth Zlatkus announces her intention to retire on 31 August 2016
5 August 2016	• Stuart Popham announces his intention to retire on 31 December 2016
27 September 2016	• Toby Strauss appointed Independent Non-Executive Director effective 1 January 2017
18 October 2016	• Sir John Kingman to take up role as Chairman effective 24 October 2016
22 December 2016	• Jeff Davies appointed as Chief Financial Officer from Spring 2017
18 January 2017	• Kerrigan Procter appointed Executive Director effective 9 March 2017 • Jeff Davies to take up role as Chief Financial Officer on 9 March 2017
24 January 2017	• Richard Meddings announces his intention to retire at the conclusion of the 2017 AGM • Toby Strauss to assume chairmanship of the Group Risk Committee from 9 March 2017

How the Board operates

The Board is led by the Chairman, which role has been fulfilled during the year by John Stewart, Rudy Markham (as Interim Chairman) and latterly by Sir John Kingman. The day-to-day management of the group is led by Nigel Wilson, the group Chief Executive. The non-executive directors play a key role in contributing to the delivery of strong organisational governance but their role is not limited to the boardroom.

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

How the Board spent its time in 2016

The Board met formally seven times during 2016 in addition to meeting on several other occasions on an ad hoc basis to discuss, amongst other things, Brexit preparations and material transactions. Board sub-committees were constituted on a number of occasions to deal with matters arising in the ordinary course of business outside of the formal schedule of meetings. The transition to Solvency II remained a focus of the Board, although this is now considered part of our business as usual. The Board held a two-day strategy event during the year. A table of individual Board member attendance at the formal Board and Committee meetings is provided on page 57.

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

- An update from the group Chief Executive and the key business division heads on business performance and key business initiatives
- Discussions on strategic proposals, acquisitions, major transactions and group matters
- Board legal and governance update

Board members and, as appropriate, individuals from the relevant business areas are invited to present on each of these items.

Key areas of focus	Discussion and actions arising
Strategy	• At its January meeting, the Board considered and approved the group's five-year business plan and 2016 budget. This included a review of the divisional strategic objectives, initiatives and KPIs. • In February and in June, the Board considered the group's preparations for Brexit. • The Board held a two-day separate strategy event to discuss progress against the group's strategic plan, the strategic direction and optionality for each of the business divisions, the risks and future opportunities for the group. • At each Board meeting, the Board considered a schedule of corporate and material transactions to ensure that proposed transactions are aligned with the group's strategy. In particular, the Board considered the disposals of Legal & General Netherlands, Suffolk Life, Cofunds and IPS. • The Board also assesses a range of ongoing corporate and commercial transactions to provide Board members with full opportunity to debate and feed back to the management team.
Solvency II	• The Board continued to spend a significant amount of time considering the Solvency II regulations and monitoring the group's transition to this new regulatory regime • The Board focused in particular on the first annual and half year financial statements to include reporting under the new capital regime and discussing its evolving understanding of the behaviour of the Solvency II balance sheet through various macro conditions.
Governance	• At its February meeting, the Board considered the output from the 2015 externally facilitated Board evaluation. These findings were also considered by the Corporate Governance Committee. Detailed recommendations arising from the evaluation were developed by the Corporate Governance Committee and the proposed recommendations were subsequently approved by the Board. • Updates are provided to the Board on meetings held with regulators as and when they occur. • The Board is regularly updated by the group General Counsel and Company Secretary on legal matters, emerging regulation and governance changes.
Stakeholders	• During the year, the Board regularly considered the group's relationship with various stakeholder groups. It discussed shareholder matters, employee engagement, customers, and the group's impact collectively on, and relationship with, wider society. • At the Board's February and October meetings, the Corporate Governance Director of Legal & General Investment Management (LGIM) attended to present LGIM's approach to investor stewardship such as tax transparency, withdrawal of quarterly reporting, boards' understanding of cyber risk, board diversity and pay ratios, shareholder representation on company boards and its policy of not withholding votes on AGM resolutions. • The Board also considered the key findings of an investor perceptions report prepared by Makinson Cowell.

Strategy away day

Strategy remained a key focus for the Board throughout the course of the year. It held a separate two-day strategy event outside the formal Board meeting schedule in 2016. This event provided the Board with an opportunity to reflect on the progress the group is making against the backdrop of the macro trends identified as the drivers of strategy, and also allow Board members to debate, scrutinise and review performance against the strategic plan. The Board also focuses on the future and the next phase of the company's strategy. The agenda for the strategy event included debate and discussion on strategic options involving the heads of each of the group's key business divisions: Legal & General Investment Management, Legal & General Retirement, Legal & General Capital and Insurance.

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

The Board believes that continuous development of directors is important for both the business and the individuals concerned and therefore provides training and development to the Board. The Chairman is assisted by the group Company Secretary in providing all new directors with an individually tailored induction programme on joining the Board. This is tailored to the knowledge and experience of each individual and includes a series of meetings with members of the Board and of the group's operational and functional leadership and with external advisors and our regulators. This ensures they obtain a detailed overview of the group, its business and governance framework as well as the regulatory environment in which it operates and external perspectives. Subsequently, all Board members receive continuing education and development opportunities at regular intervals throughout the year.

During the year, the development activities undertaken included:

- One-to-one briefing sessions for non-executive directors with key members of the senior management team
- Focused group Executive Business Awareness sessions (EBAs)
- Continuing training on Solvency II regulation
- Deep dives into our businesses and director site visits to business operations

2016 Board and Committee evaluations

Each year, the Board considers the most appropriate method for conducting a review of the Board and its Committees' performance. In deciding if an internal or external review is appropriate, the Board reflects on when it last completed an external review, what changes have been made to the composition of the Board during the course of the year and any other factors that may have had an impact on the group's strategy during the year. The Board determined that it would be appropriate to carry out an internal review this year as, given the level of change to the Board's composition during the year, the Board would benefit from a further period working as a collective group before undertaking an external independent review. As the last such external review was undertaken in 2015, the Board was not required under the 2014 Code to undertake such a review during the year.

The review focused in particular on the following areas:

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

The Chairman has also conducted individual Board member evaluations. The Senior Independent Director conducted a review of Sir John Kingman's initial performance and a more detailed review will take place in 2017, allowing time for him to settle into his new role.

The review concluded that the Board continued to operate effectively against a backdrop of some exceptional issues including preparation for Brexit and Board composition changes. A summary of recommendations from the review is set out below, together with an update on the progress made against the recommendations from the 2015 review.

Recommendations from 2016

Following the further strengthening of insurance experience on the Board during 2016, Board succession planning priorities will now focus on asset management and international experience.

Continue to evolve the group's subsidiary governance framework to reflect the group's strategic focus, including enhanced opportunities for the group Board to interact with the subsidiary boards and committees and their independent directors.

Build on the success of the talent development programme and 50/50 by 2020 initiative and enhance Board engagement with the organisation's top talent through business 'deep dives', 'talent' dinners and regular events hosted by the Chairman.

Review the director training and induction programme with a view to enhancing in line with best practice.

Recommendations from 2015 review	Progress against 2015 recommendations
Board and Committee agendas and papers should be reviewed with a view to enhancing the structure and content of papers, in particular, ensuring that key considerations and messages are delivered effectively.	An exercise was undertaken to gather individual director feedback on papers and to reflect this in guidance for the preparation of papers. A process for early review of draft papers is also in place to ensure clarity of content.
In reviewing the composition of the Board, specific consideration should be given to recruiting non-executive directors with insurance and/or asset management expertise. Further, non-executive directors with international experience were also seen to be important future additions to the Board.	Lesley Knox, who has a wealth of financial services experience, joined the Board in June 2016. Philip Broadley, who has over 14 years' experience in insurance, joined the Board in July 2016. On 1 January 2017, Toby Strauss' appointment further added to the depth of insurance experience on the Board.
The Board should continue to develop its understanding of the views of shareholders. This could be facilitated through a programme of major shareholder meetings and additional meetings with the group's Corporate Brokers.	Sir John Kingman and Julia Wilson have undertaken a programme of meetings with investors and provided feedback to the Board. The Board receives an annual update from the group's corporate brokers.
The Board's engagement on strategy should continue to be enhanced. Following the success of the 2015 June half day 'strategy checkpoint', a further afternoon strategy discussion should be scheduled in June as a lead in to the September strategy offsite. This should be focused on two to three strategic priorities.	An additional half day 'strategy checkpoint' session was deferred given the number of changes to the Board membership that occurred over the Spring. This will be revisited in 2017.

Committed to the highest standards

Compliance with the 2014 UK Corporate Governance Code. For the year ended 31 December 2016, we're pleased to report that we have applied the principles and complied with the provisions of the 2014 Code. A full version of the Code can be found on the Financial Reporting Council's website: frc.org.uk

A. Leadership

A1 The role of the Board
The Board meets regularly during the year, both within a formal schedule and informally on an ad hoc basis in line with business need. Sub-committee meetings were also constituted to deal with matters such as the final approval of the interim and half year results. The Board's agenda is set by the Chairman and deals with those matters specifically reserved to the Board, including matters relating to the group's strategic plan, risk appetite, and systems of internal control and corporate governance policies. Matters delegated to the group Chief Executive include managing the group's business in line with the strategic plan and approved risk appetite, and responsibility for the operation of the internal control framework.

A2 Division of responsibilities
The roles of the Chairman and group Chief Executive are clearly defined and the role profiles are reviewed as part of the annual governance review undertaken by the Board. The role of the Chairman, undertaken during the year by John Stewart, Rudy Markham (as Interim Chairman) and latterly by Sir John Kingman, is to lead the Board while Nigel Wilson, group Chief Executive, is responsible for the day-to-day management of the company within the strategy set by the Board.

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

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

B. Effectiveness

B1 The composition of the Board
The Nominations Committee is responsible for reviewing the composition of the Board and, in making recommendations for appointments to the Board, the Committee considers the balance of skills, experience and knowledge needed in order to enhance the Board and support the company in the execution of its strategy. Details of the work undertaken by the Committee are set out on pages 58 to 60.

B2 Appointments to the Board
The Nominations Committee is responsible for leading the process of appointing new directors to the Board. The Committee is committed to ensuring that all appointments are made on merit having evaluated the capabilities of all potential candidates against the requirements of the Board, with due regard for the benefits of all types of diversity, including gender.

B3 Commitment
The Non-Executive Directors' letters of appointment set out the time commitment expected from them. This time commitment has once again gone beyond that set out in the letter of appointment of Non-Executive Directors. This time commitment is therefore reviewed regularly. External commitments, which may have an impact on existing time commitments, must be agreed in advance with the Chairman. The significant commitments of each of the directors are included in the Board biographies on pages 48 and 49. The Chairman's commitments were considered as part of his appointment and the Board agreed that he has no commitments that are expected to have a negative impact upon his time commitment to the Company.

B4 Development
The Board places great value on the inductions that are offered to new non-executives and the ongoing training opportunities made available to all Board members. Further details of the development sessions which have taken place during the year are set out on page 54.

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

B6 Evaluation
The Board decided upon an internal evaluation this year having had an externally facilitated evaluation undertaken by Lintstock in 2015. Details of this year's evaluation and an update on the recommendations from the 2015 evaluation are set out on pages 54 and 55.

B7 Re-election
All directors were subject to shareholder election or re-election at the 2016 AGM, with the exception of those directors who were retiring at the conclusion of the meeting. All directors, with the exception of Mark Gregory, Rudy Markham and Richard Meddings, who will all be retiring from the Board at the conclusion of the AGM, will be subject to shareholder election or re-election at the 2017 AGM.

Board and committee meetings attendance during 2016[1]

Director	Appointment Date	Board (7)	Audit Committee (5)	Nominations Committee (5)	Remuneration Committee (5)	Group Risk Committee (5)	Corporate Governance Committee (3)
Sir John Kingman	24 October 2016	1 (1)		2 (2)			
John Stewart[2]	01 January 2010	4 (4)		1 (1)			1 (1)
J Wilson	9 November 2011	7	5	5		5	2 (2)
N D Wilson	01 September 2009	7					
M J Gregory[3]	28 January 2009	7					
M Zinkula	18 September 2012	7					
C Bradley	8 December 2014	7		5	5		
P Broadley	08 July 2016	3 (3)	2 (2)	4 (4)		3 (3)	
L Knox	01 June 2016	3 (3)	2 (2)	4 (4)	3 (3)		
R Markham	4 October 2006	7		5	5	5	3
R Meddings	8 December 2014	7	5	5	5	5	
S Popham[4]	1 July 2011	7		4	4	4	
O Swantee[5]	01 August 2014	2 (4)	2 (3)	1 (1)			
L Zlatkus[6]	01 December 2013	5 (5)	4 (4)	1 (1)		3 (3)	

1. Attendance at meetings in accordance with the formal schedule of meetings. 2. Retired with effect from 1 June 2016. 3. Retiring with effect from 9 March 2017. 4. Retired with effect from 31 December 2016. 5. Retired with effect from 26 May 2016. 6. Retired with effect from 31 August 2016.

C. Accountability

C1 Financial and business reporting

The Strategic Report, located on pages 1 to 45, sets out the performance of the company, the business model, strategy, and the risks and uncertainties relating to the company's future prospects.

C2 Risk management and internal control

The Board sets the company's risk appetite and annually reviews the effectiveness of the company's risk management and internal control systems. A description of the principal risks facing the company is set out on pages 44 and 45. Page 43 sets out how the directors have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate (the 'viability statement'). The activities of the Audit and Group Risk Committees, which assist the Board with its responsibilities in relation to financial reporting, audit matters, risk appetite setting and risk management, are set out on pages 61 to 67.

C3 Audit Committee and auditors

The Audit Committee comprises five 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, internal control and risk management framework, and the work undertaken by the external and internal auditors. The Committee also supports the Board's consideration of the company's viability and its ability to operate as a going concern. The Audit Committee's terms of reference are available on the website, www.legalandgeneralgroup.com. The Audit Committee chair provides regular updates to the Board on key matters discussed by the Committee.

D. Remuneration

D1 The level and components of remuneration

The company aims to reward employees fairly and our remuneration policy is designed to promote the long-term success of the company whilst aligning the interests of both the directors and shareholders. Shareholders will be asked to approve the remuneration policy at the 2017 AGM. The work of the Committee is set out on pages 68 to 97.

D2 Procedure

The Remuneration Committee is responsible for setting the remuneration for all executive directors. Details of the composition and the work of the Remuneration Committee are set out in the Directors' Remuneration Report on pages 68 to 97.

Following John Stewart's resignation on 1 June 2016, Rudy Markham was appointed as Interim Chairman of the Board. Sir John Kingman's appointment as the Chairman was announced on 28 June 2016, subject to the advice of the Cabinet Office Advisory Committee on Business Appointments. He took up the role on 24 October 2016. Between 1 June and 30 September 2016, Rudy was both Interim Chairman and Chair of the Remuneration Committee, which was a function of the timetable of the Chairman succession process.

E. Relations with Shareholders

E1 Dialogue with shareholders

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

E2 Constructive use of the AGM

The Board values the AGM as an important opportunity to engage with investors. Attendees have the opportunity to ask questions of the Board and are invited to meet the Board following the formal business of the meeting. A capital markets event for investors was held in December 2016.

Nominations Committee report

SIR JOHN KINGMAN
CHAIRMAN

"Board composition is a key focus for the Nominations Committee, ensuring that the Board has the right skills and experience to direct the company in the successful execution of its strategy."

The composition of the Committee

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

Members:
Sir John Kingman from 24 October 2016
Carolyn Bradley
Philip Broadley from 8 July 2016
Lesley Knox from 1 June 2016
Rudy Markham
Richard Meddings
Stuart Popham until 31 December 2016
John Stewart until 1 June 2016
Olaf Swantee until 26 May 2016
Julia Wilson
Lizabeth Zlatkus until 31 August 2016

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

The group Chief Executive and 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.

The role of the Committee

The Committee has overall responsibility for leading the process for new appointments to the Board and ensuring that these appointments bring the required skills and experience to the Board. 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 to direct the company in the successful execution of its strategy.

The Committee's key responsibilities are:

- Regularly reassessing the structure, size and composition of the Board to ensure the continued ability of the company to compete effectively in the market place and recommending any suggested changes to the Board
- Reviewing the criteria for identifying and nominating candidates based on the specification for a prospective appointment including the required skills and capabilities
- Considering succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the company and what skills and expertise will be needed by the Board in the future
- 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

The Committee's terms of reference, which set out full details of the Committee's responsibilities, can be viewed on our website. www.legalandgeneralgroup.com/investors/corporate-governance.html

How the Committee spent its time in 2016

During the year, the Nominations Committee has met five times, focusing at these meetings on identifying and recommending candidates for appointment to the Board to ensure its continued ability to support the company through the next phase of its strategy. It convened sub-committees as necessary to focus on particular succession matters. It led the process for the appointment of the successor Chairman, the appointment of a new Senior Independent Director and a number of Independent Non-Executive Directors, including successor Chairs of Committees. All these appointments are discussed and explained elsewhere in the annual report. The Committee has also led the search for a new group Chief Financial Officer, following the announcement that Mark Gregory intended to retire in January 2017.

Prior to drawing up a specification for a new appointment, the Committee assesses the balance of skills, knowledge and experience required on the Board. It then draws up a specification against which all candidates are judged on merit. In recommending candidates for appointment, it also has regard to the benefits of all types of diversity, including gender.

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. Rudy Markham has served on the Board for 10 years and, as a result, his continued independence was subject to more rigorous review.

The Committee considered Rudy's external business interests and other relationships which could materially interfere with his ability to exercise independent judgement, including his taking up the position of Interim Chairman until the permanent successor to John Stewart could take up his appointment as Chairman. The Committee concluded that there were no circumstances which would affect Rudy's ability to act in the best interests of the company and that his length of tenure and short-term appointment as interim Chairman had no impact on his level of independence. Rudy will be retiring from the Board at the conclusion of the 2017 AGM.

The Committee has also led the recruitment of three new non-executive directors, following a similar process to that described for the appointment of the Chairman.

The process for the appointment of a successor Chairman

Role requirements
The Committee prepared a detailed specification for the role of Chairman, specifying the skills, knowledge, experience and attributes required.

Process
The Committee directed the selection process, under the leadership of the Senior Independent Director. The search process was commenced under the stewardship of Rudy Markham, then Senior Independent Director, and completed by Julia Wilson, the current Senior Independent Director. The Committee as a whole was involved in shortlisting and interviewing candidates and, once preferred candidates had been identified, the executive directors and key senior executives were also included. JCA Group, an external search consultant, was engaged to facilitate the search and selection process.

Search
The Committee considered potential candidates identified by members of the Committee and JCA Group. It examined a 'long list' of candidates in consultation with JCA Group, assessing each candidate against the role specification. The Committee then identified candidates to be invited to interview.

Recruitment
Following the interviews, the Committee discussed the shortlisted candidates and agreed that Sir John Kingman should be proposed to the Board for appointment as Chairman. The Board approved his appointment, which was announced on 28 June 2016 and took effect on 24 October 2016.

The process for the appointment of a group Chief Financial Officer

Role requirement
The Committee, working closely with the group Chief Executive, prepared a detailed specification for the role of Chief Financial Officer, specifying the skills, knowledge, experience and attributes required.

Process
The Committee directed the selection process, appointing a sub-committee to manage the process. Russell Reynolds, an external search consultant, was engaged to facilitate the search and selection process.

Search
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.

Recruitment
The Committee considered the feedback from the interviews. The Committee agreed that Jeff Davies was the right candidate for the role and should be proposed to the Board for appointment as group Chief Financial Officer. The Board approved his appointment, which was announced on 22 December 2016 and will take effect from 9 March 2017.

Our approach to diversity and inclusion

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

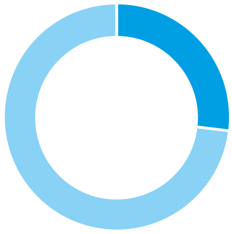
Being an inclusive business is important to us and is one of our business principles. Our approach is to create a culture where everyone can thrive, whoever they are, and to have a clear focus and specific targets to address under-representation where it occurs.

We continue to support the voluntary Lord Davies' 'Women on Boards' target of a third of all Board members to be women; in line with the Hampton-Alexander Review we're taking action to ensure our executive pipeline exceeds 33% by 2020. We are also developing our approach to increasing ethnic minority representation at leadership level in line with the recommendations of the Parker Review.

We have maintained the diversity on our Board and have signed the Women in Finance Charter, formally establishing 50/50 by 2020 (which aims to have a 50/50 balance of men and women right through the organisation by the year 2020) as our long-term goal and setting short-term targets to ensure we make progress towards our goal.

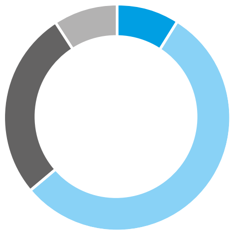
Diversity

Gender



The Board now comprises:
- 27% females
- 73% males

Sector experience



Board members come from a variety of backgrounds and have wide sector experience:
- 9% Digital and Technology
- 55% Financial Services
- 27% Customer and Retail
- 9% FMCG

Tenure (years)

The length of tenure of the non-executives varies:
- 14% over six years
- 14% between three and six years
- 29% between one and three years
- 43% less than one year

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 the 2016 searches, the company engaged JCA Group, Odgers, Russell Reynolds and Korn Ferry which are all signatories to this Code and have no other connection to the company.

The Committee briefs the search firm to ensure that the pool of candidates presented includes candidates with an appropriate range of experience, knowledge and background, and who demonstrate independence of approach and thought.

Audit Committee report

PHILIP BROADLEY
CHAIR OF THE AUDIT COMMITTEE

"The Committee's remit covers accounting and financial reporting, internal controls and the external audit. A particular focus during the year was the tender for a new external auditor"

The composition of the Committee

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

Members:
Philip Broadley from 8 July 2016 Chair since 1 October 2016
Lesley Knox from 1 June 2016
Richard Meddings
Toby Strauss from 1 January 2017
Olaf Swantee until 26 May 2016
Julia Wilson Chair until 1 October 2016
Lizabeth Zlatkus until 31 August 2016

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, PricewaterhouseCoopers LLP (PwC).

Letter from the Chair

Dear Shareholder

I am pleased to present the Audit Committee report for the year ended 31 December 2016. The aim of the report is to explain the work undertaken by the Committee during the year as well as meeting the disclosure requirements set out in the 2014 UK Corporate Governance Code (the 'Code'). In particular, we explain the significant accounting issues considered by the Committee. These are set out on page 63.

It is important that the Committee operates effectively and efficiently. Accordingly, the members of the Committee need to have the right balance of skills and experience to deliver its responsibilities. The Committee members have a variety of backgrounds, including appropriate sector and financial experience, ensuring material aspects of our business are appropriately represented. This is particularly important in light of the changes made to the Code in 2016, which apply to the company from 1 January 2017. Financial literacy remains a key consideration when appointing members, particularly to ensure that at least one member has recent and relevant financial experience. I, as Committee Chair, amongst others, am considered to have such experience. During the year under review, Lesley Knox and I joined the Committee and Olaf Swantee and Lizabeth Zlatkus stepped down. On behalf of the Committee, I would like to thank Olaf and Lizabeth for their valuable contribution during their tenure. Since the year end, we have also invited Toby Strauss to join the Committee.

It is worth highlighting that all Committee members, with the exception of Lesley Knox, are also members of the Group Risk Committee, ensuring effective co-ordination and the appropriate identification and management of any overlapping issues.

Periodically the Committee meets individually with each of the external auditor and the group Chief Internal Auditor. The purpose of the meetings is to allow the parties to raise and discuss issues directly with the Committee. Committee members regularly meet with management outside formal Committee meetings to discuss topical issues.

During 2016, the Committee met five times in accordance with the annual plan and scheduled additional meetings in relation to specific matters requiring its consideration, most notably in relation to the external audit tender undertaken during the year. The Committee's terms of reference are reviewed on an annual basis and the current terms of reference, reviewed in December 2016, are available on our website. The Committee's time over the course of the year included consideration of a variety of matters, including, but not limited to:

- Half year and year-end financial reporting
- Solvency II matters
- Monitoring and reviewing internal control
- The effectiveness and work of both the internal and external audit functions

- Planning and conducting a tender for the provision of future external audit services
- Asset valuations and actuarial matters
- Tax strategy
- Closure of our Kingswood office
- Cofunds disposal

As anticipated in last year's Committee report, this year we have conducted a tender for the future provision of external audit services. This concluded in the appointment, subject to shareholder approval, of KPMG LLP as the group's external auditor commencing with the audit of the financial year ending 31 December 2018. They will be invited to observe the audit of the financial year ending 31 December 2017 conducted by PwC to ensure an orderly and efficient transition.

The information on the following pages sets out in detail the activities of the Committee during the year. I hope that you will find this report useful in understanding our work.

Philip Broadley
Chair of the Audit Committee

How the Committee spent its time in 2016

The 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 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 the basis on which the Board provides the viability statement. These considerations have been factored into our year-end processes.

The Committee's terms of reference, which set out full details of the Committee's responsibilities, can be viewed on our website, www.legalandgeneralgroup.com/investors/corporate-governance.html.

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

Accounting and financial reporting:

- Reviewing the half year and annual financial statements and ensuring that the Strategic Report is consistent with the financial statements including the level of insurance provisions and reserves and other significant areas of judgement
- Reviewing the group's going concern assumptions and the proposed viability statement
- Reviewing the group's Solvency II balance sheet and own funds
- Reviewing the external auditor's reports on the half year and annual financial statements and the group's Solvency II balance sheet and own funds

Internal control management:

- Considering the findings of the internal audit function's reviews and management's responses. These reviews covered areas such as capital management and model risk, IT security, transformation programmes, product governance and conduct risk
- Reviewing and advising the Board on the content and clarity of disclosures in the directors' statements related to internal controls and risk management
- Considering the internal auditor's audit plans

External audit and the external auditor:

- Assessing the effectiveness of the annual external audit through discussions with the external auditor on the scope and planning of their audit for the forthcoming year and subsequently monitoring the execution
- Reviewing the extent of non-audit services provided by the external auditor and monitoring the objectivity and independence needed in the conduct of the audit
- Setting the fees of the external auditor for the conduct of the audit
- Conducting a tender for the future provision of external audit services

Accounting and financial reporting

The Committee is responsible for reviewing the half year and annual financial statements and the significant financial reporting judgements. It is also responsible for reviewing the group's Solvency II balance sheet and own funds.

The significant accounting issues considered in relation to the 2016 financial statements are detailed on page 63.

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

An important focus of the Committee in its work is assisting the Board in ensuring that the annual report and accounts, taken as a whole, are fair, balanced and understandable (FBU) and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy. The Committee considers the Code provisions which require the Board to make this statement on the report, together with information on the processes to support the statement to be made.

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

- Ensuring that all of those involved in the preparation of our annual report have been appropriately trained and fully briefed on the FBU 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
- Early opportunity for review and feedback on our annual report by Committee members

The Committee, having completed its review, recommended to the Board that, when taken as a whole, the 2016 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 Committee, together with the Group Risk Committee, reviewed the key assumptions and methodologies of the risk-based capital model as well as related Solvency II disclosures and the proposed disclosures pertaining to the group's economic capital disclosure.

During the year, the Committee has continued to keep abreast of significant and emerging accounting developments, in particular proposed changes to IFRS relating to insurance accounting.

Significant accounting issues considered by the Committee

Issue	Committee's response
Valuation of complex investments: Mark to model investments can involve significant judgement and can produce valuation challenges for investments in new asset classes. Mark to model valuations inherently include assumptions that lead to the existence of a range of plausible valuations for financial instruments (known as valuation uncertainty). Certain assets are subject to a higher degree of valuation uncertainty particularly where valuations are modelled using non-market inputs or the valuations are affected by other factors such as illiquidity of the asset.	The valuation of CDOs, new asset classes and new transactions require the use of complex models and management judgement. The Committee seeks to ensure that the valuation process for these investments is robust. The Committee reviewed the processes and controls over investments valuations. In particular, the Committee reviewed the valuation uncertainty policies and governance including management's assessment of valuation uncertainty by asset type. The Committee concluded that there are appropriate controls surrounding the valuation of complex assets and that they are valued appropriately for inclusion in the financial statements.
Valuation of non-participating insurance liabilities – insurance: The non-participating insurance liabilities for protection contracts are an important driver of the profitability for this line of business and require judgements to be made regarding the assumed rates of mortality and persistency. The company makes extensive use of reassurance to reduce mortality risk.	The Committee has reviewed the methodology for calculating reserves including the allowance made for payments to and from reassurance counterparties. The assumptions for the rate of future mortality and morbidity (how many customers will die or become ill during the policy term) and persistency (how many customers will discontinue cover) are based on the company's internal experience and use judgement about how experience may vary in future. The Committee reviewed the assumptions and the expected level of prudence taking into account market benchmarking, internal experience studies and the reinsurance structure. The Committee also considered the internal control environment in place to control the valuation models. The Committee concluded that the insurance liabilities of the Insurance division are appropriate for inclusion in the financial statements.
Valuation of non-participating insurance contract liabilities – retirement: The non-participating insurance liabilities for retirement products are significant in size and their estimation is inherently judgemental.	The Committee evaluated the significant judgements that have an impact on the valuation of non-participating insurance liabilities for retirement products. This included considering: Valuation interest rates – which are used to discount the liabilities. These are sensitive to judgements made, for example, on credit default of the backing assets, as well as the investment data used to calculate the yield on these assets and the methodology used to model the asset cash flows 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. Longevity assumptions – which estimate how long policyholders receiving annuity payments will live. The Committee considered the effectiveness of the controls over the accuracy and completeness of the data used in determining the longevity assumptions and the validity of independent industry data supporting those assumptions. The Committee also reviewed available data illustrating recent trends in longevity experience in the UK population and the longevity experience on different blocks of business. The Committee concluded that the retirement insurance contract liabilities are appropriate for inclusion in the financial statements, reflecting the asset risks and the available data on policyholder longevity.

Internal control

In collaboration with the Group Risk Committee, the Committee, on behalf of the Board, 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 Committee considers the control environment and related issues, root causes and management responses and actions.

The group's control policies and procedures, which are in accordance with the Financial Reporting Council's Guidance on risk management, internal control and related financial and business reporting, have been in place during 2016 and up to the date this report was approved. The group's system of internal control is designed to manage rather than eliminate risk and can only provide reasonable and not absolute assurance against material loss.

During 2016, the Committee was supported in its activities by regular reports from the group's internal audit function on their audits and their assessment of the control environment. The Committee reviews the effectiveness of the group's internal audit function, including internal audit resources, plans and performance as well as how the function interacts with management and the business divisions. In particular, it evaluates the alignment of the internal audit plan with the group's key risks and strategy.

In 2016, there has been a significant focus on the continuing implementation of the Solvency II programme. In addition, the Committee closely monitored a review of IT system controls.

All significant internal audits were reported to the Committee, which also reviewed progress against the internal audit annual plan, including resource requirements, and monitored the resolution of open audit issues.

The Committee received and considered reports from the external auditor on its assessment of the control environment as well as reports from senior management on its response to internal control recommendations made by internal audit and the external auditor. The internal control and risk management systems cover the group's financial reporting process and the group's process for preparation of consolidated financial statements.

The Committee has concluded that the systems of internal controls and risk management within the group are effective. No significant control failings or weaknesses were identified during the period under review.

The external auditor

Each year, the Committee reviews the external auditor's audit plan to ensure it aligns with the Committee's view of the areas of significant risk of financial misstatement. The Committee receives regular reports from the external auditor on audit findings and significant accounting issues. In 2016, the Committee continued to focus on the assurance work undertaken by the external auditor in relation to IFRS and Solvency II.

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

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

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

The 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
- Bookkeeping and preparing accounting records or statements
- Payroll services
- Design or implementation of internal controls
- Valuation
- Legal, internal audit or human resources
- Financing capital structure or allocation or investment strategy advice
- Promoting, dealing in or underwriting share issues

The 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 10 years, together with the European Union's requirements for mandatory audit firm rotation.

The company confirms that it has complied with the provisions of the CMA's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the financial year under review.

As advised last year, PwC has been the group's external auditor for a number of years. The audit was last tendered in full in 2006 with a partial re-tender process in 2009. During the year, the Committee undertook a full tender process in respect of external audit services in compliance with legislation and FRC guidance on best practice, in particular ensuring independence in respect of potential audit firms.

The existing external audit firm, PwC, was not invited to re-tender. We approached a range of firms including the 'big four' (other than the incumbent) and mid-tier firms to express their interest. Interested firms were subsequently requested to complete a detailed Request For Proposal (RFP). Following this, a full tender process of firms shortlisted based on the responses to the RFP was undertaken. During the tender process, each firm was given access to members of the group's senior management and a data room. The tendering firms were judged against objective criteria determined in advance of the process, together with the findings and conclusions of published inspection reports on the audit firms.

Whilst the Committee appreciated the quality of the proposals presented by all the tendering firms, it considered that the submission and team from KPMG LLP (KPMG) best met the predefined criteria it had set. It therefore recommended to the Board that KPMG be appointed as the company's auditor commencing with the audit of the financial year ending 31 December 2018. To ensure a smooth transition from PwC, KPMG will observe PwC on the audit for the financial year ending 31 December 2017 and then take responsibility for the audit in the following year.

The Committee confirms that there are no contractual obligations which restrict the choice of external auditor.

In 2016, the group spent £2.5 million on non-audit services provided by PwC. It spent a further £1.0 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 Standards for Auditors (June 2016). Further details can be found in note 35 to the consolidated financial statements. The non-audit fee represents 43% of the audit fee for 2016. PwC was chosen to provide non-audit services in accordance with the policy set out below and in light of its detailed understanding of the group and expertise in the relevant areas.

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

	2016	2015*
Audit	**5.7**	4.9
Audit-related required by legislation	**1.0**	1.1
Other audit-related	**1.0**	1.6
Other assurance	**0.4**	0.4
Non-assurance	**1.1**	1.3
Total	**9.2**	9.3

*Audit and audit-related fees 2015 have been represented.

Our policy is to approach other firms for significant non-audit work unless the audit firm offers a materially better combination of value, quality and timeliness compared with the non-audit firm whilst not impairing the audit firm's integrity, objectivity and independence. In these circumstances, 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 Committee is responsible for approving the external auditors' fees on the engagement. The Committee has pre-approved the engagement of the auditor for non-prohibited services where the anticipated cost is trivial, but authority is still required from the Group Chief Financial Officer to approve any such engagement. The external auditor and management are required to report regularly to the Committee on the nature and fees relating to non-audit services provided under this authority.

The Committee supports the five year rotation of audit engagement partners to maintain the objectivity of the group external audit. The current audit partner commenced his engagement in 2013. PwC will end their tenure as external auditor on the expiry of the current audit partner's five year tenure. The Committee continues to consider PwC to be the appropriate audit firm for the company for 2017, taking into consideration their audit effectiveness and the audit needs of the group.

Group Risk Committee report

RICHARD MEDDINGS
CHAIR 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:
Richard Meddings Chair
Philip Broadley from 8 July 2016
Rudy Markham
Stuart Popham until 31 December 2016
Toby Strauss from 1 January 2017
Julia Wilson
Lizabeth Zlatkus until 31 August 2016

Other attendees at Committee meetings include: the Group Chairman; Group Chief Executive; group chief financial officer; Group Chief Risk Officer; Group Chief Internal Auditor; and representatives of the external auditor, PricewaterhouseCoopers 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 40 to 43.

Committee activities during 2016

The work of the Committee is supported by the Group Chief Risk Officer and 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 2016. The effectiveness of the Committee was reviewed as part of the internally facilitated evaluation of the Board and its Committees.

Group Chief Risk Officer's report

Each meeting, the Committee receives 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.

The Group Chief Risk Officer's report is supplemented 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

The Committee also receives at each meeting a report prepared by the group conduct risk director. This provides the Committee with an assessment of the overall profile of conduct risks for the group; analysis and trends in conduct risk indicators including complaints data and the results of reviews undertaken by the group conduct risk monitoring team; and evaluation of changes in the conduct risk landscape as regulatory approaches evolve.

Focused business and risk reviews

Time is allocated at each Committee meeting to carry out focused 'deep dive' reviews of a particular risk area. 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. The adjacent table gives examples of some of the key reviews that took place during 2016, and the areas of focus by the Committee.

Direct Investments – A review of the risks implicit in LGC's portfolio of housing, urban regeneration, clean energy and alternative finance direct investments, including the macro-economic risks for these types of investment; the nature of the regulatory environment for each sectors; and LGC's governance and investment monitoring approaches to ensure risks are closely managed;

Credit risk – Following its review of the group's credit risk management framework in 2015, in February 2016 the Committee followed up with specific focus on the macro themes for the coming year being factored into credit portfolio management strategies and the risks associated with the overall sector profile of the group's credit portfolio;

'Brexit' scenario planning – In May 2016, ahead of the EU membership referendum, the Committee undertook a review of the possible economic, investment market and operational scenarios that could arise following a leave vote, and the risk mitigation plans to be deployed to minimise business impacts were financial markets to experience a period of volatility;

Risk syndication and reinsurance – with the shift by LG Retirement from a business model with significant retention of longevity risk to one that involves significant longevity risk transfer, the Committee undertook a comprehensive review of risk transfer solutions, the depth of the longevity reinsurance market and the approaches deployed for setting aggregate counterparty exposure limits;

Liquidity risk – reflecting that post the financial crisis managing bond fund liquidity has become more challenging for fund managers, the Committee considered the implications of a period of prolonged bond market illiquidity for investment funds and strategies deployed to manage fund flows;

LGIM risk management – With the continued growth in LGIM's business, the Committee considered how LGIM's systems of control are being developed to support LGIM's new business areas and how control processes will continue to be developed in the future as the business develops its offering;

Taxation risk management – Tax is often identified by commentators as a key risk area of concern for companies, the public and investors. The Committee considered the group's profile of tax risks and the framework for the management of corporate and operational taxes;

Asset Liability Management – the outlook for Interest rates is a key sensitivity for both IFRS and Solvency II based reporting measures, requiring careful deployment of hedging strategies. The Committee considered current strategies for the management of interest rate exposure;

IT security and cyber risks – the financial services sector is increasingly a target for 'cyber crime', with organisations that fail to recognise and respond to threats often suffering reputation damage. Following on from reviews in 2014 and 2015, the Committee undertook further assessment of the resilience of core IT systems with particular reference to new and emerging risks that will arise as the group develops its businesses digitally.

Risk appetite

In July, as in previous years, 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 a number of 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. In this context during 2016, the Committee evaluated the risk profile and appetite for the larger pension risk transfer deals undertaken as well as those transactions utilising risk syndication techniques.

The Committee is also responsible for recommending to the Board risk appetite levels for particular business lines. The group's lifetime mortgage business has continued to see significant demand, and a particular area of focus for the Committee has been to ensure risk based volume limits are in place to ensure new business is taken on in a balanced manner taking account of the housing market, credit, liquidity and operational risks implicit in this line of business.

Risk-based capital model

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

- key assumptions, methodologies and areas of expert judgement used within the model;
- activities undertaken to independently validate the outputs of the model;
- ongoing development of the model to ensure that it reflects the business lines and risk profile of the group; 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 including the review of the:

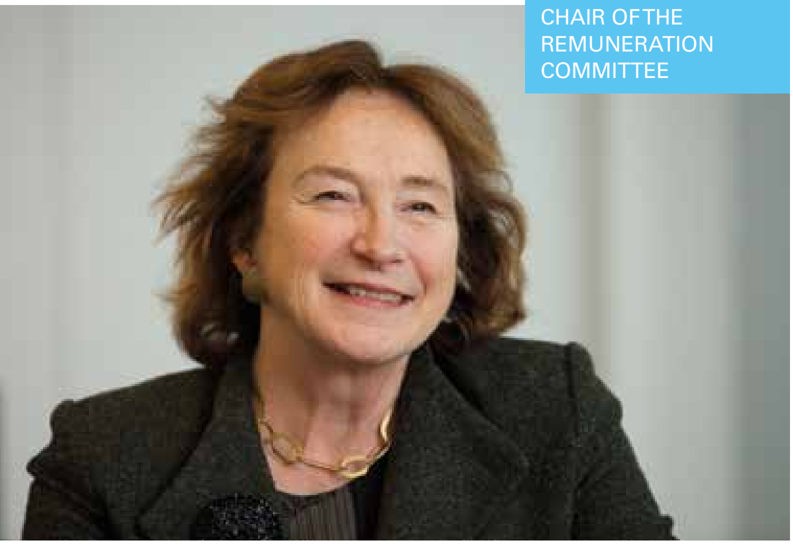
- proposed stress tests and scenarios to be used in the evaluation of capital adequacy;
- profile of risks within the group's strategic plan and how they may change over the planning period; and
- group's overall capacity to bear the risks identified.

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.

Directors' report on remuneration – introduction



LESLEY KNOX
CHAIR OF THE REMUNERATION COMMITTEE

Our remuneration report is organised into the following sections

The directors' remuneration policy will be subject to a binding vote at the 2017 AGM, and is intended to apply for the next three years.

The annual report on remuneration together with the Chair's Statement will be subject to an advisory shareholder vote.

Letter from the Chair

Dear Shareholder

On behalf of the Board, I am pleased to present the Remuneration Committee's report on remuneration for 2016, having taken over as Chair of the committee in October. 2016 is the third year under our current remuneration policy and we will be presenting the policy for approval by shareholders at the 2017 annual general meeting.

Background to the remuneration policy

Prior to the approval of the current remuneration policy in 2014, the committee undertook an extensive review and made a number of significant changes to the policy, including introducing a new Performance Share Plan. The changes to the policy were designed to align remuneration more strongly with the delivery of the commercial strategy of the business.

Over the life of the current remuneration policy it is our view that the company has delivered against its key strategic objectives, for example through the growth and development of retirement solutions, increased investment direct into capital projects and digital solutions in areas including retail protection and lifetime mortgages.

For 2017 we're proposing to make only one minor change to the remuneration policy in relation to the weighting of performance measures for annual variable pay (AVP). The change is in response to regulatory guidance from the PRA and FCA in relation to the use of a balanced scorecard of measures (in particular taking account of risk management) when determining annual bonus awards. Other small changes have been made to ensure that the Committee is able to operate the policy in the intended manner.

Proposed minor change for 2017 remuneration policy

With effect from 2017 onwards, the performance measures used for AVP will be re-weighted such that 70% will be based on financial performance (previously 80%), with the remainder (30%) based on non-financial (but measurable) performance.

The full detail of the performance measures used will be developed on an annual basis as is currently the case in order to ensure that they remain appropriate and aligned to delivery of strategy. For the non-financial measures the focus will be on a small number of measurable factors related to risk management, business and customer strategy and culture.

In line with our current approach, we will continue to provide shareholders with comprehensive disclosure on the actual performance measures and targets used for AVP in the annual remuneration report in respect of the financial year on which any award was based.

Board changes

In addition to my own recent appointment to the Board, there have been a number of other Board appointments in the second half of 2016 and in early 2017.

Sir John Kingman joined as Chairman on 24 October 2016 and, following Mark Gregory's announcement of his retirement, Jeff Davies joins the Board as CFO on 9 March 2017. Kerrigan Procter, the CEO of our retirement business has also been appointed to the Board as an executive director with effect from 9 March 2017.

Mark Gregory will step down from the Board on 9 March but has agreed to remain an employee until 31 August to assist with an orderly handover. Up until retirement Mark will continue to receive his current salary and benefits. Mark will not receive an AVP award for performance in 2017, nor, as was the case in 2016, will he receive a PSP award for 2017. Consistent with the payments for loss of office policy, Mark will be a good leaver and as such his outstanding share awards will be treated in line with the good leaver provisions in the respective plan rules.

On appointment, Jeff Davies' base salary was set at £500,000. In line with the approved policy, his pension contribution was set at 13.8% of salary, and his maximum AVP and PSP opportunities were set at 150% and 250% of salary, respectively.

For Kerrigan Procter on appointment, his base salary was set at £475,000 and his pension contribution was set at 15% of salary. His maximum AVP opportunity was set at 175% of salary, in line with his existing remuneration and in line with Mark Zinkula (CEO LGIM), and his PSP opportunity in line with other executive directors at 250% of salary.

In line with best practice, the base salaries for both individuals reflect that these are their first appointments as executive directors. Subject to performance, the Committee may reposition their base salaries as they progress into the role over time.

Performance for 2016

As indicated by the financial performance figures outlined elsewhere in the report (pages 32 to 39), Legal & General again delivered strong performance during 2016, and particular highlights include operating profit up 7.4%, a 19% increase in earnings per share and a full year dividend of 14.35 pence.

Annual variable pay (AVP)

Page 84 to 85 details the targets and outcomes relating to the year as well as remuneration received relating to the year. In summary, for performance in 2016 the committee approved awards for the executive directors of between 78% and 93% of maximum to reflect the financial performance of the group, and the LGIM division as appropriate. For the non-financial performance element, the performance of each of the executives is between 75% and 100% of maximum.

Performance share plan (PSP)

The end of 2016 was the end of the performance period for the PSP granted in 2014, which was the first under the new plan approved by shareholders in 2014. The award vested at 65.8% of maximum which reflects the strong earnings and dividend growth of the company, and total shareholder return relative to the FTSE 100 over the last three financial years.

As explained later in the report (page 82), due to a change in the way in which performance was measured between the new PSP and the old PSP, to reflect latest market practice, the single figure of remuneration for 2016 will also include the value of the 2013 PSP award, which was the last award granted under the old PSP. Based on Legal & General's strong relative shareholder return over the performance period, the award vested at 87.2% of the maximum .

Base salary increases in 2017

Across the UK employee population the average base salary increase was 2.6%.

Nigel Wilson and Mark Zinkula will receive an increase of 2.6% and 2.5% respectively which is in line with the average employee increase. The base salaries for Jeff Davies and Kerrigan Procter will be as set out above.

Appropriateness of executive remuneration

In considering the level of remuneration for the executive team the Committee consider both external and internal factors including shareholder views, market conditions for the business, competitiveness of remuneration against the external market, and the wider remuneration policy and practice across the business.

In order to provide additional transparency we have considered it appropriate to voluntarily include information on the ratio of the CEO's pay and the wider population, and we will continue to consider this ratio when making future remuneration decisions.

Remuneration policy implementation for all employees

From January 2016 remuneration for code staff and all employees became subject to the guidelines laid out in Solvency II. During 2015 the committee had reviewed the existing policy against the guidelines and, whilst there was not a requirement for a material change to the approach to remuneration, a new Solvency II remuneration policy was introduced at the beginning of 2016.

Through the year consideration has continued to be given to the application of the guidelines in particular to the application of risk adjustment to variable remuneration and the inputs of the CRO and Risk Committee to remuneration decisions.

Legal & General is committed to ensuring that remuneration across the organisation is appropriate and fair for all employees. We have been a member of the Living Wage Foundation since 2013 and have undertaken equal pay audits internally for a number of years.

In 2016 we also signed the Women in Finance Charter as part of our ongoing efforts to ensure that there is gender diversity across the business and within the senior leadership team.

Ongoing review of policy

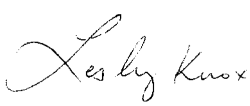
We feel that the current remuneration policy, with the minor changes described above, remains appropriate. However, over the next 12 months the remuneration committee will refine its views on the remuneration policy and we will seek the views of the new Chairman and other Board members, taking into account the changing external environment with regard to executive remuneration.

Particular areas of focus will be:

- The balance of fixed to variable remuneration
- Reviewing vesting outcomes under the PSP against company performance
- Time horizons of incentives
- Refining our approach to incorporating risk factors into our variable remuneration
- Reviewing our policy against shareholder views and emerging regulatory and political guidance and regulation

Dependent on the outcome of this review, if the committee were to consider it appropriate to make significant changes, it may bring a new policy to a shareholder vote ahead of the 'normal' three-year cycle.

Finally, on behalf, of the Committee, I want to thank my predecessor Rudy Markham, for his strong leadership of the Committee over the last five and a half years in developing our current executive remuneration structure.



Lesley Knox
Chair of the Remuneration Committee

At a glance

Our performance

Financial measures used for Annual Variable Pay (AVP)

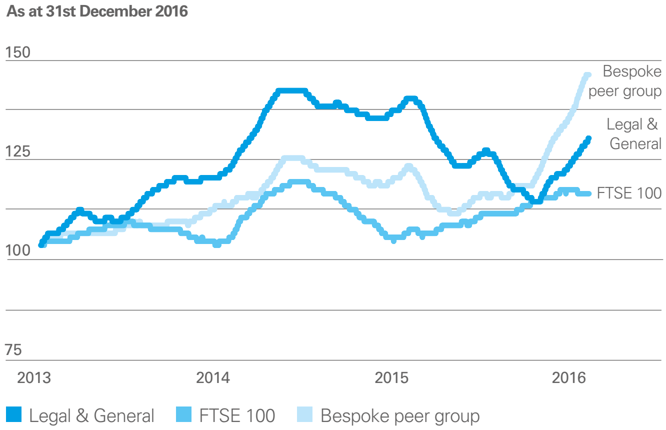
The performance measures below accounted for 40–80% of AVP performance assessment for our Executive Directors for their 2016 AVP award.

Performance measure	2016	Target	Maximum	% of target achieved	% of maximum achieved	Further information
Release from operations	£1,256m	£1,246m	£1,306m	101%	96%	p34
Net release from operations	£1,411m	£1,304m	£1,356m	108%	104%	p34
Operating profit	£1,628m	£1,565m	£1,624m	104%	100%	–
Adjusted EPS	22.20p	20.40p	21.53p	109%	103%	p38
Adjusted ROE	19.6%	18.0%	19.7%	109%	99%	p38
Solvency II surplus emerging (£m)	£1,252m	£1,150m	£1,310m	109%	96%	p84

Vesting of 2014 performance share plan awards

Vesting of 50% of the 2014 performance share plan awards (PSP) was determined by reference to TSR of the FTSE 100 (25%) and the bespoke comparator group (25%) over a three-year performance period. The accompanying chart sets out the TSR performance over the past three years ending 31 December 2016.

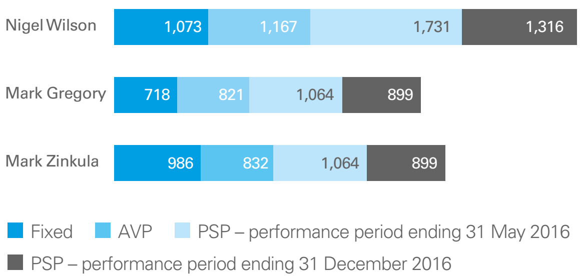
The vesting of the other 50% of the 2014 PSP awards was determined based on EPS growth of 11.8%, DPS growth of 15.6% and ROE of 18.2%, further details on the underlying targets are provided on page 86. Based on the level of performance achieved the 2014 PSP award vested at 65.8% in March 2017.



How much our executive directors earned in 2016

	Fixed	AVP	3-year performance ended 31 May 2016 PSP – value on vesting	3-year performance ended 31 December 2016 PSP – value on vesting
Nigel Wilson	1,073	1,167	1,731	1,316
Mark Gregory	718	821	1,064	899
Mark Zinkula	986	832	1,064	899

The fixed element for Mark Zinkula includes an international allowance relating to the US aspect of his role and some legacy housing assistance which concluded at the end of 2016. As explained later in the report (page 82), due to a change in the way performance was measured between the new PSP and the old, to reflect latest market practice, the single figure of remuneration for 2016 will include the value of both the 2013 and 2014 PSP awards.



How we will implement our remuneration policy in 2017

The table below sets out a high level summary of our Directors' Remuneration Policy (the 'Policy'), which will be presented for approval at our 2017 Annual General Meeting, as well as how that policy will be implemented in 2017. Full details of the policy subject to shareholder approval can be found on page 72.

Key elements	2017	2018	2019	2020	2021	2022	Current policy Commentary	Implementation for 2017
Salary							Normally reviewed annually effective from 1 March each year	• Nigel Wilson – salary = £909,000 p.a. • Jeff Davies – salary = £500,000 p.a. • Mark Zinkula – salary = £625,500 p.a. • Kerrigan Procter – salary = £475,000 p.a.
AVP							• For the CEO and CFO 70% financial and 30% strategic and personal objectives • For the CEO, LGIM and the CEO LGR the group financial element is reduced to 35%, with the remaining 35% determined by divisional performance and 30% strategic and personal objectives • One year performance • Paid 50% cash, 50% L&G shares deferred (three years)	• Nigel Wilson – maximum opportunity 150% of salary • Jeff Davies – maximum opportunity 150% of salary • Mark Zinkula maximum opportunity 175% of salary • Kerrigan Procter maximum opportunity 175% of salary
PSP							• Three-year performance period, with shares released in three equal tranches following the start of third, fourth and fifth anniversaries of the start of the performance period • For awards made in 2017, performance will be measured against: – A performance matrix of EPS and dividend per share growth, subject to a RoE underpin (50% of award). Threshold vesting requires growth rates of 5% for both measures; and achievement of ROE underpin of 12% – Relative TSR against FTSE 100 (25% of award) and bespoke group of insurance companies (25% of award). Threshold vesting at median TSR performance • Maximum award of 300% of salary	• 250% of salary for Nigel Wilson, Jeff Davies, Mark Zinkula and Kerrigan Procter • No award for Mark Gregory given his announced retirement

Clawback and malus provisions apply to AVP and PSP awards as set out in the full policy.

Shareholdings against guidelines

	Actual share ownership as % of 2016 base salary: vested shares	New guidelines on share ownership as a % of base salary	Guideline met
Nigel Wilson	1,076%	300%	Yes
Mark Gregory	1,103%	200%	Yes
Mark Zinkula	354%	200%	Yes

Directors' remuneration policy

The following sections set out our directors' remuneration policy (the 'policy') which will be subject to shareholder approval by way of a binding vote at the 2017 AGM on 25 May 2017. This policy is expected to apply, subject to approval, from the date of the AGM.

Remuneration Element	2017 Policy
Base Salary	
Purpose and link to strategy	To help recruit and retain executive directors of the calibre required to develop, lead and deliver the business strategy.
Operation	The Committee sets base salary taking into consideration: • The individual's skills, experience and performance; • The scope of the role; • Pay and conditions elsewhere in the group; • Overall business performance; and • External market benchmark data in other FTSE 100 companies and other relevant bespoke groupings of financial and non-financial institutions. Base salaries are normally reviewed annually, with increases effective 1 March.
Opportunity	Whilst there is no maximum base salary, any increases for executive directors will normally be in line with the range of increases for other UK employees in the wider group. In specific circumstances, the Committee may award increases above this level, for example: • Where the Committee has set the base salary for a newly appointed executive director with a view to allow the individual to progress into the role over time; or • Where, in the Committee's opinion, there has been a significant increase in the size or scope of an executive director's role or responsibilities; or • Where there is a significant change in the regulatory environment.
Performance	Personal performance will be taken into consideration in determining any salary increase.

Remuneration Element	2017 Policy
Benefits	
Purpose and link to strategy	Benefits are provided to executive directors to attract and retain the best talent for the business and to ensure that the total package is competitive in the market.
Operation	The Committee's policy is to provide executive directors with a market competitive level of benefits, taking into consideration benefits offered to other senior employees in the UK, the individual's circumstances and market practice at similar companies. Benefits provided to executive directors are normally in line with benefits provided to other senior employees in the UK. Benefits currently provided to executive directors include: a car or car allowance, private medical insurance, life assurance, Group Income Protection, and insured death in service arrangements. These are all in line with our general policy for other UK employees. In line with other Legal & General employees, executive directors can choose to acquire Legal & General products, and are eligible to participate in the company's voluntary benefits which they fund themselves, sometimes through salary sacrifice. They are eligible to participate in the UK all-employee share plans on the same terms as other employees. The two current all-employee share plans are: • The savings-related share option scheme (SAYE) • The all employee share incentive plan Where an executive (new or current) is required to re-locate, or perform duties outside their home country in order to fulfill their duties, in line with our mobility policy and practice, additional benefits may be provided, for example: home country benefits such as health care and additional support in relocating such as assistance for housing, school fees, travel home, relocation costs and tax advice.
Opportunity	In line with other UK employees, there is no maximum level for the benefits as this is dependent on the individual's circumstances and the cost to the company. The maximum opportunity for participation in the current all-employee share plans is in line with other employees and takes into account the prevailing HMRC rules. Relocation/international assignment benefits – the level of such benefits would be set taking into account the circumstances of the individual and typical market practice.
Performance	There are no performance conditions.
Pension	
Purpose and link to strategy	The policy aims to provide competitive post-retirement benefits and therefore recognise sustained contribution.
Operation	Pension contributions are set at an appropriate level to attract and retain high performing people. In line with other employees in the UK, executive directors currently participate in either a defined contribution pension plan, a defined benefit pension plan or receive a cash allowance in lieu of pension, or have some combination thereof. The defined benefit pension plan was closed to new joiners in 2001. From 2009, increases in pensionable salary for the defined benefit pension plan for remaining active members have been limited to a maximum of 2.5% each year and in 2015 the scheme was closed to future accruals. For executive directors who took enhanced protection in 2006, a cash allowance was provided in lieu which may be reviewed or amended by the employer. Non-UK national executives may be permitted to participate in home-country pension plans where relevant. Base salary is the only element of pensionable remuneration. At the discretion of the Committee, executive directors may elect to sacrifice all or part of their cash AVP into pension.
Opportunity	New executive directors receive 15% of base salary into the defined contribution pension plan (they contribute 5%). This contribution level for executive directors is the same as that operated for senior managers in the rest of the UK organisation in the defined contribution pension plan. As for other employees, there is a cash alternative. Mark Zinkula may also contribute part of any cash allowance into a US 401k pension plan. Mark is also a member of a cash balance plan in the US.
Performance	There are no performance conditions.

Remuneration Element	2017 Policy
Annual Variable Pay (AVP)	
Purpose and link to strategy	Incentivise executive directors to achieve specific group and/or divisional, financial, strategic and personal predetermined goals, within the group's risk appetite and taking into consideration the company's culture and values, on an annual basis. The deferred proportion of AVP into shares reinforces retention and enhances alignment with shareholders by encouraging a longer-term focus and risk alignment.
Operation	Performance targets and weightings are set annually by the Committee to ensure they are appropriately stretching. Performance is normally assessed over a one-year period. AVP out-turns are determined by the Committee after the year end, taking into consideration performance against targets, the underlying performance of the business and individual performance. The Committee may exceptionally adjust the outcome of the AVP calculation if it believes there are underlying circumstances that justify such a change. Normally, 50% of any AVP awarded is deferred. Deferred awards are normally awarded in the form of restricted shares or nil-cost options or phantom equivalent if appropriate. However awards may be deferred in other forms dependent upon business or regulatory requirements. Deferred awards will vest after a period set by the Committee. This period will normally be three years. Dividends on deferred awards made in the form of shares accrue during the deferral period and normally are paid in the form of shares to the executive directors upon vesting. Dividend equivalents may accrue on awards made in other forms. Deferred awards are subject to malus. Clawback provisions also apply to both deferred awards and cash awards paid. The Committee may adjust and amend the awards in accordance with the rules.
Opportunity	The maximum award opportunity in respect of any financial year is based on role as follows: For the Group Chief Executive and CFO the maximum potential is 150% of base salary. For the CEO LGIM and the CEO LGR the maximum potential is 175% of base salary. The award opportunity at threshold performance is 0% of minimum, with up to 50% of maximum bonus payable for target performance for the Group Chief Executive, CFO and CEO LGR. Up to 60% of maximum bonus is payable for target performance for the CEO LGIM.
Performance	Performance measures are selected by the Remuneration Committee on an annual basis to ensure that they are aligned with the group's strategic priorities and the delivery of sustainable shareholder value. Performance is measured based on an appropriate mix of group and/or divisional financial performance targets as well as strategic (including customer and employee measures) and personal measures. Performance measures are weighted with normally up to 70% based on financial targets. The split between financial, strategic and personal performance measures and the relative weighting of group and divisional performance targets will be kept under review by the Committee on an annual basis.

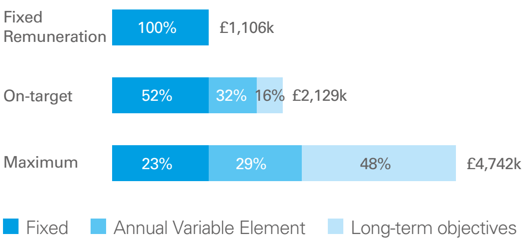
Remuneration Element	2017 Policy
Performance Share Plan (PSP)	
Purpose and link to strategy	Awards under the PSP are reflective of the Committee's desire that the remuneration of executives should be weighted towards the delivery of sustainable returns to shareholders over the longer term. In addition to deferred awards under the AVP, awards under the PSP enhance alignment with shareholders by focusing executives on the longer-term performance of the business.
Operation	Award of shares or options which are subject to a performance period of normally no less than three years. Performance is normally measured after the end of the three-year performance period. Subject to performance, awards are normally released in three equal tranches following the third, fourth and fifth anniversaries of the grant date. The Committee retains discretion to lengthen the performance period and holding period for future awards. The Remuneration Committee may also amend the final level of vesting dependent on the underlying performance of the group. The Committee may only exercise such discretion downwards and may not increase the level of vesting. The parameters which the Committee uses in making this assessment will include, but are not limited to, market share, partnerships entered into and maintained, cost constraint, shareholder perception, capital management and a range of risk measures to ensure that the company has operated within appropriate risk thresholds. Financial performance targets are set annually by the Committee to ensure they are relevant and sufficiently stretching. PSP awards are normally awarded in the form of nil cost options or conditional shares or phantom equivalent where appropriate. However they may be awarded in other forms if the Committee considers it appropriate. Dividends or dividend equivalents accrue in the period following the end of the performance period until vesting and release. These will normally be paid in shares on a reinvested basis. PSP awards are subject to malus and clawback provisions. The Committee may adjust and amend the awards in accordance with the PSP rules.
Opportunity	The maximum award opportunity under the PSP is 300% of salary in respect of any financial year. The Remuneration Committee's current intention is that the normal award opportunity in respect of any financial year will be 250% of base salary for all executive directors. 15% of the award normally vests for threshold performance increasing to 100% of the award for maximum performance.
Performance	Performance measures for the PSP are selected by the Remuneration Committee to be aligned with the group's long-term strategic priority of delivering sustainable returns to shareholders. The Committee therefore intends to grant awards based on an appropriate mix of earnings, capital efficiency and shareholder return measures. The split between these measures, for each grant, is set annually by the Committee and will normally be 50% based on total shareholder return and 50% on financial measures.

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 for 2017.

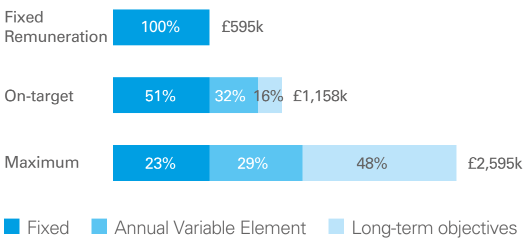
Nigel Wilson
Group Chief Executive

(£'000)



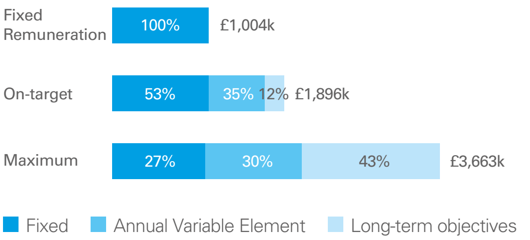
Jeff Davies
Chief Financial Officer

(£'000)



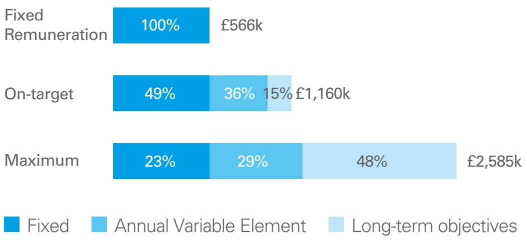
Mark Zinkula
Chief Executive Officer LGIM

(£'000)



Kerrigan Procter
Chief Executive Officer LGR

(£'000)



In developing the scenarios, the following assumptions have been made:

Fixed remuneration	Consists of 2017 base salary, benefits (based on the value included in the single figure for 2016) and pension.
On-target	In addition to fixed remuneration, includes the potential value that each executive director could receive for target performance: • Annual variable element pays out at 50% of maximum for the Group Chief Executive, CFO and CEO LGR and 60% of maximum for the CEO LGIM. • PSP is shown at threshold.
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.
Other	There is no adjustment made for share price or dividends.

Notes to the Policy Table

Area	Commentary
Shareholding guidelines	To create alignment with shareholders, the Remuneration Committee also operates a shareholding guideline for executive directors.
Deferred share element	The deferred share element of the annual variable pay plan and the performance share plan shall be operated in accordance with the rules of the respective plans.
Prior arrangements	The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the policy where the terms of the payment were agreed: (i) before the policy set out above, or any previous policy came into effect or (ii) at a time when a previous policy, approved by shareholders, was in place provided the payment is in line with the terms of that policy or (iii) at a time when the relevant individual was not a director of the company and the payment was not in consideration for the individual becoming a director of the company.
Minor amendments	The Remuneration Committee will follow any statutory requirements when operating the policy. The Remuneration Committee may make minor amendments to the policy, for example, for regulatory or statutory requirements, exchange control or administrative purposes.
Legacy arrangements	In line with our mobility policy and the commitments made to Mark Zinkula on relocation from the US (prior to his appointment to the Board) he remains in certain US benefits and has relocation assistance. He would also receive repatriation assistance in the event of him returning to the US.
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. The following table sets out why the performance measures that are used for the incentive arrangements were chosen:

Plan	Measure	Rationale
AVP	Financial Measures	To ensure company growth and return to shareholders
	Strategic and personal measures	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 are taken into consideration.
PSP	Earnings measure	To incentivise growth in earnings
	Capital efficiency measures	To ensure capital is used in a disciplined way and to steadily progress dividends
	Shareholder return measures	To deliver a good return on equity for shareholders

The performance measures for the AVP and the PSP are reviewed and set annually to ensure they remain appropriately stretching and aligned to the business and its strategy.

Targets for the AVP are set taking into account internal forecasts of performance, market expectations and prior year performance. The targets for the AVP are set such that on-target normally equates to the levels forecast in the strategic plan for the year in question and maximum is set above that, at a level that is still within the company's risk appetite.

The PSP targets are set by the Committee taking into account a number of considerations including: what is felt to be achievable over a sustained period of time; internal forecasts of performance; any guidance provided to the market; market expectations; prior year performance; and the company's agreed risk appetite.

Area	Commentary
Malus/clawback	With effect from January 2014, the Committee has an agreed policy which applies to cash and deferred annual variable pay awards and long-term incentive awards made to executive directors. 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).
Key changes made to the policy	The balance of the performance measures used for the AVP have been re-weighted such that no more than 70% will be based on financial performance, with the remainder based on non-financial performance. This change is in response to regulatory guidance from the PRA and FCA in relation to the use of a balanced scorecard of measures (in particular taking account of risk management). when determining annual bonus awards. Other minor changes have been made to ensure the Committee is able to operate the policy in the intended manner.
Discretion in relation to future operation of the policy	For share awards, in the event of a variation of the Company's 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 materially less difficult to satisfy.
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 pages 80 and 93.

Recruitment Remuneration

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

Service contracts and termination and payments for loss of office

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

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

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

Non-executive directors (NEDS)

Appointment Letters

Appointment letters are currently for three years but all directors are subject to annual re-election. Appointments may be terminated by either party without notice.

NED	Date of initial appointment	Current letter of appointment start date	Current letter of appointment end date
Sir John Kingman	October 2016	24 October 2016	24 October 2021
Carolyn Bradley	December 2014	8 December 2014	8 December 2017
Philip Broadley	July 2016	8 July 2016	8 July 2019
Lesley Knox	June 2016	1 June 2016	1 June 2019
Rudy Markham	October 2006	26 May 2016	26 May 2017
Richard Meddings	December 2014	1 December 2014	1 December 2017
Julia Wilson	November 2011	9 December 2014	9 December 2017

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

Approach to fees

Fees for the chairman and non-executive directors are set at an appropriate level to reflect:

- The time commitment required to fulfil the role
- The responsibilities and duties of the positions; and
- Typical practice in the FTSE 100 and amongst other financial institutions.

Fees for non-executive directors are reviewed at regular intervals by the executive directors. Fees for the Chairman are reviewed at regular intervals by the Remuneration Committee. No-one is involved in the discussion of their own fee.

Fees are subject to the aggregate limit in the company's Articles of Association. Any changes in this limit would be subject to shareholder approval.

Operation

Our NED fees policy is to pay:

- A base fee for membership of the Board.
- A committee attendance fee if the non-executive sits on two or more Board committees (currently not including the Nominations Committee).
- Additional committee chairmanship and SID fees to reflect the additional responsibilities and time commitments of the role.

The Chairman receives an inclusive fee for the role.

Additional fees for membership of a Committee or chairmanship or membership of subsidiary boards or other fixed fees (such as for a particular project) may be introduced if justified by time or commitment.

Other items

The Chairman and NEDs are not eligible to participate in any benefit plans or the AVP or the PSP.

Expenses incurred in carrying out NED duties (and any associated tax liability) may be reimbursed or paid for directly by the company.

Additional benefits may be provided if the Board feels this is justified such as tax advice if recruited from overseas, work permits or similar.

NEDs are expected to hold the equivalent of one year's base fee in Legal & General shares to be retained until the end of office. NEDs generally have a proportion of their fees (normally 50%) paid in Legal & General shares until this level is reached. Once this level is reached, they may take all their fee in cash.

Other considerations

Statement of the consideration of employment conditions elsewhere in the company

The general principles of the group's remuneration policy are broadly applied throughout the group and are designed to support recruitment, motivation and retention as well as to reward high performance in a framework of approved risk management.

We define core remuneration as base salary, annual bonus which is closely aligned to performance and other benefits, e.g. pension. There is also the possibility to participate in the Performance Share Plan (PSP) for certain key employees.

In determining the remuneration arrangements for the executive directors, the Committee is presented with information for UK employees (as this is the location of the group's head office and where the executive directors are normally based) regarding base salary increases and anticipated spend under the group's annual variable pay plans. This includes relevant background information that allows the Committee to work with management to ensure a consistency of approach throughout the company. The Committee also has oversight over the grant of all PSP and LGIM LTIP awards across the company.

The company does not specifically invite employees to comment on the directors' remuneration policy. However, the annual employee survey includes general questions around pay and benefits.

Statement of consideration of shareholder views

The Committee seeks to maintain an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and any changes to the company's executive pay arrangements. During early 2017, the Committee informed major shareholders of the proposals for the remuneration policy in order that shareholders could express their views on the proposals or enter into further discussions with the chair of the Committee on the proposed policy.

The Committee is grateful to shareholders for their feedback and will continue to acknowledge any feedback in reviewing our policy over the next 12 months.

Annual report on remuneration

'Single figure' of remuneration – executive directors (audited)

Per the new remuneration reporting regulations, we're required to include the value of long-term incentive awards vesting in respect of the financial year within the single figure table.

Historically, the performance share plan (approved by shareholders in 2004) had a three-year performance period whereby total shareholder return performance was measured from the date of grant to the date of vesting. As such, for the award made to executive directors in 2013, an award vested based on performance to May 2016. This award is included within the single figure table in respect of the year ended 31 December 2016.

Following a change in the approach to the performance share plan (as approved by shareholders in 2014), the performance measurement period was changed to reflect latest market practice so that it was measured over the three financial years of the performance period. Awards are subject to a holding period of up to two years, extending the time horizon of the plan to five years. The first award under this new plan was made in 2014 and vests based on performance to the end of the financial year 31 December 2016. Awards will be released in 2017, 2018 and 2019. By virtue of the performance period being aligned with the financial year, this PSP award has also been included in the single figure table in respect of the year ended 31 December 2016.

The single figure in respect of 2016, therefore, represents an anomaly, driven by requirements of the regulations, whereby two PSP awards are included due to having performance periods ending in 2016. From next year, only one PSP award will be included in the single figure.

Single figure

				PSP/LTIPs			
Executive director	Salary	Benefits	Annual variable pay (AVP)	Old PSP LTIP (grants made prior to 2014)[1]	New PSP (grants made since 2014)[2]	Pension	Total remuneration
2016							
Nigel Wilson	**882**	**59**	**1,167**	**1,731**	**1,316**	**132**	**5,287**[3]
Mark Gregory	**588**	**51**	**821**	**1,064**	**899**	**79**	**3,501**[3]
Mark Zinkula[4]	**604**	**285**	**832**	**1,064**	**899**	**97**	**3,781**[3]
2015							
Nigel Wilson	853	72	1,113	3,331[5]	–	128	5,497[5]
Mark Gregory	573	57	724	1,908	–	90	3,352
Mark Zinkula[4]	573	358	917	998	–	86	2,931

1. Grants made under the old plan with a performance period from April 2013 to April 2016, vesting in April 2016.
2. Grants made under the current plan with a performance period from 1 January 2014 to 31 December 2016, vesting in three tranches in March 2017, 2018 and 2019.
3. For an accurate comparison of total remuneration between 2015 and 2016 only one PSP award should be considered for 2016 total remuneration.
4. 15% of Mark Zinkula's salary and AVP is paid to him in US dollars at a US dollar to GB pound exchange rate of 1.6.
5. Restated from the 2015 report to include the value of the PSP award vesting in August 2015.

Nigel Wilson's 2015 total remuneration

During 2015 two Performance Share Plan (PSP) awards vested for Nigel Wilson, one in May, which all the executive directors received, and a second in August, which was awarded to Nigel in recognition of his promotion to Chief Executive Officer on 1 July 2012. As disclosed in May 2016 the August PSP (amounting to £781,000 in relation to 291,765 shares) was incorrectly excluded from the single figure table in the 2015 report. The figure above includes both PSP awards.

The PSP granted on 14 August 2012 vested at 100% on 24 August 2015 as Legal & General's TSR performance exceeded the 80th percentile for both the FTSE 100 and bespoke comparator group.

Grant Date	Performance Period	Comparator Group	Legal & General's TSR	Comparator group Median rank	Comparator group 80th percentile	Legal & General's notional rank	% of award vesting against comparator group	Percentage of total award vesting
14 August 2012	14 August 2012 to 13 August 2015	FTSE 100	138.0%	49/97	19.9/97	8.8	50%	100%
		Bespoke comparator group		10.5/20	4.5/20	3.4	50%	

Components of the single figure

Salary (audited)

Name	Annual base salary as at 1 January 2016	Annual base salary effective 1 March 2016	Total base salary paid in 2016
Nigel Wilson	860,000	886,000	881,667
Mark Gregory	575,000	590,000	587,500
Mark Zinkula	575,000	610,000	604,234

Benefits (audited)

Benefits include the elements shown in the table below.

Executive director	Car and PMI £'000	Dividends £'000	Discount SAYE and matching shares £'000	International allowance £'000	Total benefits £'000
2016					
Nigel Wilson	**20**	**38**	**1**	**–**	**59**
Mark Gregory	**20**	**30**	**1**	**–**	**51**
Mark Zinkula	**30**	**29**	**–**	**226**	**285**
2015					
Nigel Wilson	20	51	1	–	72
Mark Gregory	20	36	1	–	57
Mark Zinkula	30	51	–	277	358

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

Pension (audited)

Nigel Wilson and Mark Gregory receive a cash allowance of 15% of base salary. Mark Zinkula receives a cash contribution of 15% of base salary in lieu of joining the UK pension plan. He participates in the Legal & General America 401K plan and cash savings plan. All cash allowances are subject to normal payroll deductions of income tax and National Insurance.

For defined benefit arrangement, of which Mark Gregory was a member, the value is based on the HMRC formula for assessing the annual and lifetime allowance limits (20 times the post inflation benefit for defined benefit provisions).

Executive director	Cash in lieu £000	Defined benefit £000	Defined contribution £000	Other/overseas Pension £000	Total pension £000
2016					
Nigel Wilson	**132**	**–**	**–**	**–**	**132**
Mark Gregory	**88**	**(9)**	**–**	**–**	**79**
Mark Zinkula	**91**	**–**	**–**	**6**	**97**
2015					
Nigel Wilson	128	–	–	–	128
Mark Gregory	86	4	–	–	90
Mark Zinkula	86	–	–	–	86

Further pension information (audited)

Executive director	Age at 31 December 2016	Accrued DB pension at 31 Dec 2016 £000	Normal retirement date	Additional value of pension on early retirement
Nigel Wilson	60	–	Age 65	–
Mark Gregory	53	41	Age 60 in DB plan and age 65 in DC plan	–
Mark Zinkula	49	–	Age 65	–

2016 annual variable pay (AVP) awards (audited)

This reflects the total AVP awards to be paid in 2017 based on performance in the year ended 31 December 2016. 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 2016 were measured against a basket of metrics and objectives. For Nigel Wilson and Mark Gregory, they were weighted between group financial objectives (80%) and other strategic personal objectives (20%). For Mark Zinkula they were weighted between group financial objectives (40%), divisional objectives (40%) and other strategic personal objectives (20%).

Group financial – achievement

For 2016, AVP pay-outs as a percentage of the maximum were: Nigel Wilson 83%, Mark Gregory 93%, and Mark Zinkula 78%. The tables below illustrate performance against each of the measures.

	Weightings (as % of total AVP opportunity)			Achieved as a % of maximum				
Performance measure	Nigel Wilson	Mark Gregory	Mark Zinkula	Threshold	Target	Maximum (100%)	Actual	Payout % of maximum
Release from operations	10%	10%	5%	£1,217m	£1,246m	£1,306m	**£1,256m**	58%
Net release from operations	15%	15%	7.5%	£1,256m	£1,304m	£1,356m	**£1,411m**	100%
Operating profit	20%	20%	10%	£1,455m	£1,565m	£1,624m	**£1,628m**	100%
Adjusted EPS	10%	10%	5%	18.58p	20.40p	21.53p	**22.20p**	100%
Adjusted ROE	10%	10%	5%	17.7%	18.0%	19.7%	**19.6%**	97%
Solvency II surplus emerging	15%	15%	7.5%	£1,050m	£1,150m	£1,310m	**£1,252m**	82%

The Solvency II surplus emerging metric was a new performance measure for 2016 and it is still evolving. For 2016, it has been defined as the total surplus movement before dividend payments in the year removing items which have been deemed to be outside of management control, for example the impact of investment market movements.

Divisional performance – achievement

Divisional objectives represented a maximum 40% of the total AVP opportunity for Mark Zinkula. For the LGIM division Mark has three key measures – LGIM profit before tax, cost income ratio, and the annualised revenue for our LGIM international business. Divisional and personal strategic objectives are considered by the Board to be commercially sensitive. These actual targets are not formally disclosed in the annual report and will not be disclosed this year or in a future report. Performance commentary is given in the table below.

Executive Director	Divisional Measures	Key achievements in the year	Payout (% of maximum)
Mark Zinkula	LGIM Key measures include LGIM Operating Profit, cost income ratio, net revenues non UK	Key highlights for 2016 include: • Operating profit of £366m, 3% higher than 2015, while maintaining a cost: income ratio below 50% • Net inflows of £25.8bn with positive flows in all business lines and • Geographic regions despite challenging market conditions, including strong international net inflows from US, Europe, the Gulf and Asia	64%

Strategic personal performance – achievement

Personal objectives represented a maximum 20% of total AVP opportunity. A performance commentary is given in the table below.

Executive director	Overview	Key achievements in the year	Payout (% of maximum)
Nigel Wilson	For 2016, Nigel's objectives were: Strategic development of the business including disposal of non-core businesses, embedding Solvency II requirements into the business, engagement with shareholders and championing diversity within the group, ensuring that plans were in place to meet gender diversity targets for senior management	• Successful execution of the strategic disposal of non-core assets including Cofunds, Legal & General Netherlands and Legal & General Germany and completion of the transfer of Suffolk Life • Effective management of the Solvency II balance sheet through a volatile year and successful delivery of capital efficient pension buyouts • Strong strategic development particularly within the Legal & General Capital and Legal & General Retirement businesses • A commitment to promoting diversity within the group and particular progress in appointing women into senior leadership roles and developing a diverse talent pool for future succession within the business	75%
Mark Gregory	Mark's objectives included embedding Solvency II requirements in the business, disposal of non-core businesses, shareholder engagement and providing leadership on diversity and plans for the achievement of gender diversity targets	• Agreement of internal model and matching adjustments with the PRA • Delivery of all regulatory reporting on time and to a high standard • Disposal of a number non-core business including Legal & General Netherlands and Cofunds • Engaged extensively with shareholders • Ensured action plans were in place with regard to gender diversity within Group Finance	100%
Mark Zinkula	Mark's objectives focused on fund performance, growing the defined contribution and defined benefit businesses, international growth of the LGIM business, implementation of the diversity strategy and talent development within LGIM	• Continued growth of defined benefit (DB) with strong inflows to active LDI strategies • Increase in assets in the defined contribution (DC) business • Strengthened product offering in the retail business • Continued good progress expanding LGIM's business internationally, with positive net flows and key new client wins in all regions • Extensive support of the LGR business and LGC business • Taken a leading in role in promoting diversity in LGIM and building a plan for ensuring a diverse talent pool for senior roles within the business	70%

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 and from the Group Legal Counsel that there were no material issues to consider around regulatory breaches, customer outcomes or litigation that would prevent payment of any AVP award or trigger any malus. The Committee was satisfied that the AVP awards should be paid.

For 2015, AVP payouts as a percentage of the maximum were: Nigel Wilson 86%; Mark Gregory 84% and Mark Zinkula 91%.

Deferral policy

In line with our policy, 50% of all 2016 AVP awards were deferred for three years into nil cost options, subject to continued employment and clawback/malus provisions.

Executive director	Cash bonus	Deferred bonus	Total bonus
Nigel Wilson	£583,567	£583,567	£1,167,134
Mark Gregory	£410,731	£410,731	£821,461
Mark Zinkula	£415,873	£415,873	£831,746

Performance share plan (PSP) awards

Details of how the 2013 PSP award vested (audited)

The 2013 PSP award vested at 87.2% in May 2016 as Legal & General's TSR exceeded the 80th percentile of the FTSE 100 and was between the 50th and 80th percentile of the bespoke comparator group.

In line with policy, the Committee carefully reviewed the company's underlying performance over the performance period. The review included considerations of partnerships entered into and maintained, cost management, capital management and risk. 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 out-turn.

The results are shown below:

Grant date	Performance period	Comparator group	Legal & General's TSR	Comparator group median rank	Comparator group 80th percentile TSR performance	Legal & General's notional rank	% of award vesting against comparator group	Percentage of total award vesting
17 April 2013	17 April 2013 to 29 April 2016	FTSE 100	58.0%	48/95	19.5/95	18.4	50.0%	87.2%
		Bespoke comparator group		11/21	4.7/21	6.8	37.2%	

The values included in the single figure table are calculated by multiplying the number of shares vesting on 29 April 2016 by the share price on 29 April 2016 of £2.231. For 2015, 100% of the maximum PSP awards granted to the executives in 2012 vested.

Executive director	Shares granted in 2013	Shares vesting in April 2016	Value of shares on vesting (£)
Nigel Wilson	889,521	775,662	£1,730,502
Mark Gregory	547,055	477,032	£1,064,258
Mark Zinkula	547,055	477,032	£1,064,258

Details of how the 2014 PSP award vested (audited)

The 2014 PSP award vested at 65.8% in March 2017 based on a combination of TSR (50%) and financial performance (50%) over the three-year performance period ending 31 December 2016.

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 out-turn.

The results are shown below:

Grant date	Performance period	Comparator group	Legal & General's TSR	Comparator group median rank	Comparator group 80th percentile TSR performance	Legal & General's notional rank	% of award vesting against comparator group	Percentage of element vesting
11 June 2014	1 Jan 2014 to 31 December 2016	FTSE 100	26.6%	47.5/94	19/94	31.4	63.1%	31.6%
		Bespoke comparator group		13.5/26	6/26	20.2	0%	

Performance condition	Performance targets	Actual performance	Percentage of element vesting
EPS growth (% p.a.)	subject to performance matrix	11.8%	100%
DPS growth (% p.a.)	subject to performance matrix	15.6%	
ROE underpin (% p.a.)	12% p.a. underpin	18.2%	

The figures reported for the 2014 PSP, with a performance period ending 31 December 2016, reflects the market value of the awards that will vest in March 2017. The share price at the date of vesting was not known at the date of publication of this report and therefore the number of shares that will vest has been multiplied by the average share price over the quarter ending 31 December 2016 (£2,277).

Executive director	Shares granted in 2014	Shares vesting in March 2017	Value of shares on vesting (£)
Nigel Wilson	878,245	577,885	£1,315,899
Mark Gregory	599,777	394,653	£898,662
Mark Zinkula	599,777	394,653	£898,662

Financial performance condition (50% of the 2014 award)

50% 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 will be calculated on a straight line basis.

Scheme interests awarded during the financial year (audited)

The following table sets out details of awards made under the 2014 PSP in 2016.

	Type of award	Basis of award (% of salary and face value)	% of award vesting for threshold performance	% of award vesting for maximum performance	Performance/ holding period
Nigel Wilson	Nil-cost options	250% of salary £2,215,000[1]	15%	100%	1 January 2016 to 31 December 2018. Awards are also subject to a holding period, such that awards are released in equal tranches in years 3, 4 and 5 from the grant date.
Mark Gregory	Nil-cost options	0% of salary £0	15%	100%	
Mark Zinkula	Nil-cost options	250% of salary £1,525,000[1]	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 £2,422.

Awards were also made during the year under the share bonus plan in respect of performance for 2015, in line with our policy 50% of all 2015 AVP awards were deferred into shares for three years, subject to malus provisions. The amounts deferred in respect of the 2016 bonus are set out in the deferral policy section.

Performance conditions for PSP awards granted in 2016 (audited)

Financial performance condition (50% of the 2016 award)

50% of the award will vest based on the same financial performance conditions that applied to the 2014 PSP awards as set out above.

TSR performance condition (50% of the 2016 award)

25% of the award will vest based on Legal & General's TSR performance relative to the FTSE 100.

The remaining 25% of the award will vest based on Legal & General's TSR performance against a bespoke group of insurers (comprising the insurance constituents in the FTSEurofirst 300 plus any FTSE 350 Life Insurance companies not in the FTSEurofirst 300 and five US firms including Metlife, Prudential Financial, Ameriprise Financial, Principal Financial and Lincoln National).

The vesting schedule of the TSR performance conditions is as follows:

	% of award that vests
Below median	0%
Median (threshold vesting)	15%
Between median and the 80th percentile	15% – 100%
80th percentile and above	100%

At the end of the three-year performance period, the Committee will critically assess whether the formulaic vesting outcome produced by the matrix 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 quality of earnings and the nature of any changes in leverage; key assumptions; dividend cover and behaviours, etc. 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. Awards were also made during the year under the Share Bonus Plan in respect of performance for 2015, in line with our policy 50% of all 2015 AVP awards were deferred into shares for three years. Further details of awards are provided on page 97.

Statement of directors' shareholding and share interests

Shareholding guidelines (audited)

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 2016.

	Actual share ownership as % of 2016 base salary: vested shares[1]	New guidelines on share ownership as a % of base salary[2]	Guideline met	Shares owned at 1 January 2016	Shares owned at 31 December 2016	Shares sold or acquired during the period 1 January 2017 and 28 February 2017
Nigel Wilson	1,076%	300%	Yes	3,294,171	3,949,227	103
Mark Gregory	1,103%	200%	Yes	2,316,917	2,628,161	123
Mark Zinkula[2]	354%	200%	Yes	588,550	894,312	0

1. Closing share price as at 30 December 2016: £2.476.
2. Mark Zinkula joined the Board on 1 September 2012.

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 requirements being met if there are extenuating circumstances for example, changes to personal circumstances.

Share options exercised during 2016 (audited)

The following table shows all share options exercised by the executive directors during 2016.

Executive director	Type of option	Date of grant	Shares exercised	Exercise date	Share price at date of exercise £	Gain £
Nigel Wilson	PSP nil cost	14 August 2012	291,765	14 January 2016	2.452	715,408
Nigel Wilson	PSP nil cost	17 April 2013	775,662	29 April 2016	2.231	1,730,502
Mark Gregory	PSP nil cost	17 April 2013	477,032	29 April 2016	2.231	1,064,258
Mark Zinkula	PSP nil cost	17 April 2013	477,032	29 April 2016	2.231	1,064,258

Statement of implementation of remuneration policy in 2017

Salary

The table below sets out any increases to base salaries that will be effective 1 March 2016.

Name	Annual base salary as at 31 December 2016	Annual base salary effective 1 March 2016	% increase
Nigel Wilson	886,000	909,000	2.6%
Jeff Davies	–	500,000	–
Mark Zinkula	610,000	625,500	2.5%
Kerrigan Proctor	–	475,000	–

Base salary increases are in line with the average salary increment across the group.

Benefits for 2017

Benefits for 2017 to be in line with policy.

Annual variable pay potential (AVP) 2017

In line with our policy, for 2017 the target and maximum AVP opportunities for our executive directors will be:

	Target opportunity (% of salary)	Maximum opportunity (% of salary)
Nigel Wilson	75%	150%
Jeff Davies	75%	150%
Mark Zinkula	105%	175%
Kerrigan Procter	87.5%	175%

Performance will be based on a combination of group and/or Divisional financial performance targets as well as strategic (including customer and employee measures) and personal measures. The majority of the targets will be financial. Actual targets have not been disclosed due to commercial sensitivity. Group financial targets will be disclosed in the 2017 annual report.

Performance share plan (PSP) 2017

For 2017, Nigel Wilson, Jeff Davies, Mark Zinkula and Kerrigan Procter will be granted an award over nil-cost options with a face value of 250% of base salary.

Having considered the business plan over the coming three years and market expectations of performance, given the level of stretch within the financial and TSR performance conditions used for the 2015 award, the Committee considered it appropriate to use the same performance conditions for the 2016 award. See 'Performance conditions for PSP awards granted in 2016' for further details.

Non-executive directors' remuneration – 2016

Chairman's fees

As first announced on 13 November 2015, John Stewart, former Group Chairman, retired from the Board on 1 June 2016. He was paid an annual base fee of £340,000 to the date of his retirement. This base fee had remained unchanged since 2011.

Sir John Kingman was appointed Group Chairman with effect from 24 October 2016 on an annual base fee of £450,000. The base fee for the new Chairman was set taking into account recognising the increased time commitment and demand of the role.

From 1 June 2016 to 24 October 2016, Rudy Markham acted as Interim Chairman, for which he received an acting-up allowance. During this period, he was paid an acting-up allowance of £100,000, in addition to the fees paid in respect of his other Board duties.

Non-executive directors' fees

The fees for non-executive directors were reviewed during 2016. The base fee was increased (as set out below) with effect from 1 October 2016 to reflect the increased time commitment of the role. The additional fee payable to the Senior Independent Director was also increased with effect from 26 May 2016 on the appointment of Julia Wilson.

The revised fees remain subject to the aggregate limit in the company's Articles of Association. The current limit for fees paid to non-executive directors is £1,500,000 p.a.

The revised fees are shown below:

Annual fees	Previous fee (£)	Current fee (£)
Base fee	65,000	75,000
Additional fees:		
Senior Independent Director	20,000	30,000
Committee Chairmanship fees (Audit, Remuneration and Group Risk Committees)	30,000	30,000
Attendance fee payable if the non-executive sits on two or more Board committees	10,000	10,000

The table below shows the actual fees paid to our non-executive directors in 2016 and 2015.

Non-Executive Director		Fees for 2016	Benefits for 2016	Total remuneration for 2016	Fees for 2015	Benefits for 2015	Total remuneration for 2015
Sir John Kingman	Chairman N CG	**69,074**	**–**	**69,074**	–	–	–
Carolyn Bradley	N R	**67,500**	**171**	**67,671**	65,000	–	65,000
Philip Broadley	A N Ri	**52,917**	**–**	**52,917**	–	–	–
Lesley Knox	A N R	**46,023**	**–**	**46,023**	–	–	–
Rudy Markham	N R Ri	**175,417**	**–**	**175,417**	127,138	–	127,138
Richard Meddings	A CG N R Ri	**107,500**	**56**	**107,556**	96,932	373	97,305
Julia Wilson	A CG N Ri	**117,955**	**1,155**	**119,109**	105,000	–	105,000
Previous NEDs							
John Stewart	Chairman	**141,667**	**720**	**142,386**	340,000	–	340,000
Stuart Popham	N R Ri	**77,500**	**–**	**77,500**	75,000	–	75,000
Olaf Swantee	A N	**27,083**	**–**	**27,083**	65,000	–	65,000
Liz Zlatkus	A N Ri	**50,000**	**9,305**	**59,305**	75,000	8,720	83,720

Key:
NED committee membership:
A = Audit
N = Nominations
R = Remuneration
Ri = Risk
CG = Corporate Governance

Shareholding requirements (audited)

NEDs are required to build up a shareholding equivalent to one times base fee. The table below shows their shareholding as at 2 January 2017, taking into account share purchases in relation to December 2016 fees, purchased on 2 January 2017.

Name	Shareholding as at 2 January 2017	Holding as a % of base fee	Met criteria of 1 x base fee	Shares purchased from 2 January 2017 to 28 February 2017
Sir John Kingman	91,069	50%	On-target	3,595
Carolyn Bradley	15,642	52%	On-target	1,470
Philip Broadley	35,400	117%	Yes	–
Lesley Knox	77,600	256%	Yes	–
Richard Meddings	23,647	78%	On-target	2,262
Rudy Markham	294,987	974%	Yes	2,873
Julia Wilson	40,398	133%	Yes	–

Remuneration Committee

The table below shows the members and attendees of the Remuneration Committee during 2016.

Committee Members, attendees and advice

Meetings in 2016

During 2016, the Committee met seven times and in addition had ongoing dialogue via email or telephone discussion. An outline of the Committee undertakings during 2016 are shown in the table on the following page.

Regular meetings were held to review and discuss AVP awards in relation to performance in 2016, base salary adjustments for 2017 and budgets for the group 2017 pay review. The Committee also met a number of times to discuss the approach to executive remuneration with effect from 2017 and the scope of any review that may be undertaken in 2017.

Members: during 2016 the Remuneration Committee was made up of the following NEDs:

Name	Number of Remuneration Committee meetings during 2016
Lesley Knox – appointed Chair on 1 October 2016	4 / 4
Stuart Popham	5 / 7
Rudy Markham – stepped down as Chair on 30 September 2016	7 / 7
Richard Meddings	6 / 7
Carolyn Bradley	7 / 7

Committee undertakings

Quarter	Governance	Performance	Review/implementation of remuneration policy	Regulatory
First	• Review of report on activities of the Group Reward Steering Committee	• Approved 2015/16 annual pay review awards and executive pay awards • Reviewed and approved the performance matrix for 2016 performance share plan (PSP) • Approved 2016 measures and targets for executive teams	• Approval of Solvency II remuneration policy • Approved long-term incentive awards for 2016	• Update on EBA remuneration guidelines in relation to CRD IV
Third	• Reviewed annual general meeting season and shareholder voting. • Approved amendments to group wide AVP deferral policy	• Financial update and indicative annual variable pay update for executive teams	• Review of proposals for amendments to executive remuneration policy	• Review of code staff and Solvency II identified staff lists
Fourth	• Reviewed policy and approach for risk adjustment of AVP awards in line with Solvency II guidelines	• Review of base pay and variable pay budget proposals for the 2016/ 17 pay review • Initial review of performance measures for AVP and LTP awards in respect of 2017	• Approval of proposals for amendments to executive remuneration policy	• Approved remuneration policy statements for PRA and FCA

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; 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 2016, 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. It is the view of the Committee that the Deloitte LLP engagement team that provide remuneration advice to the Committee are 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 2016 were £144,250 (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 international tax advice, other consulting services and financial advisory services.

Terms of reference

The Committee's terms of reference are available on our website. The remit of the Committee includes the remuneration strategy and policy framework for the whole company as well as the executive directors.

The Committee particularly focuses on:

- Determining the individual remuneration for executive directors and for other designated individuals or for those who are discharging a head of control function role
- Undertaking direct oversight on the remuneration of other high earners in the group
- Oversight of the remuneration of Code staff and employees in the control and oversight functions

Considering risk

The Reward Steering Committee (RSC) and the Group Regulatory Risk and Compliance Function make a key contribution to the process of designing reward structures and evaluating whether achievement of objectives and any payment from plans have taken into account the overall risk profile of the company.

Reward steering committee (RSC)

Reporting to the Remuneration Committee, the RSC helps set the framework within which our incentive arrangements are normally reviewed and implemented, with a view to supporting business strategy, whilst acting within the group's risk appetite. The members of the RSC include group and business HR directors, reward and performance director, the group director of regulatory risk and compliance, the regulatory risk director, and the chief compliance Officer, LGIM.

Where a business unit tables a proposal for consideration, the relevant business manager is required to attend the RSC meeting to explain the background and to answer all questions and challenges from the RSC.

Group regulatory risk and compliance function

The Remuneration Committee also works closely with the group regulatory risk and compliance function with respect to remuneration proposals.

In particular, the function reports to the Committee on an annual basis on whether any risks have been taken outside of pre-agreed parameters, there have been regulatory breaches, or they are aware of any other considerations that may lead the Committee to consider whether it should impact the payment of bonuses to staff (including in particular the executive directors and code staff).

The CRO also specifically looks at the overall risk profile of the company and whether executive directors have achieved objectives within the company's accepted risk appetite. The CRO also reviews the executive directors' objectives for the forthcoming year to ensure they are in line with the risk parameters.

With 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 generally and any changes to the company's executive pay arrangements. During early 2014, the Remuneration Committee sought the views of the group's major shareholders on the proposed changes to executive remuneration arrangements for 2014 onwards. Following the strong support received from shareholders at both individual meetings and at the AGM, the Committee considered it appropriate to enact the proposed changes to the policy during 2014. As set out in the Chairman's statement, during 2016 the Committee reviewed the current policy in place. Overall, the current policy inclusive of the minor changes we have proposed was considered appropriate, and as such is presented for approval at the 2017 AGM.

During the course of 2017, however, the Committee intends to undertake a detailed review of the policy to ensure it remains appropriate for the company.

Statement of voting at the annual general meeting (AGM) 2015

The table below shows the voting outcomes on the Directors' Remuneration Policy at the 2014 AGM and Directors' Remuneration Report at the last AGM in May 2016.

Item	For %	Against	Abstain Number
Remuneration policy	97.62%	2.38%	–
	4,154,433,976	101,243,790	21,675,250
2015 remuneration report	97.28%	2.72%	–
	4,188,900,286	117,198,364	59,869,488

Remuneration for employees below board

General remuneration policy

The group's remuneration policy is broadly consistent across the group and, in line with our remuneration principles, is designed to reward, motivate and retain high performers in line with the risk appetite of the group. Remuneration is considered within the overall context of the group's sector and the markets in which the divisions operate. The policy for the majority of employees continues to be to pay around the relevant mid-market range with a competitive package designed to align the interests of employees with those of shareholders, and with an appropriate proportion of total remuneration dependent upon performance.

We define core remuneration as base salary, annual bonus and other benefits such as pension. Key employees are also eligible to participate in the performance share plan (PSP).

Summary of the remuneration structure for employees below Board

Element	Policy
Base salary	We aim to attract and retain key employees by paying salaries which deliver competitive total remuneration. Factors taken into account when determining salaries include: • The nature, size and scope of the role • The knowledge, skills and experience of the individual • Individual and overall business performance • Pay and conditions elsewhere in the group • Appropriate external market data For 2017, base salary budgets have been set on average at 2.6% for all employees below Board, including LGIM. However, this does not mean a flat increase at this level for everyone.
Annual bonus	The majority of employees participate in a discretionary bonus plan, unless an alternative plan applies based on role. An employee will be considered for a discretionary bonus award based on achievement against objectives, conduct and behaviours, the role performed during that year and internal relativities. The group operates bespoke bonus plans where business appropriate. However, the Remuneration Committee has ultimate discretion over all bonus plans. Bonuses above a certain threshold are subject to deferral with the deferral amount increasing with the size of the bonus. Deferred awards are normally held in shares for three years. The company reserves the right to adjust deferral levels for code staff as deemed appropriate.
Performance share plan (PSP)	Participation in the PSP is offered to a small number of senior executives each year in recognition of the strategic and influential role that they hold in terms of driving company performance, as well as their individual contribution. This includes employees in LGIM whose roles span different business divisions and whose participation encourages synergy and teamwork across the group. Participation in the plan for one year does not guarantee participation in future years. PSP awards will be made to under 80 employees during 2017. Where appropriate, grants under the PSP may also be made for new employees who join the company during the year in key roles.
Other share plans and long term incentives	The company operates a Share Bonus Plan (SBP) which provides the vehicle for deferral of annual bonuses in the majority of cases and also allows for a limited number of awards of shares to high potential individuals and those with critical skills. In addition, the company operates a cash based long-term incentive plan for LGIM (LGIM LTIP) based on the financial performance of the division. Participation in the LGIM LTIP is limited to senior managers within the division.
Pension	All employees are given the opportunity to participate in a group pension scheme.
Shareholding requirements	The leadership group is asked to build up a voluntary shareholding of 50% of base salary.

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 pay of the control function departments (risk, compliance and internal audit) as well as the 'oversight departments' of finance and human resources and looks at decisions for employees who report directly to the business versus those who report to the function head. The review extends to all employees, including those in LGIM.

Dilution limits

The company's all-employee plans and the now-closed ESOS operate within the ABI's dilution limit of 5% of issued capital in ten years for executive schemes and all its plans will operate within the 10% of issued capital in ten years limit for all schemes.

As at 31 December 2016, the company had 4.93% of share capital available under the 5% in 10 years limit and 9.68% of share capital under the 10% in 10 years limit.

As at 31 December 2016, 18,074,622 shares were held by the Employee Benefit Trust to hedge outstanding awards of 35,010,160 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.

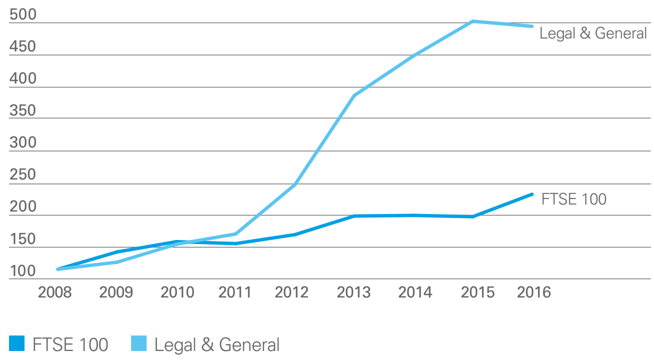
External appointments held in 2016 are shown below:

	Role and organisation	Fees
Nigel Wilson	n/a	Nil
Mark Gregory	Director of Westdown Park Management Company Limited	Nil
Mark Zinkula	Currently on the board of the Investment Association	Nil

Total shareholder return (TSR)

The chart shows the value, as at 31 December 2016, of £100 investment in Legal & General shares on 31 December 2008, compared to £100 invested in the FTSE 100 on the same date. The other points plotted are the values at the intervening financial year-ends. The FTSE 100 Index was chosen as the company is a member of this index.

As at 31 December 2016



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
2016	Nigel Wilson	5,287	87.82%	76.6%
2015	Nigel Wilson	5,497[1]	86.25%	100%
2014	Nigel Wilson	4,213	90.67%	100%
2013	Nigel Wilson	4,072	93.10%	100%
2012[2]	Nigel Wilson Tim Breedon	898 3,280	96.00% 84.80%	0% – note 3 100% – note 4
2011	Tim Breedon	2,325	79.58%	16.6%
2010	Tim Breedon	1,526	89.98%	0%
2009	Tim Breedon	1,999	80.00%	0%

1. Restated from the 2015 report to include the value of the PSP award vesting in August 2015.
2. Tim Breedon retired as Group Chief Executive on 30 June 2012 and Nigel Wilson took over from that date having been the chief financial officer.
3. 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.
4. 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.

Percentage change in remuneration of director undertaking the role of Group Chief Executive

2016 over 2015

	Change to base salary %	Change to benefits %	Change in AVP %
Group Chief Executive	3.32%	-17.96%	-0.81%
Comparator group	2.65%	2.65%	11.11%

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 salary increases.

Pay Ratios

The tables below show the ratio of the chief executives remuneration with the median remuneration for all employees.

The tables show the ratio considering two measures for the chief executive's remuneration:

- Base Salary
- Total remuneration as reported in the single figure

We have looked at the base salary ratio as the potential level of variable remuneration is influenced by base salary levels.

As we have explained earlier in the report the single figure for the CEO for 2016 includes an anomaly in that we are required to include the value of both the 2013 PSP award which vested in April 2016 and the value of the 2014 PSP award for which the performance period ends on 31 December 2016 and which will vest in March 2017.

In order to provide a more consistent basis for year on year comparison the total remuneration figure for the CEO used to calculate the pay ratio figure is based on including only the value of the 2014 PSP award.

For all employees the median remuneration is made up of base salary, pension, benefits, and annual and long-term variable pay.

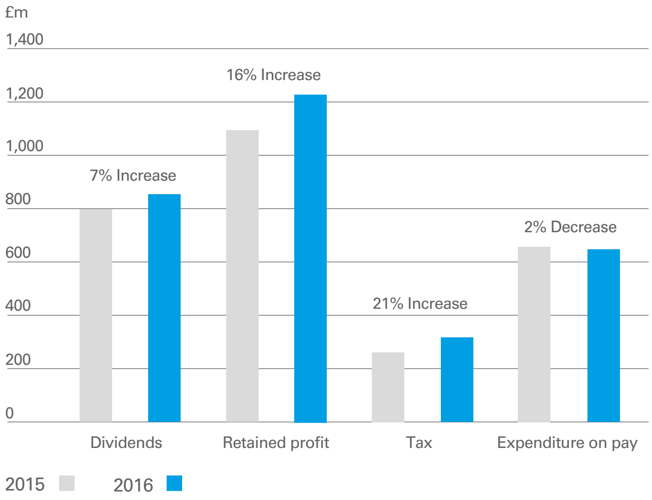
We are mindful that to date, there has been no guidance published on the methodology to be used for the calculation of the pay ratio. As additional guidance may be provided, we may be required to change the approach to calculating the pay ratio in future years.

Pay Ratios – CEO vs All UK Employees

	2016	2015
Base Salary	**28**	28
Total Remuneration – Single Figure	**94**	142

Relative importance of spend on pay

The chart opposite shows the relative importance of spend on pay compared to shareholder dividends and profit for the year. Retained profit has been shown because it is a KPI of the business. No share buy backs were made in 2015 or 2016.



Payments for loss of office (audited)

As indicated earlier in the report, Mark Gregory will stand down from the Board once Jeff Davies takes on the CFO role on 9 March 2017. He will remain employed until 31 August 2017 and will continue to receive salary, benefits and pension at his current level. No annual variable pay or PSP awards will be made to Mark during 2017 or in respect of performance in 2017.

On retirement, Mark will be treated as a 'good leaver' and in line with the approved policy his outstanding share bonus plan award will vest at the normal time and his 2015 PSP award will be pro-rated for service from the start of the performance period to cessation and will vest based on performance to the end of the performance period.

Payments to past directors – John Pollock (audited)

As disclosed in the 2015 annual report John Pollock had a maximum of 282,924 shares available to vest from the 2014 PSP award. As indicated on page 86 the 2014 PSP award vested at 65.8% based on performance.

Total shareholding of executive directors (audited)

	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 2017 and 28 February 2017 Own outright/ vested shares	Shares sold or acquired during the period 1 January 2017 and 28 February 2017 Subject to deferral/ holding period
Nigel Wilson	Shares	3,938,323	578,648	4,516,971	0	0	0
	ESP	10,904	3,014	13,918	0	103	57
	Options	0	0	0	2,547,701	0	0
Mark Gregory	Shares	2,596,817	377,329	2,974,146	0	0	0
	ESP	31,344	6,211	37,555	0	123	57
	Options	0	9,911	9,911	1,104,623	0	0
Mark Zinkula	Shares	894,312	458,784	1,353,096	0	0	0
	ESP	0	0	0	0	0	0
	Options	0	0	0	1,734,163	0	0

Information in relation to other outstanding awards (audited)

Performance share plan (PSP)

For information, other outstanding PSP awards are shown below. 2015 awards were granted under the new PSP.

	% of base salary	Face value £'000	Share price at award £	Max no. of shares
Grant date 14 April 2015				
Nigel Wilson	250%	2,150	2.8474	755,074
Mark Gregory	250%	1,438	2.8474	504,846
Mark Zinkula	250%	1,438	2.8474	504,846

Outstanding share bonus plan (SBP) awards

The table below shows the shares held under the SBP and those that were awarded or vested during 2016. For Mark Zinkula, these include shares awarded when he was appointed as CEO LGIM and prior to him joining the Board. The shares awarded in 2016 relate to deferred AVP in relation to the 2015 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 2016	Awards granted in 2016	Grant price £	Face value at grant price £	Awards vesting in 2016	Awards outstanding at 31 December 2016
Nigel Wilson	514,876	228,841	2.431	556,313	165,069	578,648
Mark Gregory	333,441	148,835	2.431	361,819	104,947	377,329
Mark Zinkula	373,888	188,611	2.431	458,514	103,715	458,784

Financial Statements

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Taking financial education to schools

Our 'Everyday Money' financial education programme has helped scholars in seven schools in England and Wales learn about the world of money.

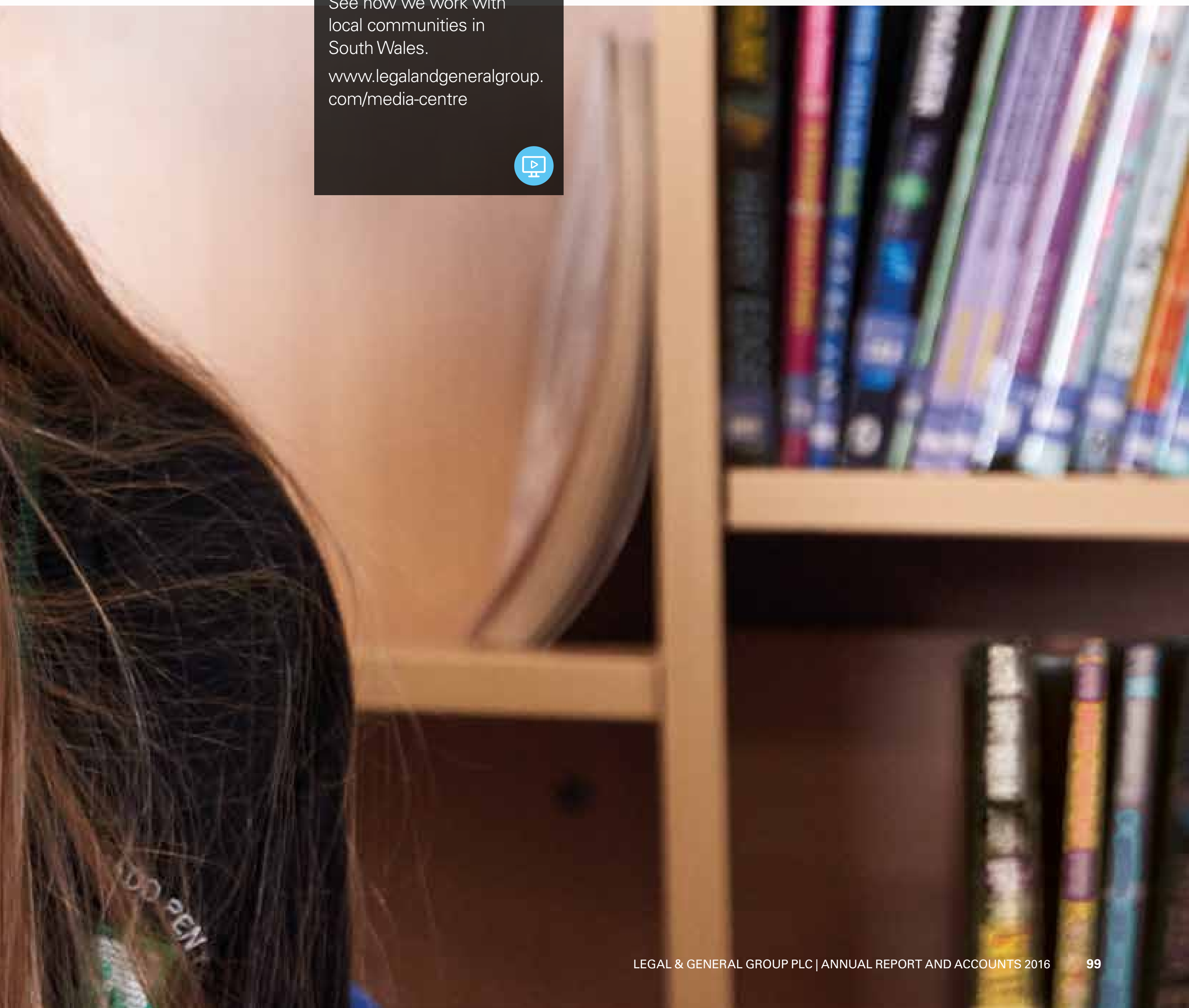
The 'Everyday Money' programme aims to understand young people's attitudes to money and personal finance, supports the financial education curriculum and helps pupils become money confident.

Pen y Dre School in Merthyr Tydfil is a 'Business Class Partner' where we help pupils through our 'Everyday Money' financial education scheme and we participate in the 'Open Books' reading programme, where Year 10 pupils work with Year 7 pupils, to help improve their reading skills.

WATCH THE VIDEO

See how we work with local communities in South Wales.

www.legalandgeneralgroup.com/media-centre



Consolidated financial statements

The group consolidated financial statements are divided into 3 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 auditors' report to the members of Legal & General Group Plc

Report on the group financial statements

Our opinion

In our opinion, Legal & General Group Plc's group financial statements (the financial statements):

- give a true and fair view of the state of the group's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report and Accounts (the Annual Report), comprise:

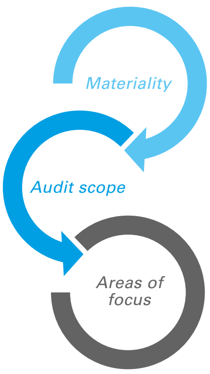
- the Consolidated Balance Sheet as at 31 December 2016;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overview



- Overall group materiality: £70 million (2015: £70 million) which represents 4.5% (2015: 4.8%) of Operating profit before tax.
- Based on the outputs of our risk assessment, along with our understanding of the L&G structure, we performed full scope audits of components which, using our professional judgement, we considered significant within the following segments: Legal & General Retirement (LGR), Legal & General Investment Management (LGIM), Legal & General Insurance (LGI), Savings and General Insurance (GI).
- In addition, specific audit procedures on investments and investment returns were performed within the Legal & General Capital (LGC) segment.
- Our risk assessment analysis identified the following as areas of focus:
  – Valuation of non-participating insurance contract liabilities – Retirement;
  – Valuation of non-participating insurance contract liabilities – Protection;
  – Valuation of complex investments – collateralised debt obligations(CDOs), new asset classes and new transactions in mark to model investments.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)).

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table on the following page. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Independent auditors' report to the members of Legal & General Group Plc (continued)

Report on the group financial statements (continued)

Area of focus	How our audit addressed the area of focus

Valuation of non-participating insurance contract liabilities – Retirement
Refer to the Audit Committee Report and note 1 to the financial statements for the directors' disclosures of the basis of preparation and use of estimates and notes 19, 20 and 21 for related accounting policies and further information on judgements and estimates.

We focused on this area because the provision for the settlement of future claims for retirement products is significant in size and its estimation involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can materially impact the valuation of these liabilities. Key assumption areas are:

- Valuation interest rate – the discount rate derived from the yield on the assets backing the annuity liabilities used in calculating the present value of annuity and benefit payments. The discount rate also includes an explicit allowance for future credit default and reinvestment risk on the asset portfolio; and
- Longevity – how long the policyholders receiving annuity payments are expected to live and how that might change over time.

Our audit effort covered these key assumptions. We focused a greater amount of effort where either of the assumptions changed in the period or where we considered, based on the annual analysis of longevity and credit default, that the assumptions or methodology needed to be reconsidered.

Area of focus	How our audit addressed the area of focus
Valuation interest rate The valuation interest rate is the asset yield-based rate that is used to discount the liability cashflows to present value. The discount rate also includes an explicit allowance for future credit default and reinvestment risk on the asset portfolio. The calculation of this assumption and the credit default allowance is complex, and there is a risk that changes in investment yields and market spreads are not appropriately reflected. Areas of risk include: **Data input error** – the data extracted from the group's investment ledgers and input into the valuation interest rate calculation contains an error. **Model changes leading to calculation errors** – changes to the actuarial process or model to calculate the valuation interest rate are not appropriate. **Credit default assumptions are inappropriate** – the assumptions made in setting the credit default allowance do not appropriately represent the group's exposure and current market conditions.	The work we performed to address the risks over determination of the valuation interest rate included the following procedures: We developed an understanding of the degree of rigour, challenge and oversight provided by management and the directors in relation to the setting of the credit default assumptions and the methodology used to model the cash flows. Using our actuarial specialist team members, we obtained and challenged technical papers that set out the relevant factors taken into account by management when making judgements on setting the credit default assumptions and changes to the valuation interest rate methodology. **Data input error** We understood and tested the group's processes for ensuring that the relevant investment data was included in the calculation of the yield on the assets and did not identify any weaknesses in these processes or controls that would cause us to change our audit approach; We tested the completeness and accuracy of that investment data by agreeing it to independent data sources, such as third party custodians' reports and to independent pricing sources; and We tested the mathematical accuracy of the internal rate of return (IRR) calculations. **Model changes leading to calculation errors** We obtained an understanding and assessed the appropriateness of changes to the actuarial process or model underlying the calculation of the valuation interest rate by understanding the governance process in place around changes to models, testing the controls in place to check that changes were applied appropriately, and evaluated the results of changes in comparison to our expectation. **Credit default assumptions are inappropriate** We assessed the appropriateness of the credit default allowance in light of changing market conditions and other information available. We did this by comparing assumptions used by management with market observable data and our experience of market practices; and On a sample basis, we tested the credit ratings used to estimate the default allowance back to independent third party credit rating sources. Where internally generated ratings were used, we assessed the rating model and the methodology using specialist treasury expertise and tested the inputs by comparing it to third party data. *Based on the work undertaken, we found the valuation interest rate used to be appropriate.*

Area of focus	How our audit addressed the area of focus
Longevity assumptions The large volume of annuity business, combined with the subjectivity in setting an annuitant mortality basis has a material impact on the valuation of the liabilities. Annuity liabilities are sensitive to the choice of longevity assumptions. The longevity assumption has two main components: **Mortality base assumption** – this part of the assumption is mainly driven by internal experience analyses, but judgement is also required. For example, in setting the prudential margins for IFRS reporting, or in setting the assumption for new business over the year to reflect any changes in the mix of business due to external factors. **Rate of mortality improvements** – this part of the assumption is more subjective given the lack of data and the uncertainty over how life expectancy will change in the future.	The work we performed to address the setting of the longevity assumptions included the following procedures: We evaluated the design and implementation as well as tested the operating effectiveness of controls over accuracy and completeness of the data used in the experience analyses and found them to be effective. This included testing management's data reconciliations and, where necessary, agreeing data back to the policy administration system from which it was extracted. Data on these systems has then been tested through review of management's quality sampling procedures over amendments, including new business, to each system; Using our actuarial specialists, we assessed the results of the experience analyses carried out for the annuity business and were able to determine that they provided support for the assumptions used; We evaluated the group's choice of standard industry Continuous Mortality Investigation (CMI) tables and the group's base life expectancy data and compared this to the industry base tables to assess the reasonableness of the group's assumptions. We considered the appropriateness of the assumptions, assessed changes to the methodology, and evaluated the results of changes in comparison to our expectation; and We compared the annuitant longevity assumptions with those adopted by other insurers using our own independent industry benchmarking survey. *Having performed our work, we found the assumptions used in the models to be appropriate. We found that the methodologies and models used are in line with industry standards, whilst reflecting the nature of the group's retirement business.*

Valuation of participating and non-participating insurance contract liabilities – Protection
Refer to the Audit Committee Report and note 1 to the financial statements for the directors' disclosures of the basis of preparation and use of estimates and notes 19, 20 and 21 for related accounting policies and further information on judgements and estimates.

We focused on this area because the non-participating insurance liabilities for protection products in the UK are significant in size and their estimation is inherently judgemental. The valuation of insurance liabilities for protection is sensitive to:

- persistency – the rate at which policies are retained over time and therefore continue to contribute premium income; and
- mortality and morbidity – the rate at which policyholders die or suffer critical illness.

Persistency assumptions The rate at which policyholders cease protection products is projected using the group's historical experience and assumptions (experience analysis) about future changes to policyholder behaviour.	Using our actuarial specialists, we assessed the results of the experience analysis carried out by the group for the protection business to determine whether it provided support for the assumptions used. In undertaking our assessment we took account of the potential for future changes in experience arising from regulatory changes. We evaluated the design and implementation, as well as testing the operating effectiveness, of controls over accuracy and completeness of the data used in the experience analysis and found them to be effective. This included testing management's data reconciliations and, where necessary, agreeing data back to the policy administration system from which it was extracted. Data on these systems has then been tested through review of management's quality sampling procedures over amendments, including new business, to each system. We compared the group's persistency assumptions with those adopted by other insurers using our own independent industry benchmarking survey. *Persistency assumptions are inherently subjective. However, we found that the assumptions used were reasonable in the context of the group's products.*
Mortality and morbidity assumptions The estimates of the amount and timing of benefit payments is projected using current (base) mortality and morbidity experience calculated using the group's own data and analysis (experience analysis). Under IFRS, the setting of margins for adverse deviation are judgemental. The group uses an established methodology to set the margin in accordance with its accounting policy, which follows the previous UK regulatory rules for insurance provisions (INSPRU) in place before the adoption of Solvency II.	We evaluated the design and implementation as well as tested the operating effectiveness of controls over accuracy and completeness of the data used in the experience analysis and found them to be effective. This included testing management's data reconciliations and, where necessary, agreeing data back to the policy administration system from which it was extracted. Data on these systems has then been tested through review of management's quality sampling procedures over amendments, including new business, to each system. We obtained the experience analysis performed by the Protection business to determine whether they provided support for the assumptions used. We compared the group's mortality and morbidity assumptions including margins with those adopted by other insurers using our own independent industry benchmarking survey. *Having performed our work we found the assumptions used in the models to be appropriate. We found that the methodologies and models used are in line with the prior year and industry standards, whilst reflecting the nature of the group's Protection business.*

Independent auditors' report to the members of Legal & General Group Plc (continued)

Report on the group financial statements (continued)

Area of focus	How our audit addressed the area of focus

Valuation of complex investments – CDOs, new asset classes and new transactions in mark to model investments
Refer to the Audit Committee Report and note 1 to the financial statements for the directors' disclosures of the basis of preparation and use of estimates and note 12 for related accounting policies and further information on judgements and estimates for investment risks.

The group's financial investments enable it to support its insurance liabilities and meet regulatory capital requirements, as well as providing returns on shareholder assets (the assets available for distribution to shareholders after taking account of policyholder liabilities, including associated guarantees, options and bonuses).

Most of the group's financial investments are valued by reference to prices on active markets. However, some are priced by reference to market data and/or valuation models. They vary in complexity depending on the nature of the investments. Investments that are complex to value and require the use of significant judgement include:

- CDOs;
- new asset classes; and
- new transactions in mark to model investments.

Valuation of complex investments – including CDOs, new asset classes and new transactions in mark to model investments
We focused on the valuation of CDOs, new asset classes and new transactions in mark to model investments because they are significant in size and changes in estimates could result in material changes in their valuation.

Key estimates used in the valuation models reflect observable data such as forward interest rates, foreign exchange rates and forward inflation rate curves, as well as unobservable inputs such as future cash flows and expected defaults.

We also focused on the disclosure related to these complex financial instruments, which is extensive.

For the valuation of complex investments, we assessed both the methodology and assumptions used by management in the calculation of the year end values as well as testing the governance controls that the group has in place to monitor these processes. We did not identify any defective controls.

For CDOs, we:

- have met with management to understand the nature of restructuring of the investment with the counterparty;
- read the report from the directors' external valuation expert to understand their objectivity, qualifications, approach and their findings;
- repriced the value of the underlying securities to third party sources;
- compared the internal price and directors' expert's price and investigated differences over a tolerance based on materiality; and
- obtained independent confirmation from the counterparty for all securities and any outstanding positions.

For commercial mortgages (new asset classes) we:

- tested the calculation in the discounted cash flow models for accuracy;
- agreed the factual inputs to underlying contracts;
- compared the market observable inputs to published data; and
- agreed the non-market observable inputs to calculations or supporting documents and considered whether they were in line with our expectations.

For property loans (new asset classes) we:

- obtained valuation reports from management's valuation experts and assessed their independence and competency;
- assessed the assumptions and methodology used by management's valuation experts by using internal PwC valuation specialists to check these were appropriate; and
- agreed a sample of inputs used by management's valuation experts to source documentation.

For new transactions in mark to model investments we:

- reviewed the appropriateness of the models used and agreed inputs back to source documentation for accuracy; and
- reviewed the key assumptions in the model and agreed inputs to external sources.

We did not identify any material exceptions in our testing of the confirmations, the collateral, or the comparison of different estimates of the prices.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates.

Using the outputs of a risk assessment, along with our understanding of the group, we scoped our audit based on the significance of the results and financial position of individual markets relative to the group result and financial position. In doing so, we considered qualitative factors and ensured that we obtained sufficient coverage across all financial statement line items in the consolidated financial statements. We determined the type of work that needed to be performed for each component by us – as the group engagement team, component audit teams within PwC UK and from other PwC network firms under our instructions.

The group reports in six reportable segments: LGR, LGIM, LGC, LGI, Savings and GI. Based on the outputs of our risk assessment, along with our understanding of the L&G structure, we performed full scope audits of components which, using our professional judgement, we considered significant within the following segments: LGR, LGIM, LGI, Savings and GI. We performed specific audit procedures on the significant investment and investment return balances within the LGC segment.

Where work was performed by auditors of the components, we determined the level of involvement we needed as the group audit team to have in the audit work at those components to be able to conclude whether sufficient audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. The group audit team kept in regular communication with component audit teams through on-site visits, regular phone calls, discussions and written instructions, where appropriate.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£70 million (2015: £70 million).
How we determined it	Based on our professional judgement, we determined materiality for the financial statements as a whole of £70 million which represents 4.5% of Operating profit before tax (2015: 4.8%).
Rationale for benchmark applied	In determining materiality, we considered financial metrics which we believed to be relevant, and concluded, consistent with last year that Operating profit before tax was the most relevant benchmark because it reflects the underlying profit of the business. While this is not an IFRS measure of profit, it is reconciled to IFRS profit before tax in the financial statements and is one of the key metrics used by the group in running its business. Whilst overall materiality was assessed with reference to Operating profit before tax, we compared our materiality level against other relevant benchmarks, such as total assets, total revenue and IFRS profit before tax in order to ensure the materiality benchmark selected was appropriate for our audit.
Component materiality	For each component in our audit scope, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £10million – £65million. Certain components that produce their own audited financial statements were audited to a local statutory audit materiality which was less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £3.5 million (2015: £3.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 233, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern.

Independent auditors' report to the members of Legal & General Group Plc (continued)

Report on the group financial statements (continued)

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Corporate Governance Statement set out on pages 52 to 57 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- the information given in the Corporate Governance Statement set out on pages 52 to 57 with respect to the company's corporate governance code and practices and about its administrative, management and supervisory bodies complies with rules 7.2.2, 7.2.3 and 7.2.7 of the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority.

In addition, in light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the information referred to above in the Corporate Governance Statement. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
• information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
• the statement given by the directors on page 234, in accordance with provision C.1.1 of the UK Corporate Governance Code (the Code), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's position and performance, business model and strategy is materially inconsistent with our knowledge of the group acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on page 62 to 65, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
• the directors' confirmation on page 44 of the Annual Report, in accordance with provision C.2.1 of the Code, 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.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the directors' explanation on page 43 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the group, over what period they have done so and why they consider 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.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the group and the directors' statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the group's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

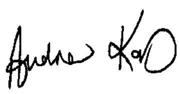
We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the company financial statements of Legal & General Group Plc for the year ended 31 December 2016 and on the information in the Directors' Remuneration Report that is described as having been audited.



Andrew Kail (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

7 March 2017

Primary statements and performance

Consolidated Income Statement

For the year ended 31 December 2016	Notes	2016 £m	2015 £m
Income			
Gross written premiums	31	**10,325**	6,321
Outward reinsurance premiums	31	**(1,573)**	(1,603)
Net change in provision for unearned premiums		**4**	21
Net premiums earned		**8,756**	4,739
Fees from fund management and investment contracts	31	**1,068**	1,139
Investment return	32	**67,824**	5,947
Operational income	3	**321**	876
Total income	31	**77,969**	12,701
Expenses			
Claims and change in insurance liabilities	33	**17,896**	5,080
Reinsurance recoveries	33	**(2,745)**	(2,466)
Net claims and change in insurance liabilities		**15,151**	2,614
Change in provisions for investment contract liabilities	22	**58,578**	5,615
Acquisition costs	11	**793**	838
Finance costs	25	**198**	186
Other expenses	3	**1,569**	1,893
Transfers (from)/to unallocated divisible surplus	23	**(187)**	141
Total expenses		**76,102**	11,287
Profit before tax		**1,867**	1,414
Tax expense attributable to policyholder returns	34	**(285)**	(59)
Profit before tax attributable to equity holders		**1,582**	1,355
Total tax expense	34	**(602)**	(320)
Tax expense attributable to policyholder returns	34	**285**	59
Tax expense attributable to equity holders	34	**(317)**	(261)
Profit for the year		**1,265**	1,094
Attributable to:			
Non-controlling interests	39	**7**	19
Equity holders of the company		**1,258**	1,075
Dividend distributions to equity holders of the company during the year	4	**830**	701
Dividend distributions to equity holders of the company proposed after the year end	4	**616**	592
		p	p
Earnings per share[1]	5	**21.22**	18.16
Diluted earnings per share[1]	5	**21.13**	18.04

1. All earnings per share calculations are based on profit attributable to equity holders of the company.

Primary statements and performance (continued)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016	Notes	2016 £m	2015 £m
Profit for the year		**1,265**	1,094
Items that will not be reclassified subsequently to profit or loss			
Actuarial (losses)/gains on defined benefit pension schemes	26	**(138)**	47
Tax on actuarial (losses)/gains on defined benefit pension schemes	26	**17**	(11)
Actuarial gains/(losses) on defined benefit pension schemes transferred to unallocated divisible surplus	26	**51**	(17)
Tax on actuarial gains/(losses) on defined benefit pension schemes transferred to unallocated divisible surplus	26	**(6)**	4
Total items that will not be reclassified to profit or loss subsequently		**(76)**	23
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations		**190**	25
Net change in financial investments designated as available-for-sale		**(4)**	(64)
Tax on net change in financial investments designated as available-for-sale		**1**	22
Total items that may be reclassified to profit or loss subsequently		**187**	(17)
Other comprehensive income after tax		**111**	6
Total comprehensive income for the year		**1,376**	1,100
Total comprehensive income attributable to:			
Non-controlling interests		**7**	19
Equity holders of the company		**1,369**	1,081

Primary statements and performance (continued)

Consolidated Balance Sheet

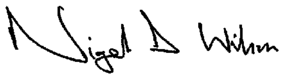
As at 31 December 2016	Notes	2016 £m	2015 £m
Assets			
Goodwill		**11**	83
Purchased interest in long term businesses and other intangible assets	10	**155**	292
Deferred acquisition costs	11	**2,105**	1,887
Investment in associates and joint ventures	46	**283**	220
Property, plant and equipment		**76**	92
Investment property	12	**8,150**	8,082
Financial investments	12	**418,175**	354,063
Reinsurers' share of contract liabilities	21/22	**5,593**	4,120
UK deferred tax asset	34	**5**	20
Current tax recoverable	34	**297**	236
Other assets	15	**5,022**	3,618
Assets of operations classified as held for sale	30	**2,265**	3,409
Cash and cash equivalents	14	**25,717**	20,677
Total assets		**467,854**	396,799
Equity			
Share capital	38	**149**	149
Share premium	38	**981**	976
Employee scheme treasury shares	38	**(30)**	(30)
Capital redemption and other reserves		**212**	89
Retained earnings		**5,633**	5,220
Attributable to owners of the parent		**6,945**	6,404
Non-controlling interests	39	**338**	289
Total equity		**7,283**	6,693
Liabilities			
Participating insurance contracts	21	**5,794**	5,618
Participating investment contracts	22	**5,271**	4,912
Unallocated divisible surplus	23	**661**	893
Value of in-force non-participating contracts	24	**(206)**	(184)
Participating contract liabilities		**11,520**	11,239
Non-participating insurance contracts	21	**60,779**	49,754
Non-participating investment contracts	22	**321,177**	278,554
Non-participating contract liabilities		**381,956**	328,308
Core borrowings	25	**3,071**	3,092
Operational borrowings	25	**430**	536
Provisions	26	**1,328**	1,171
UK deferred tax liabilities	34	**291**	137
Overseas deferred tax liabilities	34	**522**	436
Current tax liabilities	34	**117**	95
Payables and other financial liabilities	27	**37,347**	22,709
Other liabilities	40	**594**	737
Net asset value attributable to unit holders	12	**21,573**	18,277
Liabilities of operations classified as held for sale	30	**1,822**	3,369
Total liabilities		**460,571**	390,106
Total equity and liabilities		**467,854**	396,799

Primary statements and performance (continued)

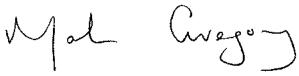
The notes on pages 114 to 220 form an integral part of these financial statements.

The financial statements on pages 108 to 220 were approved by the board of directors on 7 March 2017 and were signed on their behalf by:

Sir John Kingman
Chairman



Nigel Wilson
Group Chief Executive



Mark Gregory
Group Chief Financial Officer

Primary statements and performance (continued)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves[1] £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
As at 1 January 2016	**149**	**976**	**(30)**	**89**	**5,220**	**6,404**	**289**	**6,693**
Profit for the year	**–**	**–**	**–**	**–**	**1,258**	**1,258**	**7**	**1,265**
Exchange differences on translation of overseas operations	**–**	**–**	**–**	**190**	**–**	**190**	**–**	**190**
Actuarial losses on defined benefit pension schemes	**–**	**–**	**–**	**–**	**(121)**	**(121)**	**–**	**(121)**
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	**–**	**–**	**–**	**–**	**45**	**45**	**–**	**45**
Net change in financial investments designated as available-for-sale	**–**	**–**	**–**	**(3)**	**–**	**(3)**	**–**	**(3)**
Total comprehensive income for the year	**–**	**–**	**–**	**187**	**1,182**	**1,369**	**7**	**1,376**
Options exercised under share option schemes: – Savings related share option scheme	**–**	**5**	**–**	**–**	**–**	**5**	**–**	**5**
Shares purchased	**–**	**–**	**(10)**	**–**	**–**	**(10)**	**–**	**(10)**
Shares vested	**–**	**–**	**10**	**(33)**	**–**	**(23)**	**–**	**(23)**
Employee scheme treasury shares: – Value of employee services	**–**	**–**	**–**	**24**	**–**	**24**	**–**	**24**
Share scheme transfers to retained earnings	**–**	**–**	**–**	**–**	**6**	**6**	**–**	**6**
Dividends	**–**	**–**	**–**	**–**	**(830)**	**(830)**	**–**	**(830)**
Movement in third party interests	**–**	**–**	**–**	**–**	**–**	**–**	**42**	**42**
Currency translation differences	**–**	**–**	**–**	**(55)**	**55**	**–**	**–**	**–**
As at 31 December 2016	**149**	**981**	**(30)**	**212**	**5,633**	**6,945**	**338**	**7,283**

1. Capital redemption and other reserves include Share-based payments £60m (2015: £69m), Foreign exchange £135m (2015: £nil), Capital redemption £17m (2015: £17m), Available-for-sale reserves £(1)m (2015: £2m) and Hedging reserves £1m (2015: £1m).

For the year ended 31 December 2015	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves[1] £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
As at 1 January 2015	149	969	(37)	117	4,830	6,028	275	6,303
Profit for the year	–	–	–	–	1,075	1,075	19	1,094
Exchange differences on translation of overseas operations	–	–	–	25	–	25	–	25
Actuarial gains on defined benefit pension schemes	–	–	–	–	36	36	–	36
Actuarial gains on defined benefit pension schemes transferred to unallocated divisible surplus	–	–	–	–	(13)	(13)	–	(13)
Net change in financial investments designated as available-for-sale	–	–	–	(42)	–	(42)	–	(42)
Total comprehensive (expense)/income for the year	–	–	–	(17)	1,098	1,081	19	1,100
Options exercised under share option schemes: – Savings related share option scheme	–	7	–	–	–	7	–	7
Shares purchased	–	–	(3)	–	–	(3)	–	(3)
Shares vested	–	–	10	(23)	–	(13)	–	(13)
Employee scheme treasury shares: – Value of employee services	–	–	–	26	–	26	–	26
Share scheme transfers to retained earnings	–	–	–	–	(21)	(21)	–	(21)
Dividends	–	–	–	–	(701)	(701)	–	(701)
Movement in third party interests	–	–	–	–	–	–	(5)	(5)
Currency translation differences	–	–	–	(14)	14	–	–	–
As at 31 December 2015	149	976	(30)	89	5,220	6,404	289	6,693

1. Capital redemption and other reserves include Share-based payments £69m, Foreign exchange £nil, Capital redemption £17m, Available-for-sale reserves £2m and Hedging reserves £1m.

Primary statements and performance (continued)

Consolidated Cash Flow Statement

For the year ended 31 December 2016	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Profit for the year		**1,265**	1,094
Adjustments for non cash movements in net profit for the year			
Realised and unrealised (gains)/losses on financial investments and investment properties		**(53,262)**	4,077
Investment income		**(9,390)**	(9,760)
Interest expense		**198**	186
Tax expense		**602**	320
Other adjustments		**(45)**	(70)
Net (increase)/decrease in operational assets			
Investments held for trading or designated as fair value through profit or loss		**(9,363)**	1,007
Investments designated as available-for-sale		**246**	158
Other assets		**(2,658)**	(2,594)
Net increase/(decrease) in operational liabilities			
Insurance contracts		**12,910**	(1,083)
Transfer from unallocated divisible surplus		**(232)**	(90)
Investment contracts		**39,747**	(9,524)
Value of in-force non-participating contracts		**(22)**	24
Other liabilities		**17,059**	6,645
Cash used in operations		**(2,945)**	(9,610)
Interest paid		**(234)**	(186)
Interest received		**4,863**	5,286
Tax paid[1]		**(424)**	(244)
Dividends received		**4,676**	3,931
Net cash flows from/(used in) operating activities		**5,936**	(823)
Cash flows from investing activities			
Net acquisition of plant, equipment and intangibles		**(45)**	(24)
Acquisitions[2]		**–**	(5)
Disposal of subsidiaries[3]	29	**(272)**	(82)
Investment in joint ventures		**(63)**	(71)
Net cash flows from investing activities		**(380)**	(182)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the company during the year	4	**(830)**	(701)
Proceeds from issue of ordinary share capital		**5**	7
Net purchase of employee scheme shares		**–**	(8)
Proceeds from borrowings		**219**	697
Repayment of borrowings		**(342)**	(527)
Net cash flows used in financing activities		**(948)**	(532)
Net increase/(decrease) in cash and cash equivalents		**4,608**	(1,537)
Exchange gains/(losses) on cash and cash equivalents		**182**	(106)
Cash and cash equivalents at 1 January (before reallocation of held for sale cash)		**21,066**	22,709
Cash and cash equivalents (before reallocation of held for sale cash)		**25,856**	21,066
Cash and cash equivalents classified as held for sale	30	**(139)**	(389)
Cash and cash equivalents at 31 December	14	**25,717**	20,677

1. Tax comprises UK corporation tax paid of £249m (2015: £128m), overseas corporate taxes of £16m (2015: £36m) and withholding tax of £159m (2015: £80m).
2. Net cash flows from acquisitions includes cash paid of £nil (2015: £5m) less cash and cash equivalents acquired of £nil (2015: £nil).
3. Net cash flows from disposals includes cash received of £144m (2015: £242m) less cash and cash equivalents disposed of £416m (2015: £324m).

The group's Consolidated Cash Flow Statement includes all cash and cash equivalent flows. The closing cash position includes £944m (2015: £856m) relating to the with-profit fund policyholders and £20,434m (2015: £16,116m) relating to unit-linked policyholders.

Primary statements and performance (continued)

1 Basis of preparation

Legal & General Group Plc, a public limited company incorporated and domiciled in the United Kingdom (UK), together with its subsidiaries transacts life assurance and long term savings business, investment management and general insurance and health business through its subsidiaries and associates in the UK, the United States and other countries throughout the world.

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 IFRS and interpretations by the IFRS Interpretations Committee as issued by the IASB 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 and 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. 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 IFRIC interpretation, as detailed in the applicable accounting policies of the group.

Standards, interpretations and amendments to published standards that 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 2017 or later periods but which the group has not adopted early. Details of these are contained within note 12 (Financial investments and investment property), note 22 (Investment contract liabilities) and note 43 (Commitments).

Use of estimates

The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the Consolidated Balance Sheet and Income Statement and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly.

This is particularly relevant for the following disclosures:

Financial statement area	Significant judgements in applying accounting policy	Related notes
Valuation of insurance and investment contract liabilities	Determination of mortality and longevity assumptions used in the calculation of the insurance contract liabilities. The assumptions for the rate of future longevity, mortality and morbidity are based on the group's internal experience and judgements about how experience may vary in the future. This assessment takes into account market benchmarking, internal experience studies and independent industry data. Determination of valuation interest rates used to discount the liabilities are sensitive to the assumptions made, for example, on credit default of the backing assets. These assumptions take into account consideration of market experience and historic data internal data. Note 20 provides a sensitivity analysis including these assumptions.	19 - 22
Valuation of investment property and unquoted illiquid assets	Determination of fair value of investment property, and unquoted and illiquid assets involves judgements as mark to model valuations inherently include assumptions that lead to the existence of a range of plausible valuation for financial assets. Note 12 provides a range of valuations based on reasonably possible alternative assumptions, and the sensitivities in Note 20 include a sensitivity to property valuation changes.	12 and 20
Defined benefit pension plan	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 26 includes a sensitivity analysis to alternative assumptions.	26

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 (when it 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 45). Profits or losses of subsidiary undertakings sold or acquired during the period 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' (note 12(v)) in the Consolidated Balance Sheet.

Primary statements and performance (continued)

Associates and joint ventures

The group has interests in associates and joint ventures (note 46) 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 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 the profit or loss after the date of the acquisition.

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.

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.

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 year end exchange rates at 31 December 2016 were 1.24 United States Dollar and 1.17 Euro (at 31 December 2015: 1.47 United States Dollar and 1.36 Euro).

The average exchange rates for year ended 31 December 2016 were 1.36 United States Dollar and 1.22 Euro (year ended 31 December 2015: 1.53 United States Dollar and 1.38 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] 2016 £m	Tax (expense) /credit 2016 £m	Profit/ (loss) after tax 2016 £m	Profit/ (loss) before tax[1] 2015 £m	Tax (expense) /credit 2015 £m	Profit/ (loss) before tax 2015 £m
Legal & General Retirement (LGR)		**811**	**(139)**	**672**	641	(115)	526
Legal & General Investment Management (LGIM)		**366**	**(81)**	**285**	355	(76)	279
Legal & General Capital (LGC)		**257**	**(43)**	**214**	233	(46)	187
Legal & General Insurance (LGI)		**317**	**(91)**	**226**	315	(95)	220
– UK and Other		232	(47)	185	232	(49)	183
– US		85	(44)	41	83	(46)	37
Savings		**99**	**(20)**	**79**	107	(21)	86
General Insurance		**52**	**(10)**	**42**	51	(10)	41
Operating profit from divisions/tax expense on divisions		**1,902**	**(384)**	**1,518**	1,702	(363)	1,339
Group debt costs[2]		**(172)**	**34**	**(138)**	(153)	31	(122)
Group investment projects and expenses[3]	2(iv)	**(102)**	**19**	**(83)**	(86)	17	(69)
Adjusted operating profit/tax expense		**1,628**	**(331)**	**1,297**	1,463	(315)	1,148
Kingswood office closure costs		**(66)**	**13**	**(53)**	(8)	2	(6)
Operating profit/tax expense		**1,562**	**(318)**	**1,244**	1,455	(313)	1,142
Investment and other variances	2(v)	**13**	**1**	**14**	(119)	52	(67)
Gains on non-controlling interests		**7**	**–**	**7**	19	–	19
Profit for the year/tax expense for the year		**1,582**	**(317)**	**1,265**	1,355	(261)	1,094

1. The Profit/(loss) before tax reflects profit/(loss) before tax attributable to equity holders.
2. Group debt costs exclude interest on non recourse financing.
3. Group investment projects and expenses include restructuring costs of £54m (2015: £42m before tax).

Primary statements and performance (continued)

2 Supplementary operating profit information (continued)

(i) Reconciliation between operating profit and profit from ordinary activities after income tax (continued)

The equity holders' effective tax rate for the year is 20.0% (2015: 19.3%).

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

During 2016, the Insurance (excluding General Insurance) and LGA segments were combined to create the new Legal & General Insurance (LGI) segment. General Insurance is now presented as a separate segment.

LGR represents worldwide pension risk transfer business (including longevity insurance), individual retirement and lifetime mortgages.

The LGIM segment represents institutional and retail investment management and workplace savings businesses.

LGC represents shareholder assets invested in direct investments, and traded and treasury assets.

LGI represents UK retail protection, group protection and network business, Legal & General Netherlands (LGN) and protection business written in the USA (LGA). LGI comparatives include Legal & General France (LGF), which was sold during 2015.

Savings represents business in platforms, SIPPs and mature savings, including with-profits.

The General Insurance segment comprises short-term protection.

During 2016, changes have been made to the organisational structure. The advised sales and India businesses have transferred to LGI from Savings, and Investment Discounts On Line Limited (the IDOL) has been transferred to LGR from LGI. Comparatives have been amended accordingly. The impact of this reclassification has been to increase LGR 2015 operating profit by £2m, increase Savings 2015 operating profit by £8m and reduce LGI 2015 operating profit by £10m.

Operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes and exceptional items. Operating profit therefore reflects longer-term economic assumptions for the group's insurance businesses and shareholder funds, except for LGC's trading businesses (which reflects IFRS profit before tax) and LGA (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. Exceptional income and expenses which arise outside the normal course of business in the year, such as merger and acquisition, and start-up costs, are also excluded from operating profit.

(ii) Reconciliation of release from operations to operating profit before tax

The table below provides an analysis of the release from operations by each of the group's business segments, together with a reconciliation to operating profit before tax.

For the year ended 31 December 2016	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other[2] £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	**433**	**159**	**592**	**34**	**40**	**6**	**–**	**672**	**139**	**811**
LGIM	**308**	**(22)**	**286**	**(1)**	**–**	**–**	**–**	**285**	**81**	**366**
– LGIM excluding Workplace Savings (admin only)	290	–	290	–	–	–	–	290	82	372
– Workplace Savings (admin only)[3]	18	(22)	(4)	(1)	–	–	–	(5)	(1)	(6)
LGC	**214**	**–**	**214**	**–**	**–**	**–**	**–**	**214**	**43**	**257**
LGI	**317**	**23**	**340**	**(11)**	**5**	**(29)**	**(79)**	**226**	**91**	**317**
– UK and Other	254	23	277	(11)	5	(29)	(57)	185	47	232
– US	63	–	63	–	–	–	(22)	41	44	85
Savings	**104**	**(5)**	**99**	**4**	**8**	**(32)**	**–**	**79**	**20**	**99**
General Insurance	**42**	**–**	**42**	**–**	**–**	**–**	**–**	**42**	**10**	**52**
Total from divisions	**1,418**	**155**	**1,573**	**26**	**53**	**(55)**	**(79)**	**1,518**	**384**	**1,902**
Group debt costs	**(138)**	**–**	**(138)**	**–**	**–**	**–**	**–**	**(138)**	**(34)**	**(172)**
Group investment projects and expenses	**(24)**	**–**	**(24)**	**–**	**–**	**–**	**(59)**	**(83)**	**(19)**	**(102)**
Adjusted total	**1,256**	**155**	**1,411**	**26**	**53**	**(55)**	**(138)**	**1,297**	**331**	**1,628**
Kingswood office closure costs[4]	**–**	**–**	**–**	**–**	**–**	**–**	**(53)**	**(53)**	**(13)**	**(66)**
Total	**1,256**	**155**	**1,411**	**26**	**53**	**(55)**	**(191)**	**1,244**	**318**	**1,562**

1. Release from operations includes dividends remitted from LGN of £70m (2015: £28m) within the LGI UK and Other line and US of £63m (2015: £54m).
2. International and other includes £43m (2015: £34m) of restructuring costs (£54m before tax) (2015: £42m before tax) within the group investment projects and expenses line.
3. This represents Workplace Savings admin only and excludes fund management profits.
4. The Kingswood office closure costs reflect expenditure in relation to rent and rates, as well as the write-off of previously capitalised expenditure.

Primary statements and performance (continued)

Release from operations for LGR, LGIM, LGI and Savings represents the expected IFRS surplus generated in the year from the in-force non profit annuities, workplace savings, protection and savings 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 LGN and LGA and operating profit after tax from the remaining LGI businesses. The Savings release from operations includes the shareholders' share of bonuses on with-profits business and operating profit after tax from the remaining Savings businesses.

New business surplus/strain for LGR, LGIM, LGI and Savings 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, protection and savings, net of tax. The new business surplus and release from operations for LGR, LGIM, LGI and Savings exclude any capital held in excess of the prudent reserves from the liability calculation.

Net release from operations for LGR, LGIM, LGI and Savings is defined as release from operations less new business strain.

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

During 2016, changes have been made to the organisational structure. The advised sales and India businesses have been transferred to LGI from Savings, and the IDOL business has been transferred to LGR from LGI. Comparatives have been amended accordingly. The impact of this reclassification has been to increase LGR 2015 release from operations by £2m, increase Savings 2015 release from operations by £6m and reduce LGI 2015 release from operations by £8m.

See note (iii) for more detail on experience variances, changes to valuation assumptions and non-cash items.

For the year ended 31 December 2015	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other[2] £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR[4]	374	45	419	13	114	(20)	–	526	115	641
LGIM	303	(22)	281	(1)	1	(2)	–	279	76	355
– LGIM excluding Workplace Savings (admin only)[3]	282	–	282	–	–	–	–	282	77	359
– Workplace Savings (admin only)	21	(22)	(1)	(1)	1	(2)	–	(3)	(1)	(4)
LGC	187	–	187	–	–	–	–	187	46	233
LGI[4]	328	25	353	(14)	(45)	(46)	(28)	220	95	315
– UK and Other	274	25	299	(14)	(45)	(46)	(11)	183	49	232
– US	54	–	54	–	–	–	(17)	37	46	83
Savings[4]	125	(9)	116	(9)	–	(23)	2	86	21	107
General Insurance	41	–	41	–	–	–	–	41	10	51
Total from divisions	1,358	39	1,397	(11)	70	(91)	(26)	1,339	363	1,702
Group debt costs	(122)	–	(122)	–	–	–	–	(122)	(31)	(153)
Group investment projects and expenses	(19)	–	(19)	–	–	–	(50)	(69)	(17)	(86)
Adjusted total	1,217	39	1,256	(11)	70	(91)	(76)	1,148	315	1,463
Kingswood office closure costs	–	–	–	–	–	–	(6)	(6)	(2)	(8)
Total	1,217	39	1,256	(11)	70	(91)	(82)	1,142	313	1,455

1. Release from operations includes dividends remitted from LGF of £1m and LGN of £28m within the LGI UK and Other line and US of £54m.
2. International and other includes £34m of restructuring costs (£42m before tax) within the group investment projects and expenses line.
3. This represents Workplace Savings admin only and excludes fund management profits.
4. LGR includes the IDOL business which was previously reported in LGI, and LGI includes the advised sales and India businesses which were previously reflected in Savings. Comparatives have been amended accordingly. The impact of this reclassification has been to increase LGR 2015 release from operations by £2m, increase Savings 2015 release from operations by £6m and reduce LGI 2015 release from operations by £8m.

Primary statements and performance (continued)

2 Supplementary operating profit information (continued)

(iii) Analysis of LGR, LGI and Savings operating profit

	LGR 2016 £m	LGI 2016 £m	Savings 2016 £m	LGR 2015 £m	LGI 2015 £m	Savings 2015 £m
Net release from operations	**592**	**340**	**99**	419	353	116
Experience variances						
– Persistency	**2**	**(2)**	**–**	4	5	(2)
– Mortality/morbidity[1]	**47**	**(34)**	**–**	18	(16)	–
– Expenses	**(9)**	**4**	**7**	–	2	3
– Project and development costs	**(21)**	**2**	**(4)**	(20)	(2)	(2)
– Other	**15**	**19**	**1**	11	(3)	(8)
Total experience variances	**34**	**(11)**	**4**	13	(14)	(9)
Changes to valuation assumptions						
– Persistency[2]	**–**	**(52)**	**5**	–	48	–
– Mortality/morbidity[3]	**40**	**4**	**–**	97	(20)	–
– Expenses[4]	**–**	**53**	**–**	17	27	(2)
– Reinsurance modelling[5]	**–**	**–**	**–**	–	(93)	–
– Other	**–**	**–**	**3**	–	(7)	2
Total valuation assumption changes	**40**	**5**	**8**	114	(45)	–
Movement in non-cash items						
– Deferred tax	**–**	**–**	**1**	–	–	2
– Utilisation of brought forward trading losses	**–**	**–**	**–**	(25)	(6)	–
– Acquisition expense tax relief[6]	**–**	**(27)**	**(3)**	–	(30)	(4)
– Deferred Acquisition Costs (DAC)[7]	**–**	**–**	**(28)**	–	–	(54)
– Deferred Income Liabilities (DIL)[7]	**–**	**–**	**9**	–	–	39
– Other	**6**	**(2)**	**(11)**	5	(10)	(6)
Total non-cash movement items	**6**	**(29)**	**(32)**	(20)	(46)	(23)
International and other[8]	**–**	**(79)**	**–**	–	(28)	2
Operating profit after tax	**672**	**226**	**79**	526	220	86
Tax gross up	**139**	**91**	**20**	115	95	21
Operating profit before tax	**811**	**317**	**99**	641	315	107

1. The LGR mortality/morbidity experience variance reflects higher than expected annuitant deaths experience over 2016. LGI mortality/morbidity experience variance in 2016 primarily reflects adverse claims experience on the group protection book of business.
2. The LGI persistency valuation assumption change in 2016 is the result of a review of prudence within the lapse assumption for level and decreasing term assurance products.
3. The mortality/morbidity valuation assumption change in LGR primarily reflects a change in the treatment to historic longevity insurance deals where future fees in excess of prudent estimates of longevity and expense experience are now included as an offset to IFRS reserves. The 2015 LGR mortality/morbidity change to valuation assumptions primarily reflected a change in mortality reserving assumptions in relation to unreported deaths of deferred annuitants.
4. The LGI expense valuation assumption change is the result of the reduction in unit costs following recent expense saving actions, together with a review of the prudence within renewal expenses on our protection products.
5. The reinsurance modelling for our UK protection business was enhanced in 2015. Recent reinsurance contracts have been written on a risk premium basis (as opposed to level premium) and the model change ensured that for these treaties, sufficient prudence was being held in later years. The one-off impact reduced operating profit by £93m in 2015. This also deferred a higher proportion of release from operations into the later years of these reinsurance contracts.
6. Net release from operations for LGI and Savings recognises tax relief from prior year acquisition expenses, which are spread evenly over seven years under relevant 'I-E' tax legislation in the period the cash flows actually occur. In contrast, operating profit typically recognises the value of these future cash flows in the same period as the underlying expense as deferred tax amounts. The reconciling amounts arising from these items are included in the table above. Following the removal of new retail protection business from the 'I-E' tax regime, and the removal of commission from new insured savings business under the Retail Distribution Review at the end of 2012, no material amount of deferred tax assets arise on new acquisition expenses and the value of these future cash flows for post-2013 acquisition expenses have been reflected within net release from operations. The residual prior year acquisition expenses will run off predictably to 2018.
7. The DAC in Savings represents the amortisation charges offset by new acquisition costs deferred in the year. The DIL reflects initial fees on insured savings business which relate to the future provision of services and are deferred and amortised over the anticipated period in which these services are provided.
8. LGI Other in 2016 reflects the difference between the dividend (release from operations) remitted from LGN and LGA of £70m and £63m respectively (2015: dividends remitted from LGN of £28m, LGF of £1m and LGA of £54m) and the LGN, LGA and India operating profit after tax (2015: LGN, LGF, LGA and India operating profit after tax).

Primary statements and performance (continued)

(iv) Group investment projects and expenses

	2016 £m	2015 £m
Group investment projects and central expenses	**(48)**	(44)
Restructuring costs[1]	**(54)**	(42)
Total group investment projects and expenses	**(102)**	(86)

1. Restructuring costs exclude the Kingswood office closure costs which have been presented separately.

(v) Investment and other variances

	2016 £m	2015 £m
Investment variance[1]	**147**	(57)
M&A related[2]	**(102)**	(57)
Other[3]	**(32)**	(5)
Total Investment and other variances	**13**	(119)

1. 2016 investment variance is positive, primarily driven by foreign exchange gains on US dollar assets, the outperformance of equity markets to expectations and a lack of defaults on the group's bond portfolios, partially offset by the negative impact of interest rate changes during the period. The defined benefit pension scheme variance of £29m contained within this line (2015: £(15)m) reflects the actuarial gains and losses, and valuation differences arising on annuity assets held by defined benefit pension schemes that have been purchased from Legal & General Assurance Society Limited. A segmental analysis of Investment and other variances can be found in note 31(a).
2. M&A related includes gains and losses, expenses and intangible amortisation relating to acquisitions and disposals. 2016 includes the £60m net loss resulting from the classification of Cofunds as held for sale (£64m loss) and the disposal of Suffolk Life (£4m gain) (2015: includes the £25m net loss resulting from the disposal of subsidiary and joint venture investments during the year).
3. Other includes new business start-up costs and other non-investment related variance items.

3 Other operational income and expenses

Operational income comprises fee income from estate agency operations, agency fee income relating to distribution services and income of £93m (2015: £640m) from consolidated private equity investments. Operational income is accounted for on an accruals basis. The total operational income for the year is £321m (2015: £876m).

Other expenses comprise:	Notes	2016 £m	2015 £m
Staff costs (including pensions and share-based payments)	36	**629**	611
Redundancy costs		**6**	10
Operating lease rentals[1]		**20**	23
Auditors' remuneration	35	**9**	9
Depreciation of plant and equipment		**13**	15
Amortisation of purchased interest in long term businesses and other intangibles	10	**42**	51
Reinsurance commissions		**(6)**	(5)
Direct operating expenses arising from investment properties which generate rental income		**44**	52
Expenses attributable to consolidated private equity investment vehicles		**132**	586
Other administrative expenses[2]		**680**	541
Total other expenses		**1,569**	1,893

1. Where a significant proportion of the risks and rewards of ownership is retained by the lessor, leases are classified as operating leases. Payments made by lessees under operating leases (net of any incentives from the lessor) are charged to the Consolidated Income Statement on a straight line basis over the period of the lease.
2. Other administrative expenses during 2016 includes the write-off of goodwill from subsidiaries classified as held for sale of £64m.

Primary statements and performance (continued)

4 Dividends

A dividend distribution to the company's shareholders is recognised as a liability in the period in which the dividends are authorised and are no longer at the discretion of the company.

	Dividend 2016 £m	Per share[1] 2016 p	Dividend 2015 £m	Per share[1] 2015 p
Ordinary share dividends paid in the year:				
– Prior year final dividend	**592**	**9.95**	496	8.35
– Current year interim dividend	**238**	**4.00**	205	3.45
	830	**13.95**	701	11.80
Ordinary share dividend proposed[2]	**616**	**10.35**	592	9.95

1. The dividend per share calculation is based on the number of equity shares registered on the ex-dividend date.
2. The dividend proposed is not included as a liability in the Consolidated Balance Sheet.

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.

Adjusted earnings per share are also presented which exclude the impact of disposals of subsidiaries and joint ventures and the classification of subsidiaries as held for sale on profit after tax.

A reconciliation of the earnings and weighted average number of shares used in the calculations is provided below:

(i) Earnings per share

	Profit after tax 2016 £m	Earnings per share[1] 2016 p	Adjusted profit after tax 2016 £m	Adjusted earnings per share[1,2] 2016 p	Profit after tax 2015 £m	Earnings per share[1] 2015 p	Adjusted profit after tax 2015 £m	Adjusted earnings per share[1,2] 2015 p
Operating profit	**1,244**	**20.98**	**1,244**	**20.98**	1,142	19.29	1,142	19.29
Investment and other variances	**14**	**0.24**	**72**	**1.22**	(67)	(1.13)	(42)	(0.71)
Earnings per share based on profit attributable to equity holders	**1,258**	**21.22**	**1,316**	**22.20**	1,075	18.16	1,100	18.58

1. Earnings per share is calculated by dividing profit after tax derived from continuing operations by the weighted average number of ordinary shares in issue during the period, excluding employee scheme treasury shares.
2. Adjusted earnings per share has been calculated after excluding the net loss before tax, £60m, resulting from the disposal of Suffolk Life and the classification of Cofunds as held for sale (2015: excluding the £25m net loss after tax resulting from the disposal of subsidiary and joint venture investments).

Primary statements and performance (continued)

(ii) Diluted earnings per share

	Number of shares 2016 m	Profit after tax 2016 £m	Earnings per share[1] 2016 p	Adjusted profit after tax 2016 £m	Adjusted earnings per share[1, 2] 2016 p
Profit attributable to equity holders of the company	**5,929**	**1,258**	**21.22**	**1,316**	**22.20**
Net shares under options allocable for no further consideration	**24**	**–**	**(0.09)**	**–**	**(0.09)**
Diluted earnings per share	**5,953**	**1,258**	**21.13**	**1,316**	**22.11**

	Number of shares 2015 m	Profit after tax 2015 £m	Earnings per share[1] 2015 p	Adjusted profit after tax 2015 £m	Adjusted earnings per share[1, 2] 2015 p
Profit attributable to equity holders of the company	5,920	1,075	18.16	1,100	18.58
Net shares under options allocable for no further consideration	38	–	(0.12)	–	(0.12)
Diluted earnings per share	5,958	1,075	18.04	1,100	18.46

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.
2. Adjusted earnings per share has been calculated after excluding the net loss after tax of £58m, resulting from the disposal of Suffolk Life and the classification of Cofunds as held for sale (2015: excluding £25m net loss after tax resulting from the disposal of subsidiary and joint venture investments).

6 New business

	2016 £m	2015 £m
Backbook acquisitions	**2,945**	–
Pension risk transfer		
– UK	**3,338**	1,977
– US	**347**	295
– Netherlands	**–**	145
Individual annuities	**378**	327
Lifetime mortgage advances	**620**	201
Longevity insurance[1]	**900**	–
Total LGR new business	**8,528**	2,945

1. Represents a reinsured longevity insurance deal transacted in December 2016. The figure quoted represents the notional size of the transaction and is based on the present value of the fixed leg cash flows discounted at the LIBOR curve. The first year's cash flow is £25m.

UK retail protection	**170**	162
UK group protection	**58**	69
France protection[1]	**–**	30
Netherlands protection	**4**	5
US protection	**62**	70
Total Insurance new business	**294**	336

1. Legal & General Holdings (France) S.A. was sold on 31 December 2015 to APICIL Prévoyance.

New business is presented for selected lines only.

Balance sheet management

7 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 control techniques 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 40 to 45.

Details of the risks associated with the group's principal products and the control techniques used to manage these risks can be found in notes 8 and 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. Immediate and deferred annuity contracts are offered. 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. Bulk annuities are also offered, where the group accepts the assets and liabilities of a company pension scheme or a life fund, predominantly to UK clients, but also for US, Dutch and Irish clients. A small portfolio of immediate annuities has been written as participating business. Some non-participating deferred annuities sold by the group contain guaranteed cash options, predominantly minimum factors for commuting part of the annuity income into cash at the date of vesting. The value of such guaranteed options are currently immaterial. There is a block of immediate and deferred annuities within the UK non profit business with benefits linked to changes in the RPI or for a minority the CPI, but with contractual maximum or minimum increases. In particular, most of these annuities have a provision that the annuity will not reduce if RPI, or for a minority CPI, becomes negative. The total of such annuities in payment at 31 December 2016 was £610m (2015: £572m). Thus, 1% negative inflation, which was reversed in the following year, would result in a guarantee cost of approximately £6m (2015: £6m). Negative inflation sustained over a longer period would give rise to significantly greater guarantee costs. Some of these guarantee costs have been partially matched through the purchase of negative inflation hedges and limited price indexation swaps.

The group also offers products for individuals that provide a guaranteed level of income over a chosen fixed period of time, in exchange for an initial lump sum payment from the policyholder. The products can provide a fixed lump sum at maturity and/or options to surrender on non-guaranteed terms.

The group has written some deferred annuity contracts with guaranteed minimum pensions. These options expose the group to interest rate and longevity risk as the cost would be expected to increase with decreasing interest rates and improved longevity. The market consistent value of these guarantees carried in the balance sheet is £250m (2015: £176m).

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 60 through specialist intermediaries. Interest accrues over the term of the loan and is repayable at the time the principal becomes due. All Lifetime mortgages provide a 'no negative equity' guarantee, which means that if the loan is repaid from the sale of the property and the net sale proceeds are lower than the balance of the loan, the group will accept the net sale proceeds as full settlement.

Legal & General Investment Management (LGIM)

LGIM offers both active and passive management on either a pooled or segregated basis. Assets are managed on behalf of pension funds, institutional clients, sovereign wealth clients, retail funds and subsidiary companies within the group. The core 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.

Active fixed income and liquidity management

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.

Balance sheet management (continued)

Solutions and Liability Driven Investment (LDI)
A range of pooled and bespoke solutions to help de-risk defined benefit pension schemes. These solutions will usually combine active or passive underlying portfolios with derivative overlays designed to meet clients' specific requirements.

Solutions also includes a range of pooled multi-asset funds for retail and institutional clients, built using LGIM's expertise in asset allocation which is informed by an in-house research capability. The underlying asset classes may be managed on an active or passive basis within LGIM. An allocation strategy service is also offered to institutional clients, which may also allocate some of the portfolio to managers other than LGIM.

Active equity
An active equity management business comprising focused teams managing stock selection across different regions.

Real assets
A range of pooled or segregated real estate funds for both UK and overseas investors, offered via a mixture of pooled funds, specialist funds and partnerships. The business is based around in-house sector specialists with a dedicated research team.

Legal & General Capital (LGC)
Investment strategy and implementation
LGC 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 are managed using a range of techniques, including performance benchmarks, 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. Direct investments are typically illiquid investments entered into through acquisition, joint venture with strategic partners or by creating new companies directly. LGC seeks to create revenue-generating direct investments in sectors where there are significant funding shortfalls, namely housing, infrastructure (including urban regeneration and clean energy) and SME finance. LGC employs capital and sector expertise to target attractive risk-adjusted returns.

Legal & General Insurance (LGI)
LGI business comprises UK retail and group protection, US protection and universal life business, and the Netherlands business (LGN).

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. The reserves for universal life totalled $596m (£482m) at 31 December 2016 ($625m (£424m) at 31 December 2015). The guaranteed interest rates associated with those reserves ranged from 1.5% to 6%, with the majority of the policies having guaranteed rates ranging from 3% to 4% (2015: 3% to 4%).

Legal & General Netherlands (LGN)
In addition to protection products, LGN also write savings business, which includes unit linked and index linked savings products, bank based investment accounts and corporate pension products. Certain savings products include an exposure to interest rate and credit risk, managed through an active asset-liability management programme.

Balance sheet management (continued)

7 Principal products (continued)

Savings

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 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 financial risk on these contracts is borne by the policyholders and therefore detailed risk disclosures have not been presented in respect of the associated assets and liabilities. Unit linked business is written in the Society with-profits fund. Collective investment business is administered by Legal & General (Portfolio Management Services) Limited.

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.

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 attribution 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 will also continue to be accepted. Sales of new with-profits bonds were suspended in January 2014 before closing with-profits bonds to increments at the end of December 2014.

Discretionary increases to benefits on participating contracts are allowed in one or both of annual and final bonus form. These bonuses are determined in accordance with the principles outlined in the Society'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 without the need for additional capital;
- 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; and
- 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.

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 of the with-profits sub fund on 31 January 2015, the Board agreed a run-off plan. They will 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. Following this approach, the Board has agreed that there should be no distribution of the estate and no charge for options and guarantees as part of the 2016 bonus declaration.

Balance sheet management (continued)

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 unallocated divisible surplus in the fund 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 equity. As part of the 2007 with-profit fund restructure, the 1996 sub-fund (£321m) was merged into the Shareholder Retained Capital (SRC). As a result, Society's Board of Directors undertook to initially maintain £500m of assets within Society to support the with-profits business. The amount of the commitment reduced to £50m at the end of 2016 and will then gradually reduce to zero by the end of 2017.

General Insurance (GI)

General Insurance business comprises Household and 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. They protect predominantly mortgage payments. 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 insurance

Legal & General Pet Insurance is arranged and administered by Ultimate Pet Partners Limited and underwritten by Legal & General Insurance Limited. The policies aim to protect dogs and cats against unexpected accidents and illnesses. These are then split into three categories – accident only, 12 month or lifetime cover.

In addition, there are portfolios of Motor Insurance and Domestic Mortgage Indemnity Insurance (DMI) in run-off. Since 1993, the DMI contract has included a maximum period of cover of ten years, and a cap on the maximum claim. For business accepted prior to 1993, cover is unlimited and lasts until the insured property is remortgaged or redeemed; the group expects 2017 will be the last year for which the group is on risk as the mortgages insured will have been fully paid off by then. The group ceased underwriting motor business in 2007. Only three claims currently remain outstanding.

A small amount of revenue is generated through a distribution only model for Travel and Motor products.

Balance sheet management (continued)

8 Asset risk

The group is exposed to the following categories of risk as a consequence of offering the principal products outlined in note 7.

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 control techniques 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 control techniques is detailed below.

Market risk

Principal risks	Division	Controls to mitigate the risk
Investment performance risk The group is exposed to the risk that the income from, and value of, assets held to back insurance liabilities do not perform in line with investment and product pricing assumptions leading to a potential financial loss.	LGR and LGI	Stochastic models are used to assess the impact of a range of future return scenarios on investment values and associated liabilities in order to determine optimum portfolios of invested assets. For immediate annuities, which are sensitive to interest rate risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes in line with the value of liabilities when interest rates change.
The financial risk exposure for participating contracts is different from that for non-participating business. 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. Lower investment returns increase the costs associated with maturity and investment guarantees provided on these contracts.	Savings	These risks are managed by maintaining capital sufficient to cover the consequences of mismatch under a number of adverse scenarios. In addition, different investment strategies are followed for assets backing policyholder asset shares and assets backing other participating liabilities and surplus. The former include significant equity and property holdings, whilst the latter are invested largely in fixed interest securities. The assets held are managed so as to provide a partial hedge to movements in fixed interest yields and equity markets. The methodology used to calculate the liabilities for participating contracts makes allowance for the possibility of adverse changes in investment markets on a basis consistent with the market cost of hedging the guarantees provided. The methodology also makes allowance for the cost of future discretionary benefits, guarantees and options. The value of future discretionary benefits depends on the return achieved on assets backing these contracts. The asset mix varies with investment conditions reflecting the group's investment policy, which aims to optimise returns to policyholders over time whilst limiting capital requirements for this business.
For unit linked contracts, there is a risk of volatility in asset management fee income due to the impact of interest rate and market price movements on the fair value of the assets held in the linked funds, on which investment management fees are based. There is also the risk of expense over-runs should the market depress the level of charges which could be imposed.	LGIM, LGI and Savings	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 are subject to regular monitoring. Periodic assessment is also made of the long term profitability to the group of these funds. For some contracts the group has discretion over the level of management charges levied.
Property risk Lifetime mortgages include a no-negative equity guarantee which transfers an exposure to loss to the group as a result of low house price inflation and an exposure on specific properties which may underperform the general house price inflation for whatever reason.	LGR	To mitigate the risk, maximum loan to value ratios are set for all lending with further underwriting criteria setting out acceptable properties for lending purposes. Policy terms also require properties to be fully insured and maintained, including the right of inspection. Diversification of lending by property type and geographic region seek to control exposures to specific aspects of the property market.

Balance sheet management (continued)

Principal risks	Division	Controls to mitigate the risk
Currency risk To diversify credit risk within the annuities business corporate bond portfolio, investments are held in corporate bonds denominated in non-Sterling currencies. LGC also invest in overseas assets. Fluctuations in the value of, or income from, these assets relative to liabilities denominated in Sterling could result in unforeseen loss.	LGR and LGC	To mitigate the risk of loss from currency fluctuations, currency swaps and forwards are used to hedge exposures to corporate bonds denominated in currencies other than Sterling. Hedging arrangements are placed with strongly rated counterparties with collateral requirements being subject to regular review and reconciliation with the counterparties. In all cases, it is not possible to perfectly hedge currency risk, leading to some residual risk.
The consolidated international subsidiaries are revalued into Sterling potentially resulting in a loss to equity.	LGC and Group	Balance sheet foreign exchange currency translation exposure in respect of the group's international subsidiaries is managed in accordance with a policy, agreed by the Group Board, which allows net foreign currency assets to be hedged through the use of derivatives. In all cases, it is not possible to perfectly hedge currency risk, leading to some residual risk.
Inflation risk Inflation risk is the potential for loss as a result of relative or absolute changes in inflation rates. Annuity contracts may provide for future benefits to be paid taking account of changes in the level of inflation. Annuity contracts in payment may include an annual adjustment for movements in price indices.	LGR	The investment strategy for annuities business takes explicit account of the effect of movements in price indices on contracted liabilities. Significant exposures that may adversely impact profitability are hedged using inflation swaps. Annuity contracts also typically provide for a cap on the annual increase in inflation linked benefits in payment. It is not possible to perfectly hedge inflation risk linked with contracted liabilities, leading to some residual risk.
Interest rate risk Interest rate risk is the risk that the group is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates.	LGR	To mitigate the risk that guarantees and commitments are not met, financial instruments are purchased, which broadly match the expected non-participating policy benefits payable, by their nature and term. The composition of the investment portfolio is governed by the nature of the insurance or savings liabilities, the expected rate of return applicable on each class of asset and the capital available to meet the price fluctuations for each asset class, relative to the liabilities they support.
The group is exposed to interest rate risk on the investment portfolio it maintains to meet the obligations and commitments under its non-linked insurance and investment contracts, in that the proceeds from the assets may not be sufficient to meet the group's obligations to policyholders. Additionally the group is exposed to interest rate fluctuations on the repayments on variable rate debt issued by the group.	LGC and Group	Asset liability matching significantly reduces the group's exposure to interest rate risk. IFRS sensitivity to interest rate changes is included in note 20.

Balance sheet management (continued)

8 Asset risk (continued)

Credit risk

Principal risks	Division	Controls to mitigate the risk
Bond default risk A significant portfolio of corporate bonds and commercial loans are held to back the liabilities arising from writing annuities and general insurance business. Whilst the portfolio is diversified, the asset class is inherently exposed to the risk of issuer default, with financial loss.	LGR, LGI (US) and General Insurance	Portfolio level and specific issuer limits are set by financial strength rating, sector and geographic region so as to limit exposure from a default event. Issuer limits are regularly reviewed to take account of changes in market conditions, sector performance and the re-assessment of financial strength by rating agencies and the group's own internal analysts. Exposures are monitored relative to limits. Financial instruments are also used to mitigate the impact of rating downgrades and defaults. If appropriate, actions are taken to trade out investments at risk of default.
Reinsurance counterparty risk Exposure to insurance risk is mitigated by ceding part of the risks assumed to the reinsurance market. Default of a reinsurer would require the business to be re-brokered potentially on less advantageous terms, or for the risks to be borne directly resulting in financial loss. Credit risk syndication also exposes the group to counterparty default risks with the group being required to carry an element of associated credit risk capital requirement on its balance sheet should the business not be re-brokered on the same terms.	LGR, LGI and General Insurance	When selecting new reinsurance partners for its protection business, the group considers only companies which have a minimum credit rating equivalent to A- from Standard & Poor's. For each reinsurer, exposure limits are determined based on credit ratings and projected exposure over the term of the treaty. Actual exposures are regularly monitored relative to these limits. Similarly, for longevity and credit risk syndication transactions, the group targets the use of strongly rated counterparties and seeks to ensure that positions are fully collateralised. The adequacy and quality of collateral is subject to ongoing monitoring.
Property lending counterparty risk As part of our asset diversification strategy, we hold property lending and sale and leaseback investments. We are inherently exposed to the risk of default by a borrower or tenant.	LGR 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 the investment transaction.
Banking counterparty risk The group is exposed to potential financial loss should banks or the issuers of financial instruments default on their obligations to us. We are also exposed to counterparty risks in respect of the providers of settlement and custody services.	LGC and Group	The group controls its exposures to banking counterparties and the issuers of financial instruments using a framework of counterparty limits. These limits take account of the relative financial strength of the counterparty as well as other exposures that the group may have. Limits are subject to regular review with actual exposures monitored to limits. The group has defined criteria for the selection of custody and settlement services. The financial strength of providers is regularly reviewed.

Liquidity risk

Principal risks	Division	Controls to mitigate the risk
Contingent event risk Events that result in liquidity risk may include a flu pandemic or natural disaster leading to significantly higher levels of claims than would normally be expected, or extreme events impacting the timing of cash flows or the ability to realise investments at a given value within a specified timeframe.	LGI, General Insurance and Group	The group seeks to ensure that it meets its obligations as they fall due and avoids incurring material losses on forced asset sales in order to meet those obligations. A limited level of contingent liquidity risk is however an accepted element of writing contracts of insurance. 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, with the profile of actual liquid assets being regularly compared to the required profile. The group's treasury function provides formal facilities to the rest of the group to cover contingent liquidity requirements arising from more extreme events and where investment assets may not be readily realisable. The level of assets backing insurance liabilities held in cash and other readily realisable assets at 31 December 2016 was £4.3bn (2015: £3.7bn).
Collateral liquidity risk Within the annuities businesses, the use of financial instruments to hedge default, interest rate, currency and inflation risks can require the posting of collateral with counterparties, and as such an appropriate pool of the asset types specified by counterparties must either be held or readily available.	LGR	Liquidity requirements to meet potential collateral calls are actively managed. Typically within the overall fund of investment assets held to meet the long term liabilities arising from annuity business, £600m is held in cash and other highly liquid investment types for general liquidity purposes. As at 31 December 2016 eligible assets worth five times the outstanding collateral were held (using the most representative definition of collateral contained within the company's different collateral agreements).

Balance sheet management (continued)

Other risks	Division	Controls to mitigate the risk
Investment liquidity risk Within the with-profits fund, exposure to liquidity risk may arise if the profile of investment assets held to meet obligations to policyholders is not aligned with the maturity profile of policies, or the profile does not adequately take account of the rights of policyholders to exercise options or guarantees to specified early surrender terms or minimum rates of return.	Savings	Liquidity risk is managed ensuring that an appropriate proportion of the fund is held in cash or other readily realisable assets to meet each tranche of maturities and anticipated early withdrawals as they fall due. Where policyholders have discretion to require early payment of policy proceeds, contractual safeguards are in place to ensure that the fund and remaining policyholders are not disadvantaged should a material number of policyholders exercise this discretion.
Non-participating savings contracts are exposed to liquidity risk in that certain asset classes in which underlying funds invest, such as property, may not be readily realisable in certain market conditions, or only realisable at a diminution of value.	Savings	Liquidity risks associated with non-participating savings contracts are documented and communicated to customers within product terms and conditions. The terms also highlight that for certain asset classes such as property, the group retains the right to defer the processing of fund withdrawal requests for up to six months, should underlying assets need to be realised to meet payment requests.
Direct lending, sales and leaseback investments and lifetime mortgage business are inherently illiquid forms of investment, with limited secondary markets to realise the value of assets outside agreed redemption terms.	LGR and LGC	Given the illiquid nature of the annuity and other liabilities, the group is able and willing to take advantage of the premium offered by illiquid assets. The group, however, sets limits on the overall exposure to illiquid investment types taking account of the nature and type of liabilities that the assets are held to meet.

The group seeks to manage its funds and liquidity requirements on a pooled basis and to ensure the group maintains sufficient liquid assets and standby facilities to meet a prudent estimate of its net cash outflows. In addition, it ensures that, even under plausible but unlikely severe conditions, the group has access to the funds necessary to cover all outgoings such as surrenders, withdrawals and maturing liabilities.

As at 31 December 2016, the group had in place a £1bn syndicated committed revolving credit facility provided by a number of its key relationship banks maturing in December 2021.

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.

9 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. The four categories 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 Society and Legal & 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 held in the UK with-profits fund, which comprises annuities, protection and non profit savings products.

Balance sheet management (continued)

9 Assets analysis (continued)

• Shareholder

All other assets are classified as shareholder assets. Shareholders of the group are directly exposed to market and credit risk on these assets. This includes the assets and liabilities of our overseas insurance operations and general insurance.

The table below presents an analysis of the Consolidated Balance Sheet by category. All of the quantitative risk disclosures in notes 16 and 17 have been provided using this categorisation.

As at 31 December 2016	Shareholder £m	Non profit non-unit linked £m	With-profits £m	Unit linked £m	Total £m
Assets					
Goodwill, purchased interest in long term businesses and other intangibles	**155**	**11**	**–**	**–**	**166**
Investment in associates and joint ventures	**283**	**–**	**–**	**–**	**283**
Property, plant and equipment	**76**	**–**	**–**	**–**	**76**
Investments	**9,327**	**58,555**	**11,924**	**372,236**	**452,042**
Reinsurers' share of contract liabilities	**418**	**4,887**	**1**	**287**	**5,593**
Other operational assets	**2,440**	**1,099**	**171**	**3,719**	**7,429**
Assets of operations classified as held for sale	**1,557**	**–**	**–**	**708**	**2,265**
Total assets	**14,256**	**64,552**	**12,096**	**376,950**	**467,854**
Liabilities					
Core borrowings	**3,136**	**–**	**–**	**(65)**	**3,071**
Operational borrowings	**216**	**–**	**63**	**151**	**430**
Participating contract liabilities	**–**	**14**	**11,506**	**–**	**11,520**
Non-participating contract liabilities	**1,470**	**58,365**	**113**	**322,008**	**381,956**
Other liabilities	**2,789**	**4,774**	**415**	**53,794**	**61,772**
Liabilities of operations classified as held for sale	**1,107**	**–**	**–**	**715**	**1,822**
Total liabilities	**8,718**	**63,153**	**12,097**	**376,603**	**460,571**

As at 31 December 2015	Shareholder £m	Non profit non-unit linked £m	With-profits £m	Unit linked £m	Total £m
Assets					
Goodwill, purchased interest in long term businesses and other intangibles	317	10	48	–	375
Investment in associates and joint ventures	220	–	–	–	220
Property, plant and equipment	83	–	9	–	92
Investments	9,812	46,354	11,643	315,013	382,822
Reinsurers' share of contract liabilities	350	3,494	1	275	4,120
Other operational assets	2,198	799	268	2,496	5,761
Assets of operations classified as held for sale	48	–	–	3,361	3,409
Total assets	13,028	50,657	11,969	321,145	396,799
Liabilities					
Core borrowings	3,160	–	–	(68)	3,092
Operational borrowings	255	–	165	116	536
Participating contract liabilities	4	13	11,222	–	11,239
Non-participating contract liabilities	2,088	45,907	240	280,073	328,308
Other liabilities	2,533	3,196	342	37,492	43,563
Liabilities of operations classified as held for sale	8	–	–	3,361	3,369
Total liabilities	8,048	49,116	11,969	320,974	390,107

Balance sheet management (continued)

10 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.

Intangible assets acquired via business combinations, such as the value of customer relationships, are recognised at fair value and are subsequently amortised over their useful life in line with the expected emergence of profit from the business. Where software costs are separately identifiable and measurable they are capitalised at cost and amortised over their expected useful life.

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 2016 £m	PILTB investment contracts 2016 £m	Other intangible assets 2016 £m	Total 2016 £m
Cost				
As at 1 January	358	94	317	769
Additions	–	–	47	47
Disposals[1]	–	–	(72)	(72)
Held for sale[2]	–	(34)	(60)	(94)
Net exchange difference	40	5	3	48
As at 31 December	398	65	235	698
Accumulated amortisation and impairment				
As at 1 January	(344)	(41)	(92)	(477)
Amortisation for the year	(1)	(2)	(39)	(42)
Impairment	–	(12)	(5)	(17)
Disposals[1]	–	–	27	27
Held for sale[2]	–	5	4	9
Net exchange difference	(40)	(2)	(1)	(43)
As at 31 December	(385)	(52)	(106)	(543)
Net book value as at 31 December	13	13	129	155
To be amortised within 12 months				36
To be amortised after 12 months				119

1. The group disposed of its interests in its venture capital investments.
2. At year end, LGN and Cofunds were classified as held for sale. Refer to note 30 for more information.

Balance sheet management (continued)

10 Purchased interest in long term businesses (PILTB) and other intangible assets (continued)

	PILTB insurance contracts 2015 £m	PILTB investment contracts 2015 £m	Other intangible assets 2015 £m	Total 2015 £m
Cost				
As at 1 January	347	138	336	821
Acquisition of subsidiary	–	1	1	2
Additions	–	–	39	39
Disposals[1]	–	–	(44)	(44)
Held for sale[2]	–	(47)	(17)	(64)
Net exchange difference	11	2	2	15
As at 31 December	358	94	317	769
Accumulated amortisation and impairment				
As at 1 January	(328)	(60)	(91)	(479)
Amortisation for the year	(5)	(8)	(38)	(51)
Impairment	–	–	(2)	(2)
Disposals[1]	–	–	32	32
Held for sale[2]	–	28	8	36
Net exchange difference	(11)	(1)	(1)	(13)
As at 31 December	(344)	(41)	(92)	(477)
Net book value as at 31 December	14	53	225	292
To be amortised within 12 months				65
To be amortised after 12 months				227

1. In 2015, the group disposed of Legal & General France.
2. Suffolk Life was classified as held for sale in 2015.

Balance sheet management (continued)

11 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. Acquisition costs relating to non-participating insurance contracts written outside the with-profits fund which are incurred during a financial year are deferred by use of an asset which is amortised over the period during which the costs are expected to be recoverable, and in accordance with the expected incidence of future related margins. For participating contracts, acquisition costs are charged to the income statement when incurred.

General insurance
A proportion of commission and other acquisition costs relating to unearned premiums is carried forward as deferred acquisition costs or, in respect of reinsurance outwards, as deferred income.

Investment contracts
For participating investment contracts, acquisition costs comprise direct costs such as initial commission and the indirect costs of obtaining and processing new business. These costs are charged to the income statement when incurred. For non-participating investment contracts, only directly attributable costs relating to investment management services which vary with, and are related to, securing new contracts and renewing existing contracts, are capitalised and amortised over the period during which the costs are expected to be recoverable from future revenue. All other costs are recognised as expenses when incurred.

	Insurance contracts 2016 £m	Investment contracts 2016 £m	Total 2016 £m	Insurance contracts 2015 £m	Investment contracts 2015 £m	Total 2015 £m
As at 1 January	**1,276**	**611**	**1,887**	1,143	793	1,936
Acquisition costs deferred	**203**	**4**	**207**	221	19	240
Amortisation charged to income statement	**(166)**	**(75)**	**(241)**	(154)	(123)	(277)
Increase/(decrease) due to currency translation	**240**	**–**	**240**	64	(4)	60
Disposal of Legal & General France	**–**	**–**	**–**	–	(77)	(77)
Held for sale[1]	**(12)**	**–**	**(12)**	–	–	–
Other	**–**	**24**	**24**	2	3	5
As at 31 December	**1,541**	**564**	**2,105**	1,276	611	1,887
To be amortised within 12 months	**88**	**68**	**156**	93	75	168
To be amortised after 12 months	**1,453**	**496**	**1,949**	1,183	536	1,719

1. At year end, Legal & General Netherlands was classified as held for sale. Refer to note 30 for more information.

Of the total gross deferred acquisition costs £1,490m (2015: £1,211m) relates to the LGI US business.

The deferred acquisition costs in relation to reinsurance contracts are £80m (2015: £70m). The total acquisition costs incurred for the year are £793m (2015: £838m).

Balance sheet management (continued)

12 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 and receivables. 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 or loans and receivables under IAS 39, 'Financial instruments: recognition and measurement'. Assets backing participating and non-participating policyholder liabilities outside the US are designated as FVTPL. For participating contracts the assets are managed on a fair value basis to maximise the total return to policyholders over the contract life. The group's non-participating investment contract liabilities outside of the US are measured on the basis of current information and are designated as FVTPL to avoid an accounting mismatch in the income statement.

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

Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which represent current best practice, developed by the Association Français des Investisseurs en Capital, the British Venture Capital Association and the European Private Equity and Venture Capital Association. The techniques used for determining fair value include earnings multiples, the price of a recent investment, net asset basis or discounted cash flow.

Financial investments classified as HFT and FVTPL are measured at fair value with gains and losses reflected in the Consolidated Income Statement. Transaction costs are expensed as incurred.

Financial investments classified as AFS are measured at fair value with unrealised gains and losses recognised in a separate reserve within equity. Realised gains and losses, impairment losses, dividends, interest and foreign exchange movements on non-equity instruments are reflected in the Consolidated Income Statement. Directly attributable transaction costs are included in the initial measurement of the investment.

Financial investments are recognised when the group becomes a party to the contractual provisions of the instrument. Financial investments are derecognised only when the contractual rights to the cash flows from the investment expire, or when the group transfers substantially all the risks and rewards of ownership to another entity.

Financial assets, other than those at fair value, 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.

Loans and receivables are initially measured at fair value plus acquisition costs, and subsequently measured at amortised cost using the effective interest method.

Investment property comprises land and buildings which are held for long term rental yields and capital growth. It is carried at fair value with changes in fair value recognised in the Consolidated Income Statement within investment return.

Investment property in the UK is valued bi-annually by external chartered surveyors at open market values in accordance with the 'Appraisal and Valuation Manual' of The Royal Institution of Chartered Surveyors or using internal valuations and estimates during the intervening period. Outside the UK, valuations are produced in conjunction with external qualified professional valuers in the countries concerned. In the event of a material change in market conditions between the valuation date and balance sheet date, an internal valuation is performed and adjustments made to reflect any material changes in fair value.

The group receives and pledges collateral in the form of cash or non-cash assets in respect of various transactions, in order to reduce the credit risk of these transactions. The amount and type of collateral required where the group receives collateral depends on an assessment of the credit risk of the counterparty.

Balance sheet management (continued)

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 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.

Future developments
In July 2014, the IASB issued IFRS 9, 'Financial instruments' which is effective for annual periods beginning on or after 1 January 2018. The ISAB 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 (subject to EU endorsement).

On adoption, IFRS 9 contains three key elements:

- A principle-based model for classification and measurement of financial instruments driven by cash flow characteristics and the business model in which an asset is held. Financial assets are classified under either amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss;
- A single expected loss impairment model that will require more timely recognition of expected credit losses on assets classified as amortised cost or FVOCI. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised, and it lowers the threshold for recognition of full lifetime expected losses; and
- A substantially reformed model for hedge accounting with enhanced disclosures about risk management activities, enabling entities to better reflect these activities in their financial statements.

The impact of IFRS 9 on the group's financial statements will depend on the interaction of the asset classification and measurement with the insurance contract measurement at the date of transition, particularly for liabilities which are measured using locked in discount rates. The IASB have given insurers the opportunity to apply for a deferral of IFRS 9 until the earlier of the implementation of the new insurance standard or 1 January 2021.

For an insurer to apply this deferral,

- total liabilities related to insurance must exceed 90% of total liabilities; or
- total liabilities related to insurance are greater than 80% of total liabilities but less than 90% of total liabilities so long as the insurer does not engage in significant activity unconnected to insurance.

Total liabilities connected to insurance within the group at 31 December 2016 were 99% of total liabilities and the group will therefore qualify, and expects to apply the deferral of IFRS 9.

Balance sheet management (continued)

12 Financial investments and investment property (continued)

(i) Financial investments and investment property at fair value

	Note	Shareholder 2016 £m	Non profit non-unit linked 2016 £m	With-profits 2016 £m	Unit linked 2016 £m	Total 2016 £m
Financial investments at fair value designated as:						
Fair value through profit or loss		4,176	49,863	10,108	338,690	402,837
Available-for-sale		1,645	–	–	10	1,655
Held for trading		82	4,611	134	8,294	13,121
Financial investments at fair value		5,903	54,474	10,242	346,994	417,613
Loans and receivables	12(iii)	529	33	–	–	562
Total financial investments		6,432	54,507	10,242	346,994	418,175
Investment property		162	2,442	738	4,808	8,150
Total financial investments and investment property		6,594	56,949	10,980	351,802	426,325
Expected to be received within 12 months						42,227
Expected to be received after 12 months						384,098

	Note	Shareholder 2015 £m	Non profit non-unit linked 2015 £m	With-profits 2015 £m	Unit linked 2015 £m	Total 2015 £m
Financial investments at fair value designated as:						
Fair value through profit or loss		4,879	39,502	9,819	288,288	342,488
Available-for-sale		1,592	–	–	9	1,601
Held for trading		36	3,640	38	5,795	9,509
Financial investments at fair value		6,507	43,142	9,857	294,092	353,598
Loans and receivables	12(iii)	465	–	–	–	465
Total financial investments		6,972	43,142	9,857	294,092	354,063
Investment property		190	2,157	930	4,805	8,082
Total financial investments and investment property		7,162	45,299	10,787	298,897	362,145
Expected to be received within 12 months						37,180
Expected to be received after 12 months						324,965

Investment risks on unit linked assets are borne by the policyholders. The remaining risks associated with financial investments are outlined in note 8.

Financial investments, cash and cash equivalents include £3,246m (2015: £1,571m) of assets pledged as collateral against derivative liabilities. The assets used as collateral are Treasury Gilts, Foreign Government Bonds, AAA and AA Corporate Bonds and Cash (2015: Treasury Gilts, Foreign Government Bonds, AAA and AA Corporate Bonds) having a residual maturity of over 52 years (2015: over 52 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 £23,914m 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 26).

Various pension risk transfer deals include collateralised structures. £8,942m (2015: £4,040m) of Corporate Bonds and Treasury Gilts and cash are pledged as collateral in relation to these.

Collateral of £996m (2015: £261m) made up of Treasury Gilts, Foreign Government Bonds and Corporate Bonds (AAA, AA, A and BBB) was pledged out in respect of the reinsurance agreements. These assets are neither past due, nor impaired. The carrying value of these assets reflects the full exposure value of these assets.

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.

Balance sheet management (continued)

	Note	Shareholder 2016 £m	Non profit non-unit linked 2016 £m	With-profits 2016 £m	Unit linked 2016 £m	Total 2016 £m
Equity securities		**1,928**	**393**	**3,432**	**192,242**	**197,995**
Debt securities[1]		**3,863**	**48,975**	**6,613**	**145,518**	**204,969**
Accrued interest		**30**	**495**	**63**	**940**	**1,528**
Derivative assets	13	**82**	**4,611**	**134**	**8,294**	**13,121**
Total investments at fair value		**5,903**	**54,474**	**10,242**	**346,994**	**417,613**

	Note	Shareholder 2015 £m	Non profit non-unit linked 2015 £m	With-profits 2015 £m	Unit linked 2015 £m	Total 2015 £m
Equity securities		1,923	149	3,365	167,476	172,913
Debt securities[1]		4,516	38,888	6,385	119,931	169,720
Accrued interest		32	465	69	890	1,456
Derivative assets	13	36	3,640	38	5,795	9,509
Total investments at fair value		6,507	43,142	9,857	294,092	353,598

1. Non profit non-unit linked debt securities include £1.8bn (2015: £1.7bn) of commercial loans and £852m (2015: £207m) of lifetime mortgages designated as fair value through profit and loss.

Non consolidated private equity investments are included within equity securities. A loss of £13m (2015: loss of £3m) has been recognised in the Consolidated Income Statement in respect of the movement in fair value of these investments.

Property investments which are held via partnerships or unit trust vehicles are also included within equity securities. A gain of £4m (2015: gain of £84m) 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 £303m (2015: £336m) of debt instruments which incorporate an embedded derivative linked to the value of the group's share price.

Balance sheet management (continued)

12 Financial investments and investment property (continued)

(ii) Collateralised debt

The group holds collateralised debt obligations (CDOs) at FVTPL with a market value of £73m at 2016 (2015: £1,173m).

In 2015, the holdings included £1,000m relating to four CDOs that were constructed in 2007 and 2008 in accordance with terms specified by the group as part of a strategic review of the assets backing the annuity portfolio. The group selected at outset and managed the reference portfolios underlying the CDOs to give exposure to globally diversified portfolios of investment grade corporate bonds. The group was able to substitute the constituents of the original reference portfolios with new reference assets, allowing the management of the underlying credit risk although there have been no substitutions in 2015 or 2016. These notes were restructured in October 2016 and they are no longer leveraged super senior CDOs, but unlevered exposures backed by corporate and structured finance. As such the below information relates to 2015 only.

A breakdown of the underlying CDO reference portfolio by sector is provided below:

Sector	2015 %
Banks	14
Utilities	10
Consumer Services and Goods	25
Financial Services	6
Technology and Telecoms	9
Insurance	6
Industrials	20
Oil and Gas	6
Health Care	4
	100

The CDOs were termed as super senior since default losses on the reference portfolio had to exceed 27.5%, on average across the four CDOs, before the CDOs incurred any default losses. Assuming an average recovery rate of 30%, over 39% of the reference names would have had to default before the CDOs incurred any default losses.

Beyond 27.5% of default losses on the reference portfolio, losses to the CDOs would have occurred at a rate that was a multiple of the loss rate on the reference portfolio. For illustration, a £200m loss could have been incurred if default losses to the reference portfolios exceeded 30.4% or if 43.5% of the names in the reference portfolio defaulted with an average 30% recovery rate. (All figures were averages across the four CDOs).

The underlying reference portfolio had no reference entity defaults in 2015.

Losses were limited under the terms of the CDOs to assets and collateral invested.

These CDOs also incorporated features under which, in certain circumstances, the group could have chosen either to post additional cash collateral or to allow wind up of the structures. These features were dependent on the portfolios' weighted average spreads, default experience to date and time to maturity. No additional collateral was posted to any of the CDOs during 2016 (2015: £nil). During 2016, the group received £nil (2015: £nil) of previously posted collateral. The amount of the cash equivalent collateral attached to CDOs during the year is £nil (2015: £2m).

These CDOs were valued using an external valuation based on observable market inputs, which include CDX and iTraxx index tranches and CDS spreads on underlying reference entities. This was then validated against the internal valuation.

Unit linked CDOs were excluded from the analysis as the risk is retained by the policyholders.

Balance sheet management (continued)

(iii) Loans and receivables

	Shareholder 2016 £m	Non profit non-unit linked 2016 £m	With-profits 2016 £m	Unit linked 2016 £m	Total 2016 £m
Deposits with credit institutions	**1**	**–**	**–**	**–**	**1**
Policy loans	**43**	**–**	**–**	**–**	**43**
Other loans[1]	**485**	**33**	**–**	**–**	**518**
Total loans and receivables	**529**	**33**	**–**	**–**	**562**

	Shareholder 2015 £m	Non profit non-unit linked 2015 £m	With-profits 2015 £m	Unit linked2 2015 £m	Total 2015 £m
Deposits with credit institutions	1	–	–	–	1
Policy loans	40	–	–	–	40
Other loans[1]	424	–	–	–	424
Total loans and receivables	465	–	–	–	465

1. Other loans include £398m (2015: £310m) of commercial mortgage loans.

There are no material differences between the carrying values reflected above and the fair values of these loans.

(iv) Fair value hierarchy

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

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

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

Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: fair values measured using valuation techniques for all inputs significant to the measurement other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs).

All of the group's level 2 assets have been valued using standard market pricing sources, such as iBoxx, IDC and Bloomberg, which use mathematical modelling and multiple source validation in order to determine 'consensus' prices, except for bespoke CDO and swaps holdings (see below). In normal market conditions, we would consider these market prices to be observable market prices. Following consultation with our pricing providers and a number of their contributing brokers, we have considered that these prices are not from a suitably active market and have classified them as level 2. The CDOs are valued using an external valuation based on observable market inputs, which include CDX and iTraxx index tranches and CDS spreads on underlying reference entities. This is then validated against the internal valuation. Accordingly, these assets have also been classified in level 2.

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 2016 (2015: £nil).

Balance sheet management (continued)

12 Financial investments and investment property (continued)

(iv) Fair value hierarchy (continued)

For the year ended 31 December 2016	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	**1,928**	**1,478**	**1**	**449**
Debt securities	**3,863**	**741**	**2,736**	**386**
Accrued interest	**30**	**7**	**20**	**3**
Derivative assets	**82**	**59**	**23**	**–**
Investment property	**162**	**–**	**–**	**162**
Non profit non-unit linked				
Equity securities	**393**	**389**	**4**	**–**
Debt securities	**48,975**	**8,057**	**36,956**	**3,962**
Accrued interest	**495**	**41**	**448**	**6**
Derivative assets	**4,611**	**115**	**4,474**	**22**
Investment property	**2,442**	**–**	**–**	**2,442**
With-profits				
Equity securities	**3,432**	**3,216**	**9**	**207**
Debt securities	**6,613**	**3,310**	**3,292**	**11**
Accrued interest	**63**	**22**	**41**	**–**
Derivative assets	**134**	**31**	**103**	**–**
Investment property	**738**	**–**	**–**	**738**
Unit linked				
Equity securities	**192,242**	**188,769**	**3,028**	**445**
Debt securities	**145,518**	**100,137**	**45,381**	**–**
Accrued interest	**940**	**329**	**611**	**–**
Derivative assets	**8,294**	**332**	**7,962**	**–**
Investment property	**4,808**	**–**	**–**	**4,808**
Total financial investments and investment property at fair value[1]	**425,763**	**307,033**	**105,089**	**13,641**

1. This table excludes loans and receivables of £562m, which are held at amortised cost.

For the year ended 31 December 2015	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	1,923	1,663	–	260
Debt securities	4,516	1,966	2,188	362
Accrued interest	32	16	14	2
Derivative assets	36	13	23	–
Investment property	190	–	–	190
Non profit non-unit linked				
Equity securities	149	138	11	–
Debt securities	38,888	5,174	32,646	1,068
Accrued interest	465	34	426	5
Derivative assets	3,640	74	3,566	–
Investment property	2,157	–	–	2,157
With-profits				
Equity securities	3,365	3,002	6	357
Debt securities	6,385	3,029	3,343	13
Accrued interest	69	24	45	–
Derivative assets	38	11	27	–
Investment property	930	–	–	930
Unit linked				
Equity securities	167,476	164,118	3,112	246
Debt securities	119,931	82,388	37,537	6
Accrued interest	890	310	580	–
Derivative assets	5,795	332	5,463	–
Investment property	4,805	–	–	4,805
Total financial investments and investment property at fair value[1]	361,680	262,292	88,987	10,401

1. This table excludes loans and receivables of £465m, which are held at amortised cost.

Balance sheet management (continued)

(a) Assets measured at fair value based on level 3

Level 3 assets where internal models are used, represent a small proportion of assets to which shareholders are exposed, comprise both property and unquoted equities, the latter including investments in private equity, property vehicles and suspended securities.

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.

Where quoted market prices are not available, fair value estimates are made at a point in time, based on relevant market data, as well as the best information about the individual financial instrument. Illiquid market conditions have resulted in inactive markets for certain of the group's financial instruments. As a result, there is generally no or limited observable market data for these assets and liabilities. Fair value estimates for financial instruments deemed to be in an illiquid market are based on judgments regarding current economic conditions, liquidity discounts, currency, credit and interest rate risks, loss experience and other factors. These fair values are estimates and involve considerable uncertainty and variability as a result of the inputs selected and may differ significantly from the values that would have been used had a ready market existed, and the differences could be material. As a result, such calculated fair value estimates may not be realisable in an immediate sale or settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique could significantly affect these fair value estimates.

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

	Equity securities 2016 £m	Other financial investments[1] 2016 £m	Investment property 2016 £m	Total 2016 £m	Equity securities 2015 £m	Other financial investments[1] 2015 £m	Investment property 2015 £m	Total 2015 £m
As at 1 January	**863**	**1,456**	**8,082**	**10,401**	1,142	1,243	8,152	10,537
Total gains/(losses) for the year recognised in profit:								
– in other comprehensive income	**–**	**5**	**–**	**5**	–	(12)	–	(12)
– realised and unrealised gains/(losses)[2]	**40**	**350**	**(78)**	**312**	110	(10)	486	586
Purchases/additions	**473**	**1,161**	**692**	**2,326**	68	394	1,061	1,523
Sales/disposals	**(302)**	**(139)**	**(494)**	**(935)**	(246)	(234)	(482)	(962)
Transfers into level 3[3]	**22**	**1,590**	**–**	**1,612**	66	76	–	142
Transfers out of level 3[3]	**–**	**(33)**	**–**	**(33)**	(260)	–	–	(260)
Transfers to held to sale	**–**	**–**	**(53)**	**(53)**	(17)	(1)	(1,135)	(1,153)
Other	**5**	**–**	**1**	**6**	–	–	–	–
As at 31 December	**1,101**	**4,390**	**8,150**	**13,641**	863	1,456	8,082	10,401

1. Other financial investments comprise debt securities, lifetime mortgages and derivative assets.
2. The realised and unrealised gains and losses have been recognised in investment return in the Consolidated Income Statement.
3. The group holds regular discussions with its pricing providers to determine whether transfers between levels of the fair value hierarchy have occurred. The above transfers occurred as a result of this process. In 2016, transfers into level 3 included £1.6bn of commercial real estate loans, which were previously classified as level 2.

Balance sheet management (continued)

12 Financial investments and investment property (continued)

(iv) Fair value hierarchy (continued)

(b) Effect of changes in significant unobservable inputs to reasonably possible alternative 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. The following table shows the level 3 financial instruments carried at fair value as at the balance sheet date, the valuation basis, main assumptions used in the valuation of these instruments and reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Reasonably possible alternative assumptions		
For the year ended 31 December 2016 Financial instruments and investment property	**Main assumptions**	**Current fair value £m**	**Increase in fair value £m**	**Decrease in fair value £m**
Assets				
Shareholder				
Unquoted investments in property vehicles[2]	Property yield	**292**	**19**	**(19)**
Untraded and other debt securities[3]	Cash flows; expected defaults	**473**	**12**	**(12)**
Unquoted and other securities[3]	Cash flows; expected defaults	**72**	**2**	**(3)**
Investment property[2]	Property yield	**162**	**8**	**(9)**
Non profit non-linked				
Lifetime mortgage loans	Market spreads; LTVs	**852**	**10**	**(18)**
Untraded and other debt securities[3]	Cash flows; expected defaults	**1,271**	**2**	**(2)**
Commercial real estate loans	Cash flows; expected defaults	**1,777**	**11**	**(16)**
Investment property[2]	Cash flows; property yield	**2,442**	**127**	**(127)**
Other[2]	Cash flows	**91**	**–**	**–**
With-profits				
Private equity investment vehicles[1]	Price earnings multiple	**8**	**–**	**–**
Unquoted investments in property vehicles[2]	Property yield	**199**	**12**	**(12)**
Untraded and other debt securities[3]	Cash flows; expected defaults	**10**	**–**	**–**
Investment property[2]	Cash flows; Property yield	**738**	**38**	**(38)**
Unit linked				
Unquoted investments in property vehicles[2]	Cash flows; Property yield	**87**	**5**	**(5)**
Suspended securities	Estimated recoverable amount	**23**	**–**	**–**
Unquoted and other securities[3]	Cash flows; expected defaults	**335**	**17**	**(17)**
Investment property[2]	Cash flows; Property yield	**4,808**	**235**	**(235)**
Total		**13,640**	**498**	**(511)**

1. Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined using alternative price earnings multiples.
2. 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.
3. No reasonably possible increases or decreases in fair values have been given for securities where the broker methodology is unknown.

Balance sheet management (continued)

For the year ended 31 December 2015 Financial instruments and investment property	Main assumptions	Reasonably possible alternative assumptions Current fair value £m	Increase in fair value £m	Decrease in fair value £m
Assets				
Shareholder				
Private equity investment vehicles[1]	Price earnings multiple	9	1	(1)
Unquoted investments in property vehicles[2]	Property yield; occupancy	244	11	(11)
Untraded and other debt securities[3]	Cash flows; expected defaults	364	1	(1)
Unquoted and other securities[3]	Cash flows; expected defaults	7	–	–
Investment property[2]	Property yield; occupancy	190	9	(9)
Non profit non-linked				
Lifetime mortgage loans	Market spreads; LTVs	206	5	(7)
Untraded and other debt securities[3]	Cash flows; expected defaults	867	–	–
Investment property[2]	Property yield; occupancy	2,157	110	(110)
With-profits				
Private equity investment vehicles[1]	Price earnings multiple	11	1	(1)
Unquoted investments in property vehicles[2]	Property yield	346	21	(21)
Untraded and other debt securities[3]	Cash flows; expected defaults	13	–	–
Investment property[2]	Property yield	930	47	(47)
Unit linked				
Private equity investment vehicles[1]	Price earnings multiple	8	–	–
Unquoted investments in property vehicles[2]	Property yield; occupancy	133	8	(8)
Untraded and other debt securities[3]	Cash flows; expected defaults	6	–	–
Unquoted and other securities[3]	Cash flows; expected defaults	105	5	(5)
Investment property[2]	Property yield	4,805	243	(243)
Total		10,401	462	(464)

1. Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined using alternative price earnings multiples.
2. 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.
3. No reasonably possible increases or decreases in fair values have been given for securities where the broker methodology is unknown.

(v) Net asset value attributable to unit holders

Amounts attributable to unit holders are repayable on demand and the group is responsible for ensuring there is sufficient liquidity within the corresponding asset portfolio to enable the liability to be met as it falls due.

At 31 December 2016, the level 1 net asset value attributable to unit holders is £21,573m (2015: £18,277m).

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 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) Recognise in shareholders' equity the changes in the fair value of derivatives designated as hedges of a net investment in a foreign operation. Any cumulative gains and/or losses are recognised in the Consolidated Income Statement on disposal of the foreign operation;

(ii) 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

(iii) 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, within other expenses, 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.

Balance sheet management (continued)

	Contract/ notional amount 2016 £m	Fair values Assets 2016 £m	Fair values Liabilities[1] 2016 £m	Contract/ notional amount 2015 £m	Fair values Assets 2015 £m	Fair values Liabilities[1] 2015 £m
Shareholder derivatives:						
Interest rate contracts – held for trading	**229**	**2**	**3**	565	–	22
Forward foreign exchange contracts – net investment hedges	**125**	**–**	**1**	78	–	1
Forward foreign exchange contracts – held for trading	**260**	**51**	**7**	65	13	31
Equity/index derivatives – held for trading	**(76)**	**8**	**8**	(300)	1	6
Credit derivatives – held for trading	**–**	**–**	**–**	8	–	–
Other derivatives – held for trading	**–**	**20**	**–**	–	22	–
Total shareholder derivatives		**81**	**19**		36	60
Non profit non-unit linked derivatives:						
Interest rate contracts – held for trading	**42,475**	**4,166**	**1,788**	22,420	3,336	1,775
Forward foreign exchange contracts – held for trading	**–**	**114**	**147**	–	74	92
Currency swap contracts – held for trading	**13,646**	**30**	**264**	9,449	–	222
Inflation swap contracts – held for trading	**7,403**	**203**	**597**	6,540	161	631
Credit derivatives – held for trading	**2,705**	**–**	**65**	1,031	28	–
Other derivatives – held for trading	**194**	**98**	**–**	194	41	–
Total non profit non-unit linked derivatives		**4,611**	**2,861**		3,640	2,720
With-profits derivatives:						
Interest rate contracts – held for trading	**903**	**65**	**1**	744	25	–
Forward foreign exchange contracts – held for trading	**–**	**7**	**23**	–	1	28
Equity/index derivatives – held for trading	**460**	**62**	**51**	(221)	10	3
Credit derivatives – held for trading	**–**	**1**	**2**	47	2	1
Total with-profits derivatives		**137**	**79**		38	32
Unit linked derivatives:						
Interest rate contracts – held for trading	**10,897**	**7,868**	**2,595**	11,193	5,413	1,644
Forward foreign exchange contracts – held for trading	**–**	**256**	**662**	–	295	1,244
Credit derivatives – held for trading	**(843)**	**10**	**26**	(1,346)	13	31
Inflation swap contracts – held for trading	**–**	**92**	**148**	–	39	275
Equity/index derivatives – held for trading	**2,188**	**24**	**2,147**	2,226	20	1,521
Other derivatives – held for trading	**13**	**43**	**7**	19	15	1
Inflation rate contracts – held for trading	**3,266**	**–**	**472**	3,495	–	519
Total unit linked derivatives		**8,293**	**6,057**		5,795	5,235
Total derivative assets and liabilities		**13,120**	**9,014**		9,509	8,047

1. Derivative liabilities are reported in the Consolidated Balance Sheet within Payables and other financial liabilities (note 27).

The notional amounts of some derivative instruments provide a basis for comparison with instruments recognised on the Consolidated Balance Sheet. However, these amounts do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and therefore, do not indicate the group's exposure to credit or price risks.

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.

		Maturity profile of undiscounted cash flows					
As at 31 December 2016	Fair values £m	Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Cash inflows							
Shareholder derivatives							
Derivative assets	82	1,375	–	–	–	–	1,375
Derivative liabilities	(19)	213	–	–	–	–	213
Non profit non-unit linked derivatives							
Derivative assets	4,611	6,698	2,807	5,311	4,421	3,511	22,748
Derivative liabilities	(2,861)	7,125	2,254	7,093	6,087	3,269	25,828
With-profits derivatives							
Derivative assets	135	453	51	79	27	11	621
Derivative liabilities	(76)	774	–	–	–	–	774
Total	1,872	16,638	5,112	12,483	10,535	6,791	51,559
Cash outflows							
Shareholder derivatives							
Derivative assets	82	(1,290)	–	–	–	–	(1,290)
Derivative liabilities	(19)	(238)	–	–	–	–	(238)
Non profit non-unit linked derivatives							
Derivative assets	4,611	(6,580)	(1,902)	(4,079)	(2,975)	(1,942)	(17,478)
Derivative liabilities	(2,861)	(7,922)	(3,378)	(8,906)	(7,080)	(3,732)	(31,018)
With-profits derivatives							
Derivative assets	135	(371)	(23)	(60)	(20)	(8)	(482)
Derivative liabilities	(76)	(851)	–	–	–	–	(851)
Total	1,872	(17,252)	(5,303)	(13,045)	(10,075)	(5,682)	(51,357)
Net shareholder derivatives cash flows		60	–	–	–	–	60
Net non profit non-unit linked derivatives cash flows		(679)	(219)	(581)	453	1,106	78
Net with-profits derivatives cash flows		5	28	19	7	3	62

Balance sheet management (continued)

As at 31 December 2015	Fair values £m	Maturity profile of undiscounted cash flows Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Cash inflows							
Shareholder derivatives							
Derivative assets	36	769	–	–	–	–	769
Derivative liabilities	(60)	699	–	–	–	–	699
Non profit non-unit linked derivatives							
Derivative assets	3,640	6,447	1,595	3,513	1,722	1,472	14,749
Derivative liabilities	(2,720)	8,527	3,057	6,255	3,670	2,618	24,127
With-profits derivatives							
Derivative assets	38	87	44	61	–	–	192
Derivative liabilities	(32)	813	–	–	–	–	813
Total	902	17,342	4,696	9,829	5,392	4,090	41,349
Cash outflows							
Shareholder derivatives							
Derivative assets	36	(733)	–	–	–	–	(733)
Derivative liabilities	(60)	(736)	–	–	–	–	(736)
Non profit non-unit linked derivatives							
Derivative assets	3,640	(6,166)	(772)	(2,311)	(1,368)	(842)	(11,459)
Derivative liabilities	(2,720)	(8,979)	(3,994)	(7,726)	(4,168)	(3,013)	(27,880)
With-profits derivatives							
Derivative assets	38	(67)	(33)	(58)	–	–	(158)
Derivative liabilities	(32)	(847)	(2)	–	–	–	(849)
Total	902	(17,528)	(4,801)	(10,095)	(5,536)	(3,855)	(41,815)
Net shareholder derivatives cash flows		(1)	–	–	–	–	(1)
Net non profit non-unit linked derivatives cash flows		(171)	(114)	(269)	(144)	235	(463)
Net with-profits derivatives cash flows		(14)	9	3	–	–	(2)

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.

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.

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 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 2016 £m	Non profit non-unit linked[1] 2016 £m	With-profits 2016 £m	Unit linked 2016 £m	Total 2016 £m
Cash at bank and in hand	389	779	110	1,723	3,001
Cash equivalents	2,344	827	834	18,711	22,716
Cash and cash equivalents	**2,733**	**1,606**	**944**	**20,434**	**25,717**

	Shareholder 2015 £m	Non profit non-unit linked[1] 2015 £m	With-profits 2015 £m	Unit linked 2015 £m	Total 2015 £m
Cash at bank and in hand	514	365	321	461	1,661
Cash equivalents	2,136	690	535	15,655	19,016
Cash and cash equivalents	2,650	1,055	856	16,116	20,677

1. Included within cash equivalents is £37m (2015: £2m) of collateral posted to the Lagoon structured finance notes which is not available for shareholder liquidity requirements.

15 Other assets

	Total 2016 £m	Total 2015 £m
Reinsurance receivables	40	26
Accrued interest and rent	261	230
Prepayments and accrued income	555	480
Insurance and intermediaries receivables	193	175
Reverse repurchase agreements	1,883	550
Other receivables[1]	2,090	2,157
Other assets	**5,022**	3,618
Due within 12 months	4,772	3,428
Due after 12 months	250	190

1. Other receivables include amounts receivable from brokers and clients for investing activities, unsettled cash and other sundry balances.

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 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 equity markets around the world. Unit linked equity investments are excluded from the table as the risk is retained by the policyholder.

Exposure to worldwide equity markets	Shareholder 2016 £m	Non profit non-unit linked 2016 £m	With-profits 2016 £m	Total 2016 £m	Shareholder 2015 £m	Non profit non-unit linked 2015 £m	With-profits 2015 £m	Total 2015 £m
United Kingdom	465	144	1,241	1,850	562	112	1,135	1,809
North America	339	122	579	1,040	360	16	543	919
Europe	85	37	686	808	317	17	564	898
Japan	93	16	155	264	108	–	266	374
Asia Pacific	178	24	365	567	128	4	345	477
Other	182	41	205	428	21	–	166	187
Listed equities	**1,342**	**384**	**3,231**	**4,957**	1,496	149	3,019	4,664
Unlisted UK equities	142	4	–	146	103	–	–	103
Holdings in unit trusts	444	5	201	650	324	–	346	670
Total equities	**1,928**	**393**	**3,432**	**5,753**	1,923	149	3,365	5,437

(b) Debt securities

Total debt securities and accrued interest[1]	Shareholder 2016 £m	Non profit non-unit linked 2016 £m	With-profits 2016 £m	Total 2016 £m	Shareholder 2015 £m	Non profit non-unit linked 2015 £m	With-profits 2015 £m	Total 2015 £m
United Kingdom	839	27,199	4,483	32,521	686	20,387	3,927	25,000
USA	1,934	11,877	811	14,622	2,178	9,543	786	12,507
Netherlands	139	2,095	260	2,494	278	1,663	231	2,172
France	46	1,513	176	1,735	223	1,284	118	1,625
Germany	16	496	228	740	316	284	363	963
Greece	3	–	–	3	1	–	–	1
Ireland	18	898	33	949	26	334	33	393
Italy	59	123	15	197	114	172	17	303
Portugal	12	–	–	12	7	–	–	7
Spain	19	154	11	184	61	126	8	195
Russia	15	–	9	23	8	–	7	15
Rest of Europe	140	1,304	245	1,689	247	1,695	404	2,346
Brazil	22	79	34	134	11	91	22	124
Rest of World	631	3,659	371	4,661	392	2,707	447	3,546
CDOs[2]	–	73	–	73	–	1,082	91	1,173
	3,893	**49,470**	**6,676**	**60,039**	4,548	39,368	6,454	50,370
Analysed as[1]								
Debt securities	3,863	48,975	6,613	59,451	4,516	38,903	6,385	49,804
Accrued interest	30	495	63	588	32	465	69	566
	3,893	**49,470**	**6,676**	**60,039**	4,548	39,368	6,454	50,370

1. For presentation in the Consolidated Balance Sheet the components of the structured finance Lagoon notes are shown within non profit non-unit linked investments (2016: £1,058; 2015: £985m), cash equivalents (2016: £37; 2015: £2m) and derivative assets/(liabilities) (2016: £nil; 2015: £13m).
2. £nil (2015: £1,047m) of the CDOs are domiciled in Ireland and £73m (2015: £35m) are domiciled in the rest of the 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

	2016 £m	2016 %	2015 £m	2015 %
Sovereigns, Supras and Sub-Sovereigns	**12,197**	**23**	9,527	23
Banks:				
– Tier 1	**13**	**–**	35	–
– Tier 2 and other subordinated	**387**	**1**	252	1
– Senior	**2,230**	**4**	1,951	4
– Covered	**275**	**1**	326	1
Financial Services:				
– Tier 1	**–**	**–**	–	–
– Tier 2 and other subordinated	**31**	**–**	62	–
– Senior	**950**	**2**	1,044	2
Insurance:				
– Tier 1	**6**	**–**	6	–
– Tier 2 and other subordinated	**129**	**–**	203	–
– Senior	**692**	**1**	597	1
Consumer Services and Goods:				
– Cyclical	**3,622**	**7**	2,677	6
– Non-cyclical	**3,962**	**7**	3,179	7
– Health care	**126**	**–**	111	–
Infrastructure:				
– Social	**4,333**	**8**	3,152	7
– Economic	**2,266**	**4**	1,499	3
Technology and Telecoms	**3,257**	**6**	2,910	7
Industrials	**1,580**	**3**	1,280	3
Utilities	**8,296**	**16**	6,830	17
Energy	**2,189**	**4**	2,010	5
Commodities	**889**	**2**	658	1
Oil and Gas	**339**	**1**	140	–
Property	**787**	**1**	762	2
Property backed securities	**2,052**	**4**	1,711	4
Structured finance ABS / RMBS / CMBS / Other	**1,830**	**3**	1,706	4
Lifetime mortgage loans	**852**	**2**	207	–
CDOs	**73**	**–**	1,081	2
Total	**53,363**	**100**	43,916	100

Analysis of Sovereigns, Supras and Sub-Sovereigns	2016 £m	2015 £m
Market value by region		
United Kingdom	**9,362**	4,665
US	**1,038**	792
Netherlands	**42**	237
France	**306**	90
Germany	**285**	322
Greece	**2**	1
Ireland	**–**	7
Italy	**21**	97
Portugal	**12**	7
Spain	**18**	31
Russia	**15**	8
Rest of Europe	**382**	739
Brazil	**43**	36
Rest of World	**671**	517
Total	**12,197**	7,549

Balance sheet management (continued)

(ii) Currency risk

The table below summarises the group's exposure to foreign currency exchange risk in sterling. The functional currency represents the currency of the primary economic environment in which each of the group's subsidiaries operates.

As at 31 December 2016 Shareholder	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Total assets	194	652	19	291	13,100	14,256
Total liabilities	164	210	13	–	8,331	8,718
Net assets	**30**	**442**	**6**	**292**	**4,768**	**5,538**
Non profit non-unit linked						
Total assets	2,028	12,966	17	76	49,465	64,552
Total liabilities	1,467	13,074	–	3	48,609	63,153
Net assets	**561**	**(108)**	**17**	**73**	**856**	**1,399**
With-profits						
Total assets	616	1,141	163	951	9,225	12,096
Total liabilities	203	574	17	–	11,303	12,097
Net assets/(liabilities)	**413**	**567**	**146**	**951**	**(2,078)**	**(1)**

As at 31 December 2015 Shareholder	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Total assets	269	1,648	112	324	10,675	13,028
Total liabilities	180	613	85	1	7,169	8,048
Net assets	89	1,035	27	323	3,506	4,980
Non profit non-unit linked						
Total assets	1,550	16,149	–	12	32,946	50,657
Total liabilities	1,450	16,465	–	–	31,201	49,116
Net assets/(liabilities)	100	(316)	–	12	1,745	1,541
With-profits						
Total assets	597	1,114	276	872	9,110	11,969
Total liabilities	243	572	68	22	11,064	11,969
Net assets/(liabilities)	354	542	208	850	(1,954)	–

The group's management of currency risk reduces shareholders' exposure to exchange rate fluctuations. The group's exposure to a 10% exchange movement in the US Dollar and Euro on an IFRS basis, net of hedging activities, is detailed below.

Currency sensitivity analysis

Currency sensitivity test	Impact on pre-tax profit 2016 £m	Impact on equity 2016 £m	Impact on pre-tax profit 2015 £m	Impact on equity 2015 £m
10% Euro appreciation	**59**	**61**	19	15
10% US Dollar appreciation[1]	**33**	**122**	72	58

1. The increase in sensitivity to the US Dollar is due to the group no longer hedging its investment in LGA.

Balance sheet management (continued)

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 risk.

The carrying amount of the financial assets recorded in the financial statements represent the maximum exposure to credit risk.

As at 31 December 2016	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated bespoke CDOs £m	Internally rated other[1] £m	Total £m
Shareholder									
Government securities		220	91	32	155	67	–	290	855
Other fixed rate securities		238	336	881	493	285	–	499	2,732
Variable rate securities		72	184	10	6	4	–	–	276
Total debt securities	12(i)	530	611	923	654	356	–	789	3,863
Accrued interest	12(i)	2	2	7	9	6	–	4	30
Loans and receivables	12(iii)	–	–	228	74	64	–	163	529
Derivative assets	13	1	1	77	–	–	–	3	82
Cash and cash equivalents	14	282	707	1,035	241	–	–	468	2,733
Financial assets excluding equities		815	1,321	2,270	978	426	–	1,427	7,237
Reinsurers' share of contract liabilities		–	185	224	–	–	–	9	418
Other assets		1	123	46	–	16	–	584	770
		816	1,629	2,540	978	442	–	2,020	8,425

1. Of the total debt securities and accrued interest that have been internally rated, £nil is rated AAA, £267m AA, £109m A, £234m BBB, £71m BB or below and £112m other.

As at 31 December 2016	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated bespoke CDOs[1] £m	Internally rated other[1] £m	Total £m
Non profit non-unit linked									
Government securities		374	7,275	2	170	33	–	–	7,854
Other fixed rate securities		856	3,897	11,906	11,406	698	–	4,700	33,463
Variable rate securities[2]		174	1,912	2,283	582	217	–	1,638	6,806
Lifetime mortgages		388	140	91	51	–	–	182	852
Total debt securities[2]	12(i)	1,792	13,224	14,282	12,209	948	–	6,520	48,975
Accrued interest	12(i)	21	79	172	196	12	–	15	495
Loans and receivables	12(iii)	–	6	23	4	–	–	–	33
Derivative assets[2]	13	–	18	3,101	1,425	–	–	67	4,611
Cash and cash equivalents	14	50	310	948	86	–	–	212	1,606
Financial assets excluding equities		1,863	13,637	18,526	13,920	960	–	6,814	55,720
Reinsurers' share of contract liabilities		–	4,764	115	–	–	–	8	4,887
Other assets		–	13	18	15	2	–	539	587
		1,863	18,414	18,659	13,935	962	–	7,361	61,194

1. Of the total debt securities and accrued interest that have been internally rated, £388m is rated AAA, £1,928m AA, £2,772m A, £2,061m BBB and £77m BB or below.
2. Internally rated variable rate securities include £367m (2015: £1,058m) of structured finance notes, incorporating £37m (2015: £2m) of cash.

At the year end, the group held £4,404m (2015: £2,218m) of collateral in respect of non-unit linked derivative assets.

Balance sheet management (continued)

As at 31 December 2016	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated bespoke CDOs £m	Internally rated other £m	Total £m
With-profits									
Government securities		61	2,937	31	61	16	–	–	3,106
Other fixed rate securities		623	549	1,063	1,131	56	–	36	3,458
Variable rate securities		(1)	6	38	4	2	–	–	49
Total debt securities	12(i)	683	3,492	1,132	1,196	74	–	36	6,613
Accrued interest	12(i)	11	21	11	19	1	–	–	63
Loans and receivables	12(iii)	–	–	–	–	–	–	–	–
Derivative assets	13	–	–	90	44	–	–	–	134
Cash and cash equivalents	14	85	248	290	27	–	–	294	944
Financial assets excluding equities		779	3,761	1,523	1,286	75	–	330	7,754
Reinsurers' share of contract liabilities		–	1	–	–	–	–	–	1
Other assets		–	–	–	1	–	–	94	95
		779	3,762	1,523	1,287	75	–	424	7,850

As at 31 December 2015	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated bespoke CDOs £m	Internally rated other £m	Total £m
Shareholder									
Government securities		1,005	238	29	213	35	–	6	1,526
Other fixed rate securities		315	518	671	732	200	–	115	2,551
Variable rate securities		291	51	87	5	4	–	1	439
Total debt securities	12(i)	1,611	807	787	950	239	–	122	4,516
Accrued interest	12(i)	6	4	7	12	3	–	–	32
Loans and receivables	12(iii)	–	–	196	71	44	–	154	465
Derivative assets	13	–	–	35	1	–	–	–	36
Cash and cash equivalents	14	749	1,276	406	163	–	–	56	2,650
Financial assets excluding equities		2,366	2,087	1,431	1,197	286	–	332	7,699
Reinsurers' share of contract liabilities		–	175	83	–	–	–	92	350
Other assets		2	125	28	17	24	–	513	709
		2,368	2,387	1,542	1,214	310	–	937	8,758

As at 31 December 2015	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated bespoke CDOs[1] £m	Internally rated other[1] £m	Total £m
Non profit non-unit linked									
Government securities		266	4,245	–	149	29	–	–	4,689
Other fixed rate securities		920	3,685	9,140	9,861	789	–	2,918	27,313
Variable rate securities[2]		503	1,424	2,058	522	187	1,000	1,000	6,694
Lifetime mortgages		–	–	–	–	–	–	207	207
Total debt securities[2]	12(i)	1,689	9,354	11,198	10,532	1,005	1,000	4,125	38,903
Accrued interest	12(i)	22	72	151	189	17	–	14	465
Loans and receivables	12(iii)	–	–	–	–	–	–	–	–
Derivative assets[2]	13	–	–	2,002	1,625	–	–	–	3,627
Cash and cash equivalents	14	183	367	377	32	–	–	94	1,053
Financial assets excluding equities		1,894	9,793	13,728	12,378	1,022	1,000	4,233	44,048
Reinsurers' share of contract liabilities		–	2,670	778	–	–	–	46	3,494
Other assets		2	2	3	48	3	–	258	316
		1,896	12,465	14,509	12,426	1,025	1,000	4,537	47,858

1. Of the total debt securities and accrued interest that have been internally rated, £6m is rated AAA, £1,551m AA, £1,903m A, £1,659m BBB and £20m BB or below.
2. For financial risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the Consolidated Balance Sheet the components of the CDOs are shown within investments (£985m), cash equivalents (£2m) and derivative liabilities (£13m).

Balance sheet management (continued)

17 Credit risk (continued)

As at 31 December 2015	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated bespoke CDOs £m	Internally rated other £m	Total £m
With-profits									
Government securities		72	2,563	33	45	6	–	–	2,719
Other fixed rate securities		725	480	723	993	133	–	605	3,659
Variable rate securities		–	–	1	4	2	–	–	7
Total debt securities	12(i)	797	3,043	757	1,042	141	–	605	6,385
Accrued interest	12(i)	15	22	10	19	2	–	1	69
Derivative assets	13	–	–	26	12	–	–	–	38
Cash and cash equivalents	14	59	218	237	108	3	–	231	856
Financial assets excluding equities		871	3,283	1,030	1,181	146	–	837	7,348
Reinsurers' share of contract liabilities		–	1	–	–	–	–	–	1
Other assets		–	–	3	1	–	–	199	203
		871	3,284	1,033	1,182	146	–	1,036	7,552

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 AFS.

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 of financial assets that are past due but not impaired

		Financial assets that are past due but not impaired					
As at 31 December 2016	**Neither past due nor impaired £m**	**0-3 months £m**	**3-6 months £m**	**6 months-1 year £m**	**Over 1 year £m**	**Financial assets that have been impaired £m**	**Carrying value £m**
Shareholder	**7,996**	**23**	**13**	**4**	**1**	**1**	**8,038**
Non profit non-unit linked	**60,238**	**160**	**5**	**5**	**9**	**–**	**60,417**
With-profits	**7,724**	**14**	**–**	**–**	**–**	**–**	**7,738**

		Financial assets that are past due but not impaired					
As at 31 December 2015	Neither past due nor impaired £m	0-3 months £m	3-6 months £m	6 months-1 year £m	Over 1 year £m	Financial assets that have been impaired £m	Carrying value £m
Shareholder	8,206	9	6	6	17	–	8,244
Non profit non-unit linked	47,318	141	8	17	9	–	47,493
With-profits	7,185	40	4	1	1	–	7,231

Balance sheet management (continued)

Offsetting

Financial assets and liabilities are offset in the 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 Balance Sheet. The table below shows the financial assets and liabilities that are subject to master netting agreements in the shareholder, non profit non-unit linked and with-profits. Unit linked assets and liabilities have not been included as shareholders are not exposed to the risks on these policies.

	Amounts subject to enforceable netting arrangements		
		Amounts under master netting arrangements but not offset	
As at 31 December 2016	**Gross and net amounts reported in the Consolidated Balance Sheet £m**	**Related financial instruments[1] £m**	**Net amount 2016 £m**
Derivative assets	**4,827**	**(2,621)**	**2,206**
Total financial assets	**4,827**	**(2,621)**	**2,206**
Derivative liabilities	**(2,961)**	**2,621**	**(340)**
Total financial liabilities	**(2,961)**	**2,621**	**(340)**

	Amounts subject to enforceable netting arrangements		
		Amounts under master netting arrangements but not offset	
As at 31 December 2015	Gross and net amounts reported in the Consolidated Balance Sheet £m	Related financial instruments[1] £m	Net amount 2015 £m
Derivative assets	3,714	(2,370)	1,344
Repurchase agreement assets	89	(89)	–
Total financial assets	3,803	(2,459)	1,344
Derivative liabilities	(2,812)	2,630	(182)
Total financial liabilities	(2,812)	2,630	(182)

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.

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 7. 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.

Insurance risk

Principal risks	Division	Controls to mitigate the risk
Longevity, mortality & morbidity risks For contracts providing death benefits, higher mortality rates would lead to an increase in claims costs. The cost of health related claims depends on both the incidence of policyholders becoming ill and the duration over which they remain ill. Higher than expected incidence or duration would increase costs over the level currently assumed in the calculation of liabilities.	LGI	The pricing of protection business is based on assumptions as to future trends in mortality and morbidity having regard to past experience. Underwriting criteria are defined setting out the risks that are unacceptable and the terms for non-standard risks presented by the lives to be insured. Extensive use of reinsurance is made within the UK individual protection business, placing a proportion of all risks meeting prescribed criteria. Mortality and morbidity experience is compared to that assumed within the pricing basis with variances subject to actuarial investigation.
For savings contracts providing minimum assured death benefits, higher mortality rates may result in an increase in claims costs.	Savings	The pricing basis for contracts providing minimum assured death benefits include provision for future trends in mortality based on past experience. The level of mortality risk accepted within each contract is not sufficiently material to warrant formal underwriting at an individual policy level.
Older contracts containing a basic guaranteed benefit expressed as an amount of pension payable or a guaranteed annuity option, expose the group to interest rate and longevity risk. The cost of guarantees increases during periods when interest rates are low or when annuitant mortality improves faster than expected.	Savings	The ultimate cost of basic guarantees provided on older contracts will depend on the take up rate of any option and the final form of annuity selected by the policyholder. The group has limited ability to control the take up of these options. However, the book of business itself is diminishing in size. As at 31 December 2016, the value of guarantees is estimated to be £59m (31 December 2015: £40m).
For annuity contracts, the group is exposed to the risk that mortality experience is lower than assumed. Lower than expected mortality would require payments to be made for longer and increase the cost of benefits provided. Lifetime mortgage business also explicitly has some exposure to the life expectancy of borrowers.	LGR	Annuity business is priced having regard to trends in improvements in future mortality. Enhanced annuities, which are priced taking account of impairments to life expectancy, are subject to specific underwriting criteria. Certain annuitant mortality risks, including enhanced annuities, are placed with reinsurers. The group regularly reviews its mortality experience and industry projections of longevity and adjusts the pricing and valuation assumptions accordingly. In pricing lifetime mortgage business, account is taken of trends in mortality rates in setting the amounts that are advanced to borrowers relative to the value of the property on which the loan is secured.
Persistency risk In the early years of a policy, lapses may result in a loss to the group, as the acquisition costs associated with the contract would not have been recovered from product margins.	LGI and Savings	The pricing basis for protection business includes provision for policy lapses. Following the adoption of PS06/14 in 2006 the persistency assumption for non-participating protection business allows for the expected pattern of persistency, adjusted to incorporate a margin for adverse deviation. Actual trends in policy lapse rates are monitored with adverse trends being subject to actuarial investigation. For insured contracts, terms and conditions typically include surrender deductions to mitigate the risk. In later periods, once the acquisition costs have been recouped, the effect of lapses and surrenders depends upon the relationship between the exit benefit, if any, and the liability for that contract. Exit benefits are not generally guaranteed and the group has some discretionin determining the amount of the payment. As a result, the effect on profit in later periods is expected to be broadly neutral.
Expense risk In pricing long term insurance business, assumptions are made as to the future cost of product servicing. A significant adverse divergence in actual expenses experience could reduce product profitability.	LGR, LGI and Savings	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.

Balance sheet management (continued)

Insurance risk

Principal risks	Division	Controls to mitigate the risk
Concentration (catastrophe) risk Insurance risk may be concentrated in geographic regions, altering the risk profile of the group. The most significant exposure of this type arises for group protection business, where a single event could result in a large number of related claims.	LGI and General Insurance	Group protection business contracts include an 'event limit' capping the total liability under the policy from a single event. Excess of loss reinsurance further mitigates loss from the exposure. For general insurance business, the risk acceptance policy, terms and premiums reflect expected claims and cost associated with a location and avoids adverse selection. Additionally, exposure by location is monitored to ensure there is a geographic spread of risk. Catastrophe reinsurance cover also mitigates loss from concentrations of risk.
Epidemic (catastrophe) risk The spread of an epidemic could cause large aggregate claims across the group's portfolio of protection businesses.	LGI	The pricing basis for protection business includes an assessment of potential claims as a result of epidemic risks. Quota share and excess of loss reinsurance contracts are used by individual and group protection, respectively, to further mitigate the risk. Depending on the nature of an epidemic, mortality experience may lead to a reduction in the cost of claims for annuity business.
Weather events risk Significant weather events such as windstorms and coastal and river floods can lead to a higher instance of claims than anticipated.	General Insurance	The financial impacts of significant weather events are managed using excess of loss catastrophe treaties under which an element of the costs of claims may be recovered from external insurers. The reinsurance is designed to provide financial protection against a modelled windstorm and coastal flood event with a return probability of 1 in 200 years.

Other risks	Division	Controls to mitigate the risk
Subsidence risk The incidence of subsidence can have a significant impact on the level of claims on household policies.	General Insurance	Underwriting criteria for general insurance business includes assessment of subsidence risk, with an appropriate premium being charged for the risk accepted. Reinsurance arrangements are used to further mitigate the risk.

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.

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 exclusively to the UK insurance business. The 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 and there has been no material change in approach as a result of the new Solvency II regulatory regime coming into effect on 1 January 2016. These assumptions incorporate prudent margins in excess of our best estimate assumptions to reduce the possibility of actual experience being less favourable than assumed. There are no material changes to overall non-economic prudent assumptions or the minimum prudent economic margins at 2016 arising from the regular review of these prudent margins.

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 2016, the group continued to hold an additional reserve to protect against the risk of an uplift in defaults in the current economic environment and maintained the level of the long term default allowance at 42bps per annum (2015: 40bps) for unapproved securities and property backing non profit business. For approved securities and swaps backing the non profit annuity business, the allowance is 9bps per annum (2015: 9bps). For unapproved securities backing non profit annuity business, the credit default allowances equate to 55bps per annum (2015: 55bps) when expressed over the duration of the assets held, leading to an overall total default provision of
£2.7bn (2015: £2.2bn).

The group believes that the total default allowance is prudent to cover all reasonably foreseeable circumstances.

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 are set with reference to standard tables drawn up by the Continuous Mortality Investigation Bureau (CMIB) of the Institute and Faculty of Actuaries and / or UK death registrations, with an appropriate allowance for prudence. These tables are based on industry-wide mortality and morbidity experience for insured lives.

The majority of internal statistical investigations are carried out at least annually to determine the extent to which the group's experience differs from that of the industry 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 can be volatile and past experience may not be an appropriate future indicator.

The group tries to balance past experience and future conditions by making prudent assumptions about the future 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.

Balance sheet management (continued)

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 FRS 27. Although FRS 27 is no longer an operational standard, the group has grandfathered the provisions into its IFRS reserving methodology.

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 17bps for 2016 (2015: gilt yield curve on the valuation date increased by ten basis points).

Property volatility is set with reference to historic variations in property prices. Equity volatility is set so that the model reproduces observed market prices of traded equity derivatives. Correlations between asset classes are based on historic data.

Each investment scenario contains a consistent set of assumptions for investment returns and inflation.

Future bonuses

Future reversionary and terminal bonuses are consistent with the bonus policies set out in the Society's Principles and Practices of Financial Management (PPFM).

Guaranteed annuity options

The guarantees are valued on a market consistent basis. The valuation methodology allows for the correlation between interest rates and the proportion of the policyholders who take up the option.

Guaranteed cash options

The liability is determined assuming that policyholders choose the most valuable alternative between the annuity and cash available at retirement.

Value of in-force non-participating contracts

The group makes a deduction from the liabilities for the expected value of future profits arising on non-participating contracts written in the with-profits part of the Society 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 for Legal & General Assurance Society Limited.

	2016	2015
Rate of interest/discount rates		
Non-participating business		
– Life assurances[1]	**1.47% p.a. and 3.42% p.a.**	2.10% p.a. and 4.60% p.a.
– Pension assurances[1]	**1.50% p.a. and 3.42% p.a.**	2.00% p.a. and 4.60% p.a.
– Annuities in deferment	**2.39% p.a.**	3.33% p.a.
– Annuities in deferment (RPI-linked; net rate after allowance for inflation)	**-1.17% p.a.**	0.00% p.a.
– Vested annuities	**2.39% p.a.**	1.00% – 3.33% p.a.
– Vested annuities (RPI-linked; net rate after allowance for inflation)	**-1.17% p.a.**	0.00% p.a.
Participating business		
Risk free rate (10 years)	**1.08% p.a.**	2.13% 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)	**23.67%**	22.76%
Property volatility	**15.00%**	15.00%
Mortality tables		
Non-participating business		
Non-linked individual term assurances:		
– Smokers	**87% TMS00/TFS00 Sel 5**	78% TMS00/TFS00 Sel 5
– Non-smokers	**84% TMN00/TFN00 Sel 5**	82% TMN00/TFN00 Sel 5
Non-linked individual term assurances with terminal illness[2]		
– Smokers	**64% – 82% TMS00/TFS00 Sel 5**	64% – 84% TMS00/TFS00 Sel 5
– Non-smokers	**62% – 83% TMN00/TFN00 Sel 5**	66% – 83% TMN00/TFN00 Sel 5
Non-linked individual term assurances with critical illness (Sold until 31/12/2012)[3]		
– Smokers	**116% – 139% ACSL04M/F**	109% – 139% ACSL04M/F
– Non-smokers	**122% – 161% ACNL04M/F**	124% – 166% ACNL04M/F
Non-linked individual term assurances with critical illness (Sold from 01/01/2013)[3]		
– Smokers	**119% – 140% ACSL04M/F**	109% – 139% ACSL04M/F
– Non-smokers	**126% – 164% ACNL04M/F**	124% – 166% ACNL04M/F
Other non-linked non profit life assurances	**100% of A67/70 Ult**	100% of A67/70 Ult
Whole of Life[4]		
– Smokers	**Bespoke tables based on TMS00/TFS00, AM92/AF92 and UK death registrations**	Bespoke tables based on TMS00/TFS00, AM92/AF92 and UK death registrations
– Non-smokers	**Bespoke tables based on TMN00/TFN00, AM92/AF92 and UK death registrations**	Bespoke tables based on TMN00/TFN00, AM92/AF92 and UK death registrations
Annuities in deferment[5]	**81.3% – 83.4% PNMA00/PNFA00**	81.3% – 86.7% PNMA00/PNFA00
Vested annuities[6]		
– Pension risk transfer	**82.2% – 83.4% PCMA00/PCFA00**	82.2% – 86.7% PCMA00/PCFA00
– Other annuities	**60.7% – 129.1% PCMA00/PCFA00**	63.9% – 133.5% PCMA00/PCFA00

1. A single rate is used if liabilities are negative (2016: 3.42%; 2015: 4.60%) or positive (2016: 1.50% gross (for Pension assurance) and 1.85% gross or 1.47% net (for Life assurance); 2015: 2.00% gross (for Pension assurance) and 2.60% gross or 2.10% net (for Life assurance)) throughout. The table above shows the assumption of the dominant product for the positive liabilities and the single rate for the negative liabilities. An appropriate valuation interest rate is applied at all times during the projection, i.e. when liabilities switch from being negative to positive the valuation interest rate will also switch from being high to low. The crossover point at which the margin changes direction is assessed for broad product groups but applied at a policy by policy level.
2. The percentage of the table varies with the duration that the policy has been in-force for the first five years.
3. 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 (2015: 0.50% p.a. for males and 0.75% p.a. for females). There is an additive loading of 1.00% (2015: 1.00%) for guaranteed term contracts post policy duration 5.
4. The percentage of the TM00/TF00 tables varies with the duration that the policy has been in-force for the first five years. Thereafter, a bespoke mortality table constructed based on TM00/TF00 tables, AM92/AF92 tables and UK death registrations. Mortality rates are assumed to reduce whilst business is ceded to reinsurer (after which any reduction is maintained but no further reduction is applied) based on CMI2014 model with a long term annual improvement rate of 1.5% for males and 1.0% for females.
5. Table created by blending PCXA00 with PNXA00 tables. The base table to be used for pension risk transfer 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.
6. For vested annuities, mortality rates are assumed to reduce according to an adjusted version of CMIB's mortality improvement model; CMI 2014 (2015: CMI 2013) with the following parameters:
   Males: Long Term Rate of 2.00% p.a. (2015: 2.00% p.a.) up to age 85 tapering to 0% at 120
   Females: Long Term Rate of 1.50% p.a. (2015: 1.50% p.a.) up to age 85 tapering to 0% at 120
   In aggregate there is no material adjustment to assumptions regarding future longevity improvement at end 2016.
   Different business classes have different effective dates for applying improvers.
   For certain annuities, 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 [2015: After age 90 the basis is blended towards a bespoke table from age 100 onwards.]

Balance sheet management (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 term assurance business, the margin acts to increase the best estimate lapse rate in the early part of a policy's lifetime (when it is treated as an asset) but to reduce the best estimate lapse rate later in the policy's lifetime (when it is treated as a liability). The crossover point at which the margin changes direction is assessed for broad product groups but applied at a policy by policy level. Any liability to reinsurers on discontinuance within the first four years from inception is allowed for explicitly in the cash flows, using the valuation lapse basis, together with a prudent allowance for clawback of commission from agents upon lapse.

For unitised business, the margin acts to either increase or decrease the best estimate lapse rates, depending upon which approach results in the higher liability. The direction of the margin is assessed for unit life business and unit pensions business separately.

A summary of the lapse basis for major classes of non-profit business is shown below. The lapse rates for unit linked business represent the decrement from in-force to surrender.

	2016 Average lapse rate for the policy years			
Product	1-5 %	6-10 %	11-15 %	16-20 %
Level term	9.9	5.0	3.3	3.2
Decreasing term	9.5	9.2	7.8	7.7
Accelerated critical illness cover	13.7	9.2	5.6	5.4
Pensions term	–	6.0	4.5	4.4
Whole of Life (conventional non profit)	3.8	1.1	1.0	1.0
Bond (unit linked non profit)	2.2	6.9	3.9	3.4

Balance sheet management (continued)

19 Long term insurance valuation assumptions (continued)

Persistency assumptions (continued)

Product	2015 Average lapse rate for the policy years 1-5 %	6-10 %	11-15 %	16-20 %
Level term	10.5	6.2	4.5	4.4
Decreasing term	10.6	7.4	5.4	5.3
Accelerated critical illness cover	15.7	9.9	5.3	5.1
Pensions term	9.4	6.6	4.8	4.8
Whole of Life (conventional non profit)	4.7	1.4	1.3	1.3
Bond (unit linked non profit)	2.6	9.2	5.0	4.2

For with-profits business, the realistic valuation was the biting basis under the previous Solvency I regime and therefore detail of the long term best estimate lapse rates is given below for unitised with-profits (UWP) and unit linked non-participating products. The lapse rates for unit linked business represent the decrement from in-force to surrender.

Product	**2016 Average lapse rate for the policy years 1-5 %**	**6-10 %**	**11-15 %**	**16-20 %**
Savings endowment (unitised with-profits)	**–**	**–**	**3.7**	**5.4**
Target cash endowment (unitised with-profits)	**–**	**1.0**	**4.7**	**4.0**
Savings endowment (unit linked non-participating)	**–**	**–**	**3.7**	**5.4**
Target cash endowment (unit linked non-participating)	**–**	**1.0**	**4.7**	**4.0**
Bond (unitised with-profits)	**1.9**	**6.4**	**5.5**	**5.0**
Bond (unit linked non-participating)	**–**	**3.5**	**5.8**	**4.8**
Individual pension regular premium (unitised with-profits)	**4.0**	**4.0**	**4.0**	**4.0**
Individual pension regular premium (unit linked non-participating)	**5.6**	**5.2**	**4.6**	**4.5**
Group pension regular premium (unitised with-profits)	**10.0**	**10.1**	**10.2**	**10.2**
Group pension regular premium (unit linked non-participating)	**3.7**	**4.4**	**5.2**	**5.2**
Individual pension single premium (unitised with-profits)	**3.2**	**3.2**	**3.2**	**3.2**
Individual pension single premium (unit linked non-participating)	**3.5**	**3.7**	**3.4**	**3.4**
Group pension single premium (unitised with-profits)	**6.3**	**5.9**	**5.8**	**5.8**
Group pension single premium (unit linked non-participating)	**15.0**	**9.8**	**8.9**	**8.8**
Trustee Investment Plan single premium (unitised with-profits)	**2.7**	**19.5**	**13.4**	**13.4**
Trustee Investment Plan single premium (unit linked non-participating)	**2.7**	**19.5**	**13.4**	**13.4**

Balance sheet management (continued)

	2015 Average lapse rate for the policy years			
Product	1-5 %	6-10 %	11-15 %	16-20 %
Savings endowment (unitised with-profits)	–	–	3.7	5.4
Target cash endowment (unitised with-profits)	–	–	5.2	4.5
Savings endowment (unit linked non-participating)	–	–	3.7	5.4
Target cash endowment (unit linked non-participating)	–	–	5.2	4.5
Bond (unitised with-profits)	1.9	6.4	5.5	5.0
Bond (unit linked non-participating)	–	3.5	5.8	4.8
Individual pension regular premium (unitised with-profits)	4.5	4.5	4.5	4.5
Individual pension regular premium (unit linked non-participating)	5.8	5.4	5.1	5.1
Group pension regular premium (unitised with-profits)	14.4	14.2	13.9	13.9
Group pension regular premium (unit linked non-participating)	8.7	7.4	5.7	5.7
Individual pension single premium (unitised with-profits)	3.7	3.6	3.6	3.6
Individual pension single premium (unit linked non-participating)	4.8	4.2	4.0	4.0
Group pension single premium (unitised with-profits)	6.9	6.8	6.6	6.6
Group pension single premium (unit linked non-participating)	12.3	11.5	8.9	9.2
Trustee Investment Plan single premium (unitised with-profits)	3.5	19.2	16.3	16.3
Trustee Investment Plan single premium (unit linked non-participating)	3.5	19.2	16.3	16.3

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 re-insurance 2016 £m	Impact on group equity net of re-insurance 2016 £m	Impact on pre-tax group profit net of re-insurance 2015 £m	Impact on group equity net of re-insurance 2015 £m
Economic sensitivity				
Long term insurance				
100bps increase in interest rates	**173**	**42**	48	(36)
100bps decrease in interest rates	**(280)**	**(120)**	(168)	(49)
100bps increase in long term inflation expectations	**(90)**	**(72)**	(38)	(31)
Credit spread widens by 100bps with no change in expected defaults	**(19)**	**(100)**	(102)	(138)
10% decrease in listed equities	**(185)**	**(164)**	(124)	(103)
10% fall in property values	**(116)**	**(102)**	(81)	(65)
10bps increase in credit default assumption	**(426)**	**(339)**	(324)	(258)
10bps decrease in credit default assumption	**437**	**348**	366	292
Non-economic sensitivity				
Long term insurance				
100bps decrease in annuitant mortality	**(200)**	**(202)**	(132)	(105)
5% increase in assurance mortality	**(62)**	**(47)**	(64)	(49)
General insurance				
Single storm event with 1 in 200 year probability	**(62)**	**(50)**	(67)	(54)
Subsidence event – worst claims ratio in last 30 years	**(61)**	**(49)**	(72)	(57)

The table shows the impacts on group pre-tax profit and equity, net of reinsurance, under each sensitivity scenario. The shareholders' share of with-profit bonus declared in the year is relatively insensitive to market movements due to the smoothing policies applied.

Balance sheet management (continued)

The interest rate sensitivity assumes a 100bps change in the gross redemption yield on fixed interest securities together with a 100bps change in the real yields on variable securities. For the UK with-profit funds, valuation interest rates are assumed to move in line with market yields adjusted to allow for the impact of PRA regulations. The interest rate sensitivities reflect the impact of the regulatory restrictions on the reinvestment rate used to value the liabilities of the long term business. No yield floors have been applied in the estimation of the stresses, despite the current low interest rate environment.

Interest rate and inflation expectation have historically shown positive correlation and have therefore been presented next to each other.

The inflation stress adopted is a 100bps p.a. increase in inflation resulting in a 100bps p.a. reduction in real yield and no change to the nominal yield. In addition the expense inflation rate is increased by 100bps p.a.

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

The equity stress is a 10% fall in listed equity market values. The property stress adopted is a 10% fall in property market value. Rental income is assumed to be unchanged; however the vacant possession value is stressed down by 10% in line with the market value stress. Where property is being used to back liabilities, the valuation interest rate used to place a value on the liabilities moves with the implied change in property yields.

The annuitant mortality stress is a 100bps reduction in the mortality rates for immediate and deferred annuitants with no change to the mortality improvement rates. The assurance mortality stress represents an increase in mortality/morbidity rates for assurance contracts by 5%.

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

For any single event with claims in excess of £30m (2015: £30m) but less than £509m (2015: £496m) the ultimate cost to Legal & General Insurance Limited (LGI) would be £30m plus 50% of the £5m XS £30m layer (2015: £30m plus 50% of the £5m XS £30m layer) plus the cost of the reinsurance reinstatement premium. The ultimate cost to the group is greater as a proportion of the catastrophe reinsurance cover placed with Legal & General Assurance Society Limited, which is exposed to 75% of claims between £35m and £100m, 75% of claims between £100m and £250m and 45% of claims between £250m and £478m. The impact of a 1 in 500 year modelled windstorm and coastal flood event would exceed the upper limit of the catastrophe cover by approximately £280m (2015: £270m), with an estimated total cost to Legal & General Insurance Limited of £335m (2015: £330m) and to the group of £590m (2015: £563m).

The above sensitivity analyses do not reflect management actions which could be taken to reduce the impacts. The group seeks to actively manage its asset and liability position. A change in market conditions may lead to changes in the asset allocation or charging structure which may have a more, or less, significant impact on the value of the liabilities. The analyses also ignore any second order effects of the assumption change, including the potential impact on the group asset 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 and equity to changes in assumptions may not be linear. These results should not be extrapolated to changes of a much larger order, which could be significantly more or less than the amounts shown above.

Balance sheet management (continued)

21 Insurance contract liabilities

Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract.

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 and previously most Garantie Long Terme contracts in France were 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

In the UK, insurance contract liabilities are determined following an annual investigation of the insurance entities in accordance with regulatory requirements.

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 & General Assurance Society Limited's (Society'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.

– Overseas

All annuity business written by overseas subsidiaries is recognised 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)

General insurance
Liabilities, together with related reinsurance recoveries, are established on the basis of current information. Such liabilities can never be definitive as to their timing or the amount of claims and are therefore subject to subsequent reassessment on a regular basis. Claims and related reinsurance recoveries are accounted for in respect of all incidents up to the year end. Provision is made on the basis of available information for the estimated ultimate cost, including claims settlement expenses, claims reported but not yet settled and claims incurred but not yet reported. An unexpired risk provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums and after taking account of investment return.

Liability adequacy tests
The group performs liability adequacy testing on its insurance liabilities to ensure that the carrying amount of liabilities (less related deferred acquisition costs) is sufficient to cover current estimates of future cash flows. When performing the liability adequacy test, the group discounts all contractual cash flows and compares this amount with the carrying value of the liability. Any deficiency is immediately charged to the Consolidated Income Statement, initially reducing deferred acquisition costs and then by establishing a provision for losses.

Reinsurance
The group's insurance subsidiaries cede insurance premiums and risk in the normal course of business in order to limit the potential for losses and to provide financing. Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured. Reinsurance assets include balances due from reinsurers for paid and unpaid losses and loss adjustment expenses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded as an asset in the Consolidated Balance Sheet unless a right of offset exists, in which case the associated liabilities are reduced commensurately.

Contracts with reinsurers are assessed to determine whether they contain significant insurance risk. Contracts that do not give rise to significant transfer of insurance risk to the reinsurer are considered to be financial reinsurance and are accounted for and disclosed in a manner consistent with financial instruments.

Balance sheet management (continued)

21 Insurance contract liabilities (continued)

(i) Analysis of insurance contract liabilities

	Notes	Gross 2016 £m	Re-insurance 2016 £m	Gross 2015 £m	Re-insurance 2015 £m
Participating insurance contracts	21(iii)	**5,794**	**(1)**	5,618	(1)
Non-participating insurance contracts	21(iv)	**60,511**	**(5,297)**	49,470	(3,861)
General insurance contracts	21(v)	**268**	**(9)**	284	(8)
Insurance contract liabilities		**66,573**	**(5,307)**	55,372	(3,870)

During the year, the group continued utilising prospective reinsurance arrangements which resulted in a profit of £535m (2015: £503m). This profit has been reflected in the Consolidated Income Statement for the year and arises from new reinsurance arrangements or the reinsurance of new business under existing arrangements.

(ii) Expected insurance contract liability cash flows

	Date of undiscounted cash flows					
As at 31 December 2016	**0-5 years £m**	**5-15 years £m**	**15-25 years £m**	**Over 25 years £m**	**Total £m**	**Carrying value £m**
Participating insurance contracts	**2,853**	**2,291**	**684**	**230**	**6,058**	**5,794**
Non-participating insurance contracts	**10,859**	**24,353**	**17,997**	**20,579**	**73,788**	**58,812**
General insurance contracts[1]	**95**	**1**	**–**	**–**	**96**	**96**
Insurance contract liabilities	**13,807**	**26,645**	**18,681**	**20,809**	**79,942**	**64,702**

	Date of undiscounted cash flows					
As at 31 December 2015	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating insurance contracts	2,938	2,286	702	262	6,188	5,618
Non-participating insurance contracts	9,410	18,988	15,166	17,445	61,009	32,356
General insurance contracts[1]	109	1	–	–	110	110
Insurance contract liabilities	12,457	21,275	15,868	17,707	67,307	38,084

1. Excludes unearned premium reserve of £172m (2015: £174m) for which there are no cash flows.

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.

Balance sheet management (continued)

(iii) Movement in participating insurance contract liabilities

	Gross 2016 £m	Re-insurance 2016 £m	Gross 2015 £m	Re-insurance 2015 £m
As at 1 January	**5,618**	**(1)**	6,579	(1)
New liabilities in the year	**40**	**–**	52	–
Liabilities discharged in the year	**(749)**	**–**	(977)	–
Unwinding of discount rates	**27**	**–**	40	–
Effect of change in non-economic assumptions	**(3)**	**–**	5	–
Effect of change in economic assumptions	**642**	**–**	81	–
Disposals[1]	**–**	**–**	(171)	–
Modelling and methodology changes	**202**	**–**	–	–
Other	**17**	**–**	9	–
As at 31 December	**5,794**	**(1)**	5,618	(1)
Expected to be settled within 12 months (net of reinsurance)	**768**		844	
Expected to be settled after 12 months (net of reinsurance)	**5,025**		4,773	

1. Reflects the disposal of Legal & General France during 2015.

(iv) Movement in non-participating insurance contract liabilities

	Gross 2016 £m	Re-insurance 2016 £m	Gross 2015 £m	Re-insurance 2015 £m
As at 1 January	**49,470**	**(3,861)**	49,589	(2,587)
New liabilities in the year	**6,273**	**(613)**	2,866	(768)
Liabilities discharged in the year	**(2,890)**	**86**	(2,744)	(39)
Unwinding of discount rates	**1,574**	**(129)**	1,451	(93)
Effect of change in non-economic assumptions	**51**	**(43)**	(384)	157
Effect of change in economic assumptions	**6,870**	**(546)**	(1,335)	(513)
Foreign exchange adjustments	**795**	**(66)**	27	(18)
Transfer to liabilities classified as held for sale	**(1,709)**	**1**	–	–
Modelling and methodology changes	**61**	**(127)**	–	–
Other	**16**	**1**	–	–
As at 31 December	**60,511**	**(5,297)**	49,470	(3,861)
Expected to be settled within 12 months (net of reinsurance)	**1,398**		1,832	
Expected to be settled after 12 months (net of reinsurance)	**53,816**		43,777	

(v) Analysis of general insurance contract liabilities

	Gross 2016 £m	Re-insurance 2016 £m	Gross 2015 £m	Re-insurance 2015 £m
Outstanding claims	**64**	**(2)**	75	(1)
Claims incurred but not reported	**32**	**–**	35	–
Unearned premiums	**172**	**(7)**	174	(7)
General insurance contract liabilities	**268**	**(9)**	284	(8)

Balance sheet management (continued)

21 Insurance contract liabilities (continued)

(vi) Movement in general insurance claim liabilities

	Gross 2016 £m	Re-insurance 2016 £m	Gross 2015 £m	Re-insurance 2015 £m
As at 1 January	**110**	**(1)**	91	(1)
Claims arising	**159**	**(1)**	181	(1)
Claims paid	**(166)**	**–**	(161)	1
Adjustments to prior year liabilities	**(7)**	**–**	(1)	–
As at 31 December	**96**	**(2)**	110	(1)
Expected to be settled within 12 months (net of reinsurance)	**79**		95	
Expected to be settled after 12 months (net of reinsurance)	**15**		14	

(vii) Unearned premiums

	Gross 2016 £m	Re-insurance 2016 £m	Gross 2015 £m	Re-insurance 2015 £m
As at 1 January	**174**	**(7)**	196	(7)
Earned in the year	**(326)**	**15**	(337)	12
Gross written premiums in respect of future periods	**324**	**(15)**	315	(12)
As at 31 December	**172**	(7)	174	(7)
Expected to be earned within 12 months (net of reinsurance)	**165**		167	
Expected to be earned after 12 months (net of reinsurance)	**–**		–	

(viii) Claims development – general insurance

Changes may occur in the amount of the group's obligations at the end of a contract period. The top section of each table below illustrates how the estimate of total claims outstanding for each accident year developed over time. The bottom section of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

Gross of reinsurance

Accident year	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Total £m
Estimate of ultimate claims costs:						
– At end of accident year	**164**	**162**	**168**	**171**	**153**	
– One year later	**149**	**155**	**163**	**157**	**–**	
– Two years later	**147**	**154**	**161**	**–**	**–**	
– Three years later	**148**	**156**	**–**	**–**	**–**	
– Four years later	**148**	**–**	**–**	**–**	**–**	
Estimate of cumulative claims	**148**	**156**	**161**	**157**	**153**	**775**
Cumulative payments	**(147)**	**(152)**	**(157)**	**(147)**	**(84)**	**(687)**
Outstanding claims provision	**1**	**4**	**4**	**10**	**69**	**88**
Prior year outstanding claims						**5**
Claims handling provision						**3**
Total claims liabilities recognised in the balance sheet						**96**

No net of reinsurance claim development table has been presented as it would not be materially different from the gross claims development table above.

Balance sheet management (continued)

22 Investment contract liabilities

Under current IFRS requirements, participating investment contract liabilities are measured using local GAAP, as permitted by IFRS 4. In the UK, participating investment contract liabilities are determined in accordance with guidance previously set out in FRS 27, including a value for guarantees, in the same way as participating insurance contracts. Although FRS 27 is no longer an operational standard, the group has grandfathered the provisions into its IFRS reserving methodology.

The group's non-participating investment contracts are all unit linked contracts. These liabilities are measured at fair value by reference to the value of the underlying net asset values of the group's unitised investment funds at the balance sheet date.

Unitised liabilities are recognised when premiums are received and non-unitised liabilities are recognised when premiums are due.

Claims are not included in the income statement but are deducted from investment contract liabilities. The movement in investment contract liabilities consists of claims incurred in the year less the corresponding elimination of the policyholder liability originally recognised in the balance sheet and the investment return credited to policyholders.

Future developments

IFRS 15, 'Revenue from Contracts with Customers', issued in May 2014, is effective, for annual periods beginning on or after 1 January 2018. This standard provides clear guidance over when and how much revenue should be recognised. It provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. An assessment is currently on-going to determine the impact upon the group, focussing in particular on our investment management business. The standard does not apply to business classified as insurance contracts. The group does not intend to early adopt this standard.

(i) Analysis of investment contract liabilities

	Note	Gross 2016 £m	Re-insurance 2016 £m	Gross 2015 £m	Re-insurance 2015 £m
Participating investment contracts		**5,271**	**–**	4,912	–
Non-participating investment contracts		**321,177**	**(286)**	278,554	(250)
Investment contract liabilities	22(ii)	**326,448**	**(286)**	283,466	(250)
Expected to be settled within 12 months (net of reinsurance)		**39,559**		33,907	
Expected to be settled after 12 months (net of reinsurance)		**286,603**		249,309	

(ii) Movement in investment contract liabilities

	Gross 2016 £m	Re-insurance 2016 £m	Gross 2015 £m	Re-insurance 2015 £m
As at 1 January	**283,466**	**(250)**	296,225	(310)
Reserves in respect of new business	**27,832**	**(27)**	37,639	(598)
Amounts paid on surrenders and maturities during the year[1]	**(43,217)**	**35**	(46,557)	164
Investment return and related benefits	**58,622**	**(44)**	5,160	455
Management charges	**(251)**	**–**	(303)	–
Foreign exchange adjustments	**–**	**–**	(162)	–
Disposals[2]	**–**	**–**	(5,321)	–
Transfer to held for sale	**–**	**–**	(3,235)	39
Other	**(4)**	**–**	20	–
As at 31 December	**326,448**	**(286)**	283,466	(250)

1. Included in this category is the Part VII transfer of Legal & General Deutschland liabilities of £116m to Canada Life Europe.
2. Reflects the disposal of Legal & General France and Legal & General International (Ireland) during 2015.

Change in provisions for investment contract liabilities represents the total gross and reinsurance investment return and related benefits of £58,578m (2015: £5,615m).

Fair value movements of £60,981 (2015: £5,175m) are included within the income statement arising from movements in investment contract liabilities designated as fair value through profit and loss.

Balance sheet management (continued)

22 Investment contract liabilities (continued)

(iii) Non-participating investment contract liability fair value hierarchy

As at 31 December 2016	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Non-participating investment contracts	**321,177**	**321,177**	**–**	**–**	**–**

As at 31 December 2015	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Non-participating investment contracts	278,554	278,554	–	–	–

The fair value of financial liabilities 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.

There have been no significant transfers between any of the levels.

(iv) Expected investment contract liability cash flows

	Date of undiscounted cash flows					
As at 31 December 2016	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating investment contracts	**2,223**	**2,605**	**501**	**28**	**5,357**	**5,271**

	Date of undiscounted cash flows					
As at 31 December 2015	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating investment contracts	2,229	2,771	780	46	5,826	4,912

Investment contract undiscounted net 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 reported cash flows.

A maturity analysis based on the earliest contractual repayment date would present investment contract liabilities as due on the earliest period of the table because policyholders can exercise cancellation options at their discretion. In such a scenario, the liability would be reduced due to the application of surrender penalties.

Balance sheet management (continued)

23 Unallocated divisible surplus

The participating funds operate with an excess of assets over the amount required to meet the policyholder liabilities.

The nature of benefits for the contracts within these funds is such that the allocation of surpluses between ordinary equity holders and participating policyholders is uncertain. The amount of surplus which has not been allocated at the balance sheet date is classified within liabilities as the unallocated divisible surplus. Adjustments made to comply with guidance previously set out in FRS 27 are charged to the unallocated divisible surplus.

	2016 £m	2015 £m
As at 1 January	**893**	983
Transferred (to)/from the income statement	**(187)**	141
Actuarial (losses)/gains on defined benefit pension schemes transferred from the statement of comprehensive income, net of tax	**(45)**	13
Foreign exchange adjustments	**–**	(19)
Disposal[1]	**–**	(225)
As at 31 December	**661**	893

1. Reflects the disposal of private equity investments during the year (2015: disposal of Legal & General France).

24 Value of in-force non-participating contracts

(i) Movement in value of in-force non-participating contracts

	2016 £m	2015 £m
As at 1 January	**184**	208
Unwinding of the discount rates	**2**	2
Investment return	**39**	10
Other	**(19)**	(36)
As at 31 December	**206**	184
Expected to be settled within 12 months	**29**	20
Expected to be settled after 12 months	**177**	164

(ii) Expected net cash flows

	Date of undiscounted cash flows					
As at 31 December 2016	**0-5 years £m**	**5-15 years £m**	**15-25 years £m**	**Over 25 years £m**	**Total £m**	**Carrying value £m**
Value of in-force non-participating contracts	**139**	**90**	**25**	**9**	**263**	**206**

	Date of undiscounted cash flows					
As at 31 December 2015	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Value of in-force non-participating contracts	125	81	23	8	237	184

Value of in-force (VIF) non-participating undiscounted net cash flows are based on the expected date of realisation. The VIF relates entirely to insurance contracts.

Balance sheet management (continued)

25 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.

Borrowings comprise core borrowings such as subordinated bond issues and long term unsecured senior debt. Operational borrowings include commercial paper issuance and bank borrowings under both committed and uncommitted debt facilities, including bank overdrafts. Borrowings secured on specific assets/cash flows, such as Triple X securitisations and private equity fund linked partnership assets, are included as non recourse borrowings.

(i) Analysis by type

	Borrowings excluding unit linked borrowings 2016 £m	Unit linked borrowings 2016 £m	Total 2016 £m	Borrowings excluding unit linked borrowings 2015 £m	Unit linked borrowings 2015 £m	Total 2015 £m
Core borrowings	**3,071**	**–**	**3,071**	3,092	–	3,092
Operational borrowings	**424**	**6**	**430**	534	2	536
Total borrowings	**3,495**	**6**	**3,501**	3,626	2	3,628

Unit linked borrowings are excluded from the analysis on the following page as the risk is retained by the policyholders.

Balance sheet management (continued)

(ii) Analysis by nature

(a) Core borrowings

	Carrying amount 2016 £m	Coupon rate 2016 %	Fair value 2016 £m	Carrying amount 2015 £m	Coupon rate 2015 %	Fair value 2015 £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities (Tier 1)	**615**	**6.39**	**609**	637	6.39	631
5.875% Sterling undated subordinated notes (Tier 2)	**411**	**5.88**	**418**	413	5.88	426
10% Sterling subordinated notes 2041 (Tier 2)	**310**	**10.00**	**403**	310	10.00	398
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**5.50**	**603**	589	5.50	570
5.375% Sterling subordinated notes 2045 (Tier 2)	**602**	**5.38**	**627**	602	5.38	611
Client fund holdings of group debt[1]	**(31)**	**–**	**(31)**	(26)	–	(27)
Total subordinated borrowings	**2,496**		**2,629**	2,525		2,609
Senior borrowings						
Sterling medium-term notes 2031-2041	**609**	**5.88**	**845**	609	5.88	779
Client fund holdings of group debt[1]	**(34)**	**–**	**(34)**	(42)	–	(54)
Total senior borrowings	**575**		**811**	567		725
Total core borrowings	**3,071**		**3,440**	3,092		3,334

1. £65m (2015: £68m) of the group's subordinated and senior borrowings are currently held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total core borrowings in the table above.

All of the group's core borrowings are measured using amortised cost. 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.

Subordinated borrowings

6.385% Sterling perpetual capital securities

In 2007, Legal & General Group Plc issued £600m of 6.385% Sterling perpetual capital securities. These securities are callable at par on 2 May 2017 and every three months thereafter. If not called, the coupon from 2 May 2017 will be reset to three month LIBOR plus 1.93%p.a. For Solvency II purposes these securities are treated as tier 1 own funds.

5.875% Sterling undated subordinated notes

In 2004, Legal & General Group Plc issued £400m of 5.875% Sterling undated subordinated notes. These notes are callable at par on 1 April 2019 and every five years thereafter. If not called, the coupon from 1 April 2019 will be reset to the prevailing five year benchmark gilt yield plus 2.33%p.a. These notes are treated as tier 2 own funds for Solvency II purposes.

10% Sterling subordinated notes 2041

In 2009, Legal & General Group Plc issued £300m of 10% dated subordinated notes. The notes are callable at par on 23 July 2021 and every five years thereafter. If not called, the coupon from 23 July 2021 will be reset to the prevailing five year benchmark gilt yield plus 9.325%p.a. These notes mature on 23 July 2041. They are treated as tier 2 own funds for Solvency II purposes.

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. They are treated as tier 2 own funds for Solvency II purposes.

5.375% Sterling subordinated notes 2045

On 27 October 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. They are treated as tier 2 own funds for Solvency II purposes.

Non recourse borrowings

US Dollar Triple X securitisation 2037

In 2006, a subsidiary of LGA issued US$450m of non recourse debt in the US capital markets to meet the Triple X reserve requirements of part of the US term insurance written in 2005 and 2006. It is secured on the cash flows related to that tranche of business. On 15 June 2016 this securitisation was redeemed at par.

LGV 6/LGV 7 Private Equity Fund Limited Partnerships

These borrowings were non recourse bank borrowings.

Consolidated Property Limited Partnerships

These borrowings are non recourse bank borrowings.

Balance sheet management (continued)

25 Borrowings (continued)

(ii) Analysis by nature (continued)

(b) Operational borrowings

	Carrying amount 2016 £m	Coupon rate 2016 %	Fair value 2016 £m	Carrying amount 2015 £m	Coupon rate 2015 %	Fair value 2015 £m
Short term operational borrowings						
Euro Commercial Paper	**216**	**0.96**	**216**	15	0.47	15
Total short term operational borrowings	**216**		**216**	15		15
Non recourse borrowings						
US Dollar Triple X securitisation 2037	–	–	–	302	0.56	258
LGV 6/LGV 7 Private Equity Fund Limited Partnership	–	–	–	98	3.43	98
Consolidated Property Limited Partnerships	**208**	**1.99**	**208**	184	1.94	184
Total non recourse borrowings	**208**		**208**	584		540
Group holding of operational borrowings[1]	–	–	–	(65)	–	(56)
Total operational borrowings	**424**		**424**	534		499

1. The group investments in operational borrowings have been eliminated from the group Consolidated Balance Sheet.

£172m of interest expense was incurred during the year (2015: £152m) on borrowings excluding non recourse and unit linked borrowings. The total financing costs incurred for the year were £198m (2015: £186m).

The presented fair values of the group's operational borrowings reflect observable market information and have been classified as level 2 in the fair value hierarchy.

Balance sheet management (continued)

(iii) Analysis by maturity

		Maturity profile of undiscounted cash flows					
As at 31 December 2016	Carrying amount £m	Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Subordinated borrowings							
6.385% Sterling perpetual capital securities (Tier 1)	**615**	**(6)**	**–**	**–**	**–**	**(600)**	**(606)**
5.875% Sterling undated subordinated notes (Tier 2)	**411**	**(6)**	**–**	**–**	**–**	**(400)**	**(406)**
10% Sterling subordinated notes 2041 (Tier 2)	**310**	**(13)**	**–**	**–**	**(300)**	**–**	**(313)**
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**–**	**–**	**–**	**–**	**(600)**	**(600)**
5.375% Sterling subordinated notes 2045 (Tier 2)	**602**	**(6)**	**–**	**–**	**–**	**(600)**	**(606)**
Senior borrowings							
Sterling medium term notes 2031-2041	**609**	**(11)**	**–**	**(350)**	**(250)**	**–**	**(611)**
Client fund holdings of group debt	**(65)**	**–**	**–**	**–**	**–**	**–**	**–**
Total core borrowings	**3,071**	**(42)**	**–**	**(350)**	**(550)**	**(2,200)**	**(3,142)**
Short term operational borrowings							
Euro Commercial Paper	**216**	**(216)**	**–**	**–**	**–**	**–**	**(216)**
Non recourse borrowings							
Consolidated Property Limited Partnerships	**208**	**(58)**	**(151)**	**–**	**–**	**–**	**(209)**
Group holding of operational borrowings	**(65)**	**–**	**–**	**–**	**–**	**–**	**–**
Total operational borrowings	**359**	**(274)**	**(151)**	**–**	**–**	**–**	**(425)**
Total borrowings excluding unit linked borrowings	**3,430**	**(316)**	**(151)**	**(350)**	**(550)**	**(2,200)**	**(3,567)**
Contractual undiscounted interest payments		**(196)**	**(772)**	**(1,922)**	**(1,597)**	**(872)**	**(5,359)**
Total contractual undiscounted cash flows		**(512)**	**(923)**	**(2,272)**	**(2,147)**	**(3,072)**	**(8,926)**

Balance sheet management (continued)

25 Borrowings (continued)

(iii) Analysis by maturity (continued)

As at 31 December 2015	Carrying amount £m	Maturity profile of undiscounted cash flows Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Subordinated borrowings							
6.385% Sterling perpetual capital securities (Tier 1)	637	(6)	–	–	–	(600)	(606)
5.875% Sterling undated subordinated notes (Tier 2)	413	(6)	–	–	–	(400)	(406)
10% Sterling subordinated notes 2041 (Tier 2)	310	(13)	–	–	–	(300)	(313)
5.5% Sterling subordinated notes 2064 (Tier 2)	589	–	–	–	–	(600)	(600)
5.375% Sterling subordinated notes 2045 (Tier 2)	602	(6)	–	–	–	(600)	(606)
Senior borrowings							
Sterling medium term notes 2031-2041	609	(11)	–	–	(590)	(10)	(611)
Client fund holdings of group debt	(68)	–	–	–	–	–	–
Total core borrowings	3,092	(42)	–	–	(590)	(2,510)	(3,142)
Short term operational borrowings							
Euro Commercial Paper	15	(15)	–	–	–	–	(15)
Non recourse borrowings							
US Dollar Triple X securitisation 2037	302	–	–	–	(305)	–	(305)
LGV 6/LGV 7 Private Equity Fund Limited Partnership	98	(39)	(60)	–	–	–	(99)
Consolidated Property Limited Partnerships	184	–	(184)	–	–	–	(184)
Group holding of operational borrowings	(65)	–	–	–	–	–	–
Total operational borrowings	534	(54)	(244)	–	(305)	–	(603)
Total borrowings excluding unit linked borrowings	3,626	(96)	(244)	–	(895)	(2,510)	(3,745)
Contractual undiscounted interest payments		(201)	(780)	(1,778)	(1,654)	(954)	(5,367)
Total contractual undiscounted cash flows		(297)	(1,024)	(1,778)	(2,549)	(3,464)	(9,112)

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.

Undiscounted interest payments are estimated based on the year end applicable interest rate and spot exchange rates.

As at 31 December 2016, the group had in place a £1bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2021. No amounts were outstanding at 31 December 2016.

Short term assets available at the holding company level exceeded the amount of non-unit linked short term operational borrowings of £216m (2015: £15m). Short term operational borrowings comprise Euro Commercial Paper, bank loans and overdrafts.

Balance sheet management (continued)

26 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.

(i) Analysis of provisions

	2016 £m	2015 £m
Retirement benefit obligations	**1,239**	1,131
Other provisions	**89**	40
	1,328	1,171

(ii) Retirement benefit obligations

Defined contribution plans

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
- Legal & General Nederland Stichting Pensioenfonds (Netherlands); the last full actuarial valuation was as at 31 December 2014. It is classified as held for sale as at 31 December 2016.

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.

Contributions of £51m (2015: £51m) were charged as expenses during the year in respect of defined contribution plans.

Defined benefit plans

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 2012.
- Legal & General Group UK Senior Pension Scheme (the Scheme). The Scheme was, with a few exceptions (principally transfers from the Fund), closed to new members from August 2000 and finally closed to new members from April 2007; the last full actuarial valuation was as at 31 December 2012.
- Legal & General America Inc. Cash Balance Plan (US); the last full actuarial valuation was as at 31 December 2014.

The UK schemes operate within the UK pensions' regulatory framework.

The UK Fund and Scheme were closed to future accrual on 31 December 2015. As part of this arrangement, payments to the Fund and Scheme in respect of future accruals will cease from this date and be replaced with a company contribution payment of between 5% and 15%. In addition, as part of the closure, the company will contribute an additional £3m per annum over the next 9 years 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)

26 Provisions (continued)

(ii) Retirement benefit obligations (continued)

Defined benefit plans (continued)

The total number of members of the UK Fund and Scheme was:

	2016	2015
Active	**381**	445
Deferred	**3,900**	4,013
Pensioners	**3,524**	3,493
	7,805	7,951

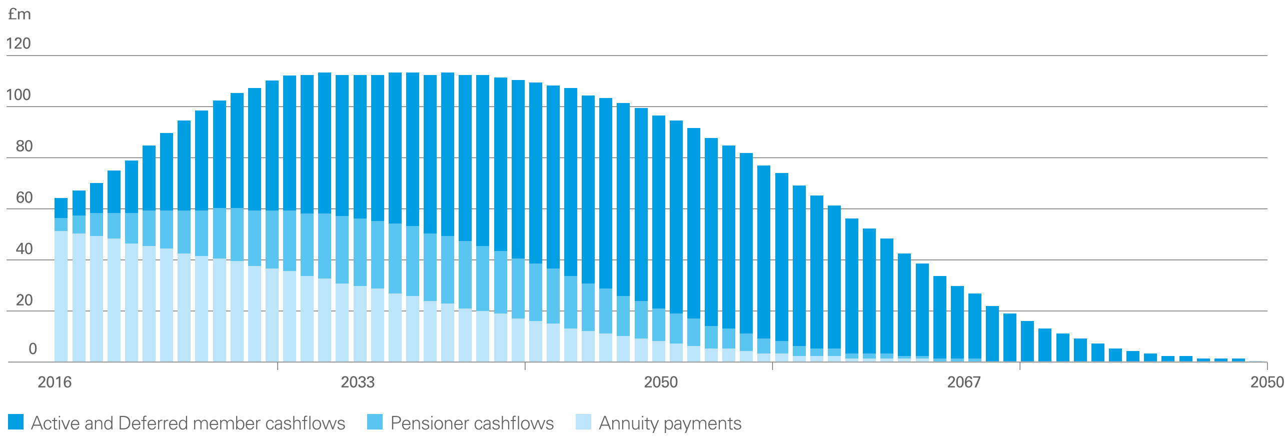
The group works closely with the trustees to develop an investment strategy for each UK scheme in order to meet the long term objectives of the trustees as noted above. Each UK scheme has a Statement of Investment Principles which governs the mix of assets and limits for each class of asset. As noted below the asset mix of the schemes is primarily split between bonds, LDI funds and equities. Additionally certain 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 2016 the value of these annuities, on an IAS 19 basis, was £779m (2015: £746m).

The Scheme and Fund are primarily exposed to equity price risk, interest rate risk, inflation risk and longevity risk. These risks are managed within the risk appetite of the Scheme and Fund and 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 these risks for certain parts of the pension liabilities which passes the risks from the Scheme and Fund onto the group.

Full actuarial valuations are carried out on the Scheme and Fund 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 Scheme or Fund are in deficit following the triennial valuation, the group and the trustee agree a deficit recovery plan. Both the Scheme and Fund have formal deficit recovery plans which agree to make good the deficits over a certain period of time. The triennial valuation at 31 December 2012 showed a total funding deficit for both the Scheme and the Fund of £494m. As a result of this, a recovery plan was agreed of £55m a year until 2024. The latest triennial valuation at 31 December 2015 is on-going and due to be completed shortly.

The Scheme and the Fund liabilities have an average duration of 20.7 years (2015: 19.3 years) and 20.8 years (2015: 19.4 years) respectively. The expected undiscounted benefits payments to members of the Scheme and Fund, including pensions in payment secured by annuities purchased from the group, are shown in the chart below:

Undiscounted benefit payments



Balance sheet management (continued)

The liability recognised in the Consolidated Balance Sheet in respect of 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 is not restricted. Plan assets exclude any insurance contracts issued by the group. The defined benefit obligation is calculated actuarially each year using the projected unit credit 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.

Where the unallocated divisible surplus or equity holders' funds are affected as a result of actuarial gains and losses on the defined benefit pension scheme, the charge or credit is not recognised in the Consolidated Income Statement but through the Consolidated Statement of Comprehensive Income.

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 97% of worldwide assets of the group's defined benefit schemes.

The principal actuarial assumptions for the UK defined benefit schemes were:

	Fund and Scheme 2016 %	Fund and Scheme 2015 %
Rate used to discount liabilities	**2.70**	3.80
Rate of increase in pensions in payment	**3.70**	3.60
Rate of increase in deferred pensions	**3.82**	3.66
Rate of general inflation (RPI)	**3.25**	3.00
Rate of CPI inflation	**2.55**	2.30
Post retirement mortality		
2016: 80% / 90% (Male/Female) (Fund) and 70% / 80% (Male/Female) (Scheme) of PCMA/PCFA 00 with improvement at CMI 2014 base date 2013 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.		
2015: 100% (Fund) / 85% (Scheme) of PCMA/PCFA 00 with improvement at CMI 2011 base date 2000 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 2016 years	Fund and Scheme 2015 years
Normal retirement age	**60.0**	60.0
Male life expectancy at retirement age	**88.1**	89.2
Female life expectancy at retirement age	**89.0**	90.5
Male life expectancy at 20 years younger than retirement age	**90.7**	91.7
Female life expectancy at 20 years younger than retirement age	**90.7**	92.1

Balance sheet management (continued)

26 Provisions (continued)

(ii) Retirement benefit obligations (continued)

	Fund and Scheme 2016 £m	Overseas 2016 £m	Fund and Scheme 2015 £m	Overseas 2015 £m
Movement in present value of defined benefit obligations				
As at 1 January	**(2,259)**	**(58)**	(2,348)	(56)
Current service cost	**(1)**	**(3)**	(8)	(3)
Interest expense	**(84)**	**(2)**	(83)	(2)
Actuarial remeasurement (recognised in Consolidated Statement of Comprehensive Income)				
– Change in financial assumptions	**(539)**	**–**	71	–
– Change in demographic assumptions	**85**	**–**	–	–
– Experience	**81**	**(5)**	37	1
Benefits paid	**89**	**2**	72	1
Exchange differences	**–**	**(10)**	–	–
Disposal of LGF	**–**	**–**	–	1
Transfer to held for sale[1]	**–**	**44**	–	–
As at 31 December	**(2,628)**	**(32)**	(2,259)	(58)
Movement in fair value of plan assets				
As at 1 January	**1,133**	**53**	1,133	54
Expected return on plan assets at liability discount rate	**44**	**2**	41	2
Actuarial remeasurement (recognised in Consolidated Statement of Comprehensive Income)	**235**	**5**	(61)	(1)
Employer contributions	**71**	**4**	92	1
Benefits paid	**(89)**	**(2)**	(72)	(1)
Exchange differences	**–**	**9**	–	(1)
Disposal of LGF	**–**	**3**	–	(1)
Transfer to held for sale[1]	**–**	**(44)**	–	–
As at 31 December	**1,394**	**27**	1,133	53
Gross pension obligations	**(1,234)**	**(5)**	(1,126)	(5)
Gross pension obligations included in provisions	**(1,234)**	**(5)**	(1,126)	(5)
Annuity obligations insured by Society	**779**	**–**	746	–
Gross defined benefit pension deficit	**(455)**	**(5)**	(380)	(5)
Deferred tax on defined benefit pension deficit	**81**	**1**	72	–
Net defined benefit pension deficit	**(374)**	**(4)**	(308)	(5)

1. Legal & General Netherlands is classified as held for sale.

The total amount of actuarial losses net of tax recognised in the Consolidated Statement of Comprehensive Income for the year was £121m (2015: £36m gain net of tax); cumulative £(826)m (2015: £(694)m). Actuarial profit net of tax relating to with-profits policyholders of £45m (2015: £13m loss) have been allocated to the unallocated divisible surplus.

The post-retirement mortality assumptions have been updated to reflect discussions regarding the triennial funding valuations as at 31 December 2015. The effect of assuming reasonable alternative assumptions in isolation to the gross defined benefit pension deficit are 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.

	2016 £m	2015 £m
1 year increase in longevity	**(86)**	(55)
0.1% decrease in the rate used to discount liabilities	**(43)**	(34)
0.1% increase in the rate of general inflation (RPI)	**(20)**	(19)

Balance sheet management (continued)

The historic funding and experience adjustments are as follows:

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Present value of defined benefit obligations	**(2,660)**	(2,317)	(2,404)	(2,110)	(1,890)
Fair value of plan assets	**1,421**	1,186	1,187	1,000	924
Restricted surplus not recognised	**–**	–	–	(3)	(3)
Gross pension obligations included in provisions	**(1,239)**	(1,131)	(1,217)	(1,113)	(969)
Experience adjustments on plan liabilities	**81**	37	(7)	(11)	(10)
Experience adjustments on plan assets	**235**	(62)	133	39	53

The fair value of the plan assets at the end of the year is made up as follows:

	Valuation based on quoted market price		Valuation based on other than quoted market price	
As at 31 December 2016	**UK £m**	**Overseas £m**	**UK £m**	**Overseas £m**
Equities	**595**	**19**	**–**	**–**
Bonds	**638**	**3**	**–**	**–**
Properties	**–**	**–**	**68**	**–**
Other investments	**–**	**2**	**93**	**3**
	1,233	**24**	**161**	**3**

	Valuation based on quoted market price		Valuation based on other than quoted market price	
As at 31 December 2015	UK £m	Overseas £m	UK £m	Overseas £m
Equities	523	14	–	–
Bonds	534	36	–	–
Properties	–	–	66	–
Other investments	10	–	–	3
	1,067	50	66	3

In 2016, the return on plan assets was £42m (2015: £30m). The average credit rating of the bond portfolio is A (2015: A).

Employer contributions of £75m (2015: £93m) include a pension deficit reduction payment of £84m (2015: £84m). Employer contributions of £74m are expected to be paid to the plan during 2017.

The following amounts have been charged to the income statement:

	Note	2016 £m	2015 £m
Current service costs		**4**	11
Net interest expense		**40**	42
Total included in other expenses	37	**44**	53

Balance sheet management (continued)

27 Payables and other financial liabilities

Trail commission
The group operates distribution agreements with intermediaries where further commission costs are payable in each period in which a relevant policy remains in-force. For relevant non-participating investment contracts, a liability for the present value of this future commission cost is recognised in the balance sheet on inception of the contract. The present value of future commission costs is deferred as an asset and amortised over the period during which the related revenue will be recognised. At each subsequent reporting date the liability is re-measured to fair value because this financial liability is part of a portfolio of unit linked assets and liabilities whose performance is evaluated on a fair value basis. Any increase in the liability is recognised as an additional deferred cost. Any change in lapse assumptions or revisions to the underlying assumptions for future cash flows will be reflected in the fair value movement for a year. If the future commission liability decreases, a corresponding adjustment is made to the amortisation of the asset.

	2016 £m	2015 £m
Derivative liabilities	**9,014**	8,047
Repurchase agreements[1]	**23,163**	13,343
Other[2]	**5,170**	1,319
Payables and other financial liabilities	**37,347**	22,709
Due within 12 months	**34,517**	20,027
Due after 12 months	**2,830**	2,682

1. The repurchase agreements are presented gross, however they and their related assets are subject to master netting arrangements.
2. Other financial liabilities include obligations in respect of collateral received from derivative contracts of £2.7bn (2015: £0.1bn). Other also includes the present value of future commission costs which have contingent settlement provisions of £177m (2015: £175m).

Fair value hierarchy

As at 31 December 2016	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	**9,014**	**884**	**8,130**	**–**	**–**
Repurchase agreements	**23,163**	**–**	**–**	**–**	**23,163**
Other	**5,170**	**806**	**8**	**177**	**4,179**
Payables and other financial liabilities	**37,347**	**1,690**	**8,138**	**177**	**27,342**

As at 31 December 2015	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	8,047	1,451	6,596	–	–
Repurchase agreements	13,343	–	–	–	13,343
Other	1,319	5	12	175	1,127
Payables and other financial liabilities	22,709	1,456	6,608	175	14,470

Future commission costs are modelled using expected cash flows, incorporating expected future persistency. They have therefore been classified as level 3 liabilities. The entire movement in the balance has been reflected in the Consolidated Income Statement during the period. A reasonably possible alternative persistency assumption would have the effect of increasing the liability by £5m (2015: £6m).

Significant transfers between levels

There have been no significant transfers between levels 1, 2 and 3 for the period ended 31 December 2016 (2015: No significant transfers between levels 1, 2 and 3).

Balance sheet management (continued)

28 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. The group had to comply with the requirements established by the Solvency II Framework Directive, as adopted by the Prudential Regulation Authority (PRA) at the balance sheet date.

Following the implementation of Solvency II regulatory regime which came into force on 1 January 2016, the group's capital resources are managed on a Solvency II basis.

The Solvency II results are estimated and unaudited.

The table below shows the estimated group Own Funds, Solvency Capital Requirement and Surplus own funds of the group, based on the Internal Model and Matching Adjustment approved by the PRA. This incorporates the estimated impacts of a recalculation of the Transitional Measures for Technical Provisions (Estimated TMTP) recalculated based on end 2016 economic conditions and changes during 2016 to the Internal Model and Matching Adjustment. The Estimated TMTP has been amortised to end 2016. The conditions for the PRA to allow a formal recalculation of the group's TMTP were not met as at end 2016. In line with PRA guidance, we expect to undertake a formal recalculation of the TMTP on or before 1 January 2018, i.e. when PRA conditions are met or two years from the date of commencement of the Solvency II regime.

As at 31 December 2016, and on the above basis, the group had a Solvency II surplus of £5.7bn (2015[1]: £5.5bn) over its Solvency Capital Requirement, corresponding to a coverage ratio[1] of 171% (2015[1]:176%). The shareholder view of Solvency II capital position is as follows:

	2016 £bn	2015 £bn
Core tier 1 Own Funds[1, 2]	**11.0**	10.6
Tier 1 subordinated liabilities	**0.6**	0.6
Tier 2 subordinated liabilities	**2.1**	2.0
Eligibility restrictions	**(0.1)**	(0.4)
Own Funds[1, 2]	**13.6**	12.8
Solvency Capital Requirement (SCR)[1, 3]	**(7.9)**	(7.3)
Surplus	**5.7**	5.5
SCR coverage ratio[4]	**171%**	176%

1. Own Funds and SCR are on a "shareholder view" basis. This excludes the contribution to SCR of with-profits fund and final salary pension schemes from both Own funds and SCR. These exclusions have no impact on Solvency II surplus. The 2015 comparatives have been restated on this basis.
2. Own Funds do not include an accrual for the dividend of £616m (2015: £592m) declared after the balance sheet date.
3. The SCR is not subject to audit.
4. Coverage ratio is on an unrounded basis.

The group completed the sale of Cofunds in January 2017 and has announced the sale of Legal & General Netherland Levensvervekering Maatschappij N.V. (subject to regulatory approval). The shareholder view of Solvency II capital position as at 31 December 2016 does not reflect the expected impacts of these sales.

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

	2016 £bn	2015[6] £bn
IFRS shareholders' equity	**6.9**	6.4
Remove DAC, goodwill and other intangible assets and liabilities	**(2.1)**	(2.0)
Add subordinated debt treated as available capital[1]	**2.5**	2.5
Insurance contract valuation differences[2]	**7.7**	7.5
Add value of shareholder transfers	**0.2**	0.2
Difference in value of net deferred tax liabilities (resulting from valuation differences)	**(0.5)**	(0.5)
SCR for with-profits fund and final salary pension schemes	**(0.7)**	(0.7)
Other[3]	**(0.3)**	(0.2)
Eligibility restrictions[4]	**(0.1)**	(0.4)
Own Funds[5]	**13.6**	12.8

1. Treated as available capital on the Solvency II balance sheet as the liabilities are subordinate to policyholder claims.
2. Differences in the measurement of liabilities between IFRS and Solvency II, offset by the inclusion of the Risk Margin net of TMTP. This also allows for a recalculation of TMTP using management's estimate.
3. Reflects valuation differences on other assets and liabilities, predominately in respect of borrowings measured at fair value under Solvency II.
4. Relating to the Own Funds of non-insurance regulated entities, subject to local regulator rules.
5. Own Funds do not include an accrual for the dividend of £616m (2015: £592m) declared after the balance sheet date.
6. The 2015 comparatives are restated on the shareholder view basis.

Balance sheet management (continued)

28 Management of capital resources (continued)

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 balance sheet and support the management of risk within the group. This modelling framework, suitably adjusted for regulatory constraints, also meets the needs of the Solvency II regime. Our Economic Capital model has not been reviewed by the Prudential Regulatory Authority (PRA), nor will it be.
- Regulatory bases
  The financial strength of the group's insurance subsidiaries is measured under various local regulatory requirements (see below).

Basis of regulatory capital and corresponding regulatory capital requirements

In each country in which the group operates, the local insurance regulator specifies rules and guidance for the minimum amount and type of capital which must be held by insurance subsidiaries in excess of their insurance liabilities. The minimum capital requirements have been maintained at all times throughout the year. This helps to ensure that payments to policyholders can be made as they fall due.

The required capital is calculated by either assessing the additional assets which would be required to meet the insurance company's liabilities in specified, stressed financial conditions, or by applying fixed percentages to the insurance company's liabilities and risk exposures. The requirements in the different jurisdictions in which the group operates are detailed below:

Group regulatory basis

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

UK regulatory basis

At the balance sheet date, required capital for the life business was based on the Solvency II Framework Directive, as adopted by the Prudential Regulation Authority (PRA). All material EEA insurance firms, including Legal & General Assurance Society Limited, Legal & General Insurance Limited, and Legal & General Assurance (Pensions Management) Limited (LGIM's insurance subsidiary) are required to hold eligible own funds in excess of their Solvency Capital Requirement (SCR), calculated on an Internal Model basis. These firms as well as the non-EEA insurance firm (Legal & General Reinsurance Company Limited based in Bermuda) contribute over 90% 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.

Dutch regulatory basis

Legal & General Netherlands is required to manage its capital on a Solvency II basis. On a Solvency II basis the SCR is calculated using the standard formula approach. The group has announced the disposal of Legal & General Netherlands, subject to regulatory approval.

Bermudan regulatory basis

Bermudan regulated insurers are required to hold sufficient capital to meet 120% of the Bermudan Solvency Capital Requirement (BSCR). The BSCR model follows a standard formula framework; capital attributed to each risk is calculated by applying capital factors to the assets and liabilities. The individual risk elements (excluding operational risk) are combined using a covariance matrix and then added to an operational risk charge.

Balance sheet management (continued)

29 Disposals

During 2016, the group made the following disposals:

- Suffolk Life Group Limited was sold to Curtis Banks Group Plc for £45m (excluding transaction costs). The carrying value of the investment was £40m, realising a profit on disposal of £5m (excluding transaction costs) reported in operational income in the Consolidated Income Statement. The disposal of Suffolk Life Group Limited was not classified as a discontinued operation as it does not represent a major line of business or geographical segment of the group.
- The investment in ABI Alpha Limited was sold to a management buyout led by CBPE Capital with cash proceeds for the group's investment of £29m. The carrying value of the investment was £23m, realising a profit on disposal of £6m reported in operational income in the Consolidated Income Statement. The majority of the profit on disposal is allocated to the with-profits fund.
- Air Energi is no longer controlled by the group following its merger with Swift WWR to create Airswift. The group now holds less than 50% of Airswift and therefore has classified the investment as an associate included in financial investments. The investment has been revalued to fair value, increasing the carrying value of the investment by £13m which has been reported in operational income in the Consolidated Income Statement. The majority of the profit on merger is allocated to the with-profits fund.
- The investment in The Liberation Group was sold to Caledonia Investments Plc with cash proceeds for the group's investment of £70m. The carrying value of the investment was £68m, realising a profit on disposal of £2m reported in operational income in the Consolidated Income Statement. The majority of the profit on disposal is allocated to the with-profits fund.
- On 2 December 2016 the group transferred its portfolio of insurance and investment contracts originated by Legal & General Deutschland (LGD) to Canada Life Europe (CLAE) via a Part VII transfer. £120m of insurance liabilities together with the financial assets held to back them were transferred, and no consideration was received for the transfer. There has been no impact on profit.

30 Held for sale

In November, the group reached an agreement in principle with Chesnara Plc (Chesnara) to sell Legal & General Netherland Levensvervekering Maatschappij N.V. (LGN) to Chesnara for €160million.

On 1 January 2017, the group completed the disposal of Cofunds Limited (Cofunds) to Aegon for £147.5m, before transaction costs. The sale included the Investor Portfolio Service (IPS) platform as well as Cofunds' retail and institutional business.

Accordingly, the assets and liabilities of LGN and Cofunds have been assessed separately as disposal groups and have been classified as held for sale as at 31 December 2016. An impairment loss arising on classification of Cofunds as held for sale of £64m is recognised in other expenses in the Consolidated Balance Sheet. Cofunds forms part of the Savings segment in note 31.

Neither Netherlands nor Cofunds is considered to be a discontinued operation as neither represent a major line of business or geographical segment of the group.

In addition, two investment properties, £91m, have been classified as held for sale as we have entered into advanced disposal negotiations.

	2016 £m	2015[1] £m
Assets classified as held for sale		
Purchased interest in long term business and other intangible assets	**85**	28
DAC	**12**	–
Property, plant and equipment	**11**	1
Investment property	**95**	1,140
Financial investments	**1,861**	1,801
Reinsurers' share of contract liabilities	**1**	39
Cash and cash equivalents	**139**	389
Other assets[2]	**62**	11
Total assets of the disposal groups	**2,266**	3,409
Liabilities classified as held for sale		
Insurance contract liabilities	**1,709**	–
Investment contract liabilities	**–**	3,235
Operational borrowings	**–**	102
Tax liabilities	**26**	5
Payables and other financial liabilities	**28**	10
Other liabilities[2]	**147**	17
Total liabilities of the disposal groups	**1,910**	3,369
Total net assets of the disposal groups	**356**	40

1. At 2015, Suffolk Life Group Limited was classified as held for sale.
2. Included in other assets is £1m, and in other liabilities, £88m, which are balances with other group entities which are eliminated on the Consolidated Balance Sheet.

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 six reportable segments comprising LGR, LGIM, LGC, LGI, Savings and General Insurance. Central group expenses and debt costs are reported separately.

LGR represents worldwide pension risk transfer business (including longevity insurance), individual retirement and lifetime mortgages.

The LGIM segment represents institutional and retail investment management and workplace savings businesses.

LGC represents shareholder assets in direct investments, and treasury and traded assets.

LGI represents UK retail protection, group protection and network business, Legal & General Netherlands (LGN) and protection business written in the USA (LGA). Insurance comparatives include Legal & General France (LGF), which was sold during 2015.

Savings represents business in platforms, SIPPs and mature savings including with-profits.

The General Insurance segment comprises short term protection.

During 2016, the Insurance (excluding General Insurance) and LGA segments were combined to create the new Legal & General Insurance (LGI) segment. General Insurance is now presented as a separate segment.

During 2016, changes have been made to the organisational structure. The advised sales and India businesses have transferred to LGI from Savings, and the IDOL business has been transferred to LGR from LGI. Comparatives have been amended accordingly.

Transactions between reportable segments are on normal commercial terms, and are included within the reported segments.

(a) Profit/(loss) for the year

For the year ended 31 December 2016	LGR £m	LGIM £m	LGC £m	LGI £m	Savings £m	General Insurance £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	**811**	**366**	**257**	**317**	**99**	**52**	**(340)**	**1,562**
Investment and other variances[1]	36	(32)	162	(123)	(51)	16	5	13
Gains attributable to non-controlling interests	–	–	–	–	–	–	7	7
Profit/(loss) before tax attributable to equity holders	**847**	**334**	**419**	**194**	**48**	**68**	**(328)**	**1,582**
Tax (expense)/credit attributable to equity holders of the company	(149)	(68)	(52)	(71)	(22)	(13)	58	(317)
Profit/(loss) for the year	**698**	**266**	**367**	**123**	**26**	**55**	**(270)**	**1,265**

1. 2016 Investment and other variances – Savings includes the £60m net loss resulting from the disposal of subsidiaries during the year (2015: LGI and Savings include the £43m loss and £18m gain respectively resulting from the disposal of subsidiary and joint venture investments during the year).

Additional financial information (continued)

For the year ended 31 December 2015	LGR[1] £m	LGIM £m	LGC £m	LGI[1] £m	Savings[1] £m	General insurance £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	641	355	233	315	107	51	(247)	1,455
Investment and other variances[2]	78	(20)	(116)	(44)	3	(8)	(12)	(119)
Gains attributable to non-controlling interests	–	–	–	–	–	–	19	19
Profit/(loss) before tax attributable to equity holders	719	335	117	271	110	43	(240)	1,355
Tax (expense)/credit attributable to equity holders of the company	(131)	(74)	(9)	(93)	(16)	(8)	70	(261)
Profit/(loss) for the year	588	261	108	178	94	35	(170)	1,094

1. During 2016, changes have been made to the organisational structure. The advised sales and India businesses have been transferred to LGI from Savings, and the IDOL business has been transferred to LGR from LGI. Comparatives have been amended accordingly. The impact of the reclassification has been to increase LGR 2015 operating profit by £2m and profit before tax by £1m, increase Savings 2015 operating profit by £8m and profit before tax by £8m, and reduce Insurance 2015 operating profit by £10m and profit before tax by £9m.
2. 2015 Investment and other variances – LGI and Savings include the £43m loss and £18m gain respectively resulting from the disposal of subsidiary and joint venture investments during the year.

(b) Income

For the year ended 31 December 2016	**LGR[1] £m**	**LGIM £m**	**LGI[1] £m**	**Savings[1] £m**	**General Insurance £m**	**LGC and other[2] £m**	**Total £m**
Internal income	**–**	**270**	**–**	**–**	**–**	**(270)**	**–**
External income	**13,851**	**49,856**	**2,237**	**4,362**	**326**	**7,337**	**77,969**
Total income	**13,851**	**50,126**	**2,237**	**4,362**	**326**	**7,067**	**77,969**

For the year ended 31 December 2015	LGR[1] £m	LGIM £m	LGI[1] £m	Savings[1] £m	General Insurance £m	LGC and other[2] £m	Total £m
Internal income	–	267	–	–	–	(267)	–
External income	2,554	5,514	2,516	2,473	349	(705)	12,701
Total income	2,554	5,781	2,516	2,473	349	(972)	12,701

1. During 2016, changes have been made to the organisational structure. The advised sales and India businesses have transferred to LGI from Savings, and the IDOL business has been transferred to LGR from LGI. Comparatives have been amended accordingly. The impact of this reclassification has been to increase LGR 2015 external income by £26m, reduce Savings 2015 external income by £5m and reduce LGI 2015 external income by £21m.
2. LGC and other includes LGC, inter-segmental eliminations and group consolidation adjustments.

Additional financial information (continued)

31 Segmental analysis (continued)

(c) Gross written premiums on insurance contracts

Gross written premium is the total 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 revenue, but are included in the balance sheet investment contract liability.

Outward reinsurance premiums of £1,573m (2015: £1,603m) are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured.

	2016 £m	2015 £m
Insurance and Savings		
Non-participating UK Protection business	**1,511**	1,441
Non-participating UK Savings business	**29**	31
Participating UK Savings business	**44**	57
Netherlands (LGN)	**188**	161
France (LGF)	**–**	440
General insurance		
– Household	**298**	316
– Other business	**28**	21
Total Insurance and Savings	**2,098**	2,467
LGR		
Non-participating annuity business	**7,326**	3,081
LGA	**901**	773
Total gross written premiums	**10,325**	6,321

(d) Fees from fund management and investment contracts

Fees charged for investment management services are recognised as revenue as the services are provided. Initial fees which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the anticipated period in which the services will be provided. The total fees earned from fund management and investment contracts for the year is £1,068 (2015: £1,139m).

Additional financial information (continued)

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 back insurance and investment contracts on behalf of policyholders and as group capital.

	2016 £m	2015 £m
Dividend income	**4,751**	3,978
Interest income on financial investments at fair value through profit or loss	**4,540**	5,196
Other investment income/(expense)[1]	**77**	79
(Losses)/gains on financial investments at fair value through profit or loss	**59,982**	(3,707)
Losses on derivative instruments (designated as held for trading)	**(2,034)**	(541)
Realised gains on available-for-sale financial assets	**20**	27
Losses on loans and receivables	**–**	(1)
Financial investment return	**67,336**	5,031
Rental income	**499**	535
Fair value (losses)/gains on properties	**(11)**	381
Property investment return	**488**	916
Investment return	**67,824**	5,947

1. Interest income of £59m (2015: £60m) arose on financial investments designated as AFS. There were no impairments on assets classified as AFS during the year (2015: £nil).

Additional financial information (continued)

33 Net claims and change in insurance liabilities

Insurance claims are paid in accordance with the individual policy terms typically arising from an insured event.

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.

General insurance
Claims and related reinsurance recoveries are accounted for in respect of all incidents up to the year end. Provision is made on the basis of available information for the estimated ultimate cost, including claims settlement expenses, claims reported but not yet settled and claims incurred but not yet reported. An unexpired risk provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums and after taking account of investment return.

	Long term insurance 2016 £m	General insurance 2016 £m	Total 2016 £m	Long term insurance 2015 £m	General insurance 2015 £m	Total 2015 £m
Claims paid						
– gross	**5,545**	**206**	**5,751**	5,598	161	5,759
– reinsurance recoveries	**(1,398)**	**(1)**	**(1,399)**	(1,192)	(1)	(1,193)
	4,147	**205**	**4,352**	4,406	160	4,566
Change in insurance liabilities						
– gross	**12,157**	**(12)**	**12,145**	(1,151)	472	(679)
– reinsurance recoveries	**(1,346)**	**–**	**(1,346)**	(1,273)	–	(1,273)
Net claims and change in insurance liabilities	**14,958**	**193**	**15,151**	1,982	632	2,614

The roll-forward of the insurance contract liabilities is provided in note 21.

Additional financial information (continued)

34 Tax

The tax shown in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income comprises current and deferred tax.

Current tax
Current tax comprises tax payable on current year profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous periods. Current tax is recognised in the Consolidated Income Statement unless it relates to items which are recognised in the Consolidated Statement of Comprehensive Income or directly in equity.

Deferred tax
Deferred tax is calculated on differences between the accounting value of assets and liabilities and their respective tax values. Deferred tax is also recognised in respect of unused tax losses to the extent it is probable that future taxable profits will arise against which the losses can be utilised. Deferred tax is charged or credited to the Consolidated Income Statement, except when it relates to items charged or credited to the Consolidated Statement of Comprehensive Income or charged or credited directly in equity.

Tax attributable to policyholders and equity holders
The total tax expense shown in the group's Consolidated Income Statement includes income tax borne by both policyholders and shareholders. This has been apportioned between that attributable to policyholders' returns and equity holders' profits. This represents the fact that the group's long term business in the UK pays tax on policyholder investment return, in addition to the corporation tax charge charged on shareholder profit. The separate presentation is intended to provide more relevant information about the tax that the group pays on the profits that it makes.

For this apportionment, the equity holders' tax on long term business is estimated by applying the statutory tax rate to profits attributed to equity holders. This is considered to approximate the corporation tax attributable to shareholders as calculated under UK tax rules. The balance of income tax associated with UK long term business is attributed to income tax attributable to policyholders' returns and approximates the corporation tax attributable to policyholders as calculated under UK tax rules.

Use of estimates
Tax balances include the use of estimates and assumptions which affect items reported in the Consolidated Balance Sheet and Income Statement. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates. For tax this includes the determination of liabilities/recoverables for uncertain tax positions and estimation of future taxable income supporting deferred tax asset recognition.

Tax rates
The table below provides a summary of the standard corporate income tax rates for the year, affecting the group's current and deferred tax charges or credits.

	2016	2015
UK[1]	**20.0%**	20.25%
USA	**35.0%**	35.0%
Netherlands	**25.0%**	25.0%
Bermuda	**0%**	0%

1. Reductions in the UK corporation tax rate to 19% from 1 April 2017 and to 17% from 1 April 2020 have been enacted in UK law. Enacted rates between 20% and 17% have been applied to UK temporary differences to calculate UK deferred assets and liabilities on the basis of when temporary differences are expected to reverse.

Additional financial information (continued)

34 Tax (continued)

(i) Tax charge in the Consolidated Income Statement

	2016 £m	2015 £m
Current tax	**406**	327
Deferred tax		
– Origination or reversal of temporary differences in the year	**185**	(3)
– Reduction in UK corporate tax rate to 17% from 2020	**(2)**	1
Total deferred tax	**183**	(2)
Adjustment to equity holders' tax in respect of prior years	**13**	(5)
Total tax charge	**602**	320
Less tax attributable to policyholder returns	**(285)**	(59)
Tax charge attributable to equity holders	**317**	261

The total movement in deferred tax of £183m (2015: £(2)m) disclosed above differs from the amount of £197m (2015: £(16)m) disclosed in note (ii) by £14m (2015: £(14)m) being the deferred tax prior year adjustment included within the 'Adjustments in respect of prior years' line.

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

	2016 £m	2015 £m
Profit before tax attributable to equity holders	**1,582**	1,355
Tax calculated at 20.00% (2015: 20.25%)	**316**	274
Adjusted for the effects of:		
Recurring reconciling items:		
Income not subject to tax[1]	**(12)**	(11)
Higher/(lower) rate of tax on profits taxed overseas	**7**	16
Non-deductible expenses/(additional allowances)	**4**	(8)
Differences between taxable and accounting investment gains	**(11)**	(3)
Non-recurring reconciling items:		
Income not subject to tax	**(1)**	–
Non-deductible expenses[2]	**17**	4
Differences between taxable and accounting investment gains[3]	**(14)**	(7)
Adjustments in respect of prior years	**13**	(5)
Impact of reduction in UK corporate tax rate to 17% from 2020 on deferred tax balances	**(2)**	1
Tax attributable to equity holders	**317**	261
Equity holders' effective tax rate[4]	**20.0%**	19.3%

1. Includes non-taxable dividend income and our share of post-tax profits of JVs and associates included in profit before tax.
2. Includes costs relating to M&A activity which are non-deductible for tax purposes.
3. £14m relates to a deferred tax asset recognised on losses crystallised in the year.
4. 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 tax rate is used in the above reconciliation as a significant proportion of the group's profits are earned and are taxable in the UK. The group's standard corporate income tax rate for the year, reflecting the standard tax rates of the countries we operate in, proportionately applied to profit before tax attributable to equity holders by country, is 20.3% (2015: 20.4%).

(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:

Additional financial information (continued)

	Net tax liability as at 1 January 2016 £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to equity £m	Transfers[4] £m	Net tax liability as at 31 December 2016 £m
Deferred acquisition expenses	**(359)**	**(3)**	**(60)**	**(7)**	**(429)**
– UK	**(51)**	**6**	**–**	**–**	**(45)**
– Overseas	**(308)**	**(9)**	**(60)**	**(7)**	**(384)**
Difference between the tax and accounting value of insurance contracts	**(324)**	**68**	**(36)**	**6**	**(286)**
– UK	**(83)**	**(40)**	**–**	**–**	**(123)**
– Overseas	**(241)**	**108**	**(36)**	**6**	**(163)**
Realised and unrealised gains on investments	**(154)**	**(105)**	**–**	**4**	**(255)**
Excess of depreciation over capital allowances	**18**	**2**	**–**	**(5)**	**15**
Excess expenses[1]	**74**	**(25)**	**–**	**–**	**49**
Accounting provisions and other	**(19)**	**(22)**	**(14)**	**4**	**(51)**
Trading losses[2]	**165**	**(105)**	**21**	**(1)**	**80**
Pension fund deficit	**72**	**(7)**	**17**	**–**	**82**
Purchased interest in long term business	**(26)**	**–**	**–**	**13**	**(13)**
Net deferred tax liabilities	**(553)**	**(197)**	**(72)**	**14**	**(808)**
Presented on the Consolidated Balance Sheet as:					
– UK deferred tax asset	**20**	**(15)**	**–**	**–**	**5**
– UK deferred tax liability	**(137)**	**(172)**	**11**	**7**	**(291)**
– Overseas deferred tax liability[3]	**(436)**	**(10)**	**(83)**	**7**	**(522)**

1. The reduction in the deferred tax asset on excess expenses reflects the unwind of the spread acquisition expenses.
2. Trading losses include UK trade and US operating losses of £5m (2015: £6m) and £75m (2015: £159m) respectively. The reduction in the deferred tax asset primarily reflects utilisation of brought forward US operating losses against US profits.
3. Overseas deferred tax liability is wholly comprised of US balances as at 31 December 2016 (2015: US £424m; Legal & General Netherlands £12m).
4. Transfers include deferred tax assets and liabilities that are now classified as held for sale.

	Net tax liability as at 1 January 2015 £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to equity £m	Transfers £m	Net tax liability as at 31 December 2015 £m
Deferred acquisition expenses	(356)	(6)	(16)	19	(359)
– UK	(61)	10	–	–	(51)
– Overseas	(295)	(16)	(16)	19	(308)
Difference between the tax and accounting value of insurance contracts	(385)	82	(21)	–	(324)
– UK	(143)	67	(7)	–	(83)
– Overseas	(242)	15	(14)	–	(241)
Realised and unrealised gains on investments	(221)	58	22	(13)	(154)
Excess of depreciation over capital allowances	19	(1)	–	–	18
Excess expenses	105	(31)	–	–	74
Accounting provisions and other	(20)	–	–	1	(19)
Trading losses	231	(74)	10	(2)	165
Pension fund deficit	101	(18)	(11)	–	72
Purchased interest in long term business	(34)	6	–	2	(26)
Net deferred tax liabilities	(560)	16	(16)	7	(553)
Presented on the Consolidated Balance Sheet as:					
– UK deferred tax asset	54	(34)	–	–	20
– UK deferred tax liability	(180)	78	(18)	(17)	(137)
– Overseas deferred tax liability	(434)	(28)	2	24	(436)

Additional financial information (continued)

34 Tax (continued)

(ii) Deferred tax – Consolidated Balance Sheet (continued)

Unrecognised deferred tax assets

The group has the following unrelieved tax losses and deductible temporary differences carried forward as at 31 December 2016, none of which have expiry dates under current tax laws. No deferred tax asset has been recognised in respect of these as at 31 December 2016 (or 31 December 2015), 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 2016 is £19m (2015: £22m).

	Gross 2016 £m	Tax 2016 £m	Gross 2015 £m	Tax 2015 £m
Trading losses	**25**	**4**	21	4
Capital losses	**73**	**13**	77	15
Unrelieved interest payments on debt instruments	**14**	**2**	14	3
Unrecognised deferred tax assets[1]	**112**	**19**	112	22

1. Unrecognised deferred tax assets include UK balance of £99m (2015: £104m) and Hong Kong losses of £13m (2015: £8m).

(iii) Current tax – Consolidated Balance Sheet

	2016 £m	2015 £m
Tax due within 12 months	**83**	41
Tax due after 12 months	**214**	195
Current tax assets	**297**	236

	2016 £m	2015 £m
Tax due within 12 months	**117**	95
Tax due after 12 months	**–**	–
Current tax liabilities	**117**	95

(iv) Tax charge directly in equity

	2016 £m	2015 £m
Current tax	**(2)**	–
Deferred tax	**72**	16
Tax recognised directly in equity	**70**	16

Additional financial information (continued)

35 Auditors' remuneration

	2016 £m	2015 £m
Remuneration receivable by the company's auditors for the audit of the consolidated and company financial statements	**1.2**	1.2
Remuneration receivable by the company's auditors and its associates for the supply of other services to the company and its associates, including remuneration for the audit of the financial statements of the company's subsidiaries:		
The audit of the company's subsidiaries	**4.5**	3.7
Audit related assurance services – required by national or EU legislation[1]	**1.0**	1.1
Audit related assurance services – other[1]	**1.0**	1.6
Other assurance services	**0.4**	0.4
Total assurance services	**8.1**	8.0
Tax compliance services	**0.2**	0.2
Other tax services	**0.1**	0.3
Services related to corporate finance transactions	**0.2**	–
Other services not covered above	**0.6**	0.8
Total non-assurance services	**1.1**	1.3
Total remuneration	**9.2**	9.3

1. Audit related assurance services includes £1.2m of Solvency II costs (2015: £1.3m).

In addition to the above, fees payable to the company's auditors and its associates for audit services supplied to the company's associated pension schemes amounted to £36k (2015: £42k).

The group is compliant with guidance issued by the FRC, requiring fees for non-audit services to be no more than 70% of the average of fees paid in the last three consecutive financial years for the statutory audit of the group.

Additional financial information (continued)

36 Employee information

	2016	2015
Monthly average number of staff employed during the year:		
UK	**7,464**	7,712
Europe	**155**	405
USA	**612**	506
Other	**22**	7
Total excluding consolidated private equity investment vehicles	**8,253**	8,630
Consolidated private equity investment vehicles[1]	**686**	1,518
Worldwide employees	**8,939**	10,148

	Note	2016 £m	2015 £m
Wages and salaries		**457**	427
Social security costs		**50**	54
Share-based incentive awards	37	**26**	26
Defined benefit pension costs	26	**44**	53
Defined contribution pension costs	26	**52**	51
Total excluding consolidated private equity investment vehicles		**629**	611
Consolidated private equity investment vehicles[1]		**17**	46
		646	657

1. The private equity investment vehicles are controlled by virtue of majority holdings owned by the with-profits funds. The £17m (2015: £46m) costs of employment for private equity investment subsidiaries primarily comprise salaries and £0.2m of defined contribution pension costs (2015: £0.5m).

37 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 schemes

The group provides a number of equity settled share-based long term incentive plans for directors and eligible employees.

The Savings related share option scheme (SAYE) allows employees to enter into a regular savings contract over either three 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.

Conditional shares can be granted to top 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 is dependent on the group's relative Total Shareholder Return (TSR). New performance conditions attached to awards from 2014 result in the number of shares being transferred being equally dependent on the group's relative TSR and Earnings per Share (EPS)/ Dividend per Share (DPS) growth. In addition, the shares vest evenly over three, four and five years.

The company share option scheme (CSOP), approved by HMRC, and unapproved Executive share option scheme (ESOS) are designed to provide a long term incentive to directors and managers of the group. The number of options granted is based on the manager's grade, salary and performance. In order for the options to be exercisable, Legal & General's TSR must exceed the median TSR of the FTSE 100 for a period of at least three years commencing on the date of the grant. Fair value is calculated using a binomial model, reflecting the historic exercise patterns.

The Share bonus plan (SBP) awards restricted shares 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.

Additional financial information (continued)

Under the Employee share plan (ESP), approved by HMRC, permanent UK employees may elect to purchase group shares from the market at the prevailing market price on a monthly basis. The group supplements the number of shares purchased by giving employees one free matching share for every one share purchased up to the first £20 of the employees' contributions and one free matching share for every two shares purchased with contributions between £20 and £150. From time to time, the group may make a grant of free shares. Both the free and matching shares must be held in trust for three years before they may vest to the employee. The fair value of granted shares is equal to the market value at grant date.

The fair values of the share grants made during the year have been calculated using the following assumptions:

	SAYE	PSP
Award date	**14-Apr-16**	**21-Apr-16**
Weighted average share price	**242.8p**	**246.2p**
Weighted average exercise price	**188p**	**n/a**
Expected volatility	**21.41%-25.01%**	**22%**
Expected life	**3 – 5 years**	**3 – 5 years**
Risk free investment rate	**0.53%-0.83%**	**0.57%**
Dividend yield	**5.5%**	**5.4%**

(ii) Total recognised expense

The total recognised expense relating to share-based payments in 2016 was £26m (2015: £26m) before tax, all of which related to equity settled share schemes. This is broken down between the group's plans as detailed below:

	2016 £m	2015 £m
Share bonus plan (SBP)	**14**	12
Performance share plan (PSP)	**7**	8
Employee share plan (ESP)	**4**	4
Savings related share option scheme (SAYE)	**1**	2
Total share-based payment expense	**26**	26

Additional financial information (continued)

37 Share-based payments (continued)

(iii) Outstanding share options

	SAYE Options 2016	Weighted average exercise price 2016 p	CSOP/ESOS Options 2016	Weighted average exercise price 2016 p	SBP Options 2016	Weighted average exercise price 2016 p
Outstanding at 1 January	**17,987,397**	**164**	**3,742,416**	**209**	**583,059**	**–**
Granted during the year	**8,007,594**	**188**	**1,545,711**	**243**	**184,627**	**–**
Forfeited during the year	**(4,382,100)**	**214**	**–**	**–**	**–**	**–**
Exercised during the year	**(5,867,986)**	**99**	**(696,558)**	**175**	**(71,370)**	**–**
Expired during the year	**(941,209)**	**193**	**(694,480)**	**193**	**(302,742)**	**–**
Outstanding at 31 December	**14,803,696**	**185**	**3,897,089**	**246**	**393,574**	**–**
Exercisable at 31 December	**206,114**	**111**	**3,252**	**118**	**–**	**–**
Weighted average remaining contractual life (years)	**3**		**8**		**8**	

Exercised during the year includes 696,558 options, which were predominantly CSOP options linked to SBP which have been settled using employee scheme shares.

	SAYE Options 2015	Weighted average exercise price 2015 p	CSOP/ESOS Options 2015	Weighted average exercise price 2015 p	SBP Options 2015	Weighted average exercise price 2015 p
Outstanding at 1 January	20,182,359	124	5,080,159	158	546,519	–
Granted during the year	6,613,284	225	1,383,249	286	161,559	–
Forfeited during the year	(1,304,213)	187	–	–	–	–
Exercised during the year	(6,718,251)	102	(2,400,419)	123	(54,564)	–
Expired during the year	(785,782)	159	(320,573)	202	(70,455)	–
Outstanding at 31 December	17,987,397	164	3,742,416	225	583,059	–
Exercisable at 31 December	225,315	97	89,245	105	–	–
Weighted average remaining contractual life (years)	2		8		8	

Exercised during the year includes 2,400,419 options which were predominantly CSOP options linked to SBP which have been settled using employee scheme shares.

(iv) Total options

Options over 19,094,359 shares (2015: 22,312,872 shares) are outstanding under CSOP, ESOS, SAYE and SBP as at 31 December 2016. These options have a range of exercise prices between 0p and 246p (2015: 0p and 225p) and maximum remaining contractual life up to 2026 (2015: 2025).

Additional financial information (continued)

38 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 balance sheet.

(i) Share capital and share premium

Authorised share capital	2016 Number of shares	2016 £m	2015 Number of shares	2015 £m
At 31 December: ordinary shares of 2.5p each	**9,200,000,000**	**230**	9,200,000,000	230

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2016	**5,948,788,480**	**149**	**976**
Options exercised under share option schemes:			
– Savings related share option scheme	**5,867,986**	**–**	**5**
As at 31 December 2016	**5,954,656,466**	**149**	**981**

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2015	5,942,070,229	149	969
Options exercised under share option schemes:			
– Savings related share option scheme	6,718,251	–	7
As at 31 December 2015	5,948,788,480	149	976

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)

38 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.

	2016 Number of shares	2016 £m	2015 Number of shares	2015 £m
As at 1 January	**22,256,649**	**30**	29,484,405	37
Shares purchased	**4,574,152**	**10**	1,244,999	3
Shares vested	**(5,397,659)**	**(10)**	(8,472,755)	(10)
As at 31 December	**21,433,142**	**30**	22,256,649	30

39 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. The majority of the non-controlling interests in 2016 are in relation to investments in the Leisure Fund Unit Trust, the Performance Retail Unit Trust, the Legal & General UK Property Ungeared Fund Limited Partnership, and Thorpe Park Developments Limited.

40 Other liabilities

	2016 £m	2015 £m
Accruals	**338**	335
Reinsurers' share of deferred acquisition costs	**80**	70
Deferred income liabilities	**70**	90
Other	**106**	242
Other liabilities	**594**	737
Settled within 12 months	**415**	512
Settled after 12 months	**179**	225

Other liabilities settled after 12 months are expected to be settled within five years.

41 Related party transactions

There were no material transactions between key management and the Legal & General group of companies during the period. All transactions between the group and its key management are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment defined benefit plans were £75m (2015: £93m) for all employees.

At 31 December 2016 and 31 December 2015 there were no loans outstanding to officers of the company.

Key management personnel compensation

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

	2016 £m	2015 £m
Salaries	**9**	10
Social security costs	**2**	2
Post-employment benefits	**–**	1
Share-based incentive awards	**5**	5
Key management personnel compensation	**16**	18
Number of key management personnel	**15**	16

Additional financial information (continued)

The group has the following related party transactions:

- Annuity contracts issued by Society for consideration of £3m (2015: £105m) purchased by the group's UK defined benefit pension schemes during the period, priced on an arm's length basis;
- Loans outstanding from CALA at 31 December 2016 total £65m (2015: £59m);
- Further conditional commitments of £11m (2015: £8m) in the equity stake in Pemberton, now fully drawn at £17m (2015: £7m). A commitment of £213m (2015: £182m) was previously made to Pemberton's first co-mingled funds, of which £110m was drawn as at 31 December 2016. A further commitment of £50m was made to a new £500m UK mid-market direct lending strategy launched by Pemberton.
- Loans outstanding from MediaCity at 31 December 2016 total £55m (2015: £55m);
- Preference shares outstanding from Thorpe Park at 31 December 2016 total £16m (2015: £6m)
- A 50/50 joint venture in Access Development Partnership, developing build to rent properties. LGC has a total commitment of £150m, of which £28m has been drawn down to date;
- A 46% investment in Accelerated Digital Ventures, a venture investment company, for an initial payment of £8m, with a total commitment of £34m, expected to be drawn over two years;
- Further conditional commitments of £2m in the equity stake of NTR Wind Management Limited of £3m. A commitment of £100m to the NTR Wind 1 Limited fund, of which £85m has been drawn to date.
- £65m was committed to an investment in Newcastle Science Central in partnership with Newcastle City Council and Newcastle University to deliver a major UK hub for scientific research and technology business.

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.

In 1975, Legal & General Assurance Society Limited (the Society) was required by the Institute of London Underwriters (ILU) to execute the ILU form of guarantee in respect of policies issued through the ILU's Policy Signing Office on behalf of NRG Victory Reinsurance Company Ltd (Victory), a company which was then a subsidiary of the Society. In 1990, Nederlandse Reassurantie Groep Holding NV (the assets and liabilities of which have since been assumed by Nederlandse Reassurantie Groep NV under a statutory merger in the Netherlands) acquired Victory and provided an indemnity to the Society against any liability the Society may have as a result of the ILU's requirement, and the ILU agreed that its requirement of the Society would not apply to policies written or renewed after the acquisition. Nederlandse Reassurantie Groep NV is now owned by Columbia Insurance Company, a subsidiary of Berkshire Hathaway Inc. Whether the Society has any liability as a result of the ILU's requirement and, if so, the amount of its potential liability is uncertain. The Society has made no payment or provision in respect of this matter.

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

Additional financial information (continued)

43 Commitments

(i) Capital commitments

	2016 £m	2015 £m
Authorised and contracted commitments not provided for in respect of investment property development, payable after 31 December:		
– Long term business	**410**	138

(ii) Operating lease commitments

	2016 £m	2015 £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
– Not later than 1 year	**6**	26
– Later than 1 year and not later than 5 years	**22**	97
– Later than 5 years	**299**	394
Lease commitment payable	**327**	517
Future aggregate minimum sublease payments expected to be received under operating subleases	**35**	182
The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:		
– Not later than 1 year	**366**	369
– Later than 1 year and not later than 5 years	**1,352**	1,353
– Later than 5 years	**4,368**	4,370
Lease commitment receivable	**6,086**	6,092

The group leases offices and other premises under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

Future developments

In January 2016, the IASB issued IFRS 16, 'Leases', effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement. 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 commitments in relation to operating leases (as currently defined in IAS 17, 'Leases') onto the balance sheet. The impact of the standard on lessor accounting is significantly smaller with the provisions remaining closely aligned to those in IAS 17 although the IASB have issued updated guidance on the definition of a lease. An assessment of the impacts of the standard on the group's financial statements will be completed in 2017. The group does not intend to early adopt this standard.

44 Post balance sheet events

On 1 January 2017 the group sold Cofunds Limited to Aegon. The sale includes the Investor Portfolio Services (IPS) platform as well as Cofunds' retail and institutional business. The assets and liabilities of Cofunds Limited have been assessed as a disposal group and have been classified as held for sale as at 31 December 2016.

45 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 45 and 46.

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).

Additional financial information (continued)

(i) Subsidiaries

The particulars of the company's subsidiaries, mutual funds and partnerships that have been consolidated as at 31 December 2016 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 direct 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 or other contractual arrangements.

Company name	Nature of business	Country of incorporation	Year end reporting date	% of equity shares held by the group
103 Wardour Street Retail Investment Company Limited	Investment vehicle	England and Wales	31-Dec	100.0
7T Developments Limited	Investment vehicle	England and Wales	31-Dec	100.0
Adam Kennedy Estate Agents Limited	Real estate agencies	England and Wales	31-Dec	100.0
Antham 1 Limited	Investment vehicle	England and Wales	31-Dec	100.0
BTR Residential Development Company Limited	Development of building projects	England and Wales	31-Dec	100.0
Bucklersbury House General Partner Limited	Investment vehicle	England and Wales	31-Dec	100.0
Chineham General Partner Limited	Dormant company	England and Wales	31-Dec	100.0
Chineham Shopping Centre Limited Partnership	Investment vehicle	England and Wales	31-Dec	100.0
City & Urban Developments Limited	Holding company	England and Wales	31-Dec	100.0
Cofunds Leasing Limited	Dormant company	England and Wales	31-Dec	100.0
Cofunds Limited	Financial intermediation	England and Wales	31-Dec	100.0
Cofunds Nominees Limited	Dormant company	England and Wales	31-Dec	100.0
Dorset Nominees Limited	Dormant company	England and Wales	31-Dec	100.0
Ealing General Partner Limited	Investment vehicle	England and Wales	31-Dec	100.0
Ealing Shopping Centre Limited Partnership	Limited partnership	England and Wales	31-Dec	100.0
Ellis & Co (Estate Agents) Limited	Real estate agencies	England and Wales	31-Dec	100.0
Gresham Street General Partner Limited	Investment vehicle	England and Wales	31-Dec	100.0
Gresham Street Limited Partnership	Limited partnership	England and Wales	31-Dec	100.0
Industrial Property Investment Fund	Investment vehicle	England and Wales	31-Dec	100.0
Insurebeam Limited	Holding company	England and Wales	31-Dec	100.0
Investment Discounts On Line Limited	Insurance agents and brokers	England and Wales	31-Dec	100.0
Key Consultants Mortgages Nationwide Limited	Real estate agencies	England and Wales	31-Dec	100.0
Key Mortgage & Property Limited	Real estate agencies	England and Wales	31-Dec	100.0
Key Surveyors Nationwide Limited	Dormant company	England and Wales	31-Dec	100.0
Land & Co Limited	Real estate agencies	England and Wales	31-Dec	100.0
Latchmore Park Nominee No.1 Limited	Non-trading company	England and Wales	31-Dec	100.0
Legal & General (Caerus) Limited	Institutional fund management	England and Wales	31-Dec	100.0
Legal & General (PMC Trustee) Limited	Dormant company	England and Wales	31-Dec	100.0
Legal & General (Portfolio Management Services) Limited	Institutional fund management	England and Wales	31-Dec	100.0
Legal & General (Portfolio Management Services) Nominees	Dormant company	England and Wales	31-Dec	100.0
Legal & General (Strategic Land) Limited	Holding company	England and Wales	31-Dec	100.0
Legal & General (Unit Trust Managers) Limited	Unit trust management	England and Wales	31-Dec	100.0
Legal & General (Unit Trust Managers) Nominees Limited	Non-trading company	England and Wales	31-Dec	100.0
Legal & General Capital Investments Limited[1]	Holding company	England and Wales	31-Dec	100.0
Legal & General Co Sec Limited[1]	Dormant company	England and Wales	31-Dec	100.0
Legal & General Development Assets Holdings Limited	Holding company	England and Wales	31-Dec	100.0
Legal & General Direct (Holdings) Limited	Dormant company	England and Wales	31-Dec	100.0
Legal & General Direct Limited	Dormant company	England and Wales	31-Dec	100.0
Legal & General Distribution Services Limited	Distribution company	England and Wales	31-Dec	100.0
Legal & General Estate Agencies (FS) Limited	Mortgage finance companies	England and Wales	31-Dec	100.0
Legal & General Estate Agencies Limited	Mortgage finance companies	England and Wales	31-Dec	100.0
Legal & General Finance PLC[1]	Treasury operations	England and Wales	31-Dec	100.0
Legal & General Financial Services Limited[1]	Holding company	England and Wales	31-Dec	100.0

1. Directly held by Legal & General Group Plc. All other subsidiaries are held through intermediate holding companies.

Additional financial information (continued)

45 Subsidiaries (continued)
(i) Subsidiaries (continued)

Company name	Nature of business	Country of incorporation	Year end reporting date	% of equity shares held by the group
Legal & General FX Structuring (SPV) Limited	SPV	England and Wales	31-Dec	100.0
Legal & General GP LLP	Development of building projects	England and Wales	31-Dec	100.0
Legal & General Grenfell Limited	Dormant company	England and Wales	31-Dec	100.0
Legal & General Holdings Limited[1]	Dormant company	England and Wales	31-Dec	100.0
Legal & General Holdings No.2 Limited	Holding company	England and Wales	31-Dec	100.0
Legal & General Homes (Services Co) Limited	Provision of services	England and Wales	31-Dec	100.0
Legal & General Homes Communities Limited	Development of building projects	England and Wales	31-Dec	100.0
Legal & General Homes Holdings Limited	Holding company	England and Wales	31-Dec	100.0
Legal & General Homes Modular Limited	Development of modular housing	England and Wales	31-Dec	100.0
Legal & General Insurance Holdings Limited	Holding company	England and Wales	31-Dec	100.0
Legal & General Insurance Holdings No. 2 Limited[1]	Holding company	England and Wales	31-Dec	100.0
Legal & General Insurance Limited	General insurance	England and Wales	31-Dec	100.0
Legal & General International (Holdings) Limited	Holding company	England and Wales	31-Dec	100.0
Legal & General International Limited	Holding company	England and Wales	31-Dec	100.0
Legal & General Investment Management (Holdings) Limited[1]	Holding company	England and Wales	31-Dec	100.0
Legal & General Investment Management Limited	Institutional fund management	England and Wales	31-Dec	100.0
Legal & General Kingston upon Hull Limited	Dormant company	England and Wales	31-Dec	100.0
Legal & General Leisure Fund Trustee Limited	Investment vehicle	England and Wales	31-Dec	100.0
Legal & General Life Fund Limited Partnership	Limited partnership	England and Wales	31-Dec	100.0
Legal & General LTM Structuring (SPV) Limited	SPV	England and Wales	31-Dec	100.0
Legal & General Middle East Limited[1]	Holding company	England and Wales	31-Dec	100.0
Legal & General Overseas Holdings Limited	Holding company	England and Wales	31-Dec	100.0
Legal & General Overseas Operations Limited[1]	Holding company	England and Wales	31-Dec	100.0
Legal & General Partnership Holdings Limited[1]	Holding company	England and Wales	31-Dec	100.0
Legal & General Partnership Services Limited	Provision of services	England and Wales	31-Dec	100.0
Legal & General Pension Fund Trustee Limited	Dormant company	England and Wales	31-Dec	100.0
Legal & General Pension Scheme Trustee Limited	Dormant company	England and Wales	31-Dec	100.0
Legal & General Pensions Limited	SPV	England and Wales	31-Dec	100.0
Legal & General Property Limited	Development of building projects	England and Wales	31-Dec	100.0
Legal & General Property Partners (Industrial Fund) Limited	Development of building projects	England and Wales	31-Dec	100.0
Legal & General Property Partners (Industrial) Nominees Limited	Dormant company	England and Wales	31-Dec	100.0
Legal & General Property Partners (IPIF GP) LLP	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General Property Partners (Leisure GP) LLP	Fund general partner	England and Wales	31-Dec	100.0
Legal & General Property Partners (Leisure) Limited	Development of building projects	England and Wales	31-Dec	100.0
Legal & General Property Partners (Life Fund) Limited	Investment vehicle	England and Wales	31-Dec	100.0
Legal & General Property Partners (Life Fund) Nominee Limited	Investment vehicle	England and Wales	31-Dec	100.0
Legal & General Property Partners (Operator) Limited	Development of building projects	England and Wales	31-Dec	100.0
Legal & General Property Partners (UK PIF Geared) Limited	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General Property Partners (UK PIF) Limited	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General Property Partners (UKPIF Geared Two) Limited	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General Property Partners (UKPIF Two) Limited	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General Re Holdings Limited[1]	Holding company	England and Wales	31-Dec	100.0
Legal & General Resources Limited[1]	Provision of services	England and Wales	31-Dec	100.0
Legal & General Retail Investments (Holdings) Limited[1]	Holding company	England and Wales	31-Dec	100.0
Legal & General Share Scheme Trustees Limited[1]	Dormant company	England and Wales	31-Dec	100.0
Legal & General Surveying Services Limited	Provision of services	England and Wales	31-Dec	100.0

1. Directly held by Legal & General Group Plc. All other subsidiaries are held through intermediate holding companies.

Additional financial information (continued)

Company name	Nature of business	Country of incorporation	Year end reporting date	% of equity shares held by the group
Legal & General Trustees Limited	Fund trustee	England and Wales	31-Dec	100.0
Legal & General UK BTR GP LLP	Fund general partner	England and Wales	31-Dec	100.0
Legal & General UK PIF Co-Investor, L.P.	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General UK PIF GP LLP	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General UK PIF Two Co-Investor, L.P.	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General UK PIF Two GP LLP	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General UK Property Income Geared Fund Two, L.P.	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General UK Property Income Geared Fund, L.P.	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General UK Property Income Ungeared Fund Two, L.P.	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General UK Property Income Ungeared Fund, L.P.	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General Assurance (Pensions Management) Limited	Long term business	England and Wales	31-Dec	100.0
Legal & General Assurance Society Limited	Long term and general insurance	England and Wales	31-Dec	100.0
LGIM Commercial Lending Limited	Commercial lending	England and Wales	31-Dec	100.0
LGIM Corporate Director Limited	Non-trading company	England and Wales	31-Dec	100.0
LGIM International Limited	Institutional fund management	England and Wales	31-Dec	100.0
LGP Newco Limited	Dormant company	England and Wales	31-Dec	100.0
LGPL Cornwall Limited	Investment vehicle	England and Wales	31-Dec	100.0
LGV Capital Limited	Venture and development capital	England and Wales	31-Dec	100.0
LGV Capital Partners Limited	Venture and development capital	England and Wales	31-Dec	100.0
Meteor (GP) Limited[2]	Dormant company	England and Wales	31-Dec	100.0
Minster Nominees Limited	Dormant company	England and Wales	31-Dec	100.0
ND7 Limited	Development of building projects	England and Wales	31-Dec	100.0
New Life Administration Services Limited	Provision of services	England and Wales	31-Dec	100.0
New Life Home Finance Limited	Provision of services	England and Wales	31-Dec	100.0
New Life Mortgage Funding Limited	Mortgage finance companies	England and Wales	31-Dec	100.0
New Life Mortgages Limited	Mortgage finance companies	England and Wales	31-Dec	100.0
New Life Reversions Limited	Dormant company	England and Wales	31-Dec	100.0
New Life Secured Loans Limited	Dormant company	England and Wales	31-Dec	100.0
NLR Nominee No.1 Limited	Dormant company	England and Wales	31-Dec	100.0
NLR Nominee No.2 Limited	Dormant company	England and Wales	31-Dec	100.0
Northampton General Partner Limited	Investment vehicle	England and Wales	31-Dec	100.0
Northampton Shopping Centre Limited Partnership	Limited partnership	England and Wales	31-Dec	100.0
Old Cornwall Limited	Investment vehicle	England and Wales	31-Dec	100.0
Overgate GP Limited	Development of building projects	England and Wales	31-Mar	100.0
Partnership Nominee Limited	Dormant company	England and Wales	31-Dec	100.0
Performance Retail (General Partner) Limited	Development of building projects	England and Wales	31-Dec	100.0
Performance Retail (Nominee) Limited	Dormant company	England and Wales	31-Dec	100.0
Rackhams Birmingham Limited	Investment vehicle	England and Wales	31-Dec	100.0
Real Income Builder	Authorised contractual scheme	England and Wales	31-Dec	100.0
Synergy Gracechurch Limited	Investment vehicle	England and Wales	31-Dec	100.0
Terminus Road (Nominee 1) Limited	Dormant company	England and Wales	31-Dec	100.0
Terminus Road (Nominee 2) Limited	Dormant company	England and Wales	31-Dec	100.0
The Cavendish Land Company Limited[3]	Dormant company	England and Wales	31-Dec	100.0
The Pathe Building Management Company Limited	Investment vehicle	England and Wales	31-Dec	100.0
Thorpe Park Holdings Limited[4]	Holding company	England and Wales	31-Dec	50.0
Warrington (General Partner) Limited	Dormant company	England and Wales	30-Jun	100.0
Warrington Nominee Limited	Dormant company	England and Wales	30-Jun	100.0
Whitegates (Holdings) Limited	Dormant company	England and Wales	31-Dec	100.0

2. Registered office: 25 Farringdon Street, London, EC4A 4AB, England and Wales
3. Registered office: No 1, Dorset Street, Southampton, Hampshire, SO15 2DP, England and Wales
4. Registered office: Europa House, 20 Esplanade, Scarborough, North Yorkshire, YO11 2AQ, England and Wales

Additional financial information (continued)

45 Subsidiaries (continued)
(i) Subsidiaries (continued)

Company name	Nature of business	Country of incorporation	Year end reporting date	% of equity shares held by the group
Whitegates (Tyne & Wear) Limited	Dormant company	England and Wales	31-Dec	100.0
William Parker and Son (Reading) Limited	Real estate agencies	England and Wales	31-Dec	100.0
L&G Multi-Asset Target Return Fund	Mixed asset unit trust	England and Wales	14-Apr	99.7
LGV 7 Private Equity Fund L.P.	Private equity	England and Wales	31-Dec	99.7
L&G Real Income Builder Fund	Fund of funds unit trust	England and Wales	31-Dec	99.7
LGV 6 Private Equity Fund LP	Private equity	England and Wales	31-Dec	99.5
L&G Cash Trust	Cash unit trust	England and Wales	5-Feb	94.5
Legal & General Growth Trust	Equity unit trust	England and Wales	15-May	90.0
LGIM Global Corporate Bond Fund	Open ended investment company	England and Wales	31-Dec	78.7
L&G Mixed Investment 0-20% Fund	Mixed asset unit trust	England and Wales	31-Jul	74.7
Legal & General UK Special Situations Trust	Equity unit trust	England and Wales	14-Sep	68.5
L&G Global Real Estate Dividend Index Fund	Equity unit trust	England and Wales	20-Apr	68.5
Legal & General European Trust	Equity unit trust	England and Wales	28-Jul	65.5
Legal & General UK Smaller Companies Trust	Equity unit trust	England and Wales	18-Jun	64.1
Legal & General High Income Trust	Debt security unit trust	England and Wales	5-Sep	62.9
L&G UK Alpha Trust	Equity unit trust	England and Wales	18-Jun	58.1
Legal & General Global Emerging Market Index Fund	Equity unit trust	England and Wales	31-Jul	55.1
Legal & General Emerging Markets Government Bond (US$) Index Fund	Debt security unit trust	England and Wales	10-Nov	54.3
L&G Japan Index Trust	Equity unit trust	England and Wales	24-Oct	53.4
L&G Multi-Index Income 6 Fund	Mixed asset unit trust	England and Wales	15-Jun	52.1
Legal & General European Index Trust	Equity unit trust	England and Wales	31-Jul	50.4
Performance Retail Limited Partnership	Limited partnership	England and Wales	31-Dec	50.1
TP 2005 Limited[4]	Real estate management	England and Wales	29-Mar	50.0
TP Property Services Limited[4]	Real estate management	England and Wales	31-Mar	50.0
L&G MultiManager Balanced Trust	Equity unit trust	England and Wales	15-Jan	49.7
Legal & General UK Property Ungeared Fund Limited Partnership	Investment vehicle	England and Wales	31-Dec	49.6
Legal & General UK Equity Income Fund	Equity unit trust	England and Wales	24-Jan	46.1
L&G Emerging Markets Government Bond (Local Currency) Index Fund	Debt security unit trust	England and Wales	20-Apr	42.3
L&G Mixed Investment 40-85% Fund	Mixed asset unit trust	England and Wales	30-Sep	41.9
L&G Ethical Trust	Equity unit trust	England and Wales	12-Dec	41.3
L&G US Index Trust	Equity unit trust	England and Wales	5-Dec	40.2
Legal & General Pacific Index Trust	Equity unit trust	England and Wales	25-Mar	38.1
L&G Fixed Interest Trust	Debt security unit trust	England and Wales	5-Sep	37.8
L&G Global Equity Index Fund	Equity unit trust	England and Wales	15-Jan	37.4
Legal & General Asian Income Trust	Equity unit trust	England and Wales	10-Sep	36.3
L&G Multi-Index Income 5 Fund	Mixed asset unit trust	England and Wales	15-Jun	31.6
L&G Multi-Index Income 4 Fund	Mixed asset unit trust	England and Wales	15-Jun	30.0
L&G Mixed Investment Income 20-60% Fund	Mixed asset unit trust	England and Wales	30-Oct	26.1
L&G Mixed Investment Income 0-35% Fund	Mixed asset unit trust	England and Wales	30-Oct	25.8
The Leisure Fund Limited Partnership	Investment vehicle	England and Wales	31-Dec	22.8
L&G Dynamic Bond Trust	Debt security unit trust	England and Wales	5-Sep	22.4
L&G MultiManager Income Trust	Equity unit trust	England and Wales	15-Jan	20.7
Sapphire Campus Management Company Limited	Investment vehicle	England and Wales	31-Dec	9.5
LGV Capital Partners (GP) LLP[5]	Dormant company	Scotland	31-Dec	100.0
LGV Capital Partners (Scotland) Limited[5]	Venture and development capital	Scotland	31-Dec	100.0
Sauchiehall Trustee Limited[6]	Investment vehicle	Scotland	31-Dec	100.0

4. Registered office: Europa House, 20 Esplanade, Scarborough, North Yorkshire, YO11 2AQ, England and Wales
5. Registered office: 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ
6. Registered office: Eversheds LLP, 3-5 Melville Street, Edinburgh, EH3 7PE
7. Registered office: Grand Canal House, 1 Upper Grand Canal Street, Dublin 4, Ireland

Additional financial information (continued)

Company name	Nature of business	Country of incorporation	Year end reporting date	% of equity shares held by the group
UK PIF FGP LLP[5]	Fund general partner	Scotland	31-Dec	100.0
UKPIF Founder GP Limited[5]	Dormant company	Scotland	31-Dec	100.0
UKPIF Two Founder GP Limited[5]	Dormant company	Scotland	31-Dec	100.0
UK PIF Two Founder Partner, LP[5]	Carried interest vehicle	Scotland	31-Dec	50.0
UKPIF Founder Partner LP[5]	Property income fund	Scotland	31-Dec	50.0
Legal & General Fund Managers (Ireland) Limited[7]	Institutional fund management	Ireland	31-Dec	100.0
Legal & General UCITS Managers (Ireland) Limited	Institutional fund management	Ireland	31-Dec	100.0
L&G Diversified EUR Fund	Irish collective asset-management vehicle	Ireland	31-Dec	100.0
L&G Diversified USD Fund	Irish collective asset-management vehicle	Ireland	31-Dec	100.0
Lagoon 1	Limited liability company	Ireland	31-Dec	100.0
Lagoon 2	Limited liability company	Ireland	31-Dec	100.0
Lagoon 3	Limited liability company	Ireland	31-Dec	100.0
Lagoon 4	Limited liability company	Ireland	31-Dec	100.0
Lagoon Finance Limited[5]	Limited liability company	Ireland	31-Dec	100.0
Legal & General Investment Management Liquidity Funds Plc	Open Ended Umbrella Investment Company	Ireland	31-Dec	100.0
LGIM Liquidity Funds plc	Open Ended Umbrella Investment Company	Ireland	31-Dec	100.0
Legal & General ICAV	Open Ended Umbrella Investment Company	Ireland	31-Dec	100.0
Legal & General Investment Management (Ireland) Risk Management Solutions Plc	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2020 FIXED FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2020 INFLATION FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2020 REAL FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2024 LEVERAGED INDEX LINKED GILT FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2025 FIXED FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2025 INFLATION FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2025 REAL FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2030 FIXED FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2030 INFLATION FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2030 LEVERAGED INDEX LINKED GILT	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2030 REAL FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2034 LEVERAGED INDEX LINKED GILT FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2035 FIXED FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2035 INFLATION FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2035 REAL FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0

5. Registered office: 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ
6. Registered office: Eversheds LLP, 3-5 Melville Street, Edinburgh, EH3 7PE, England and Wales
7. Registered office: Grand Canal House, 1 Upper Grand Canal Street, Dublin 4, Ireland

Additional financial information (continued)

45 Subsidiaries (continued)

(i) Subsidiaries (continued)

Company name	Nature of business	Country of incorporation	Year end reporting date	% of equity shares held by the group
LGIM 2037 LEVERAGED INDEX LINKED GILT FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2038 LEVERAGED GILT FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2040 FIXED FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2040 INFLATION FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2040 Leveraged Index Linked Gilt Fund	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2040 REAL FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2042 LEVERAGED GILT FUND LGIM	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2042 LEVERAGED INDEX LINKED GILT FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2045 FIXED FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2045 LEVERAGED GILT FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2045 REAL FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2047 LEVERAGED INDEX LINKED GILD	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2049 LEVERAGED GILT FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2050 FIXED FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2050 INFLATION FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2050 LEVERAGED INDEX LINKED GILT FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2050 REAL FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2055 FIXED FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2055 LEVERAGED GILT FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2055 LEVERAGED INDEX LINKED GILT FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2055 REAL FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2060 FIXED FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2060 INFLATION FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2060 LEVERAGED GILT FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2060 REAL FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2062 LEVERAGED INDEX LINKED GILT FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2068 LEVERAGED GILT FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM 2068 LEVERAGED INDEX LINKED GILT FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM ACTIVE GILTS ALL STOCKS FUND AH	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0

Additional financial information (continued)

Company name	Nature of business	Country of incorporation	Year end reporting date	% of equity shares held by the group
LGIM BESPOKE ACTIVE CREDIT FUND AM	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM BESPOKE ACTIVE CREDIT FUND BP	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM EURO 2030 REAL FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM FIXED LONG DURATION FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM FIXED SHORT DURATION FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND A	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AC	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AK	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AL	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AN	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AO	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AP	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AQ	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AR	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AS	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AU	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AV	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND B	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND BF	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND BH	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND BJ	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND C	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND DC	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND H	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND I	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND J	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND L	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND M	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0

Additional financial information (continued)

45 Subsidiaries (continued)
(i) Subsidiaries (continued)

Company name	Nature of business	Country of incorporation	Year end reporting date	% of equity shares held by the group
LGIM HEDGING – FUND O	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND P	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND Q	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND R	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND V	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND W	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND WH	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND WS	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING – FUND WT	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING FUND AE	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING FUND AI	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING FUND Z	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM HEDGING-FUND AT	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM REAL LONG DURATION FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM REAL SHORT DURATION FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM SYNTHETIC LEVERAGED CREDIT FUND	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
LGIM UK Smaller Companies Alpha Fund plc[8]	Qualifying Investor Alternative Investment Fund	Ireland	31-Dec	100.0
Sterling Liquidity Plus Fund	Open Ended Umbrella Investment Company	Ireland	31-Dec	99.2
L&G Asia Pacific ex Japan Equity Index Fund	Irish Collective Asset-Management Vehicle	Ireland	31-Dec	92.7
Legal & General Investment Management Funds ICVC	Open Ended Umbrella Investment Company	Ireland	31-Dec	78.7
L&G Europe ex UK Equity Index Fund	Irish Collective Asset-management Vehicle	Ireland	31-Dec	77.4
L&G North American Equity Index Fund	Irish Collective Asset-management Vehicle	Ireland	31-Dec	77.2
STERLING LIQUIDITY FUND	Open Ended Umbrella Investment Company	Ireland	31-Dec	52.0
US DOLLAR LIQUIDITY FUND	Open Ended Umbrella Investment Company	Ireland	31-Dec	23.3
Access Development General Partner Limited[9]	Fund general partner	Jersey	31-Dec	100.0
Bishopsgate Long Term Property Fund General Partner Limited[10]	Fund general partner	Jersey	31-Dec	100.0
Bucklersbury House Unit Trust[14]	Property unit trust	Jersey	31-Dec	100.0
Canary Property Unit Trust[14]	Property unit trust	Jersey	31-Dec	100.0

8. Registered office: HSBC House, Harcourt Centre, Harcourt Street, Dublin 2
9. Registered office: 11-15 Seaton Place, St Helier, JE4 0QH, Jersey
10. Registered office: 12 Castle Street , St Helier Jersey , JE2 3RT, Jersey
11. Registered office: 22 Grenville Street, St Helier, JE4 8PX, Jersey
12. Registered office: 44 Esplanade, St Helier, Jersey, JE4 9WG
13. Registered office: 47 Esplanade, St Helier, Jersey, JE4 9WG
14. Registered office: Lime Grove House, Green Street, St Helier, JE1 2ST

Additional financial information (continued)

Company name	Nature of business	Country of incorporation	Year end reporting date	% of equity shares held by the group
Cardiff Central One Property Unit Trust[9]	Property unit trust	Jersey	31-Dec	100.0
Chineham Shopping Centre Unit Trust[13]	Property unit trust	Jersey	31-Dec	100.0
CSQ1 Property Unit Trust[9]	Property unit trust	Jersey	31-Dec	100.0
Ealing Shopping Centre Unit Trust[14]	Property unit trust	Jersey	31-Dec	100.0
Gracechurch Property Limited[14]	Investment vehicle	Jersey	31-Dec	100.0
Gresham Street Unit Trust[13]	Property unit trust	Jersey	31-Dec	100.0
L&G LL Feeder Company Jersey Limited[11]	Jersey feeder vehicle	Jersey	31-Dec	100.0
Northampton Shopping Centre Unit Trust[13]	Property unit trust	Jersey	31-Dec	100.0
Procession House One Unit Trust[12]	Property unit trust	Jersey	31-Dec	100.0
SCBD S6 Trust[14]	Property unit trust	Jersey	31-Dec	100.0
Synergy Gracechurch Holdings Limited[14]	Investment vehicle	Jersey	31-Dec	100.0
UKPIF (Jersey) Limited[11]	Finance Provider	Jersey	31-Dec	100.0
Vantage General Partner Limited[9]	Fund general partner	Jersey	31-Dec	100.0
Performance Retail Unit Trust[13]	Property unit trust	Jersey	31-Dec	100.0
First British Bermuda Reinsurance Company II Ltd[15]	Reinsurance	Bermuda	31-Dec	100.0
Legal & General Reinsurance Company Limited[16]	Reinsurance	Bermuda	31-Dec	100.0
Legal & General Resources Bermuda Limited[16]	Provision of services	Bermuda	31-Dec	100.0
Legal & General SAC Limited[16]	Reinsurance	Bermuda	31-Dec	100.0
Legal & General Deutschland Service-GmbH[17]	Distribution company	Germany	31-Dec	100.0
Legal & General Investment Management Asia Limited[18]	Institutional fund management	Hong Kong	31-Dec	100.0
L&G Buy & Maintain Credit Fund[19]	Société d'investissement à capital variable	Luxembourg	31-Dec	100.0
L&G Euro High Alpha Corporate Bond Fund[19]	Société d'investissement à capital variable	Luxembourg	31-Dec	100.0
L&G Libor High Alpha Global Rates Fund[19]	Société d'investissement à capital variable	Luxembourg	31-Dec	100.0
L&G Multi Strategy Credit Fund[19]	Société d'investissement à capital variable	Luxembourg	31-Dec	100.0
L&G UK Core Plus Bond Fund[19]	Société d'investissement à capital variable	Luxembourg	31-Dec	100.0
Legal & General SICAV[19]	Umbrella company for sub funds	Luxembourg	31-Dec	100.0
L&G Emerging Markets Bond[19]	Société d'investissement à capital variable	Luxembourg	31-Dec	99.9
L&G Absolute Return Bond Plus Fund[19]	Société d'investissement à capital variable	Luxembourg	31-Dec	95.2
L&G Absolute Return Bond Fund[19]	Société d'investissement à capital variable	Luxembourg	31-Dec	88.9
L&G Emerging Markets Short Duration Bond Fund[19]	Société d'investissement à capital variable	Luxembourg	31-Dec	77.7
Legal & General Nederland Levensverzekering Maatschappij N.V.[20]	Long term business	Netherlands	31-Dec	100.0
Legal & General Overseas Holdings B.V.[20]	Holding company	Netherlands	31-Dec	100.0

9. Registered office: 11-15 Seaton Place, St Helier, JE4 0QH, Jersey
10. Registered office: 12 Castle Street , St Helier Jersey, JE2 3RT, Jersey
11. Registered office: 22 Grenville Street, St Helier, JE4 8PX, Jersey
12. Registered office: 44 Esplanade, St Helier, Jersey, JE4 9WG
13. Registered office: 47 Esplanade, St Helier, Jersey, JE4 9WG
14. Registered office: Lime Grove House, Green Street, St Helier, JE1 2ST
15. Registered office: Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda
16. Registered office: Crown House, 4 Par La Ville Road, Hamilton, HM08, Bermuda
17. Registered office: Richmodstr. 6, 50667 Cologne, Germany
18. Registered office: Room 902, 9th Floor, Chinachem Tower, 34-37 Connaught Road Central, Hong Kong, Hong Kong
19. Registered office: 2-4 Rue Eugène Ruppert, L-2453 Luxembourg, Grand-Duchy of Luxembourg
20. Registered office: Laapersveld 68, 1213 VB Hilversum, Holland
21. Registered office: 1701 Research Boulevard, Rockville, Maryland, 20850 U.S.A., United States
22. Registered office: Marsh Management Services, 100 Bank Street, Suite 610, Burlington VT 05402, United States

Additional financial information (continued)

45 Subsidiaries (continued)
(i) Subsidiaries (continued)

Company name	Nature of business	Country of incorporation	Year end reporting date	% of equity shares held by the group
Banner Life Insurance Company[21]	Long term business	USA	31-Dec	100.0
First British Vermont Reinsurance Company II[22]	Reinsurance	USA	31-Dec	100.0
Global Index Advisors Inc.[23]	Investment advisory	USA	31-Dec	100.0
Legal & General America Inc.[24]	Holding company	USA	31-Dec	100.0
Legal & General Investment Management America Inc.[24]	Institutional fund management	USA	31-Dec	100.0
Legal & General Investment Management United States (Holdings), Inc.[24]	Holding company	USA	31-Dec	100.0
William Penn Life Insurance Company of New York Inc.[25]	Long term business	USA	31-Dec	100.0

23. Registered office: 29 North Park Square, Ste.201, Marietta, GA 30060
24. Registered office: Corporation Trust Centre, 1209 Orange Street, Willmington, New Castle, DE 19801, United States
25. Registered office: 100 Quentin Roosevelt Blvd, PO Box 519, Garden City New York 11530, United States

Additional financial information (continued)

(ii) Subsidiaries with non-controlling interest greater than 5%

Summarised financial information for subsidiaries with non-controlling interest greater than 5% is shown below.

2016	Property partner-ships £m	Unit trusts £m	Total £m
Current assets	33	46,446	46,479
Non-current assets	642	–	642
Current liabilities	87	260	347
Non-current liabilities	150	46,185	46,335
Profit after tax	24	–	24

2015	Property partner-ships £m	Unit trusts £m	Total £m
Current assets	24	40,882	40,906
Non-current assets	449	–	449
Current liabilities	17	14,392	14,409
Non-current liabilities	92	26,490	26,582
Profit after tax	24	–	24

Additional financial information (continued)

46 Associates and joint ventures

Associates are entities over which the group has significant influence but which it does not control. Consistent with IAS 28, 'Investments in associates', it is presumed that the group has significant influence where it has between 20% and 50% of the voting rights in the investee unless indicated otherwise. Joint ventures are entities where the group and other parties undertake an activity which is subject to joint control. The basis by which associates and joint ventures are consolidated in the group financial statements is outlined in the basis of preparation (note 1).

The group has the following significant holdings classified as associates and joint ventures which have been included as financial investments, investments in associates or investments in joint ventures. The gross assets of these companies are in part funded by borrowings which are non recourse to the group.

Company name	Country of incorporation	Accounting treatment	Investment type	Year end reporting date	% of equity shares held by the group
Bracknell Property Unit Trust[1,2]	**Jersey**	**FVTPL**	**Joint Venture**	**31/03/2016**	**51.1**
245 Hammersmith Road Limited Partnership[3]	**England and Wales**	**FVTPL**	**Joint Venture**	**31/12/2016**	**50.0**
Peel Holdings (Media) Limited[4]	**England and Wales**	**Equity method**	**Joint Venture**	**31/03/2016**	**50.0**
Access Development Limited Partnership[5]	**Jersey**	**Equity method**	**Joint Venture**	**31/12/2016**	**50.0**
Central St Giles Unit Trust[6]	**Jersey**	**FVTPL**	**Joint Venture**	**31/12/2016**	**50.0**
Warrington Retail Unit Trust[7]	**Jersey**	**FVTPL**	**Joint Venture**	**31/03/2016**	**50.0**
Haut Investments Limited[8]	**England and Wales**	**Equity method**	**Joint Venture**	**30/06/2016**	**47.8**
Accelerated Digital Ventures Limited[9]	**England and Wales**	**FVTPL**	**Associate**	**31/12/2016**	**46.0**
Arlington Business Parks Unit Trust[10]	**Jersey**	**FVTPL**	**Associate**	**31/03/2016**	**41.3**
English Cities Fund[3]	**England and Wales**	**FVTPL**	**Associate**	**31/03/2016**	**37.5**
Air Energi Group Holdings Limited[11]	**England and Wales**	**FVTPL**	**Associate**	**31/12/2016**	**29.0**
IndiaFirst Life Insurance Company Limited[12,13]	**India**	**Equity method**	**Joint Venture**	**31/03/2016**	**26.0**
NTR Wind Management Limited[14]	**Ireland**	**Equity method**	**Associate**	**31/03/2016**	**25.0**

1. The Bracknell Property Unit Trust is not consolidated as the group does not have the power to control the entity
2. Registered office: 40 Esplanade, St Helier, Jersey, JE2 3QB
3. Registered office: One Coleman Street, London EC2R 5AA
4. Registered office: Peel Dome, The Trafford Centre, Manchester, M17 8PL
5. Registered office: 11-15 Seaton Place, St Helier, JE4 0QH, Jersey
6. Registered office: Lime Grove House, Green Street, St Helier, JE1 2ST
7. Registered office: 47 Esplanade, St Helier, Jersey, JE4 9WU
8. Registered office: 54 Portland Place, London, United Kingdom, W1B 1DY
9. Registered office: Maybrook House 5th Floor, 27 Grainger Street, Newcastle Upon Tyne, England, NE1 5JE
10. Registered office: 13 Castle Street, St Helier, Jersey JE4 5UT
11. Registered office: Delphian House 4th Floor, Riverside New Bailey Street, Manchester, Greater Manchester, M3 5FS
12. Registered office: 301, B Wing, The Qube, Infinity Park, Dindoshi Filmcity Road, Malad East, Mumbai, 400 097, India
13. IndiaFirst Life Insurance Company Limited has been reclassified from an associate to a Joint Venture. The compararatives have been amended accordingly.
13. Registered office: Burton Court, Burton Hall Drive, Sandyford, Dublin 18

Additional financial information (continued)

(i) Associates

Summarised financial information for associates are shown below.

2016	Equity method Associates £m	Classified as FVTPL Private equity £m	 Property partner-ships £m	 Total £m
Current assets	2	105	42	149
Non-current assets	–	90	518	608
Current liabilities	1	46	44	91
Non-current liabilities	1	24	184	209
Revenue	2	401	164	567
Profit or loss from continuing operations	(1)	4	43	46
Total comprehensive income	(1)	4	43	46

The associates have no significant contingent liabilities to which the group is exposed. The group has no commitments to provide funding to associates.

2015	Equity method Associates £m	Classified as FVTPL Private equity £m	 Property partner-ships £m	 Total £m
Current assets	–	3	63	66
Non-current assets	–	–	633	633
Current liabilities	–	4	50	54
Non-current liabilities	–	1	225	226
Revenue	–	–	136	136
Profit or loss from continuing operations	–	–	120	120
Total comprehensive income	–	–	120	120

(ii) Joint ventures

Summarised financial information for joint ventures are shown below.

Joint ventures	2016 £m	2015 £m
Current assets	983	813
Non-current assets	2,349	1,894
Current liabilities	243	236
Non-current liabilities	1,526	1,303
Revenue	1,110	796
Profit from continuing operations	103	81
Total comprehensive income	103	81
Cash and cash equivalents	64	27
Current financial liabilities (excluding trade and other payables/provisions)	33	16
Non-current financial liabilities (excluding trade and other payables/provisions)	714	727
Depreciation/amortisation	2	–
Interest income	46	2
Interest expense	(45)	(39)
Current tax charge	(14)	(11)

The joint ventures have no significant contingent liabilities to which the group is exposed. The group has no commitments to provide funding to associates.

Additional financial information (continued)

46 Associates and joint ventures (continued)

(iii) Other significant holdings

The group has the following other significant holdings which have been included as financial investments.

Company name	Country of incorporation	Territory	Year end reporting date	% of equity shares held by the group
Mithras Investment Trust[1]	**England & Wales**	**UK**	**31/12/2016**	**32.9**
Bishopsgate Long Term Property Limited Partnership[2]	**Jersey**	**Jersey**	**31/12/2016**	**25.0**

1. The Net Asset Value at 31/12/16 was £31.5m and the registered office is 1 Northumberland Avenue, Trafalgar Square, London WC2N 5BW.
2. The Net Asset Value at 31/12/16 was £231m and the registered office is 2 Castle Street, St Helier, Jersey, JE2 3RT

47 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. These interests are detailed under sections (a) to (c) below.

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

Where the group has control over an investment vehicle, it is determined to be a consolidated structured entity. The group currently consolidates Collateralised Debt Obligations (CDOs) with a market value of £nil (2015: £1,082m) at 31 December 2016. Details of the support which the group has agreed to provide these entities, in addition to the triggers under which it could be invoked, are contained within note 12(ii). The group has not, and has no intention, to provide financial or other support to any other structured entities which it consolidates.

Additional financial information (continued)

(b) Interests in unconsolidated structured entities

As part of its investment activities, the group also invests in unconsolidated structured entities. As at 31 December 2016, the group's total 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 £30,546m (2015: £29,578m). A summary of the group's holdings at 31 December 2016, with prior year comparatives, is provided below:

	2016 Financial investments £m	2015 Financial investments £m
Debt securities		
Analysed as:		
Asset backed securities	**4,498**	7,038
Securitisations and debentures	**18,958**	16,298
CDOs	**120**	220
Investment funds		
Analysed as:		
Unit trusts	**3,855**	3,670
Exchange traded funds	**947**	321
Specialised investment vehicles		
Analysed as:		
OEICs	**1,875**	1,873
SICAVs	**89**	–
SPVs	**4**	5
SPVs	**200**	153
Total	**30,546**	29,578

Where the group does not manage the above investments its maximum exposure to loss to the interests presented above is the carrying amount of the group's investments. Given the group's limited exposure, further information about the overall size of these entities has not been provided. Where the group manages these investments, the maximum exposure is the underlying balance sheet value, together with future management fees – these are covered further under section (c) below. The group does not sponsor any of the above entities. The group has not, and has no intention, to provide financial or other support to any other structured entities which it does not consolidate.

Additional Financial information (continued)

47 Interests in structured entities (continued)

(c) Other interests in unconsolidated structured entities

Management fees received for investments that the group manages also represent interests in unconsolidated structured entities. The group always maintains an interest in those funds which it manages. The group's maximum exposure to loss with these investments equates to the underlying assets on the group Consolidated Balance Sheet, 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. The group's holding in these entities is included within the amounts disclosed in section (b) above.

	2016		2015	
	AUM £m	Investment management fees £m	AUM £m	Investment management fees £m
Investment funds	**30,559**	**101**	21,074	100
Specialised Investment Vehicles				
Analysed as:				
OEICs	**929**	**3**	710	2
SICAVs	**653**	**1**	–	–
Property Limited Partnerships	**3,303**	**12**	2,719	10
Total	**35,444**	**117**	24,503	112

Company financial statements

Independent auditors' report to the members of Legal & General Group Plc

Our opinion

In our opinion, Legal & General Group Plc's company financial statements (the financial statements):

- give a true and fair view of the state of the company's affairs as at 31 December 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Accounts (the Annual Report), comprise:

- the Company Balance Sheet as at 31 December 2016;
- the Company Statement of Changes in Equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)) we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Company financial statements (continued)

Independent auditors' report to the members of Legal & General Group Plc (continued)

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the group financial statements of Legal & General Group Plc for the year ended 31 December 2016.

Andrew Kail (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 March 2017

(a) The maintenance and integrity of the Legal & General Group Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Company financial statements (continued)

Company Balance Sheet

As at 31 December 2016	Notes	2016 £m	2015 £m
Non-current assets			
Investments in subsidiaries	7	**7,252**	6,866
Loans to subsidiaries	7	**19**	764
Current assets			
Receivables	8	**1,411**	1,210
Derivative assets	11	**–**	–
Other financial investments		**19**	15
Cash and cash equivalents		**2**	3
Total assets		**8,703**	8,858
Non-current liabilities			
Payables: amounts falling due after more than one year	9	**3,117**	3,140
Current liabilities			
Payables: amounts falling due within one year	10	**115**	127
Derivative liabilities	11	**1**	3
Total liabilities		**3,233**	3,270
Net assets		**5,470**	5,588
Equity			
Share capital	13	**149**	149
Share premium		**981**	976
Revaluation reserve		**2,459**	2,459
Capital redemption and other reserves		**77**	85
Retained earnings – balance brought forward		**1,919**	2,262
Retained earnings – profit for the year		**715**	358
Retained earnings – dividend paid		**(830)**	(701)
Total equity		**5,470**	5,588

The notes on pages 225 to 230 form an integral part of these financial statements.

The financial statements on pages 223 to 230 were approved by the directors on 7 March 2017 and were signed on their behalf by:

Sir John Kingman
Chairman

Nigel Wilson
Group Chief Executive

Mark Gregory
Group Chief Financial Officer

Company financial statements (continued)

Company Statement of Changes in Equity

For the year ended 31 December 2016	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
As at 1 January 2016	**149**	**976**	**17**	**–**	**68**	**2,459**	**1,919**	**5,588**
Profit for the financial year	**–**	**–**	**–**	**–**	**–**	**–**	**710**	**710**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(830)**	**(830)**
Value of employee services	**–**	**–**	**–**	**–**	**24**	**–**	**–**	**24**
Shares vested and transferred from share-based payment reserve	**–**	**–**	**–**	**–**	**(32)**	**–**	**5**	**(27)**
Options exercised under share option schemes	**–**	**5**	**–**	**–**	**–**	**–**	**–**	**5**
As at 31 December 2016	**149**	**981**	**17**	**–**	**60**	**2,459**	**1,804**	**5,470**

For the year ended 31 December 2015	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
As at 1 January 2015	149	969	17	(1)	66	2,459	2,262	5,921
Profit for the financial year	–	–	–	–	–	–	378	378
Dividends	–	–	–	–	–	–	(701)	(701)
Value of employee services	–	–	–	–	26	–	–	26
Shares vested and transferred from share-based payment reserve	–	–	–	–	(24)	–	(20)	(44)
Options exercised under share option schemes	–	7	–	–	–	–	–	7
Additions to hedging reserve	–	–	–	1	–	–	–	1
As at 31 December 2015	149	976	17	–	68	2,459	1,919	5,588

Notes to the company financial statements

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 derivative financial assets and financial liabilities measured at fair value through profit and loss, and in accordance with the Companies Act 2006. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

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 paragraphs 91 to 99 of IFRS 13 'Fair value measurement', equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of paragraph 79(a)(iv) of IAS 1.
- The following paragraphs of IAS 1, 'Presentation of financial statements';
  - (i) 10(d), (statement of cash flows),
  - (ii) 16 (a statement of compliance with all IFRS),
  - (iii) 38A (requirement for minimum of two primary statements, including cash flow statements),
  - (iv) 38B-D (additional comparative information),
  - (v) 111 (cash flow statement information), and
  - (vi) 134-136 (capital management disclosures)
  - IAS 7, 'Statement of cash flows'.
- Paragraphs 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).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

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.

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.

Loans and receivables

Loans and receivables are initially recognised at fair value and subsequently held at amortised cost using the effective interest method.

Notes to the company financial statements (continued)

1 Accounting policies (continued)

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. The company's cost of participation has been treated as that of a defined contribution schemes 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.

Notes to the company financial statements (continued)

2 Dividends

	Per share 2016 p	Total 2016 £m	Per share 2015 p	Total 2015 £m
Ordinary share dividends paid in the year				
– Prior year final dividend	**9.95**	**592**	8.35	496
– Current year interim dividend	**4.00**	**238**	3.45	205
	13.95	**830**	11.80	701
Ordinary share dividend proposed[1]	**10.35**	**616**	9.95	592

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 2016 there were no remuneration payments outstanding with directors of the company (2015: £nil). The company has no other employees (2015: nil).

4 Pensions

There were £nil contributions prepaid or outstanding at 31 December 2016 (2015: £nil) in respect of these schemes, and there were £nil current service costs incurred in respect of these schemes for year ended 31 December 2016 (2015: £nil). The company had £nil liability for retirement benefits at 31 December 2016 (2015: £nil).

Defined contribution plans

The company operates the following defined contribution pension schemes in the UK:

- Legal & General Group Personal Pension Plan.
- Legal & General Staff Stakeholder Pension Scheme.

Defined benefit plans

The company operates the following defined benefit pension schemes in the UK:

- Legal & General Group UK Pension and Assurance Fund (the Fund). The Fund was closed to new members from January 1995; last full actuarial valuation as at 31 December 2012.
- Legal & General Group UK Senior Pension Scheme (the Scheme). The Scheme was, with a few exceptions (principally transfers from the Fund), closed to new members from August 2000 and finally closed to new members from April 2007; last full actuarial valuation as at 31 December 2012.

The UK schemes operate within the UK pensions' regulatory framework.

In the UK, the Fund and the Scheme are group defined benefit schemes. The UK fund and scheme were closed to future accural 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 2016 of £374m (2015: £308m) is recognised on that company's Balance Sheet. Further information is also given in note 26 of the group's consolidated financial statements.

5 Share-based payments

The full disclosures required by IFRS 2 are provided in the group's consolidated financial statements (note 37).

The total expense retained by the company in relation to share-based payments was £nil (2015: £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 IFRS financial statements disclose the aggregate remuneration receivable by the company's auditors for the audit of the group's annual financial statements, which include the company's financial statements (note 35).

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.

Notes to the company financial statements (continued)

7 Non-current assets

	Investment in subsidiaries £m	Loans to group companies 2016 £m	Total 2016 £m	Investment in subsidiaries £m	Loans to group companies 2015 £m	Total 2015 £m
At 1 January	**6,866**	**764**	**7,630**	6,180	755	6,935
Additions[1]	**386**	**–**	**386**	686	9	695
Transfer to current assets	**–**	**(745)**	**(745)**	–	–	–
At 31 December	**7,252**	**19**	**7,271**	6,866	764	7,630

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

	2016 £m	2015 £m
Amounts owed by group undertakings	**1,356**	1,140
Corporation tax	**40**	51
Deferred tax	**12**	16
Other debtors	**3**	3
Receivables	**1,411**	1,210

Amounts owed by group undertakings are repayable at the request of either party and include an £286m (2015: £916m) interest bearing balance with a current interest rate of LIBOR-12.5 bps.

9 Payables: amounts falling due after more than one year

	Note	2016 £m	2015 £m
Subordinated borrowings	12	**2,496**	2,519
Amounts owed to group undertakings		**621**	621
Payables		**3,117**	3,140

Amounts owed to group undertakings falling due after more than one year are unsecured and include £602m (2015: £601m) of interest bearing balances with current interest rates between 5.71% and 6.12% (2015: 5.71% and 6.12%).

10 Payables: amounts falling due within one year

	Note	2016 £m	2015 £m
Amounts owed to group undertakings		**81**	84
Accrued interest on subordinated borrowings	12	**31**	32
Other payables		**3**	11
Payables		**115**	127

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 2016 £m	Fair values Assets 2016 £m	Fair values Liabilities 2016 £m	Contract/ notional amount 2015 £m	Fair values Assets 2015 £m	Fair values Liabilities 2015 £m
Interest rate contracts – held for trading	**–**	**–**	**–**	230	–	2
Forward foreign exchange contracts – net investment hedges	**125**	**–**	**1**	78	–	1
Forward foreign exchange contracts – held for trading	**100**	**–**	**–**	–	–	–
Derivative assets and liabilities		**–**	**1**		–	3

The descriptions of each type of derivative are given in note 13 of the group's consolidated financial statements.

Notes to the company financial statements (continued)

12 Borrowings

Analysis by nature	Carrying amount 2016[1] £m	Coupon rate 2016 %	Fair value 2016[1] £m	Carrying amount 2015[1] £m	Coupon rate 2015 %	Fair value 2015[1] £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities (Tier 1)	**614**	**6.39**	**609**	637	6.39	631
5.875% Sterling undated subordinated notes (Tier 2)	**411**	**5.88**	**418**	413	5.88	426
5.375% Sterling subordinated notes 2025 (Tier 2)	**602**	**5.38**	**603**	601	5.38	611
10% Sterling subordinated notes 2041 (Tier 2)	**311**	**10.00**	**403**	310	10.00	398
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**5.50**	**627**	589	5.50	570
Total borrowings	**2,527**		**2,660**	2,550		2,636

1. Includes accrued interest on subordinated borrowings of £31m (2015: £32m).

As at 31 December 2016, the company had in place a £1.00bn syndicated committed revolving credit facility provided by a number of its key relationship banks maturing in December 2020. This facility replaced the syndicated facility totalling £1.00bn, of which £0.04bn was due to mature in October 2017 and £0.96bn was due to mature in October 2018. No drawings were made under either facility during 2016.

6.385% Sterling perpetual capital securities

In 2007, Legal & General Group Plc issued £600m of 6.385% Sterling perpetual capital securities. These securities are callable at par on 2 May 2017 and every three months thereafter. If not called, the coupon from 2 May 2017 will be reset to three month LIBOR plus 1.93%p.a. For Solvency II purposes these securities are treated as Tier 1 own funds.

5.875% Sterling undated subordinated notes

In 2004, Legal & General Group Plc issued £400m of 5.875% Sterling undated subordinated notes. These notes are callable at par on 1 April 2019 and every five years thereafter. If not called, the coupon from 1 April 2019 will be reset to the prevailing five year benchmark gilt yield plus 2.33%p.a. These notes are treated as Tier 2 own funds for Solvency II purposes.

5.375% Sterling subordinated notes 2025

On 27 October 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. They are treated as Tier 2 own funds for Solvency II purposes.

10% Sterling subordinated notes 2041

In 2009, Legal & General Group Plc issued £300m of 10% dated subordinated notes. The notes are callable at par on 23 July 2021 and every five years thereafter. If not called, the coupon from 23 July 2021 will be reset to the prevailing five year benchmark gilt yield plus 9.325%p.a. These notes mature on 23 July 2041. They are treated as Tier 2 own funds for Solvency II purposes.

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. They are treated as Tier 2 own funds for Solvency II purposes.

Notes to the company financial statements (continued)

13 Called up share capital

Authorised share capital	Number of shares 2016	£m 2016	Number of shares 2015	£m 2015
At 31 December: ordinary shares of 2.5p each	**9,200,000,000**	**230**	9,200,000,000	230

Issued share capital, fully paid	Number of shares 2016	Share capital £m 2016	Share premium £m 2016	Number of shares 2015	Share capital £m 2015	Share premium £m 2015
As at 1 January	**5,948,788,480**	**149**	**976**	5,942,070,229	149	969
Options exercised under share option schemes						
– Savings related share option scheme	**5,867,986**	**–**	**5**	6,718,251	–	7
As at 31 December	**5,954,656,466**	**149**	**981**	5,948,788,480	149	976

Options over the ordinary share capital of the company are disclosed in note 38 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 32 to 39)
- An indication of likely future developments (pages 12 to 28)
- Employee engagement (page 28)
- Post-balance sheet events (note 44)

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 2016.

Powers of directors

The directors (as detailed on pages 48 and 49) may exercise all powers of the company subject to applicable legislation and regulation and the company's Articles of Association.

Share capital

As at 31 December 2016, the company's issued share capital comprised 5,954,656,466 ordinary shares each with a nominal value of 2.5 pence. Details of the ordinary share capital can be found in note 38 to the Group Consolidated Financial Statements.

At the 2016 AGM, the company was granted authority by shareholders to purchase up to 594,903,940 ordinary shares, being 10% of the issued share capital of the company as at 29 March 2016. In the year to 31 December 2016, no shares were purchased by the company. This authority will expire at the 2017 AGM. As such, a resolution is proposed in the Notice of AGM seeking shareholder approval to renew this authority.

At the 2016 AGM, the directors were given the power to allot shares up to an amount of £49,575,328, being 33% of the issued share capital of the company as at 29 March 2016. This authority will also expire at the 2017 AGM. As such, a resolution is proposed in the Notice of AGM seeking shareholder approval to renew this authority.

A further resolution is 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 2017 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: www.legalandgeneralgroup.com. As at 31 December 2016, 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
The Capital Group Companies, Inc.	353,497,431	5.9	Indirect
BlackRock, Inc.	300,077,786	5.0	Indirect
Woodford Investment Management LLP	298,198,185	5.0	Direct
Invesco Limited	297,097,017	5.0	Indirect
Schroders Plc	296,651,093	5.0	Indirect

No changes to the interests have been disclosed between 31 December 2016 and 6 March 2017.

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 2016 of 10.35 pence per ordinary share which, together with the interim dividend of 4.0 pence per ordinary share paid to shareholders on 22 September 2016, will make a total dividend for the year of 14.35 pence (2015: 13.40 pence). Subject to shareholder approval at the AGM, the final dividend will be paid on 8 June 2017 to shareholders on the share register on 28 April 2017 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 schemes rank equally with all other ordinary shares in issue. Zedra Trust Company (Guernsey) Limited, as trustee of the Legal & General Employees' Share Ownership Trust, held 0.3% of the issued share capital of the company as at 6 March 2017 in trust for the benefit of the executive directors, senior executives and employees of the group. This includes shares held as nominee on behalf of Legal & General Share Scheme Trustees Limited, as trustee of the Legal & General Employee Share Trust, which is in the process of being wound up. 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 Capita IRG Trustees Limited, which held 0.3% of the issued share capital of the company as at 6 March 2017. 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 6 March 2017, the company has no borrowings under this facility. There are no change of control conditions in the terms of any of the company's outstanding debt securities. The terms of the company's agreements with its banking counterparties, under which derivative transactions are undertaken, include in some instances the provision for termination of transactions upon takeover/merger depending on the rating of the merged entity. There are no other committed banking arrangements either drawn or undrawn that incorporate any change of control conditions.

Use of financial instruments

Information on the group's risk management process is set out on pages 41 to 43. 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) have been granted, to the extent permitted by law, to certain trustees of the company's pension schemes. The indemnities were in force throughout 2016 and remain so. Copies of the deeds of indemnity are available for inspection at the company's registered office and will also be available at the AGM.

Requirements of Listing Rule 9.8.4

Information to be included in the annual report and accounts under Listing Rule 9.8.4 may be found as follows:

Relevant Listing Rule	Page
LR 9.8.4 (12)	232
LR 9.8.4 (13)	232

Political donations

No political donations were made during 2016.

Forward-looking statements

The Directors' report is prepared for the members of the company and should not be relied upon by any other party or for any other purpose. Where the Directors' report includes forward-looking statements, these are made by the directors in good faith based on the information available to them at the time of their approval of this report. Such statements should be treated with caution due to the inherent uncertainties underlying such forward-looking statements.

Insurance

The Company has arranged appropriate directors' and officers' liability insurance for directors. This is reviewed annually.

Greenhouse gas disclosures (GHG)

Global GHG Emissions Data

tCO_2e Emissions from	Jan – Dec 2015	Jan – Dec 2016
Scope 1 & 2 (electricity and gas) (based on the scope of Legal & General's UK CRC Energy Efficiency Scheme disclosed emissions, Overseas property emissions)	12,196.10	13,134.45
Scope 2 (electricity sourced from a renewable tariff)	38,218.73	32,883.96
Scope 3 – Business travel (includes road, rail & air travel for LGAS, France, Netherlands and USA)	3,746.77	4,362.59
Total CO_2 (scope 1,2,3) (based on the scope of Legal & General's UK CRC Energy Efficiency Scheme disclosed emissions, Overseas property emissions and reported travel emissions)	54,161.60	50,381.00
Intensity ratio: $kgCO_2e$ Emissions per policy	5.02	4.54
Fugitive Emissions	877.60	1,812.66

Please refer to our CSR report for further breakdown and analysis of emissions.

Methodology

We have reported on the emission sources required under the Companies Act 2006 Strategic Report and Directors' Report Regulations 2013.

We have used the GHG reporting protocol for calculating our GHG emissions and applied the emission factors from UK Government's GHG Conversion Factors for Company Reporting 2016.

Disability

Our policies support the employment, promotion and career development of disabled persons, as well as supporting employees who become disabled during the course of their employment. We make reasonable adjustments, as required under the Equality Act 2010, for disabled employees, including seeking redeployment in the event that reasonable adjustments are not possible. We offer appropriate training, including training in relation to equality, and will make adjustments to this training where required.

Independent auditors

The company's independent external auditor has expressed its willingness to continue in office and the Audit Committee has recommended its reappointment to the Board. Resolutions to reappoint PricewaterhouseCoopers LLP as auditor to the Company and to authorise the directors to determine its remuneration are proposed for the forthcoming AGM.

The Audit Committee undertook a tender process in respect of external audit services during 2016, more details on which are provided in the Audit Committee report on pages 61 to 65. KPMG LLP will be proposed for appointment by shareholders at the 2018 AGM.

Directors' interests

The Directors' Report on Remuneration on pages 68 to 97 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 28 February 2017.

Going concern statement

After making enquiries, the directors considered it appropriate to prepare the financial statements of the company, and the group, on the going concern basis.

Viability Statement

Please refer to the Group Board viability statement on page 43.

Annual general meeting

The Company's AGM will be held at 11am on Thursday, 25 May 2017 at The Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Accounts, including the Directors' Remuneration Report 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 and prudent;
- state whether IFRSs as adopted by the EU and applicable UK Accounting Standards, comprising FRS 101 'Reduced Disclosures Framework', have been followed, subject to any material departures disclosed and explained in the group and the company financial statements respectively; 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' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

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 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; and
- 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.

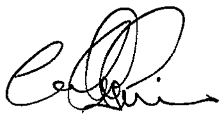
In the case of each director who held office at the date this report was approved:

(a) so far as the director is aware, there is no relevant audit information of which the group's and company's auditors are unaware; and

(b) they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's and company's auditors are aware of that information.

The Directors' report and Strategic report were approved by the Board, and signed on their behalf.

By order of the Board



G J Timms
Company Secretary

Shareholder information

Annual general meeting

The 2017 AGM will be held on Thursday, 25 May 2017 at 11am at The Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ. 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 www.legalandgeneralgroup.com (the website).

Dividend information

Dividend per share

This year the directors are recommending the payment of a final dividend of 10.35 pence per share. If you add this to your interim dividend of 4.0 pence per share, the total dividend recommended for 2016 will be 14.35 pence per share (2015: 13.40 pence per share). The key dates for the payment of dividends are set out in the important dates section on page 236.

Communications

Internet

Information about the company, including details of the current share price, is available on the website, www.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 www.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

Capita Asset Services is the Registrar and they offer many services to make managing your shareholding easier and more efficient.

Share Portal

The Share Portal is a secure online site where you can manage your shareholding quickly and easily. You can:

- View your holding and get an indicative valuation
- Change your address
- Arrange to have dividends paid into your bank account
- Request to receive shareholder communications by email rather than post
- View your dividend payment history
- Make dividend payment choices
- Buy and sell shares and access a wealth of stock market news and information
- Register your proxy voting instruction
- Download a stock transfer form

To register for the Share Portal just visit www.landgshareportal.com. All you need is your Investor Code, which can be found on your share certificate or dividend confirmation.

Customer support centre

Alternatively, you can contact Capita's 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@capita.co.uk

By post – Capita 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 Capita IRG Trustees (Nominees) 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

Capita'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 Capita Asset Services, a trading name of Capita IRG 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 shares@capita.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.

Arrange to have your dividends paid direct into your bank account

The advantages are:

- Your dividend reaches your bank account on the payment date
- It is more secure – cheques can sometimes get lost in the post
- You don't have the inconvenience of depositing a cheque
- It helps reduce cheque fraud

If you have a UK bank account you can sign up for this service on the Share Portal (by clicking on 'your dividend options' and following the on-screen instructions) or by contacting the Customer Support Centre.

Choose to receive your next dividend in your local currency

If you live outside the UK, Capita 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 Capita

By phone – UK – 0371 402 3341*

By e-mail – ips@capita.co.uk

Buy and sell shares

A simple and competitively priced service to buy and sell shares is provided by Capita Asset Services. There is no need to pre-register and there are no complicated application forms to fill in. By visiting www.capitadeal.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 www.capitadeal.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.

Capita Asset Services is a trading name of Capita IRG 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:

27 April 2017	• Ex-dividend date (final dividend)
19 May 2017	• Last day for DRIP elections
25 May 2017	• Annual General Meeting
8 June 2017	• Payment of final dividend for 2016 (to members registered on 28 April 2017)
9 August 2017	• Half year results 2017
17 August 2017	• Ex-dividend date (interim dividend)
21 September 2017	• Payment of interim dividend for 2017 (to members registered on 18 August 2017)

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 www.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.

Glossary

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

Adjusted earnings per share*
Calculated by dividing profit after tax from continuing operations, attributable to equity holders of the company, excluding recognised gains and losses associated with held for sale and completed business disposals, by the weighted average number of ordinary shares in issue during the period, excluding employee scheme treasury shares. Excluding the impact of anticipated and completed disposals provides an indication of the earnings per share from ongoing operations.

Adjusted return on equity*
ROE measures the return earned by shareholders on shareholder capital retained within the business. Adjusted ROE is calculated as IFRS profit after tax divided by average IFRS shareholders' funds excluding recognised gains and losses associated with held for sale and completed business disposals. Excluding the impact of anticipated and completed disposals provides an indication of the return on equity from ongoing operations.

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. The group uses a range of these metrics to provide a better understanding of the underlying performance of the group. Where appropriate, reconciliations of alternative performance measures to IFRS measures are provided in the group's preliminary results which are available on the group website. All APMs defined within this glossary are marked with an asterisk.

Annuity
A regular payment 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)*
The total amount of money investors have trusted to our fund managers to invest across our investment products i.e. these are funds which are managed by our fund managers on behalf of investors.

Backbook 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.

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 D. Ratings are usually issued by a credit rating agency (e.g. Moody's or Standard & Poor's) or credit bureau.

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 constitute an agreement with another party and represent an exposure to untraded and often less liquid asset classes. They can include physical assets, bilateral loans and private equity but exclude hedge funds.

Dividend cover
Dividend cover measures how many times over the net cash generated in the year could have paid the full year dividend. For example, if the dividend cover is 3, this means that the net cash generation 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.

Economic capital surplus and coverage*
Economic capital is the capital that an insurer holds internally as a result of its own assessment of risk. It differs from regulatory capital, which is determined by regulators. It represents an estimate of the amount of economic losses an insurer could withstand and still remain solvent with a target level of confidence over a specified time horizon. Economic capital surplus represents the excess of Eligible Own Funds on an economic basis over the Economic Capital Requirement. This represents the amount of capital available to the company in excess of that required to sustain it in a 1-in-200 year risk event.

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 at the same time working with their manager to enhance their own sense of development and well being.

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).

General insurance combined operating ratio
The combined ratio is calculated as the sum of incurred losses and expenses divided by earned premium.

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.

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

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

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

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

LGA
Legal & General America.

LGAS
Legal & General Assurance Society.

LGC
Legal & General Capital.

LGI
Legal & General Insurance.

LGIM
Legal & General Investment Management.

LGR
Legal & General Retirement.

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.

Longevity
Risk associated with increasing life expectancy trends among policyholders and pensioners.

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*
Net release from operations is defined as release from operations plus new business surplus/(strain). Net release from operations was previously referred to as Net Cash and provides information on the underlying release of prudent margins from the back book.

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. Cofunds is an open architecture platform.

Operating profit*
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 and changes in insurance risks such as mortality and longevity for the group's insurance business and shareholder funds, except for LGA which excludes unrealised investment returns to align with the liability measurement under US GAAP. Variances between actual and smoothed assumptions are reported below operating profit. 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 excluded from operating profit.

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.

Profit before tax attributable to equity holders (PBT)
Profit attributable to shareholders incorporating actual investment returns experienced during the year but before the payment of tax.

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.

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 and Legal & General Netherlands. 2015 included dividends remitted from Legal & General France, which was disposed of on 31 December 2015. Release from operations was previously referred to as operational cash generation.

Return on equity (ROE)
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.

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.

SCR 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.

SCR coverage ratio (proforma basis)
The proforma basis solvency II coverage incorporates the estimated impacts of a recalculation of the Transitional Measures for Technical Provisions recalculated based on end 2016 economic conditions, changes during 2016 to the Internal Model and Matching Adjustment and management's updated Solvency I basis. The proforma basis does not reflect the regulatory capital position as at 31 December 2016. This will be made public in May 2017.

SCR coverage ratio (shareholder view basis)
In order to represent a shareholder view of group solvency position, the capital requirement in relation to the ring-fenced LGAS With-Profits fund and our defined benefit pension schemes is excluded from both Eligible Own funds and the SCR in the calculation of the coverage ratio. The shareholder view basis does not reflect the regulatory capital position as at 31 December 2016. This will be made public in May 2017.

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

Solvency II
Taking effect from 1 January 2016, the Solvency II regulatory regime is a harmonised prudential framework for insurance firms in the EEA. This single market approach is based on economic principles that measure assets and liabilities to appropriately align insurers' risk with the capital they hold to safeguard policyholder.

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

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.

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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