Stock Exchange Release
07 March 2018

CONTINUING STRONG PERFORMANCE IN 2017: EPS[1] 31.9P, RETURN ON EQUITY 25.6%

FINANCIAL HIGHLIGHTS[2]:

- **OPERATING PROFIT UP 32% TO £2,055M (2016: £1,562M)**
- **PROFIT BEFORE TAX[3] UP 32% TO £2,090M (2016: £1,582M)**
- **PROFIT AFTER TAX UP 50% TO £1,902M (2016: £1,265M)**
- **FULL YEAR DIVIDEND UP 7% TO 15.35P PER SHARE (2016: 14.35P)**
- **2017 RESULTS INCLUDE MORTALITY RELEASE[4] OF £332M**
- **OPERATING PROFIT FROM CONTINUING OPERATIONS[5] EXCLUDING MORTALITY RELEASE UP 12% TO £1,616M (2016: £1,447M)**
- **NET RELEASE FROM CONTINUING OPERATIONS[5] UP 9% TO £1,352M (2016: £1,242M)**
- **ONE-OFF US TAX BENEFIT[6] OF £246M**
- **SOLVENCY II COVERAGE RATIO[7] OF 189% (2016: 171%)**
- **SOLVENCY II NET SURPLUS GENERATION OF £1.2BN (2016: £1.1BN)**

BUSINESS HIGHLIGHTS:

- **PRT[8] AND INDIVIDUAL ANNUITY NEW BUSINESS OF £4.6BN (2016: £4.1BN)**
- **LIFETIME MORTGAGE ADVANCES OF £1.0BN (2016: £0.6BN)**
- **LGIM EXTERNAL NET FLOWS UP 49% AT £43.5BN (2016: £29.2BN)**
- **LGIM AUM UP 10% AT £983.3BN (2016: £894.2BN)**
- **GROUP-WIDE DIRECT INVESTMENT UP 44% AT £14.4BN (2016: £10.0BN)**
- **LGI GROSS PREMIUMS UP 5% TO £2.5BN (2016: £2.4BN)**

Nigel Wilson, Group Chief Executive, said:

“Legal & General’s strategic focus, alignment to global growth drivers and excellent execution, allowed us to deliver a record £2.1bn operating profit in 2017. Our shareholders are enjoying terrific EPS and RoE growth, while our ‘inclusive capitalism’ model ensures customers and society also benefit.

Our scale businesses continued to successfully scale-up: LGIM’s external net inflows were £44bn, taking us to almost £1 trillion in AUM. Customer focus and good value made us market leaders in our chosen UK business segments, while successfully expanding in the US where LGR broke new ground, completing fifteen Pension Risk Transfer deals.

Our transformative, innovative businesses treat disruption as a privilege and a responsibility. Many of our initiatives are changing markets in the customer’s favour, including SmartQuote, Smart Pensions, SalaryFinance, our housing businesses, Pemberton and NTR.

We remain confident that our unique business model, strong management team, collaborative culture, and strategic focus can deliver further growth in 2018 and beyond.”

1. Earnings per share is calculated by dividing profit after tax attributable to equity holders of the Company, by the weighted average number of ordinary shares in issue during the period. Represents profit before tax attributable to equity holders. Excluding mortality releases and one-off US tax benefit, 2017 EPS is 23.10p (2016:21.22p).
2. The metrics within the Group’s financial highlights are defined in the glossary, which includes Alternative Performance Measures, on pages 93 to 99 to this report.
3. Represents profit before tax attributable to equity holders.
4. Mortality releases from LGR’s £46.5bn of net longevity exposure comprises £206m relating to changes in longevity improvement assumptions to align to CMI 2015 tables, and a £126m base mortality release as reported in H1 2017.
5. Excludes businesses disposed of comprising Mature Savings, Legal & General Netherlands, Suffolk Life, Cofunds and IPS.
6. Reflects the revaluation of net deferred tax liabilities in the US, largely relating to the protection business following the US corporate income tax rate reduction from 35% to 21%.
7. Solvency II surplus and coverage ratio on a shareholder basis is adjusted for the Own Funds and SCR of the With-profits fund and the final salary pension schemes.
8. Pension Risk Transfer (PRT).

FINANCIAL SUMMARY

£m	2017	2016	Growth %
Analysis of operating profit			
Legal & General Retirement (LGR)	**1,247**	809	**54**
- *LGR Institutional (LGRI)*	***906***	*651*	*39*
- *LGR Retail (LGRR)*	***341***	*158*	*116*
Legal & General Investment Management (LGIM)	**400**	366	**9**
Legal & General Capital (LGC)	**272**	257	**6**
Legal & General Insurance (LGI)[1]	**303**	303	**-**
General Insurance	**37**	52	**(29)**
Continuing operating profit from divisions	**2,259**	**1,787**	**26**
Savings[2]	**103**	99	**4**
Legal & General Netherlands[3]	**4**	16	**(75)**
Operating profit from divisions	**2,366**	**1,902**	**24**
Group debt costs	**(191)**	(172)	**(11)**
Group investment projects and expenses[4]	**(120)**	(168)	**29**
Operating profit	**2,055**	**1,562**	**32**
Investment and other variances (incl. minority interests)[5]	**35**	20	**75**
Profit before tax attributable to equity holders	**2,090**	**1,582**	**32**
Profit after tax[6]	**1,902**	**1,265**	**50**
Operating profit from continuing operations[7] excluding mortality release (£m)	**1,616**	**1,447**	**12**
Earnings per share (p)	**31.87**	**21.22**	**50**
Earnings per share excluding mortality release and one-off US tax (p)	**23.10**	**21.22**	**9**
Return on equity (%)	**25.6**	**18.8**	**n/a**
Full year dividend per share (p)	**15.35**	**14.35**	**7**
- Final dividend per share (p)	**11.05**	**10.35**	**n/a**
- Interim dividend per share (p)	**4.30**	**4.00**	**n/a**
Release from continuing operations[7]	**1,191**	1,082	**10**
New business surplus	**161**	160	**1**
Net release from continuing operations[7]	**1,352**	**1,242**	**9**
Net release from discontinued operations[2,3]	**102**	169	**(40)**
Dividend from subsidiary in respect of mortality releases[8]	**250**	-	**n/a**
Total release	**1,704**	**1,411**	**21**

1. Excludes Legal & General Netherlands which was sold on 6 April 2017.
2. Mature Savings sale to Swiss Re for £650m was announced on 6 December 2017. 2016 includes disposed businesses comprising Suffolk Life, Cofunds and IPS.
3. Legal & General Netherlands was sold on 6 April 2017.
4. In 2017, we invested £49m (2016: £40m) to increase efficiencies and develop strategic initiatives in the Group. 2016 includes the Kingswood office closure costs of £66m.
5. Includes net profit on disposals in 2017 of £17m in relation to the disposal of Legal & General Netherlands (2016: £(60)m loss comprising a £(64)m impairment loss on the disposal of Cofunds and IPS, and a £4m profit on disposal of Suffolk Life).
6. Includes one-off £246m tax benefit arising on revaluation of net deferred tax liabilities relating in the US, largely relating to the US protection business following the US corporate income tax rate reduction from 35% to 21%.
7. Excludes Mature Savings, Legal & General Netherlands, Suffolk Life, Cofunds and IPS.
8. Represents dividend from Legal & General Assurance Society Ltd (LGAS) to Group, in addition to normal LGAS dividend, arising due to mortality reserve releases in 2017.

COMMENTARY ON 2017 FINANCIAL PERFORMANCE

INCOME STATEMENT

Operating profit increased 32% to £2,055m (2016: £1,562m), including £332m in mortality reserve releases. Operating profit from continuing operations[1] excluding mortality releases increased 12%.

LGR delivered a 54% increase in operating profit to £1,247m (2016: £809m). This was driven by strong performances from our front and back books in LGR's Institutional and Retail divisions, and benefitted from our growing direct investment portfolio. In H2 2017 we adopted longevity improvement assumptions aligned to the next set of mortality tables (CMI 2015) for LGR's annuity book, resulting in a release of £206m of prudence within our reserves. This is in addition to the £126m reserve release in H1 2017 relating to the adjustment of our base mortality assumptions. Excluding these mortality reserve releases, growth in operating profit was 13%.

LGIM operating profit increased by 9% to £400m (2016: £366m). Management fee revenues were up 11% to £780m (2016: £700m) driven by record external net inflows of £43.5bn (2016: £29.2bn), and higher asset values throughout 2017. LGIM has continued to invest in the business to support its international growth strategy, and, despite increased regulatory costs, has maintained its market leading cost income ratio of 50%.

LGC operating profit increased by 6% to £272m (2016: £257m) driven by returns from the division's £3.8bn (2016: £3.8bn) traded assets portfolio, and continued strong performance in the £1.5bn (2016: £1.1bn) direct investment portfolio which contributed £124m (2016: £121m). This included £43m from CALA Homes, representing our share of the business' profit in 2017.

LGI operating profit from continuing operations[2] was flat year-on-year at £303m (2016: £303m). LGI America (LGIA) operating profit increased 11% to £94m (2016: £85m) driven by business growth, exchange rates and favourable mortality experience. LGI UK delivered robust profits of £209m (2016: £218m). Lapse experience impacted our retail protection business in H2 2017, in addition to previously reported adverse claims experience in group protection. Management actions taken to address the issues in group protection resulted in the business returning to profitability in H2 2017.

General Insurance operating profit decreased 29% to £37m (2016: £52m), primarily due to higher than expected non-weather related household claims in Q1 2017, in line with wider market experience. The division's financial performance has been improved through actions taken across pricing, underwriting and claims management. As a result we have seen claims experience returning to the required levels.

On 6 December 2017 we announced the sale of our **Mature Savings** business to Swiss Re for £650m. The sale is expected to generate a one-off IFRS gain, on completion of the Part VII transfer, planned for 2019, of over £400m. The business contributed £103m (2016: £105m) operating profit in the year.

Profit before tax attributable to equity holders increased 32% to £2,090m (2016: £1,582m).

Profit before tax increased in line with operating profit. In addition, positive investment and other variances contributed £35m (2016: £20m), demonstrating diversification benefits across the Group. This included £91m (2016: £162m) primarily from the traded assets portfolio in LGC through outperformance of long term economic assumptions, as well as profit on disposals realised in the direct investments portfolio. Additionally, consistent with prior years, there was an accounting gain driven by the Group's defined benefit pension scheme reflecting accounting valuation differences arising on annuity assets held by the scheme. These gains were partially offset by the reduction in UK government bond yields in Q4 2017 which impacted the discount rate used to calculate the reserves for UK protection.

Profit after tax increased 50% to £1,902m (2016: £1,265m).

Following the reduction in the US corporate income tax rate from 35% to 21%, the Group benefitted from a one-time £246m reduction in tax charge in 2017. This was driven by the revaluation of net deferred tax liabilities in the US, largely relating to our US protection business.

Net release from continuing operations[1] increased 9% to £1,352m (2016: £1,242m), comprising £1,191m (2016: £1,082m) release from operations and £161m (2016: £160m) new business surplus. LGR new business surplus increased 13% to £180m (2016: £159m) benefitting from securing attractive spreads on direct investments, including lifetime mortgages, whilst maintaining discipline in meeting our return on capital hurdle rates. The mortality releases in 2017 resulted in an additional £250m subsidiary dividend being remitted to the Group, contributing to a total release of £1,704m (2016: £1,411m).

In 2017, total dividends remitted from subsidiaries to Group in respect of the year's results was £1.6bn (2016: £1.1bn).

1. Excludes businesses disposed of comprising Mature Savings, Legal & General Netherlands, Suffolk Life, Cofunds and IPS.
2. Excludes Legal & General Netherlands, disposal completed on 6 April 2017.

BALANCE SHEET

The Group's Solvency II coverage ratio[1] increased to 189% at the end of 2017 (2016: 171%), with net surplus generation contributing 15%. As at 5 March 2018, we estimate the ratio was 196%.

On a proforma calculation basis[1], our Solvency II coverage ratio increased from 165% at the end of 2016 to 181% at year-end 2017. The surplus is the same on both bases at £6.9bn (2016: £5.7bn). The Group remains focused on delivering appropriate returns on capital. In 2017, our Solvency II new business strain was just £0.1bn.

The 2017 Solvency II coverage ratio incorporates a formal recalculation of the Group's Transitional Measure for Technical Provisions (TMTP), in line with UK regulatory guidance. At the end of 2017 the TMTP was £6.2bn which offsets the Group's Risk Margin of £5.9bn. We will continue to present management's estimate of the impact of recalculating the TMTP in future reporting periods as we believe this provides the most up to date and meaningful view of our Solvency II position. In line with guidance, the next formal recalculation will take place no later than 1st January 2020.

1. Solvency II coverage ratio on a shareholder basis excludes the SCR of the With-profits fund and the final salary pension schemes from both the Own Funds and SCR. The proforma calculation basis includes these items.

STRATEGY AND OUTLOOK

GROUP STRATEGY

The Group's strategy is aligned to our six established long term growth drivers: ageing demographics; globalisation of asset markets; creating new real productive assets; reform of the welfare state; technological innovation; and providing "today's capital". We focus on attractive high growth markets where we can leverage our expertise. Our focus, and the clear synergies between our core divisions, are expected to deliver further profit growth in the future. Our economic and commercial activities are closely aligned with our strategic purpose of building a better society.

Following the announcement of our sale of Mature Savings in December 2017, our business model is focused on three areas:

Investing & Annuities – Legal & General Retirement (LGR), and Legal & General Capital (LGC)

Investment Management – Legal & General Investment Management (LGIM)

Insurance – Legal & General Insurance (LGI), and General Insurance (GI)

Investing & Annuities

The first leg of our strategy in this area is the growth of long-dated liabilities via delivering for our customers in our pension risk transfer (PRT) business through LGR Institutional (LGRI), and our leading individual annuity business through LGR Retail (LGRR). As defined benefit (DB) pension funds reach maturity there is an increasing demand for risk transfer to insurers. Our network, skillset and reputation allows L&G to maintain a significant new business pipeline in this area, both direct and also via insurance back books. Additionally, in the UK we see annuities as a valuable tool for delivery of financial security to UK retirees, with individual annuity market volumes of £4.4bn in 2017, and LGRR volumes up 78%. LGRR continues to work closely with LGIM to seek to deliver a range of retirement solutions to our customers. These include lifetime and fixed-term annuities, and flexible lifetime mortgages, to add to LGIM's investment products.

The second leg of our business strategy is gathering the assets required to meet our annuity customer obligations, and deliver financial returns for our shareholders. L&G invests in sovereign and credit assets, and direct debt-like investments, benefitting from the long duration and illiquid nature of our liabilities. LGIM's Real Assets business is skilled at sourcing these opportunities, in real estate, infrastructure and private credit areas, and currently manages over £10bn of direct investments for LGR's funds. Additionally, LGRR's lifetime mortgages business delivers an attractive long-dated return for our annuity funds.

The final leg is LGC, which uses shareholder capital to achieve two clear goals. The first is to deliver attractive financial returns for our shareholders through leveraging L&G's existing businesses, our network of relationships, our brand, and our expertise. The second is to use these more equity-like investments to deliver or unlock attractive debt-like investments for our annuity business, and to grow third party opportunities for LGIM. LGC has developed clear skills in four main areas of investing:

- Urban regeneration, where we work with local councils, partners and stakeholders to deliver significant real estate and infrastructure developments, e.g. Cardiff city centre;
- Clean Energy, where in addition to working with our partner NTR, we are seeking to invest in energy technologies of the future;
- Housing, where indirectly through our minority holding in CALA Homes, and directly, we are addressing the significant opportunity for housebuilders across all forms of tenure, including Build-to-Sell, Build-to-Rent and specialist housing for the elderly. We are also at the forefront of the development of UK residential property into an institutional asset class via the Build-to-Rent fund we launched in 2016;

- SME Finance, where primarily, we invest through our minority owned partner Pemberton to provide corporate lending for European mid-market businesses.

Investment Management

LGIM has a strong history of providing customer focused investment solutions for UK pension funds, especially in Active Fixed Income, Liability Driven Investments (LDI) and Index. In recent years, LGIM has diversified substantially within this client segment via expansion into Global High Yield and Multi-Asset mandates, and broadening its Real Assets capability. Additionally, LGIM has established a leading environmental, social and governance (ESG) practice, and has evolved its Index range to include Factor Based Investing (FBI) products.

In recent years, LGIM has followed a strategy of expanding globally and into different UK client segments. The global expansion continues to be highly successful. LGIM America, based in Chicago, has grown its asset base to c.£140bn since its founding 11 years ago. Elsewhere, LGIM continues to secure mandates and now has client assets of over £88bn from Europe, the Middle East and Asia. In 2017, LGIM enhanced its European distribution strategy through the announcement of the acquisition of Canvas, the exchange-traded fund (ETF) platform. The acquisition provides LGIM's clients with access to an important segment, as the increasing use of passive vehicles and the drive to digitalisation will lead to growing demand for ETF products.

The UK savings gap remains a consumer challenge and LGIM has focused significant efforts on improving its offering in Defined Contribution (DC) and Workplace Savings, with 2.7million members and assets of £68.2bn, making it the largest manager of UK DC assets. In addition, the Retail business has grown strongly benefitting from its competitive range of index-based, multi-asset and property funds, and expects to make further progress on expanding its Personal Investing offering.

Insurance

Our insurance strategy is deeply rooted in providing customers with competitively priced and efficiently delivered protection products for life events. In both the UK and the US, LGI has adopted a strategy of using technology to optimise its operations. This includes increased automation in our customer administration and medical underwriting processes, and using robotics. Our GI business has implemented 'SmartClaims' which uses data and technology to automate customer processes and improve customer outcomes whilst reducing fraud. The next core element of the Insurance strategy is to diversify and digitise its distribution channels. Both businesses have had significant success with partners and affinities on the basis of their integrated digital journey for customers, and excellence in customer service and outcomes. GI's 'SmartQuote' tool, which seeks to underwrite household policies on the basis of only five questions, has improved direct take up by more than 50%, and is set to further expand in 2018 through our partnerships with companies who value the shorter underwriting process.

Insurance is where much of our Fintech innovation takes place with a dedicated team building on existing digital capability, for example The Idol, which powers a number of comparison websites. In 2017, the Fintech business acquired a stake in SalaryFinance which seeks to provide attractively priced lending via the workplace and payroll systems of partner clients. This has the potential to be integrated with other retail offerings in the future.

OUTLOOK

We are confident Legal & General will see continuing momentum in 2018, driven by the excellent execution of our strategy across our three business areas. The Group's stated financial ambition is to achieve a similar performance out to 2020 as that achieved in 2011-2015; where EPS grew by 10% per annum. We made a good start in 2016 and this has continued in 2017. Excluding the impact of mortality reserve releases and a one-off US tax benefit, EPS increased 9% during the year, and operating profit from our continuing operations was up 12%. Legal & General is well placed to grow further in 2018, with over £3.4bn of cash. In addition to covering working capital and collateral for derivatives, this will be utilised for organic growth opportunities, bolt-on M&A, sourcing direct investments, and investing in our existing infrastructure.

Although no business model can be fully immunised to market volatility, our operating model is resilient and underpinned by thoughtful and effective risk management practices. The structural drivers, on which the Group's strategy is based, are largely unaffected by ongoing political and economic uncertainty. The Group's balance sheet remains strong with £6.9bn in surplus regulatory capital and has significant buffers to absorb a market downturn.

Investing and Annuities

In **LGR**, demand for pension de-risking strategies in our institutional business, LGRI, remains strong. We are currently quoting on c.£17bn of buy-in and buy-out deals in the UK. Additionally, the US, which achieved a 59% increase in PRT sales in 2017, is expected to continue its positive momentum in 2018. We will remain disciplined in the deployment of our capital, and will only select PRT and longevity opportunities that meet our return on capital hurdle rates. In LGR's Retail business, demographic changes will see our target market continue to grow, both in terms of the numbers of retirees and the levels of wealth they hold. We expect individual annuities to build on 2017 driven by our growing strengths in pricing, underwriting, marketing and distribution. Our leading lifetime mortgage business, which made over £1bn advances in 2017, currently has a 33% market share. Our focus is to continue growing the market by widening the range of products offered and routes to market utilised. We anticipate total lifetime mortgage market volumes of over £6bn by 2020, up from £3bn in 2017.

LGC is planning to continue the transition of the traded portfolio into longer-term real assets through growth in the direct investment portfolio, seeking to create long-term value with strong risk-adjusted returns and reduced short-term volatility. In our Housing portfolio, we will continue the expansion of our build-to-sell and build-to-rent offerings. We have ambitious plans to develop businesses in the Later Living and Affordable Housing sectors, and we intend to grow the Urban Regeneration portfolio through further investment into existing projects, and the regeneration of cities where we do not yet have a presence. We also plan to continue to expand our SME Finance portfolio through new equity and debt investment. In addition, as the portfolio continues to mature, we forecast further capital recycling in the period through disposals. LGC's £3.8bn traded asset portfolio significantly outperformed our long term assumptions in 2017, however, we do not anticipate a similar outperformance in 2018.

Investment Management

In **LGIM**, we have positioned the business to build on our market-leading position in UK defined benefit (DB) pension solutions, and are focused on achieving strong growth in the international, DC, and retail markets. Our international business achieved record net inflows in 2017, accounting for over 80% of total net flows with AUM now at £228bn, and we expect this momentum to continue in 2018. We are now the largest manager of DC assets in the UK and our retail business was third in net retail sales for the second consecutive year (Source: Pridham report). The direct-to-consumer market is of strategic importance to LGIM and we will be expanding our Personal Investing business later this year. We will continue to invest in areas of the business that are experiencing strong growth, with operational leverage in our core business areas allowing us to maintain a relatively stable cost-income ratio of around 50%.

Insurance

In our life business, **LGI**, we expect continued premium growth and to maintain good earnings in the US. During 2017, in collaboration with colleagues from the UK, the US launched a direct to consumer sales channel, and work is ongoing to digitally transform the business. In the UK, the turnaround of our group protection business is on track, having returned to profitability in H2 2017 following management actions. Our market leading retail protection business has a 24% market share and is expected to continue growing premiums and generating good profits in 2018, supported by distribution and product enhancements.

In **General Insurance**, we continue to attract significant interest from potential distribution partners, and are actively discussing a number of new opportunities including the very latest in Insuretech. Several of our new distribution agreements are due to commence in H1 2018. Our pet insurance sales are increasing, supported by our recent acquisition of pet insurance provider 'Buddies'. Additionally, we anticipate the actions we have taken to address adverse non-weather related household claims experience in 2017 will drive an improved 2018 performance, more in line with previous years.

FULL YEAR DIVIDEND UP 7%

Legal & General has a progressive dividend policy reflecting the Group's expected medium term underlying business growth, including net release from operations and operating earnings. There is no change to our dividend policy.

In line with our policy, the Board has maintained its view of the medium-term trajectory of dividend growth, taking into account sustainability across a wide range of economic scenarios and the Group's anticipated financial performance. Accordingly, the Board has recommended a final dividend of 11.05p (2016: 10.35p) giving a full year dividend of 15.35p (2016: 14.35p), 7% higher than 2016.

LEGAL & GENERAL RETIREMENT

FINANCIAL HIGHLIGHTS £m	2017	2016
Release from operations	**508**	432
New business surplus	**180**	159
Net release from operations	**688**	**591**
Experience variances, other assumption changes, tax and non-cash movements	**285**	178
Longevity assumption changes (net of tax)	**274**	40
Operating profit	**1,247**	**809**
- LGR Institutional	***906***	*651*
- LGR Retail	***341***	*158*
Investment and other variances	**4**	37
Profit before tax	**1,251**	**846**
Back book acquisitions	**-**	2,945
UK PRT	**3,405**	3,338
International PRT	**543**	347
Individual annuity single premiums	**671**	378
Lifetime mortgage advances	**1,004**	620
Longevity insurance[1]	**800**	900
Total LGR new business	**6,423**	**8,528**
Total annuity assets (£bn)	**58.2**	**54.4**

1. Represents the notional size of reinsured longevity insurance transactions and is based on the present value of the fixed leg cashflows discounted at the LIBOR curve.

OPERATING PROFIT UP 54% TO £1,247M AND UP 13% EXCLUDING MORTALITY RELEASE OF £332M

Operating profit increased to £1,247m (2016: £809m) driven by strong performance in the front and back books of LGR's Institutional and Retail divisions. Additionally, in H2 2017 we completed our review of longevity trend assumptions and have now adopted adjusted CMI 2015 mortality tables for LGR's annuity book. This resulted in a release of £206m of prudence within our reserves and is in addition to the £126m reserve release in H1 2017 relating to the adjustment of our base mortality assumptions. Excluding these prudent reserve releases of £332m, LGR's operating profit continued to show good growth at 13%.

As normal, we will continue to review the appropriateness of our longevity improvement assumptions. There is increasing evidence that the higher than expected level of recent mortality is in part due to medium or long-term influences. We will apply caution in our assessment of any reduction in longevity improvements, with any release being recognised over several years as greater certainty emerges.

Release from operations increased 18% to £508m (2016: £432m), reflecting the expected release of prudential margins from our growing £58.2bn annuity fund.

Net release from operations increased 16% to £688m (2016: £591m) with new business surplus of £180m (2016: £159m). New business surplus benefitted from strong volumes and securing attractive spreads on direct investments including lifetime mortgages.

LGR achieved Solvency II new business strain of less than 4% on £4,619m of new annuity business in 2017, within our target low to mid single digit range. UK annuity sales delivered an 8.5% new business margin.

LGR's gross longevity exposure is £64.3bn across annuity and longevity insurance business. We have reinsured £17.8bn of longevity risk with 12 reinsurance counterparties, leaving a net exposure of £46.5bn.

We view LGR as having two objectives: 'Institutional' which enables global pension risk transfer (PRT) for corporates, and 'Retail' which provides individual retirement solutions. The need for products and services to manage the consequences of ageing populations is increasing, and our strategy is to be at the forefront of this for our institutional and retail customers.

LGR INSTITUTIONAL

Global Pension Risk Transfer

In 2017, LGR Institutional completed £3,948m (2016: £3,685m) of pension scheme buy-ins and buy-outs and a longevity insurance transaction of £800m (2016: £900m).

2017 was a good year for UK pension de-risking with market volumes exceeding £10bn for the fourth year in a row. LGR closed 31 buy-ins and buy-outs in the UK in 2017, totalling £3.4bn (2016: £3.3bn), representing a market share of 28% (2016: 33%). The largest overall market deal in 2017 was the £1.2bn buy-in of the Pearson Pension Plan which is one of our long standing clients. LGR's share of the transaction was £585m and further demonstrates the strength of our de-risking proposition. We operate a capital efficient model, reinsuring approximately 85% of longevity risk on new UK PRT business to our panel of reinsurers.

The UK private sector DB market is estimated to have £2.3 trillion of liabilities, with only c.7% transacted to date. As interest rates increase, DB pension deficits will reduce, making it more affordable for corporates to achieve a buy-in or buy-out. We expect further growth in this market and are currently quoting on c.£17bn of UK buy-in and buy-out transactions.

We are unique in offering and participating in all possible DB pension de-risking solutions. For example, our investment management division, LGIM, is the UK market leader in LDI which provides UK corporates with interest rate and inflation risk hedging strategies for their pension assets. Of LGRI's £3.4bn UK PRT annuity sales in 2017, £1.4bn of the assets transferred were from existing LGIM clients.

In the US, our PRT team based in Stamford, Connecticut, completed 15 bulk deals in 2017 totalling $713m in premiums (2016: $448m). LGR America has now written more than $1.6bn in cumulative premium since completing its first deal in 2015. The US represents a significant market opportunity, with $3.7 trillion of DB liabilities, and only c.4% transacted to date.

LGR RETAIL

Individual Retirement Solutions

LGR's Retail business is playing an important role in our customers' retirement lives. Helping those approaching or already in retirement make the right choices to manage their financial needs through annuities and lifetime mortgages is vital.

Individual annuity sales were up 78% at £671m (2016: £378m), our highest volume since 2014, and LGR Retail is a top three UK annuity provider with a 14% market share. LGR Retail now manages c.£20bn in assets for its 500,000 individual annuity customers. Our high quality customer service and strength in the key areas of pricing, underwriting, marketing and distribution are important drivers for continued growth in 2018 and beyond.

Legal & General Home Finance had a strong year, making £1,004m of lifetime mortgage advances in 2017 (2016: £620m). This represents a 33% market share. Our portfolio has an average customer age of 70 and the weighted average loan-to-value is c.28%. In 2017, we secured a five year partnership agreement with The Co-operative Bank to offer lifetime mortgages to its interest-only customers approaching retirement. With an estimated £1.5 trillion of housing equity currently owned by the over 55s in the UK, the long-term growth characteristics of this market are strong, and we anticipate the market volume to reach £6bn by 2020, up from £3bn in 2017.

We have recently re-opened to new annuity business in Ireland through a partnership with New Ireland Assurance and the Bank of Ireland.

ONGOING CREDIT AND ASSET MANAGEMENT

Credit portfolio management

LGR's £58.2bn 'A minus' rated asset portfolio backing the IFRS annuity liabilities is well diversified. Within the £52.5bn bond portfolio, just over 2/3rds of the portfolio is A-rated or better, 31% BBB-rated and 1% sub-investment grade.

Our fixed income fund managers in LGIM manage the portfolio to avoid credit downgrades and defaults. At the end of 2017 our IFRS credit default reserve was £2.7bn.

Direct Investment

In 2017, LGR invested over £4bn in direct investments, including infrastructure, housing and lifetime mortgages. This portfolio is now £12.2bn (2016: £8.1bn) including £2.0bn in lifetime mortgages, and makes up c.21% of the assets within the annuity portfolio. We have a robust internal rating process and over half of the direct investment portfolio is rated A and above.

The Group's large balance sheet size and long term illiquid liabilities enable LGR to invest in assets of size and term that differentiate it from many other institutional investors. The ability to self-manufacture attractive assets to back annuities, working with LGIM, LGC, or through lifetime mortgages, is an important feature of LGR's business. Including externally sourced investments, the yield enhancement over fixed-rate traded assets typically ranges from 50 to 150+ bps depending on the asset type. Notable activity in 2017 included the funding of our first investments in UK offshore wind and US renewables.

LEGAL & GENERAL INVESTMENT MANAGEMENT

FINANCIAL HIGHLIGHTS £m	2017	2016
Management fee revenue[1]	**780**	700
Transactional revenue	**25**	30
Total revenue	**805**	**730**
Total costs[1]	**(405)**	(358)
Asset management operating profit	**400**	**372**
Workplace Savings operating result[2]	**-**	**(6)**
Operating profit	**400**	**366**
Investment and other variances	**(9)**	(32)
Profit before tax	**391**	**334**
Net release from operations	**321**	**286**
Cost:income ratio[3] (%)	**50**	**49**
£bn		
External net flows	**43.5**	29.2
Internal net flows	**(2.7)**	2.0
Disposal of LGN[4]	**(0.8)**	-
Total net flows	**40.0**	**31.2**
- Of which international	**33.0**	14.5
Cash management flows	**3.0**	**(0.7)**
Persistency (%)	**90**	**91**
Average assets under management	***949***	*830*
Assets under management	**983.3**	894.2
Of which:		
- International assets under management	**228.0**	177.4
Assets under administration – Workplace Savings	**27.7**	**20.8**

1. Management fee revenue and total costs exclude income and costs of £17m in relation to the provision of 3rd party market data (2016: £14m).
2. Represents Workplace Savings admin only and excludes fund management profits.
3. Excluding Workplace Savings.
4. Legal & General Netherlands disposal completed on 6 April 2017.

OPERATING PROFIT UP 9% TO £400M

LGIM has continued to expand and diversify its business across channels, regions and product lines. This contributed to a 10% growth in assets under management (AUM) to £983.3bn (2016: £894.2bn). External net flows were strong at £43.5bn (2016: £29.2bn), with a further £3.0bn of cash management flows (2016: £(0.7)bn). Revenues were up 10% to £805m (2016: £730m), while transactional revenues were lower at £25m (2016: £30m).

Operating profit increased by 9% to £400m (2016: £366m), reflecting fees from higher asset values and net flows, partially offset by LGIM's continued investment in its growth strategy and increased regulatory costs. We maintained a market leading cost income ratio of 50%.

Workplace Savings assets increased by 33% to £27.7bn (2016: £20.8bn), and we are focused on improving efficiency as the business grows. The business achieved a breakeven operating result in 2017 (2016: £(6)m), reflecting the administration business only. The profits on the fund management services provided are included in LGIM's operating profit.

INTERNATIONAL ASSETS UP 29% TO £228BN

LGIM's international businesses experienced record net inflows of £33.0bn (2016: £14.5bn), underpinned by net inflows of £12.6bn in the US (2016: £9.4bn), £12.6bn in Europe (2016: £2.6bn), £3.6bn in the Gulf (2016: £1.7bn), and £4.2bn in the Pacific Rim (2016: £0.8bn). We established a regional office in Tokyo together with trading and fund management capabilities in Hong Kong. We have also enhanced our European distribution strategy through the announcement of the acquisition of Canvas, the exchange-traded fund (ETF) platform. Total international AUM increased by 29% to £228.0bn (2016: £177.4bn).

HALF A MILLION NEW WORKPLACE CUSTOMERS

The defined contribution (DC) business continued to grow rapidly with total net inflows of £3.0bn (2016: £2.0bn), driven by the bundled business which provides administration and investment services to DC schemes. Total UK DC AUM increased by 19% to £68.2bn (2016: £57.1bn). LGIM has experienced a 20% increase in customers on its Workplace pension platform, with the number of members now at 2.7m (2016: 2.2m).

ACCELERATING GROWTH IN OUR RETAIL BUSINESS

The retail business experienced record net inflows of £3.0bn (2016: £1.4bn). Retail AUM increased to £29.7bn (2016: £24.1bn) as we benefit from an expanded product range and broader distribution strategy. We experienced strong net flows from our partnerships with intermediaries and wealth managers, particularly into multi-asset, index and property products.

BREADTH OF INVESTMENT MANAGEMENT SOLUTIONS

Asset movements £bn	Index funds	Global fixed income	Solu-tions	Real assets	Active equities	**Total AUM**
At 1 January 2017	**319.8**	**134.8**	**411.9**	**19.6**	**8.1**	**894.2**
External inflows	51.1	15.1	33.2	1.5	0.1	101.0
External outflows	(61.4)	(6.4)	(15.7)	(1.2)	(0.1)	(84.8)
Overlay net flows	-	-	27.3	-	-	27.3
External net flows	**(10.3)**	**8.7**	**44.8**	**0.3**	**-**	**43.5**
Internal net flows	(0.4)	(2.0)	(1.1)	1.5	(0.7)	(2.7)
Disposal of LGN[1]	(0.3)	(0.5)	-	-	-	(0.8)
Total net flows	**(11.0)**	**6.2**	**43.7**	**1.8**	**(0.7)**	**40.0**
Cash management movements	-	3.0	-	-	-	3.0
Market and other movements	32.1	4.8	7.1	2.4	(0.3)	46.1
At 31 December 2017	**340.9**	**148.8**	**462.7**	**23.8**	**7.1**	**983.3**

1. Legal & General Netherlands disposal completed on 6 April 2017.

Total AUM increased 10% to £983.3bn (2016: £894.2bn), with external net inflows of £43.5bn (2016: £29.2bn) representing c.5% of opening AUM. Flows were once again positive across all channels and regions, and most product lines. We delivered consistent strong performance on our active funds, with 85%, 82% and 71% of AUM above benchmark or their peer group median on a one, three and five year basis.

Solutions external net inflows were £44.8bn (2016: £34.7bn), driven by DB pension schemes implementing a broad range of liability driven investment (LDI) strategies and high demand for multi-asset strategies from DC schemes and retail customers. Multi-asset external net inflows were £7.2bn (2016: £5.7bn), and multi-asset AUM has grown to £24.7bn (2016: £15.8bn). Our LDI solutions and private credit areas have also experienced strong growth.

Index external net outflows were £10.3bn (2016: £9.8bn outflow), driven by UK DB clients implementing de-risking strategies. We expect to see continued index outflows as many of these clients transition into our LDI strategies. We also expect to see continued consolidation of local government pension scheme funds, with known outflows in Q1. Outflows from the UK index business were partially offset by net inflows from international and retail clients.

Net external inflows into Global Fixed Income of £8.7bn (2016: £4.3bn) were driven by continued strong performance across our range of funds. There has been robust demand for credit strategies from US and European institutional clients, while UK clients increased their fixed income allocations as they de-risked their portfolios.

The Real Assets business has continued to expand, with good growth in private credit. LGIM originated over £2.8bn of investments across corporate and infrastructure debt and real estate lending in 2017 and saw continued success with its Build to Rent business. Real Assets AUM has grown to £23.8bn (2016: £19.6bn).

LEGAL & GENERAL CAPITAL

FINANCIAL HIGHLIGHTS £m	2017	2016
Net release from operations	**224**	**214**
Operating profit from:		
Direct investment	**124**	121
Traded investment portfolio	**140**	122
Treasury assets	**8**	14
Total operating profit	**272**	**257**
Investment and other variances	**91**	162
Profit before tax attributable to equity holders	**363**	**419**

DIRECT INVESTMENT PORTFOLIO[1] £m		
Urban Regeneration	**469**	501
Clean Energy	**97**	90
Housing	**588**	392
SME Finance	**296**	154
	1,450	**1,137**

TRADED PORTFOLIO £m		
Equities	**2,069**	1,714
Fixed income	**216**	492
Multi-asset	**131**	150
Cash[2]	**1,395**	1,418
	3,811	**3,774**
LGC investment portfolio	**5,261**	**4,911**
Treasury assets at holding company	**2,040**	1,282
Total	**7,301**	**6,193**

1. Direct Investment portfolio includes an LGC asset valued at £128m which is classified as held for sale in line with IFRS 5 Non-current Assets Held for Sale and Discontinued operations.
2. Includes short term liquid holdings.

DIRECT INVESTMENT PORTFOLIO UP 28% TO £1.5BN

The Direct Investments portfolio increased by 28% to £1,450m (2016: £1,137m). The portfolio delivered a solid performance with operating profit of £124m (2016: £121m) and profit before tax of £102m (2016: £94m), representing a net portfolio return[3] of 8.1% (2016: 9.0%). This includes a number of assets which are in early stage development. The increase in profit before tax was driven by the maturing profile of the portfolio which has delivered valuation increases and positive variances from asset disposals.

RECYCLING CAPITAL AND DELIVERING NEW INVESTMENT

In 2017, LGC generated £369m as its share of gross proceeds from sale transactions with a gross value of £1.2bn. This was achieved through a combination of portfolio assets disposals and sales of funds, and was ahead of our full year target of £250m. All full asset disposals have been achieved at or above our target IRR's, demonstrating our ability to generate liquidity and profits for our shareholders. We have recycled the proceeds into new opportunities and invested or committed £668m during the year in investments across all the target sectors.

Urban Regeneration assets of £469m (2016: £501m)

The Urban Regeneration business is maturing, with profits being realised on disposals and valuations increasing as projects are developed and letting of units is achieved. A number of significant milestones were reached in 2017, including the completion of the transformational £240m redevelopment of Bracknell Town Centre, the successful sale of 1 Central Square, Cardiff in July 2017, and a forward sale of 2 Central Square which completed in October 2017. Our Cardiff regeneration scheme has been successful in attracting high quality tenants including BBC Wales and HMRC.

3. Net portfolio return calculated as direct investment profit before tax divided by average portfolio assets in the year.

In our Newcastle Science Central development, planning permission has been secured for two office buildings, with work due to start in March 2018.

Clean Energy assets of £97m (2016: £90m)

In Clean Energy, LGC's sector partner, NTR[1], has now completed the construction of 8 of 11 sites in its €246m UK onshore wind fund, which is in the final stages of its investment period. NTR is in advanced stages of the development of its second fund.

Housing assets increased to £588m (2016: £392m)

LGC has continued to build out its housing sector investment, developing operating businesses to deliver a multi-tenure housing offering.

In August, LGC completed its first investment in the later living sector with the establishment of Inspired Villages Group (IVG) and the simultaneous acquisition of two part-constructed schemes. LGC also completed the acquisition of Renaissance Villages, a business with four later living schemes, which has accelerated LGC's later living business plan by several years. IVG is now the fourth largest later living operator in the UK and has plans to acquire and develop out at further sites.

Our Build-to-Rent joint venture has invested in new sites in Leeds, Bristol, Birmingham and Brighton, and now has a pipeline of nearly 2,000 homes.

Legal & General Homes is building over 2,500 new homes on three UK sites. All the sites will provide a full range of housing options, including affordable housing.

CALA Homes[2] delivered a record financial performance. In the twelve months to the end of December, CALA delivered revenue of £776m and is ahead of the same period last year.

SME Finance assets increased to £296m (2016: £154m)

Pemberton[3] continues to build out its European asset management platform, successfully closing two new funds during 2017: a second Euro Fund to which LGC committed c.£80m in 2017 and a Strategic Opportunities Fund. In 2018, Pemberton will hold further closes on these two funds, and will look to take advantage of attractive investment opportunities within the UK and European direct lending market.

During 2017 LGC committed c.£36m to vehicles investing in early stage start-ups in the UK and Europe taking total commitments to c.£80m.

TRADED PORTFOLIO

LGC's traded investment portfolio, including treasury assets, delivered operating profit of £148m (2016: £136m) and profit before tax £261m (2016: £325m).

The £3.8bn (2016: £3.8bn) traded book holds a diversified set of exposures across equities, fixed income, multi-asset funds and cash. Overall, the book performed above assumed returns over the year, benefiting from positive equity market performance.

LGC holds cash for a variety of reasons including working capital, collateral to cover derivatives trades and cash awaiting longer term investment. In addition, Group Treasury holds cash and near cash investments to cover a range of uses including working capital, imminent known cash flows and collateral to cover derivatives.

1. LGC owned a 25.0% share in NTR fund management business and 47.0% in the NTR fund as at 31 December 2017.
2. LGC owned a 47.9% share in CALA Homes as at 31 December 2017.
3. LGC owned a 40.0% share in Pemberton as at 31 December 2017.

LEGAL & GENERAL INSURANCE

FINANCIAL HIGHLIGHTS £m	2017	2016
Release from operations	**273**	248
New business surplus	**2**	23
Net release from continuing operations[1]	**275**	**271**
Operating profit from continuing operations[1]	**303**	**303**
- UK	**209**	218
- US	**94**	85
Investment and other variances[2]	**(60)**	(130)
Profit before tax attributable to equity holders	**243**	**173**
LGI new business annual premiums[3]	**300**	290
Retail Protection gross premiums	**1,232**	1,179
Group Protection gross premiums	**326**	333
US Protection gross premiums	**973**	897
Total gross premiums[3]	**2,531**	**2,409**

1. Excludes Legal & General Netherlands (LGN) which was sold on 6 April 2017. In 2017, LGN contributed £nil (2016: £70m) to net release from operations, and £4m (2016: £16m) to operating profit.
2. Prior year investment variance of £(130)m driven by a reduction in UK government bond yields of c.85bps which impacted the discount rate used to calculate the reserves for our UK protection liabilities.
3. Excludes £1m (2016: £4m) new business annual premiums and £14m (2016: £52m) gross premiums in LGN.

5% INCREASE IN GROSS PREMIUMS TO £2.5BN

In 2017, LGI achieved further growth in gross premium income, up 5% to £2,531m (2016: £2,409m) as a result of strong new business performance in LGI's US business as well as exchange rates, and record UK retail sales that continued to benefit from highly efficient automated underwriting and a broad distribution reach.

Retail Protection gross premium income increased 4% to £1,232m (2016: £1,179m) with new business annual premiums of £172m (2016: £170m). We remain a leading provider of Retail Protection in the UK, and in 2017 delivered straight through processing for more than 80% of our customers. Our direct distribution channel continues to perform strongly and delivered Retail Protection new business APE of £32m (2016: £31m) accounting for c.19% of new business APE. Group Protection gross premium income was £326m (2016: £333m) with new business of £49m (2016: £58m), reflecting the non-renewal of specific schemes which have experienced significantly higher claims than expected.

LGI America (LGIA) gross premium income increased 3% (8% on a sterling basis) to $1,254m (2016: $1,220m) driven by new annual premiums increasing 21% to $102m (2016: $84m). LGIA is the second largest provider of US term life assurance through the brokerage channel and has 1.3m policies in force (2016: 1.2m).

Legal & General Mortgage Club facilitated £65bn of mortgages in 2017 (2016: £53bn) through strong partnerships with top lenders and over 9,000 mortgage brokers. As the largest participant in the intermediated mortgage market in the UK, we are involved in one in five of all UK mortgage transactions. Legal & General Surveying Services delivered a strong performance, completing over 522,000 surveys.

SUSTAINED DIVISIONAL OPERATING PROFIT AND STRONG US GROWTH

Net release from continuing operations in LGI increased by £4m to £275m (2016: £271m), with lower new business surplus of £2m (2016: £23m) reflecting an increasingly competitive UK protection marketplace. LGIA net release from operations increased by 10% (27% on a sterling basis) to $100m (2016: $91m). This represents the annual dividend paid by LGIA to the Group in 2017. LGIA paid its 2018 dividend in March of this year, up 5% to $105m.

In 2017, LGI UK delivered robust profits of £209m (2016: £218m), down 4% on the prior year reflecting the impact of lower than expected lapses on older business, which resulted in a negative experience variance in retail protection. This was in addition to the previously reported adverse claims experience seen primarily in a small number of schemes in group protection. In 2017, we undertook a range of actions to address this issue, including pricing action at scheme renewals. The impact of these management actions resulted in improved experience, and the business returned to profitability in H2 2017. As part of the ongoing review of our actuarial assumptions we reflected recent experience and also made some modelling refinements in our retail protection mortality reserving.

LGIA operating profit increased 5% (up 11% on a sterling basis) to $121m (2016: $115m), due to business growth and favourable mortality experience. LGIA delivered a strong Solvency II new business margin of 11.7%.

UK protection sales delivered an 8.6% Solvency II new business margin (2016: 10.4%), reflecting the impact of competitive pressures in the retail protection market. The protection business continues to generate Solvency II surplus immediately when written and so represents excellent economic value for our shareholders.

DIGITAL & DIVERSIFIED GROWTH STRATEGY

LGI's purpose is to enable people to protect their lives and lifestyles. By leveraging strengths across the division's market leading protection businesses in the UK and US, Mortgage Club and Fintech operations, LGI is well placed to continue growing its capabilities and delivery to its customers.

Our UK retail protection business benefits from high levels of automation and self-service capabilities which we have continued to enhance during 2017. We are also increasingly using predictive analytics and improved underwriting approaches to reduce the time it takes for advisers and their customers to apply for policies.

The digital transformation of our US Protection business is on track, using the wealth of experience and capabilities in our UK business. In 2018, we will be introducing an application which will allow us to provide instant underwriting decisions to more of our customers. This will improve the experience of our intermediated customers and also support the direct-to-customer business we established in 2017. By collecting customer information digitally, we will be able to make underwriting decisions more quickly and with less need for manual underwriting and medical examinations.

We see increasing opportunities for technological innovation to help customers engage with financial services. To pursue these growth opportunities we have recently established a Fintech business area within LGI that will include our existing business, Investment Discounts Online (IDOL), and other start-ups, that we fund and collaborate with. Our investment in SalaryFinance, which seeks to provide attractively priced lending via the workplace and payroll systems of partner clients, is a recent example of our commitment to Fintech.

GENERAL INSURANCE

FINANCIAL HIGHLIGHTS £m	2017	2016
Net release from operations	**30**	**42**
Experience variances, assumption changes, tax and non-cash movements	**7**	10
Operating profit	**37**	**52**
Investment and other variances	**6**	16
Profit before tax	**43**	**68**
General Insurance gross premiums	**369**	326
Combined operating ratio (%)	**93**	89

13% GROWTH IN GROSS PREMIUMS TO £369M

Gross premiums increased 13% to £369m (2016: £326m) despite the pressures of a competitive market and maintaining our pricing discipline. Our direct business delivered gross premiums of £139m in 2017, representing 15% growth on 2016 and now accounts for 38% of gross premiums (2016: £121m, 37% of gross premiums). Legal & General is ranked second for household new business via price comparison websites, which in total accounts for over half of UK direct household gross premiums.

The General Insurance business has won seven distribution agreements in the last two years with major UK financial institutions, several of which will commence in H1 2018. A key factor in securing distribution agreements has been the launch of our market leading, digital SmartQuote proposition.

In October 2017 we agreed to acquire Buddies Enterprises Limited, a pet insurance provider, which provides significant opportunities for growth in the pet market, thereby helping to diversify and expand our product range.

We continue to attract significant interest from potential distribution partners, and are actively discussing a number of new opportunities including the very latest in Insuretech.

IMPROVED CLAIMS EXPERIENCE IN H2 2017

Operating profit decreased to £37m (2016: £52m) with a combined operating ratio of 93% (2016: 89%). This was primarily due to increased costs from non-weather related household claims in Q1 2017, predominantly escape of water, in line with wider market experience. Actions taken across pricing, underwriting and claims management have resulted in a 3% improvement in the operating ratio in H2 compared to H1, which we expect to return to previous levels in the coming years. In addition, ongoing work on streamlining internal processes and customer journeys will reduce time and cost associated with managing our business.

DIGITAL INNOVATION

In August 2017 we launched our market leading SmartQuote product which enables customers to receive a quote in about 90 seconds by answering five questions. This has generated significant interest amongst potential partners leading to securing one deal with several others at advanced stages of discussion. Since the launch of SmartQuote our direct take up has increased by more than 50%.

Our SmartClaims innovation uses advanced data and technology capability to streamline the claims journey enabling claims to be settled more quickly and at lower cost, thereby improving customer outcomes and internal processes, whilst also reducing fraudulent claims.

SAVINGS

FINANCIAL HIGHLIGHTS £m	2017	2016
Release from operations	**107**	104
New business strain	**(5)**	(5)
Net release from operations	**102**	**99**
Experience variances, assumption changes, tax and non-cash movements	**1**	-
Operating profit	**103**	**99**
- Mature Savings	**103**	105
- Digital Savings	**n/a**	(6)
Investment and other variances	**(4)**	9
Net loss on disposals	**-**	(60)
Profit before tax	**99**	**48**

MATURE SAVINGS SOLD TO SWISS RE FOR £650M

The Group announced the sale of the Mature Savings business to Swiss Re on 6 December 2017 for £650m. The proceeds were received by the Group at the start of January 2018 and the sale is expected to generate a one-off IFRS gain on completion of the Part VII transfer, anticipated in 2019, of over £400m. Swiss Re assumed the economic exposure of the business from 1 January 2018 via a risk transfer agreement. The transaction is expected to increase the Group's Solvency II coverage ratio by c.2%.

In 2017, net release from operations was £3m higher at £102m (2016: £99m). The Mature Savings business contributed £103m (2016: £105m) operating profit in the year, driven by increased automation allowing us to reduce unit costs.

DISPOSALS

In addition to the sale of the Mature Savings business, the Group completed the following disposals in 2017.

On 6 April 2017, the Group completed the sale of Legal & General Nederland Levensverzekering Maatschappij N.V. to Chesnara plc for total consideration of €161m (£137m) resulting in a £17m profit on disposal.

On 1 January 2017, the Group completed the sale of Cofunds and IPS to Aegon for total consideration of £147.5m. The Cofunds business was acquired in stages between 2005 and 2013, for a total cash consideration of £153m.

SUBSIDIARY DIVIDENDS TO GROUP

£m	2017	2016
Subsidiary dividends remitted[1]:		
LGAS	**1,133**	740
LGIM	**251**	200
LGA	**80**	63
Other[2]	**119**	82
Total	**1,583**	**1,085**
Total excluding mortality release and LGN disposal proceeds[3,4]	**1,203**	**1,085**

1. Represents cash remitted from subsidiaries to Group in respect of the year's financial performance.
2. Other includes L&G Finance Plc, Retail Investment Holdings, L&G Home Financing, LGCIL and LGRe.
3. £250m dividend paid from Legal & General Assurance Society (LGAS) to Group, due to mortality reserve releases in 2017.
4. Legal & General Netherlands (LGN) was sold on 6 April 2017 for €161m.

The level of dividends remitted to the Group ensures coverage of external dividends (2017: £914m, 2016: £854m), Group related costs, and investment in our businesses, with excess liquidity being held within our regulated subsidiaries.

BORROWINGS

The Group's outstanding core borrowings total £3.5bn (2016: £3.1bn). There is also a further £0.5bn (2016: £0.4bn) of operational borrowings including £0.1bn (2016: £0.2bn) of non-recourse borrowings.

The Group accessed the US dollar market in March 2017 for the first time and issued $850m of Tier 2 subordinated debt with a coupon of 5.25%. The proceeds were utilised to refinance the Group's £600m Tier 1 notes with a coupon of 6.385% which were called in May 2017. This inaugural issue has given the Group access to an alternative source of debt financing away from the Group's traditional European institutional investor base. In April 2017 the Group accessed the US dollar market again when it issued $500m of Tier 2 subordinated debt in private placement format with a coupon of 5.55%, reflecting the longer duration compared to the March 2017 issue.

Group debt costs of £191m (2016: £172m) reflect an average cost of debt of 5.1% per annum (2016: 5.4% per annum) on average nominal value of debt balances of £3.8bn (2016: £3.2bn).

TAXATION

Equity holders' Effective Tax Rate (%)	2017	2016
Equity holders' total Effective Tax Rate	**9.0**	20.0
Annualised rate of UK corporation tax	**19.25**	20.00

In 2017, the Group's effective tax rate was significantly lower than the UK corporation tax rate. This is primarily due to the reduction in the US federal corporate income tax rate from 35% to 21% from 1 January 2018 included in the US Tax Reform measures enacted in December. Accordingly, this lower tax rate applies to the net US deferred tax liability balance arising at 31 December 2017 resulting in a one-off benefit to the annual tax charge of £246m. The Group's effective tax rate for the year excluding the impact of the US rate change was 20.8%.

SOLVENCY II

As at 31 December 2017, the Group had an estimated Solvency II surplus of £6.9bn over its Solvency Capital Requirement, corresponding to a Solvency II coverage ratio of 189% on a shareholder basis. As at 5 March 2018, we estimate the ratio was 196%.

Capital (£bn)	2017[1]	2016[1]
Own Funds	**14.6**	13.6
Solvency Capital Requirement (SCR)	**(7.7)**	(7.9)
Solvency II surplus	**6.9**	**5.7**
SCR coverage ratio (%)	**189**	**171**

1. Solvency II position on a shareholder basis and before the accrual of the relevant dividend.

Analysis of movement from 1 January to 31 December 2017 (£bn)	Solvency II surplus
Surplus arising from back-book (including release of SCR)	1.3
Release of Risk Margin[2]	0.4
Amortisation of TMTP[3]	(0.4)
Operational surplus generation	**1.3**
New business strain	(0.1)
Net surplus generation	**1.2**
Dividends paid[4]	(0.9)
Operating variances	0.4
Market movements	-
Subordinated debt	0.5
Total surplus movement (after dividends paid in the year)	**1.2**

2. Based on the risk margin in force at 31 December 2017 and does not include the release of any risk margin added by new business written in 2017.
3. TMTP amortisation based on a linear run down of the end-2016 TMTP of £5.9bn (net of tax, £7bn before tax) which was management's estimate of the TMTP on end-2017 market conditions.
4. Dividends paid are the amounts from the 2016 final and 2017 interim dividend declarations paid in 2017.

The increase in surplus reflects the surplus generated in 2017 net of £0.9bn of dividends paid and £0.2bn of interest payments on the Group's debt. The net surplus generation was £1.2bn, after allowing for amortisation of the opening Transitional Measures on Technical Provisions (TMTP). New business strain was £0.1bn.

Operating variances include the impact of experience variances, changes to valuation and capital calibration assumptions, and other management actions. These actions include changes in asset mix, matching adjustment optimisation, hedging strategies, M&A activities (sale of Mature Savings, Legal & General Netherlands and Cofunds), and updates to the longevity assumptions which contributed £0.3bn surplus in 2017.

The above incorporates changes to the Internal Model and Matching Adjustment during 2017, and the impacts of a recalculation of the TMTP as at end December 2017. In line with UK regulatory requirements, the PRA granted approval to recalculate the TMTP in December 2017, but will not review our detailed methodology until later in 2018. The recalculated TMTP of £6.2bn (2016: £7.0bn) is net of amortisation to 31 December 2017.

The liabilities include a Risk Margin of £5.9bn (2016: £6.4bn) which represents an allowance for the cost of capital for a purchasing insurer taking on the portfolio of liabilities and residual risks that are deemed to be not hedgeable under Solvency II.

When stated on a proforma basis, including the SCR attributable to our With-profits fund of £0.6bn and the final salary pension schemes of £0.2bn in both the Group's Own Funds and the SCR, the Group's coverage ratio was 181% (FY 2016: 165%).

RECONCILATION OF IFRS NET RELEASE FROM OPERATIONS TO SOLVENCY II NET SURPLUS GENERATION

The table below gives a reconciliation of the Group's IFRS Release from operations and Solvency II Operational surplus generation in 2017:

	£bn
IFRS Release from operations	**1.3**
Expected release of IFRS prudential margins	(0.5)
Release of IFRS specific reserves	(0.1)
Solvency II investment margin	0.2
Release of Solvency II Capital Requirement and Risk Margin less TMTP amortisation	0.4
Other Solvency II items and presentational differences	-
Solvency II Operational surplus generation	**1.3**

The table below gives a reconciliation of the Group's IFRS New business surplus to Solvency II New business strain in 2017:

	£bn
IFRS New business surplus	**0.2**
Removal of requirement to set up prudential margins above best estimate on new business	0.2
Set up of Solvency II Capital Requirement on new business	(0.3)
Set up of Risk Margin on new business	(0.2)
Solvency II New business strain	**(0.1)**

SENSITIVITY ANALYSIS

	Impact on net of tax Solvency II capital surplus 2017 £bn	**Impact on net of tax Solvency II coverage ratio 2017 %**
Credit spreads widen by 100bps assuming an escalating addition to ratings[1]	**0.2**	**8**
Credit spreads narrow by 100bps assuming an escalating addition to ratings[1]	**(0.3)**	**(9)**
Credit migration[2]	**(0.5)**	**(6)**
25% rise in equity markets	**0.5**	**5**
25% fall in equity markets	**(0.5)**	**(5)**
15% fall in property markets	**(0.4)**	**(4)**
15% rise in property markets	**0.3**	**4**
100bps increase in risk free rates	**0.8**	**20**
50bps decrease in risk free rates	**(0.5)**	**(10)**
Substantially reduced Risk Margin[3]	**0.1**	**1**

1. Applies to all assets within Legal & General's holdings where the capital treatment depends on a credit rating (e.g. corporate bonds and Sale & Leaseback rental strips), with no change in the firm's long term default expectations.
2. Credit migration stress covers the cost of an immediate big letter downgrade on 20% of all assets where the capital treatment depends on a credit rating (including corporate bonds and Sale & Leaseback rental strips).
3. This represents a reduction of two-thirds in Risk Margin and subsequent recalculation of TMTP.

The above sensitivity analysis does not reflect all management actions which could be taken to reduce the impacts. In practice, the Group actively manages its asset and liability positions to respond to market movements. These results all allow (on an approximate basis) for the recalculation of TMTP as at 31 December 2017, where the impact of the stress would cause it to change materially.

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

SOLVENCY II NEW BUSINESS CONTRIBUTION

Management estimates of the value of new business and the margin as at 31 December 2017 are shown below:

	PVNBP	Contribution from new business	Margin %
LGR[1] (£m)	**4,083**	**346**	**8.5**
UK Protection Total (£m)	**1,496**	**129**	**8.6**
- Retail protection	1,293	111	8.6
- Group protection	203	18	8.7
US Protection (£m)	**764**	**89**	**11.7**

1. UK annuity business.

The key economic assumptions as at 31 December 2017 are as follows:

Margin for risk	**3.0%**
Risk free rate	
- UK	**1.6%**
- US	**2.4%**
Risk discount rate (net of tax)	
- UK	**4.6%**
- US	**5.4%**
Long term rate of return on non-profit annuities in LGR	**3.0%**

All other economic and non-economic assumptions and methodologies that would have a material impact on the margin for these contracts are unchanged from those used for the European Embedded Value reporting at end 2015, other than the cost of currency hedging which has been updated to reflect current market conditions, and hedging activity in light of Solvency II.

PRINCIPAL RISKS AND UNCERTAINTIES

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.

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 we write. We remain, however, inherently exposed to certain extreme events, that could require us to adjust our reserves. For example, in our pension risk transfer and annuities business, while trend data suggests the rate of longevity improvement may be slowing, a dramatic advance in medical science beyond that anticipated may lead to an unexpected change in life expectancy, requiring adjustment to reserves. In our protection businesses, a widespread increase in mortality/ morbidity may also require us to re-evaluate reserves. We are also exposed to lapse risks if our US term policies are not continued in line with our renewal assumptions.	We undertake significant analysis of the variables associated with writing long-term insurance business to ensure that a suitable premium is charged for the risks we take on, and that reserves continue to remain appropriate for factors including mortality, lapse rates, valuation interest rates, expenses and credit defaults. In seeking a comprehensive understanding of longevity science we aim to anticipate long term trends in mortality. We also continue to evolve and develop our underwriting capabilities for our protection business. Our selective use of reinsurance also acts to reduce the impacts of significant variations in life expectancy and mortality.
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.	Whilst the global economic outlook remains positive, we continue to monitor a range of risk factors that could trigger a reappraisal of asset values or influence a change in broader central bank monetary policies. In particular, after a period of strong growth in equity markets, 2018 has seen a return to volatility as financial markets have responded to potential changes in interest rate policies. In the UK, a lengthy period of negotiation and an uncertain "Brexit" outcome has potential to create asset price volatility for specific sectors, as well as a slowing in the broader UK economy in which we operate. There also remain a range of geo-political events that could cause shocks to global financial markets, and in stressed conditions a market correction may be significantly exaggerated from continued illiquidity in bond markets.	Although we cannot fully eliminate the downside impacts from these and other risk factors on our earnings, profitability or surplus capital, as part of our strategic planning activity we seek to model our business plans across a range of economic scenarios to ensure they will be resilient. Our ORSA process plays an integral part in this process ensuring a clear link between capital sufficiency and the nature of risks to which we may be exposed, and confirming that exposures are within our risk appetite. As set out within the Strategic Report, we have sought to ensure focus upon those market segments that we expect to be resilient in projected conditions. We cannot, however, completely eliminate risk.
In dealing with issuers of debt and other types of counterparty the group is exposed to the risk of financial loss. Systemic corporate sector failures, or a major sovereign debt event, could in extreme scenarios trigger defaults impacting the value of our bond	Factors that could lead to a widespread default of the issuers of investment grade debt are currently considered to be more remote risks, however, we are closely monitoring a number of factors that may lead to a widening of credit spreads including the outlook for	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

portfolios. Under Solvency II, a widespread widening of credit spreads and downgrades can also result in a reduction in our Solvency II balance sheet surplus, despite already setting aside significant capital for credit risk. We are also exposed to default risks in dealing with banking, money market and reinsurance counterparties, as well as settlement, custody and other bespoke business services. A default by a counterparty could expose us to both financial loss and operational disruption of business processes. Default risk also arises where we undertake property lending, with exposure to loss if an accrued debt exceeds the value of security taken.	interest rates; and the potential economic impacts of an unfavourable “Brexit” outcome for specific industrial and service sectors. The outlook for aspects of the UK property market are also less certain, with recent housing data whilst mixed being indicative of slowing confidence, although prime commercial property remains in high demand. Whilst more extreme risk scenarios in the current environment, factors that could increase in the level of default risk if they were to occur include a material deterioration in global economic conditions; a renewed banking crisis; and default on debt linked to emerging markets.	appropriate trade out to improve credit quality. Within our property lending businesses, our loan criteria take account of both the default risk of the borrower and the potential for adverse movements in the value of secured property. We 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.
Changes in regulation or legislation may have a detrimental effect on our strategy. Legislation and government fiscal policy influence our product design, the period of retention of products and required reserves for future liabilities. Regulation defines the overall framework for the design, marketing, taxation and distribution of our products; and the prudential capital that we hold. Significant changes in legislation or regulation may increase our cost base, reduce our future revenues and impact profitability or require us to hold more capital. The prominence of the risk increases where change is implemented without prior engagement with the sector. The nature of long-term business can also result in some changes in regulation, and the re-interpretation of regulation over time, having a retrospective effect on in-force books of business, impacting future cash generation.	The financial services sector continues to see significant regulatory driven change, both from the EU and from within the UK. We are progressing our responses to EU driven financial services regulation including UCITS V, the IDD and PRIIPS, as well as actions to meet the requirements of the EU GDPR which comes into force in May 2018. As a predominantly UK and US focused business, the loss of EU passporting rights has limited direct impact, however, we are establishing businesses in Dublin to support our European investment clients. We are also monitoring potential implications on market infrastructure and contract continuity risks. Within the UK the FCA published its final report on the Asset Management Market Study in June 2017 and continues with its thematic review activities across the sector to ensure the fair treatment of customers. The tax landscape continues to be subject to change, most recently on US tax reform in 2017 and the potential impact on the tax regime from the changing UK political environment.	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’re building our digital businesses. Alongside 1.5m customers now using MyAccount to manage their investments on line; our SmartQuote app for household insurance; and the use of technology to transform our insurance product distribution reach in the US plans , we are investing in FinTech businesses to remain at the forefront of innovation in the markets we operate in.
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	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. As we develop our housing businesses we are also exposed to property construction and safety risks. We continue to invest in our system capabilities and business processes to	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. We recognise however, that residual risk will always remain and have designed our risk

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.	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.	governance framework to ensure that when adverse events occur we can deploy appropriate responses.

ENQUIRIES

Investors:

Laura Doyle	Head of Investor Relations	020 3124 2088
Sujee Rajah	Investor Relations Manager	020 3124 2047

Media:

John Godfrey	Group Corporate Affairs Director	020 3124 2090
Graeme Wilson	Tulchan Communications	020 7353 4200
Sheebani Chothani	Tulchan Communications	020 7353 4200

NOTES

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

A presentation to analysts and fund managers will take place at 9.30am UK time today at One Coleman Street, London, EC2R 5AA. There will be a live webcast of the presentation which can be accessed at https://www.legalandgeneralgroup.com/investors/full-year-results-2017/ A replay will be available on this website later today.

There will be a live, listen only, teleconference link to the presentation. Details below:

PARTICIPANT DIAL-IN NUMBERS

LOCATION YOU ARE DIALLING IN FROM	NUMBER YOU SHOULD DIAL
UNITED KINGDOM	020 3936 2999
UNITED STATES (TOLL FREE)	1 855 979 6654
ALL OTHER LOCATIONS	+44 20 3936 2999

Please enter access code 942922 to gain access to the conference.

2018 Financial Calendar	Date
Ex-dividend date (final dividend)	**26 April 2018**
Record date	**27 April 2018**
Annual general meeting	**17 May 2018**
Payment date of 2017 final dividend	**7 June 2018**
Half-year results 2018	**9 August 2018**

DEFINITIONS

Definitions are included in the Glossary on pages 93 to 99 of this release.

FORWARD LOOKING STATEMENTS

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

NOTES

NOTES

1.01 Operating profit

For the year ended 31 December 2017	Notes	2017 £m	2016 £m
From continuing operations			
Legal & General Retirement (LGR)	1.03	**1,247**	809
- LGR Institutional (LGRI)		906	651
- Legal & General Retail Retirement (LGRR)		341	158
Legal & General Investment Management (LGIM)	1.04	**400**	366
Legal & General Capital (LGC)	1.06	**272**	257
Legal & General Insurance (LGI)	1.03	**303**	303
- UK and Other		209	218
- US (LGIA)		94	85
General Insurance	1.05	**37**	52
Continuing operating profit from divisions		**2,259**	1,787
Discontinued operating profit from divisions[1]		**107**	115
Operating profit from divisions		**2,366**	1,902
Group debt costs[2]		**(191)**	(172)
Group investment projects and expenses	1.07	**(120)**	(168)
Operating profit		**2,055**	1,562
Investment and other variances	1.08	**24**	13
Gains on non-controlling interests		**11**	7
Profit before tax attributable to equity holders		**2,090**	1,582
Tax expense attributable to equity holders of the company	3.06	**(188)**	(317)
Profit for the year		**1,902**	1,265
Profit attributable to equity holders of the company		**1,891**	1,258
		p	p
Earnings per share[3]	1.10	**31.87**	21.22
Diluted earnings per share[3]	1.10	**31.73**	21.13

1. Discontinued operating profit from divisions primarily reflects the operating profit of the Savings division following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For these operating profit disclosures, discontinued operations also includes the results of Legal & General Netherlands and Cofunds. These businesses were sold during 2017 and were components of the LGI (UK and Other) and Savings divisions respectively. Profit before tax attributable to equity holders in the Consolidated Income Statement of £1,991m excludes the profit before tax associated with discontinued operations of £99m, as this is included in the Profit after tax from discontinued operations of £80m.

2. Group debt costs exclude interest on non recourse financing.

3. All earnings per share calculations are based on profit attributable to equity holders of the company.

This supplementary operating profit information (one of the group's key performance indicators) provides 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.

- For LGR, worldwide pension risk transfer business (including longevity insurance) is within LGRI, and individual retirement and lifetime mortgages is within LGRR.
- LGIM 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 business in retail and group protection written in the UK, networks, and protection business written in the US (LGIA).
- General Insurance comprises short-term household and other personal insurance.
- Discontinued operations represent businesses that have either been sold or announced to sell in 2017, namely Mature Savings (including with-profits), Legal & General Netherlands (LGN) (sold in April 2017) and Cofunds (sold in January 2017). LGN and Cofunds were not classified as discontinued in 2016.

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 includes the 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.

Sale of Mature Savings

In December 2017, the group announced the sale of its Mature Savings business to the ReAssure division of Swiss Re Limited (Swiss Re) for £650m. The sale is subject to regulatory approval and the Part VII transfer is planned to complete in 2019. As a result of the announcement the assets and liabilities of the Mature Savings business are classified as held for sale on the Consolidated Balance Sheet, and its results are included within discontinued operations in the Consolidated Income Statement and any associated disclosures.

1.02 Reconciliation of release from operations to operating profit before tax

For the year ended 31 December 2017	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other[2] £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR[3]	**508**	**180**	**688**	**72**	**274**	**3**	**-**	**1,037**	**210**	**1,247**
- LGRI	347	152	499	66	190	1	-	756	150	906
- LGRR	161	28	189	6	84	2	-	281	60	341
LGIM	**342**	**(21)**	**321**	**(4)**	**(1)**	**2**	**-**	**318**	**82**	**400**
- LGIM excluding Workplace Savings	318	-	318	-	-	-	-	318	82	400
- Workplace Savings[4]	24	(21)	3	(4)	(1)	2	-	-	-	-
LGC	**224**	**-**	**224**	**-**	**-**	**-**	**-**	**224**	**48**	**272**
LGI	**273**	**2**	**275**	**(50)**	**48**	**(25)**	**(26)**	**222**	**81**	**303**
- UK and Other[3]	193	2	195	(50)	48	(25)	1	169	40	209
- US (LGIA)	80	-	80	-	-	-	(27)	53	41	94
General Insurance	**30**	**-**	**30**	**-**	**-**	**-**	**-**	**30**	**7**	**37**
From continuing operations	**1,377**	**161**	**1,538**	**18**	**321**	**(20)**	**(26)**	**1,831**	**428**	**2,259**
From discontinued operations[5]	**107**	**(5)**	**102**	**(1)**	**3**	**(21)**	**3**	**86**	**21**	**107**
Total from divisions	**1,484**	**156**	**1,640**	**17**	**324**	**(41)**	**(23)**	**1,917**	**449**	**2,366**
Group debt costs	**(154)**	**-**	**(154)**	**-**	**-**	**-**	**-**	**(154)**	**(37)**	**(191)**
Group investment projects and expenses	**(32)**	**-**	**(32)**	**-**	**-**	**-**	**(64)**	**(96)**	**(24)**	**(120)**
Total	**1,298**	**156**	**1,454**	**17**	**324**	**(41)**	**(87)**	**1,667**	**388**	**2,055**

1. Release from operations includes dividends from the US of £80m within the LGIA line.
2. International and other includes £48m of restructuring costs (£59m before tax) within the group investment projects and expenses line.
3. During 2017, changes have been made to the organisational structure. The IDOL business has been transferred to LGI from LGR. Comparatives have been amended accordingly. The impact of this transfer has been to reduce LGR 2016 release from operations by £1m and increase LGI (UK and Other) 2016 release from operations by £1m.
4. Workplace Savings represents administration business only. Profits on fund management services are included within LGIM (excluding Workplace Savings).
5. Discontinued operations primarily reflects the result from the Savings division following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For this Reconciliation of release from operations to operating profit before tax disclosure, discontinued operations also includes the results of Legal & General Netherlands (sold in April 2017) and Cofunds (sold in January 2017). These businesses were sold during 2017 and were previously reflected in the LGI (UK and Other) and Savings divisional results respectively.

Release from operations for LGR, LGIM and LGI represents the expected IFRS surplus generated in the year from the in-force non profit annuities, workplace savings and protection businesses using best estimate assumptions. The LGIM release from operations also includes operating profit after tax from the institutional and retail investment management businesses. The LGI release from operations also includes dividends remitted from LGIA and operating profit after tax from the remaining LGI businesses. The release from operations within discontinued operations reflects the shareholders' share of bonuses on with-profits business, operating profit after tax from the Mature Savings business, and dividends remitted from Legal & General Netherlands (LGN).

New business surplus/strain for LGR, LGIM and LGI represents the cost of acquiring new business and setting up prudent reserves in respect of the new business for UK non profit annuities, workplace savings and protection, net of tax. The new business surplus and release from operations for LGR, LGIM and LGI excludes any capital held in excess of the prudent reserves from the liability calculation.

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

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

See Note 1.03 for more detail on experience variances, changes to valuation assumptions and non-cash items.

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

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[3]	432	159	591	34	40	6	-	671	138	809
- LGRI	297	147	444	27	80	(9)	-	542	109	651
- LGRR	135	12	147	7	(40)	15	-	129	29	158
LGIM	308	(22)	286	(1)	-	-	-	285	81	366
- LGIM excluding Workplace Savings	290	-	290	-	-	-	-	290	82	372
- Workplace Savings [4]	18	(22)	(4)	(1)	-	-	-	(5)	(1)	(6)
LGC	214	-	214	-	-	-	-	214	43	257
LGI	248	23	271	(11)	5	(29)	(21)	215	88	303
- UK and Other[3]	185	23	208	(11)	5	(29)	1	174	44	218
- US (LGIA)	63	-	63	-	-	-	(22)	41	44	85
General Insurance	42	-	42	-	-	-	-	42	10	52
From continuing operations	1,244	160	1,404	22	45	(23)	(21)	1,427	360	1,787
From discontinued operations[5]	174	(5)	169	4	8	(32)	(58)	91	24	115
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)	-	-	-	(112)	(136)	(32)	(168)
Total	1,256	155	1,411	26	53	(55)	(191)	1,244	318	1,562

1. Release from operations includes US dividends of £63m within the LGIA line and dividends remitted from LGN of £70m within the discontinued operations line.
2. International and other includes £43m of restructuring costs (£54m before tax) within the group investment projects and expenses line.
3. During 2017, changes have been made to the organisational structure. The IDOL business has been transferred to LGI from LGR. Comparatives have been amended accordingly. The impact of this transfer has been to reduce LGR 2016 release from operations by £1m and increase LGI (UK and Other) 2016 release from operations by £1m.
4. Workplace Savings represents administration business only. Profits on fund management services are included within LGIM (excluding Workplace Savings).
5. Discontinued operations primarily reflects the results from the Savings division following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For this Reconciliation of release from operations to operating profit before tax disclosure, discontinued operations also includes the results of Legal & General Netherlands and Cofunds. These businesses were sold during 2017 and were previously reflected in the LGI (UK and Other) and Savings divisional results respectively.

1.03 Analysis of LGR and LGI operating profit

	LGR 2017 £m	**LGI 2017 £m**	LGR[1] 2016 £m	LGI[1] 2016 £m
Net release from operations	**688**	**275**	591	271
Experience variances				
Persistency	**9**	**(18)**	2	(2)
Mortality/morbidity	**30**	**(26)**	47	(34)
Expenses	**(21)**	**3**	(9)	4
Project and development costs	**(15)**	**(3)**	(21)	2
Other[2]	**69**	**(6)**	15	19
Total experience variances	**72**	**(50)**	34	(11)
Changes to valuation assumptions				
Persistency	**-**	**(11)**	-	(52)
Mortality/morbidity[3]	**303**	**51**	40	4
Expenses	**(20)**	**9**	-	53
Other	**(9)**	**(1)**	-	-
Total changes in valuation assumptions	**274**	**48**	40	5
Movement in non-cash items				
Acquisition expense tax relief	**-**	**(18)**	-	(27)
Other	**3**	**(7)**	6	(2)
Total movement in non-cash items	**3**	**(25)**	6	(29)
International and other	**-**	**(26)**	-	(21)
Operating profit after tax	**1,037**	**222**	671	215
Tax gross up	**210**	**81**	138	88
Operating profit before tax	**1,247**	**303**	809	303

1. During 2017, changes have been made to the organisational structure. The IDOL business has been transferred to LGI from LGR. Comparatives have been amended accordingly. The impact of this classification has been to reduce LGR 2016 release from operations by £1m and increase LGI 2016 release from operations by £1m.

2. Other experience variances for LGR includes the impact of an improvement in the quality of scheme data relating to bulk annuities.

3. Mortality assumption changes for LGR include a one-off longevity release of £274m in relation to an update of the portfolio base mortality assumptions as noted at H1 17, as well as the impact of moving trend assumptions from adjusted CMI 2014 to adjusted CMI 2015. The LGI assumption change reflects the impact of actual experience as well as refinements in the treatment of insured persons with sub-standard health.

1.04 LGIM operating profit

	2017 £m	2016 £m
Investment management revenue (excluding 3rd party market data)[1]	**780**	700
Investment management transactional revenue[2]	**25**	30
Investment management expenses (excluding 3rd party market data)[1]	**(405)**	(358)
Workplace Savings operating loss[3]	**-**	(6)
Total LGIM operating profit	**400**	366

1. Investment management revenue and expenses excludes income and costs of £17m in relation to provision of third party market data (2016: £14m each).
2. Transactional revenue includes execution fees, asset transition income, trigger fees, arrangement fees on property transactions and performance fees for property funds.
3. Workplace Savings represents administration business only.

1.05 General Insurance operating profit and combined operating ratio

	2017 £m	2016 £m
General Insurance operating profit[1]	**37**	52
General Insurance combined operating ratio [2]	**93%**	89%

1. Includes the General Insurance underwriting result and smoothed investment return.
2. The calculation of the General Insurance combined operating ratio incorporates claims, commission and expenses as a percentage of net earned premiums.

1.06 LGC operating profit

	2017 £m	2016 £m
Direct investments[1]	**124**	121
Traded investment portfolio including treasury assets[2]	**148**	136
Total LGC operating profit	**272**	257

1. Direct investments represents LGC's portfolio of assets across infrastructure, housing and SME Finance.
2. The traded book holds a diversified set of exposures across equities, fixed income, multi-asset funds and cash.

1.07 Group investment projects and central expenses

	2017 £m	2016 £m
Group investment projects and central expenses	**(61)**	(48)
Restructuring and other costs[1]	**(59)**	(120)
Total group investment projects and expenses	**(120)**	(168)

1. Restructuring and other costs in 2016 include the Kingswood office closure costs of £66m.

1.08 Investment and other variances

	2017 £m	2016 £m
Investment variance[1]	**129**	147
M&A related and other variances[2]	**(105)**	(134)
Total investment and other variances	**24**	13

1. Includes a positive variance in respect of the defined benefit pension scheme of £94m (2016: £29m) reflecting the impact of the acquisition of annuity assets from LGR, and the beneficial rate difference between the IAS19 and annuity discount rates.

2. Includes gains and losses, expenses and intangible amortisation relating to acquisitions and disposals. 2017 includes the £17m net gain resulting from the disposal of Legal & General Netherlands. (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)).

1.09 Segmental analysis

Reportable segments

The group has five reportable segments comprising LGR, LGIM, LGC, LGI and General Insurance, as set out in the Operating profit section.

Central group expenses and debt costs are reported separately.

Discontinued operations primarily reflect the results of the Mature Savings division following the announcement in December 2017 to sell the business to Swiss Re. For these disclosures, discontinued operations also include the results of Legal & General Netherlands and Cofunds, which were sold during 2017 and were components of the LGI and Savings divisions respectively.

Transactions between reportable segments are on normal commercial terms, and are included within the reported segments.

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

1.09 Segmental analysis (continued)

(a) Profit/(loss) for the year

For the year ended 31 December 2017	LGR £m	LGIM £m	LGC £m	LGI £m	General Insurance £m	Group expenses and debt costs £m	Continuing operations[1] £m	Discontinued operations[1,2] £m	Total £m
Operating profit/(loss)	**1,247**	**400**	**272**	**303**	**37**	**(311)**	**1,948**	**107**	**2,055**
Investment and other variances[2]	**4**	**(9)**	**91**	**(60)**	**6**	**(14)**	**18**	**6**	**24**
Gains attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**11**	**11**	**-**	**11**
Profit/(loss) before tax attributable to equity holders	**1,251**	**391**	**363**	**243**	**43**	**(314)**	**1,977**	**113**	**2,090**
Tax (expense)/credit attributable to equity holders of the company[4]	**(225)**	**(84)**	**(77)**	**182**	**(8)**	**43**	**(169)**	**(19)**	**(188)**
Profit/(loss) for the year	**1,026**	**307**	**286**	**425**	**35**	**(271)**	**1,808**	**94**	**1,902**

For the year ended 31 December 2016	LGR[3] £m	LGIM £m	LGC £m	LGI[3] £m	General Insurance £m	Group expenses and debt costs £m	Continuing operations[1] £m	Discontinued operations[1,2] £m	Total £m
Operating profit/(loss)	809	366	257	303	52	(340)	1,447	115	1,562
Investment and other variances[2]	37	(32)	162	(130)	16	5	58	(45)	13
Gains attributable to non-controlling interests	-	-	-	-	-	7	7	-	7
Profit/(loss) before tax attributable to equity holders	846	334	419	173	68	(328)	1,512	70	1,582
Tax (expense)/credit attributable to equity holders of the company	(148)	(68)	(52)	(66)	(13)	58	(289)	(28)	(317)
Profit/(loss) for the year	698	266	367	107	55	(270)	1,223	42	1,265

1. Discontinued operations primarily reflects the profit for the year from the Savings division following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For this segmental analysis, discontinued operations also includes the profit for the year of Legal & General Netherlands and Cofunds (2017: £14m; 2016: £(49)m). These businesses (which were not previously classified as discontinued in 2016) were sold during 2017 and were components of the LGI (UK and Other) and Savings divisions respectively.
2. Investment and other variances in relation to discontinued operations includes a £17m net gain resulting from the disposal of subsidiaries during the year (2016: £60m net loss).
3. During 2017, changes have been made to the organisational structure. The IDOL business has been transferred to LGI from LGR. Comparatives have been restated accordingly. The impact of this transfer has been to reduce LGR 2016 operating profit by £2m and profit before tax by £1m and increase the LGI operating profit and profit before tax by equal amounts.
4. The LGI tax credit of £182m in 2017 primarily reflects the impact of a one-off US tax benefit of £246m arising from the revaluation of net deferred tax liabilities as a result of the reduction in the US corporate income tax rate.

1.09 Segmental analysis (continued)

(b) Income

For the year ended 31 December 2017	LGR £m	LGIM[1,6] £m	LGI £m	General Insurance £m	LGC and other[2] £m	Continuing operations[3] £m	Discontinued operations[3] £m	Total £m
Internal income	**-**	**158**	**-**	**-**	**(158)**	**-**	**-**	**-**
External income	**6,862**	**28,779**	**1,509**	**342**	**2,900**	**40,392**	**3,098**	**43,490**
Total income	**6,862**	**28,937**	**1,509**	**342**	**2,742**	**40,392**	**3,098**	**43,490**

For the year ended 31 December 2016	LGR[4] £m	LGIM[1,5] £m	LGI[4] £m	General Insurance £m	LGC and other[2] £m	Continuing operations[3] £m	Discontinued operations[3,5] £m	Total £m
Internal income	-	139	-	-	(139)	-	-	-
External income	13,831	49,812	2,000	326	7,036	73,005	4,964	77,969
Total income	13,831	49,951	2,000	326	6,897	73,005	4,964	77,969

1. LGIM internal income relates to investment management services provided to other segments.
2. LGC and other includes LGC income, intra-segmental eliminations and group consolidation adjustments.
3. Discontinued operations income primarily reflects the income from the Savings division following the announcement in December 2017 to sell the mature savings business to Swiss Re. For this segmental analysis, discontinued operations also includes the income of Legal & General Netherlands and Cofunds (2017: £99m; 2016: £464m). These businesses (which were not previously classified as discontinued in 2016) were sold during 2017 and were components of the LGI (UK and Other) and Savings divisions respectively.
4. During 2017, changes have been made to the organisational structure. The IDOL business has been transferred to LGI from LGR. Comparatives have been amended accordingly. The impact of this transfer has been to reduce LGR 2016 external income by £20m with corresponding increases in LGI external income.
5. An internal transaction in 2016 of £175m has been reclassified between LGIM, Discontinued operations and LGC and other internal and external income.
6. LGIM external income includes fees from fund management and investment return.

1.10 Earnings per share

(a) Earnings per share

	After tax 2017 £m	Per share[1] 2017 p	After tax 2016 £m	Per share[1] 2016 p
Operating profit	**1,667**	**28.10**	1,244	20.98
Investment and other variances	**224**	**3.77**	14	0.24
Total earnings based on profit attributable to equity holders	**1,891**	**31.87**	1,258	21.22
Less earnings derived from discontinued operations	**(80)**	**(1.35)**	(91)	(1.54)
Earnings derived from continuing operations	**1,811**	**30.52**	1,167	19.68

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

(b) Diluted earnings per share

	Number of shares 2017 m	After tax 2017 £m	Per share[1] 2017 p
Profit attributable to equity holders of the company	**5,933**	**1,891**	**31.87**
Net shares under options allocable for no further consideration	**27**	**-**	**(0.14)**
Total diluted earnings	**5,960**	**1,891**	**31.73**
Less diluted earnings derived from discontinued operations	**-**	**(80)**	**(1.35)**
Diluted earnings derived from continuing operations	**5,960**	**1,811**	**30.38**

	Number of shares 2016 m	after tax 2016 £m	Per share[1] 2016 p
Profit attributable to equity holders of the company	5,929	1,258	21.22
Net shares under options allocable for no further consideration	24	-	(0.09)
Total diluted earnings	5,953	1,258	21.13
Less diluted earnings derived from discontinued operations	-	(91)	(1.54)
Diluted earnings derived from continuing operations	5,953	1,167	19.59

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.

2.01 Consolidated Income Statement

For the year ended 31 December 2017	Notes	2017 £m	2016 £m
Income			
Gross written premiums		**7,932**	10,252
Outward reinsurance premiums		**(1,858)**	(1,568)
Net change in provision for unearned premiums		**(23)**	4
Net premiums earned		**6,051**	8,688
Fees from fund management and investment contracts		**771**	851
Investment return		**33,457**	63,742
Operational income		**212**	188
Total income	1.09	**40,491**	73,469
Expenses			
Claims and change in insurance liabilities		**8,326**	16,908
Reinsurance recoveries		**(1,776)**	(2,740)
Net claims and change in insurance liabilities		**6,550**	14,168
Change in provisions for investment contract liabilities		**29,848**	55,579
Acquisition costs		**734**	739
Finance costs		**212**	191
Other expenses		**1,086**	1,275
Total expenses		**38,430**	71,952
Profit before tax		**2,061**	1,517
Tax expense attributable to policyholder returns		**(70)**	(52)
Profit before tax attributable to equity holders		**1,991**	1,465
Total tax expense		**(239)**	(343)
Tax expense attributable to policyholder returns		**70**	52
Tax expense attributable to equity holders	3.06	**(169)**	(291)
Profit after tax from continuing operations		**1,822**	1,174
Profit after tax from discontinued operations[1]		**80**	91
Profit for the year	1.09	**1,902**	1,265
Attributable to:			
Non-controlling interests		**11**	7
Equity holders of the company		**1,891**	1,258
Dividend distributions to equity holders of the company during the year	3.08	**872**	830
Dividend distributions to equity holders of the company proposed after the year end	3.08	**658**	616

		p	p
Total earnings per share[2]	1.10	**31.87**	21.22
Total diluted earnings per share[2]	1.10	**31.73**	21.13
Earnings per share derived from continuing operations[3]	1.10	**30.52**	19.68
Diluted earnings per share derived from continuing operations[3]	1.10	**30.38**	19.59

1. Detailed disclosure of discontinued operations and held for sale balances is included in Note 30 of the group annual report and accounts.

2. All total earnings per share calculations are based on profit attributable to equity holders of the company.

3. All earnings per share derived from continuing operations calculations are based on profit from continuing operations attributable to equity holders of the company.

2.02 Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017	Notes	2017 £m	2016 £m
Profit for the year		**1,902**	1,265
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses on defined benefit pension schemes		**(55)**	(87)
Tax on actuarial losses on defined benefit pension schemes		**10**	11
Total items that will not be reclassified to profit or loss subsequently		**(45)**	(76)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations		**(99)**	190
Movement in cross-currency hedge		**(12)**	-
Tax on movement in cross-currency hedge		**2**	-
Net change in financial investments designated as available-for-sale		**27**	(4)
Tax on net change in financial investments designated as available-for-sale		**(4)**	1
Total items that may be reclassified to profit or loss subsequently		**(86)**	187
Other comprehensive (expense)/income after tax		**(131)**	111
Total comprehensive income for the year		**1,771**	1,376
Total comprehensive income for the year attributable to:			
Continuing operations		**1,691**	1,285
Discontinued operations		**80**	91
		1,771	1,376
Total comprehensive income attributable to:			
Non-controlling interests		**11**	7
Equity holders of the company		**1,760**	1,369

2.03 Consolidated Balance Sheet

As at 31 December 2017	Notes	2017 £m	2016[1] £m
Assets			
Goodwill		**11**	11
Purchased interest in long term businesses and other intangible assets		**138**	155
Deferred acquisition costs		**1,507**	2,105
Investment in associates and joint ventures		**252**	283
Property, plant and equipment		**59**	76
Investment property	3.05	**7,110**	8,150
Financial investments	3.05	**443,162**	430,435
Reinsurers' share of contract liabilities		**5,703**	5,593
Deferred tax assets	3.06	**7**	5
Current tax assets		**342**	297
Other assets		**6,083**	3,131
Assets of operations classified as held for sale	3.03	**22,584**	2,265
Cash and cash equivalents		**18,919**	15,348
Total assets		**505,877**	467,854
Equity			
Share capital	3.09	**149**	149
Share premium	3.09	**988**	981
Employee scheme treasury shares		**(40)**	(30)
Capital redemption and other reserves		**168**	212
Retained earnings		**6,578**	5,633
Attributable to owners of the parent		**7,843**	6,945
Non-controlling interests	3.15	**76**	338
Total equity		**7,919**	7,283
Liabilities			
Participating insurance contracts		**-**	5,794
Participating investment contracts		**-**	5,271
Unallocated divisible surplus		**-**	661
Value of in-force non-participating contracts		**-**	(206)
Participating contract liabilities		**-**	11,520
Non-participating insurance contracts		**62,318**	60,779
Non-participating investment contracts		**315,651**	321,177
Non-participating contract liabilities		**377,969**	381,956
Core borrowings	3.10	**3,459**	3,071
Operational borrowings	3.11	**538**	430
Provisions	3.18	**1,335**	1,328
UK deferred tax liabilities	3.06	**13**	291
Overseas deferred tax liabilities	3.06	**337**	522
Current tax liabilities		**223**	117
Payables and other financial liabilities	3.07	**52,246**	37,347
Other liabilities		**563**	594
Net asset value attributable to unit holders		**27,317**	21,573
Liabilities of operations classified as held for sale	3.03	**33,958**	1,822
Total liabilities		**497,958**	460,571
Total equity and liabilities		**505,877**	467,854

1. Following a review of short dated instruments, certain assets have been reclassified from Cash and cash equivalents to Financial investments as their maturity at the balance sheet date was greater than 3 months. These amounts totalled £10,369m and the analysis above has been restated to reflect this reclassification.

2.04 Consolidated Statement of Changes in Equity

For the year ended 31 December 2017	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves[1] £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
As at 1 January 2017	**149**	**981**	**(30)**	**212**	**5,633**	**6,945**	**338**	**7,283**
Profit for the year	-	-	-	-	1,891	1,891	11	1,902
Exchange differences on translation of overseas operations	-	-	-	(99)	-	(99)	-	(99)
Movement in cross-currency hedge	-	-	-	(10)	-	(10)	-	(10)
Actuarial losses on defined benefit pension schemes	-	-	-	-	(45)	(45)	-	(45)
Net change in financial investments designated as available-for-sale	-	-	-	23	-	23	-	23
Total comprehensive (expense)/income for the year	-	-	-	(86)	1,846	1,760	11	1,771
Options exercised under share option schemes:								
- Savings related share option scheme	-	7	-	-	-	7	-	7
Shares purchased	-	-	(16)	-	-	(16)	-	(16)
Shares vested	-	-	6	(19)	-	(13)	-	(13)
Employee scheme treasury shares:								
- Value of employee services	-	-	-	28	-	28	-	28
Share scheme transfers to retained earnings	-	-	-	-	4	4	-	4
Dividends	-	-	-	-	(872)	(872)	-	(872)
Movement in third party interests	-	-	-	-	-	-	(273)	(273)
Currency translation differences	-	-	-	33	(33)	-	-	-
As at 31 December 2017	**149**	**988**	**(40)**	**168**	**6,578**	**7,843**	**76**	**7,919**

1. Capital redemption and other reserves include share-based payments £69m, foreign exchange £69m, capital redemption £17m, available-for-sale reserves £22m and hedging reserves £(9)m.

2.04 Consolidated Statement of Changes in Equity (continued)

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
Movement in cross-currency hedge	-	-	-	-	-	-	-	-
Actuarial losses on defined benefit pension schemes	-	-	-	-	(76)	(76)	-	(76)
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, Foreign exchange £135m, Capital redemption £17m, Available-for-sale reserves £(1)m and Hedging reserves £1m.

2.05 Consolidated Cash Flow Statement

For the year ended 31 December 2017	Notes	2017 £m	2016[1] £m
Cash flows from operating activities			
Profit for the year		**1,902**	1,265
Adjustments for non cash movements in net profit for the year			
Realised and unrealised (gains) on financial investments and investment properties		**(25,024)**	(53,262)
Investment income		**(9,953)**	(9,390)
Interest expense		**220**	198
Tax expense		**377**	602
Other adjustments		**154**	(45)
Net (increase)/decrease in operational assets			
Investments held for trading or designated as fair value through profit or loss		**11,794**	(11,210)
Investments designated as available-for-sale		**277**	246
Other assets		**(2,344)**	(2,658)
Net increase/(decrease) in operational liabilities			
Insurance contracts		**(3,989)**	12,910
Investment contracts		**(10,798)**	39,747
Value of in-force non-participating contracts		**206**	(22)
Other liabilities		**20,444**	16,791
Net increase in held for sale liabilities		**12,139**	
Cash used in operations		**(4,595)**	(4,828)
Interest paid		**(221)**	(198)
Interest received		**4,528**	4,863
Tax paid[2]		**(497)**	(424)
Dividends received		**5,196**	4,676
Net cash flows from operating activities		**4,411**	4,089
Cash flows from investing activities			
Net acquisition of plant, equipment, intangibles and other assets		**(230)**	(45)
Acquisitions[3]	3.01	**(63)**	-
Disposal of subsidiaries[4]	3.02	**286**	(272)
Investment in joint ventures and associates		**(7)**	(63)
Net cash flows used in investing activities		**(14)**	(380)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the company during the year	3.08	**(872)**	(830)
Issue of ordinary share capital		**7**	5
Purchase of employee scheme shares (net)		**10**	-
Proceeds from borrowings		**1,232**	219
Repayment of borrowings		**(600)**	(342)
Movement in non-controlling interests		**(262)**	-
Net cash flows used in financing activities		**(485)**	(948)
Net increase in cash and cash equivalents		**3,912**	2,761
Exchange (losses)/gains on cash and cash equivalents		**(19)**	182
Cash and cash equivalents at 1 January (before reallocation of held for sale cash)		**15,348**	12,544
Total cash and cash equivalents		**19,241**	15,487
Cash and cash equivalents classified as held for sale	3.03	**(322)**	(139)
Cash and cash equivalents at 31 December		**18,919**	15,348

1. Following a review of certain short dated instruments held by the group, certain assets have been reclassified from Cash and cash equivalents to Financial investments as their tenure is greater than 3 months. These amounts totalled £10,369m at 2016. There is a net nil impact on the Consolidated Income Statement. The reclassification has resulted in an adjustment to the Investments held for trading or designated as fair value through profit or loss in the Consolidated Cash Flow Statement of (£1,847m) at 2016.
2. Tax comprises UK corporation tax paid of £290m (2016: £249m), overseas corporate taxes of £12m (2016: £16m), and withholding tax of £195m (2016: £159m).
3. Net cash flows from acquisitions includes cash paid of £64m (2016: £nil) less cash and cash equivalents received of £1m (2016: £nil).
4. Net cash flows from disposals includes cash received of £286m (2016: £144m) less cash and cash equivalents disposed of £nil (2016: £416m).

Further information in relation to the cash flows of the discontinued operations can be found in Note 30 of the group annual report & accounts.

2.06 Basis of preparation

The group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and 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 and as adopted by the European Union. The group financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets and 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.

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 interpretations by the IFRS Interpretations Committee.

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 balance sheet. The income and expenses for the 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.

Critical accounting policies and the use of estimates
The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the Consolidated Balance Sheet and Income Statement and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly. This is particularly relevant for the valuation of insurance and investment contract liabilities, unquoted illiquid assets, investment property, and the determination of defined benefit pension plan assumptions. From a policy application perspective, the major areas of judgement are the assessment of whether a contract transfers significant insurance risk to the group, and whether the group controls underlying entities and should therefore consolidate them. The basis of accounting for these areas, and the significant judgements used in determining them, are outlined in the respective notes to the group's 2017 Annual Report and Accounts.

Key technical terms and definitions
The report refers to various key performance indicators, accounting standards and other technical terms. A comprehensive list of these definitions is contained within the glossary of the group's 2017 Annual Report and Accounts.

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.

3.01 Acquisitions

During 2017 the group completed a number of small acquisitions, including 100% of Renaissance Villages (later living sector) for a consideration of £51m and 100% of English Care Villages (later living accommodation) for a consideration of £39m. These businesses have therefore been consolidated in the group financial statements for the year ended 31 December 2017.

3.02 Disposals

During 2017, the group made the following disposals:

- On 1 January 2017, the group completed the disposal of Cofunds Limited (Cofunds) to Aegon for £141m, net of transaction costs. The sale included the Investor Portfolio Service (IPS) platform as well as Cofunds' retail and institutional business. The group carrying value of the investment was £141m resulting in a net nil current year impact to the group.

- On 6 April 2017, the group completed the sale of Legal & General Netherland Levensverzekering Maatschappij N.V. (LGN) to Chesnara plc (Chesnara) for €161m (£137m). The group carrying value of the investment was £118m, resulting in a current year profit of £17m, net of transaction costs of £2m.

3.03 Held for sale

On 6 December 2017 the group announced the sale of its Mature Savings business to the ReAssure division of Swiss Re Limited (Swiss Re) for £650m, which is expected to be final in 2019 following the completion of the Part VII transfer. As a result of the announcement, the Mature Savings business has been classified as held for sale.

The group also initiated the planned disposal of a number of investments which are expected to finalise in 2018. These have also been classified as held for sale and the associated assets and liabilities included in the below analysis.

Total assets and liabilities classified as held for sale are set out below. The 2016 balances include the planned disposals of LGN and Cofunds (as noted in 2.12), and certain investment property.

	2017 £m	2016 £m
Total assets of the disposal groups[1]	**33,649**	2,265
Total liabilities of the disposal groups	**33,958**	1,822
Total net assets of the disposal groups	**(309)**	443

1. Total assets of the disposal groups includes £11,065m of assets in consolidated funds, disclosed within Financial investments on the Consolidated Balance Sheet. The group controls these funds and therefore consolidates 100% of the assets with any non-controlling interest recognised in the Net asset value attributable to unit holders. Following the disposal of the Mature Savings business, the group currently anticipates that it will retain control of these funds and so will continue to recognise 100% of the assets while increasing its non-controlling interest in the Net asset value attributable to unit holders.

3.04 Post balance sheet events

Mature Savings

Risk transfer agreement
Following the announcement of the sale of the Mature Savings business to the ReAssure division of Swiss Re, on 1 January 2018 the group entered into a risk transfer agreement with ReAssure Limited (a subsidiary of Swiss Re), whereby the group will transfer all economic risks and rewards of the Mature Savings business to Swiss Re from that date. The risk transfer agreement will stay in place until the business is transferred under a court approved scheme under Part VII of the Financial Services and Markets Act 2000, which is expected to complete in 2019.

With profits pension scheme contributions
On 4 January 2018, the with profits fund, which forms part of the Mature Savings business being sold to Swiss Re, paid a one-off sum to the shareholder fund in exchange for the removal of all future obligations in respect of both deficit repair contributions and ongoing trustee expenses for the Legal & General Group UK Pensions & Assurance Fund and Legal & General Group UK Senior Pension Scheme.

Acquisitions

The acquisition of Buddies Enterprises Limited (announced on 17 October 2017) completed after the year-end.

3.05 Financial investments and investment property

	2017 £m	2016[1] £m
Equities	**199,858**	191,025
Unit trusts	**9,147**	6,969
Debt securities[2]	**230,941**	215,331
Accrued interest	**1,518**	1,536
Derivative assets[3]	**12,595**	13,121
Loans[4]	**9,165**	2,453
Financial investments	**463,224**	430,435
Investment property[5]	**8,337**	8,150
Total financial investments and investment property[6]	**471,561**	438,585
Less financial investments and investment property classified as held for sale	**(21,289)**	
Financial investments and investment property	**450,272**	438,585

1. Following a review of short dated instruments, certain assets have been reclassified from Cash and cash equivalents to Financial investments as their maturity at the balance sheet date was greater than 3 months. These amounts totalled £10,369m and the analysis above has been restated to reflect this reclassification.

2. A detailed analysis of debt securities, which shareholders are directly exposed to, is disclosed in note 5.06.

3. Derivatives are used for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management. Derivative assets are shown gross of derivative liabilities of £8,173m (2016: £8,294m).

4. As at 31 December 2016 £1,891m of reverse repurchase agreements were classified in Other assets. On review, we have determined that these instruments meet the definition of a financial asset and therefore should have been included within Financial investments. Accordingly, the prior year numbers have been restated resulting in a decrease in Other assets of £1,891m and an increase in Financial investments of £1,891m. The instruments have been classified as Loans at fair value, and assessed as fair value Level 2. The restatement has nil impact on the valuation of the instruments, and a net nil impact on Total assets in the Consolidated Balance Sheet.

5. A detailed analysis of investment property, which shareholders are directly exposed to, is disclosed in note 5.07.

6. Total Financial investments and investment property is presented gross of held for sale assets in 2017 and net of held for sale assets in 2016. Detailed disclosure relating to these held for sale items is included in Note 30 of the group's annual report and accounts.

3.06 Tax

(a) Tax charge in the Consolidated Income Statement

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

	Continuing operations 2017 £m	**Total 2017 £m**	Continuing operations 2016 £m	Total 2016 £m
Profit before tax attributable to equity holders	**1,991**	**2,090**	1,465	1,582
Tax calculated at 19.25% (2016: 20.00%)	**383**	**402**	293	316
Adjusted for the effects of:				
Recurring reconciling items:				
Income not subject to tax	**(11)**	**(11)**	(12)	(12)
Higher rate of tax on overseas profits	**1**	**1**	7	7
Non-deductible expenses	**1**	**1**	4	4
Differences between taxable and accounting investment gains	**(3)**	**(3)**	(11)	(11)
Unrecognised tax losses	**1**	**1**	-	-
Non-recurring reconciling items:				
Income not subject to tax	**(4)**	**(4)**	(1)	(1)
Non-deductible expenses	**10**	**10**	17	17
Differences between taxable and accounting investment gains	**10**	**10**	(14)	(14)
Adjustments in respect of prior years	**23**	**23**	10	13
Impact of reduction in UK and US corporate tax rates on deferred tax balances[1]	**(242)**	**(242)**	(2)	(2)
Tax attributable to equity holders	**169**	**188**	291	317
Equity holders' effective tax rate[2]	**8.5%**	**9.0%**	19.9%	20.0%

1. The US federal corporate income tax rate has reduced from 35% to 21% from 1 January 2018. The enacted rate of 21% has been applied to US temporary differences to calculate US deferred assets and liabilities on the basis of when temporary differences are expected to reverse. 2017 includes the impact of the one-off US tax benefit of £246m arising from the revaluation of net deferred tax liabilities as a result of the reduction in the US corporate income tax rate. Excluding the impact of the US tax rate change, the effective tax rate was 20.8%.
2. Equity holders' effective tax rate is calculated by dividing the tax attributable to equity holders over profit before tax attributable to equity holders. Refer to note 2.06 for detail on the methodology of the split of policyholder and equity holders' tax.

3.06 Tax (continued)

(b) Deferred tax

Deferred tax (liabilities)/assets	2017 £m	2016 £m
Deferred acquisition expenses	**(257)**	(429)
- UK	**(40)**	(45)
- Overseas	**(217)**	(384)
Difference between the tax and accounting value of insurance contracts	**(178)**	(286)
- UK	**(69)**	(123)
- Overseas	**(109)**	(163)
Realised and unrealised gains on investments	**(282)**	(255)
Excess of depreciation over capital allowances	**15**	15
Excess expenses	**31**	49
Accounting provisions and other	**(33)**	(51)
Trading losses[1]	**31**	80
Pension fund deficit	**70**	82
Purchased interest in long-term business	**(2)**	(13)
Total net deferred tax liabilities[2]	**(605)**	(808)
Less net deferred tax liabilities classified as held for sale	**262**	
Net deferred tax liabilities	**(343)**	(808)
Analysed by:		
- UK deferred tax assets	**2**	5
- UK deferred tax liabilities	**(13)**	(291)
- Overseas deferred tax assets	**5**	-
- Overseas deferred tax liabilities	**(337)**	(522)
Net deferred tax liabilities[3]	**(343)**	(808)

1. Trading losses include UK trade and US operating losses of £4m (2016: £5m) and £27m (2016: £75m) respectively.

2. Total net deferred tax liabilities are presented gross of held for sale liabilities in 2017 and net of held for sale liabilities in 2016. Detailed disclosure on these held for sale items is included in Note 30 of the annual report and accounts.

3. On the Consolidated Balance Sheet, the net deferred tax liabilities have been split between an asset of £7m and liabilities of £350m where the relevant items cannot be offset.

3.07 Payables and other financial liabilities

	2017 £m	2016 £m
Derivative liabilities	**8,173**	9,014
Repurchase agreements[1]	**32,357**	23,206
Other[2]	**12,026**	5,127
Total payables and other financial liabilities[3]	**52,556**	37,347
Less liabilities classified as held for sale	**(310)**	
Payables and other financial liabilities	**52,246**	37,347
Due within 12 months[4]	**47,212**	34,517
Due after 12 months[4]	**5,344**	2,830

1. The repurchase agreements are presented gross, however they and their related assets, included within Debt securities, are subject to master netting arrangements.

2. Other includes trail commission, future commission costs, FX spots and collateral repayable on short position reverse repurchase agreements. The value of FX spots and collateral repayable on short position reverse repurchase agreements increased by £2.3bn and £4.0bn, respectively, within the financial year.

3. Total payables and other financial liabilities are presented gross of held for sale liabilities in 2017 and net of held for sale liabilities in 2016. Detailed disclosure relating to these held for sale items is included in Note 30.

4. The maturity analysis of the liabilities between less and more than 12 months is based on the Total payables and other financial liabilities as at 31 December.

Fair value hierarchy

As at 31 December 2017	**Total £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Amortised cost £m**
Derivative liabilities	**8,173**	**193**	**7,969**	**11**	**-**
Repurchase agreements	**32,357**	**-**	**32,357**	**-**	**-**
Other	**12,026**	**4,793**	**7**	**140**	**7,086**
Total payables and other financial liabilities	**52,556**	**4,986**	**40,333**	**151**	**7,086**

As at 31 December 2016	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities[1]	9,014	45	8,969	-	-
Repurchase agreements[2]	23,206	-	23,206	-	-
Other[2]	5,127	806	8	177	4,136
Total payables and other financial liabilities	37,347	851	32,183	177	4,136

1. Within derivative assets as at 31 December 2016, £839m of forward currency contracts have been reclassified from Level 1 to Level 2, following a review of the inputs required in their valuation. The reclassification has nil impact on the valuation of the instruments, and therefore nil impact on the Consolidated Balance Sheet.

2. £23,163m of repurchase agreements have been restated from amortised cost to fair value (Level 2) to properly reflect their classification as fair value through profit and loss. At the same time £43m of accrued interest on repurchase agreements has been reclassified from Other to Repurchase agreements.

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 year. A reasonably possible alternative persistency assumption would have the effect of increasing the liability (including held for sale liabilities) by £4m (2016: £5m).

Significant transfers between levels

There have been no significant transfers between Levels 1, 2 and 3 for the year ended 31 December 2017 (31 December 2016: no significant transfers), other than those noted above.

3.08 Dividends

	Dividend 2017 £m	**Per[1] share 2017 p**	Dividend 2016 £m	Per[1] share 2016 p
Ordinary share dividends paid in the year:				
- Prior year final dividend	**616**	**10.35**	592	9.95
- Current year interim dividend	**256**	**4.30**	238	4.00
	872	**14.65**	830	13.95
Ordinary share dividend proposed[2]	**658**	**11.05**	616	10.35

1. The dividend per share calculation is based on the number of equity shares registered on the ex-dividend date.
2. Subsequent to 31 December 2017, the directors proposed a final dividend for 2017 of 11.05 pence per ordinary share. Subject to approval at the AGM, the dividend will be accounted for as an appropriation of retained earnings during the year ended 31 December 2018, and is not included as a liability in the Consolidated Balance Sheet.

3.09 Share capital and share premium

Authorised share capital	2017 Number of shares	2017 £m	2016 Number of shares	2016 £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 2017	**5,954,656,466**	**149**	**981**
Options exercised under share option schemes:			
- Savings related share option scheme	**3,781,727**	**-**	**7**
As at 31 December 2017	**5,958,438,193**	**149**	**988**

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

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.

3.10 Core borrowings

	Carrying amount 2017 £m	**Fair value 2017 £m**	Carrying amount 2016 £m	Fair value 2016 £m
Subordinated borrowings				
5.875% Sterling undated subordinated notes (Tier 2)	**408**	**428**	411	418
6.385% Sterling perpetual capital securities (Tier 1)	**-**	**-**	615	609
10% Sterling subordinated notes 2041 (Tier 2)	**311**	**397**	310	403
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**710**	589	603
5.375% Sterling subordinated notes 2045 (Tier 2)	**603**	**694**	602	627
5.25% US Dollar subordinated notes 2047 (Tier 2)	**628**	**679**	-	-
5.55% US Dollar subordinated notes 2052 (Tier 2)	**369**	**397**	-	-
Client fund holdings of group debt[1]	**(32)**	**(38)**	(31)	(31)
Total subordinated borrowings	**2,876**	**3,267**	2,496	2,629
Senior borrowings				
Sterling medium term notes 2031-2041	**609**	**857**	609	845
Client fund holdings of group debt[1]	**(26)**	**(37)**	(34)	(34)
Total senior borrowings	**583**	**820**	575	811
Total core borrowings	**3,459**	**4,087**	3,071	3,440

1. £58m (2016: £65m) 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.

Subordinated borrowings
5.875% Sterling undated subordinated notes
In 2004, Legal & General Group Plc issued £400m of 5.875% Sterling undated subordinated notes. These notes 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% pa. These notes are treated as tier 2 own funds for Solvency II purposes.

6.385% Sterling perpetual capital securities
In 2007, Legal & General Group Plc issued £600m of 6.385% Sterling perpetual capital securities. These securities were called at par on 2 May 2017.

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% pa. 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% pa. 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
In 2015, Legal & General Group Plc issued £600m of 5.375% dated subordinated notes. The notes are callable at par on 27 October 2025 and every five years thereafter. If not called, the coupon from 27 October 2025 will be reset to the prevailing five year benchmark gilt yield plus 4.58% pa. These notes mature on 27 October 2045. They are treated as tier 2 own funds for Solvency II purposes.

5.25% US Dollar subordinated notes 2047
On 21 March 2017, Legal & General Group Plc issued $850m of 5.25% dated subordinated notes. The notes are callable at par on 21 March 2027 and every five years thereafter. If not called, the coupon from 21 March 2027 will be reset to the prevailing US Dollar mid-swap rate plus 3.687% pa. These notes mature on 21 March 2047. They are treated as tier 2 own funds for Solvency II purposes.

5.55% US Dollar subordinated notes 2052
On 24 April 2017, Legal & General Group Plc issued $500m of 5.55% dated subordinated notes. The notes are callable at par on 24 April 2032 and every five years thereafter. If not called, the coupon from 24 April 2032 will be reset to the prevailing US Dollar mid-swap rate plus 4.19% pa. These notes mature on 24 April 2052. They are treated as tier 2 own funds for Solvency II purposes.

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

3.11 Operational borrowings

	Carrying amount 2017 £m	Fair value 2017 £m	Carrying amount 2016 £m	Fair value 2016 £m
Short term operational borrowings				
Euro Commercial paper	**349**	**349**	216	216
Bank loans and overdrafts	**87**	**87**	6	6
Total short term operational borrowings	**436**	**436**	222	222
Non recourse borrowings	**102**	**102**	208	208
Total operational borrowings	**538**	**538**	430	430

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.

Short term operational borrowings

Short term assets available at the holding company level exceeded the amount of short term operational borrowings of £436m (2016: £216m).

Syndicated credit facility

As at 31 December 2017, the group had in place a £1.0bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2022. No amounts were outstanding at 31 December 2017.

3.12 Insurance contract liabilities

(a) Analysis of insurance contract liabilities

	Gross 2017 £m	**Re-insurance 2017 £m**	Gross 2016 £m	Re-insurance 2016 £m
Participating insurance contracts	**5,437**	**(1)**	5,794	(1)
Non-participating insurance contracts	**63,155**	**(5,474)**	60,511	(5,297)
General insurance contracts	**291**	**(8)**	268	(9)
Total insurance contract liabilities[1]	**68,883**	**(5,483)**	66,573	(5,307)
Less of classified as held for sale	**(6,565)**	**49**		
Insurance contract liabilities	**62,318**	**(5,434)**	66,573	(5,307)

1. Total insurance contract liabilities are presented gross of held for sale liabilities in 2017 and net of held for sale liabilities in 2016. Detailed disclosure relating to these held for sale items is included in Note 30 of the annual report and accounts.

During the year, the group continued utilising prospective reinsurance arrangements which resulted in a profit of £505m (2016: £535m). 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.

(b) Movement in participating insurance contract liabilities

	Gross 2017 £m	**Re-insurance 2017 £m**	Gross 2016 £m	Re-insurance 2016 £m
As at 1 January	**5,794**	**(1)**	5,618	(1)
New liabilities in the year	**41**	**-**	40	-
Liabilities discharged in the year	**(702)**	**-**	(749)	-
Unwinding of discount rates	**20**	**-**	27	-
Effect of change in non-economic assumptions	**(5)**	**-**	(3)	-
Effect of change in economic assumptions	**233**	**-**	642	-
Modelling and methodology changes	**63**	**-**	202	-
Other	**(7)**	**-**	17	-
Total as at 31 December[1]	**5,437**	**(1)**	5,794	(1)
Less liabilities classified as held for sale	**(5,437)**	**1**		
As at 31 December	**-**	**-**	5,794	(1)

1. Total insurance contract liabilities are presented gross of held for sale liabilities in 2017 and net of held for sale liabilities in 2016. Detailed disclosure relating to these held for sale items is included in Note 30 of the group annual report and accounts.

3.12 Insurance contract liabilities (continued)

(c) Movement in non-participating insurance contract liabilities

	Gross 2017 £m	**Re-insurance 2017 £m**	Gross 2016 £m	Re-insurance 2016 £m
As at 1 January	**60,511**	**(5,297)**	49,470	(3,861)
New liabilities in the year	**4,809**	**(932)**	6,273	(613)
Liabilities discharged in the year	**(3,006)**	**208**	(2,890)	86
Unwinding of discount rates	**1,458**	**(154)**	1,574	(129)
Effect of change in non-economic assumptions	**(663)**	**193**	51	(43)
Effect of change in economic assumptions	**789**	**(123)**	6,870	(546)
Foreign exchange adjustments	**(306)**	**35**	795	(66)
Transfer of liabilities classified as held for sale			(1,709)	1
Modelling and methodology changes	**(456)**	**568**	61	(127)
Other	**19**	**28**	16	1
Total as at 31 December[1]	**63,155**	**(5,474)**	60,511	(5,297)
Less liabilities of operations classified as held for sale	**(1,127)**	**48**		
As at 31 December	**62,028**	**(5,426)**	60,511	(5,297)

1. Total insurance contract liabilities are presented gross of held for sale liabilities in 2017 and net of held for sale liabilities in 2016. Detailed disclosure relating to these held for sale items is included in Note 30 in the group annual report and accounts.

3.13 Investment contract liabilities

(a) Analysis of investment contract liabilities

	Gross 2017 £m	Re-insurance 2017 £m	Gross 2016 £m	Re-insurance 2016 £m
Participating investment contracts	**5,168**	**-**	5,271	-
Non-participating investment contracts	**336,628**	**(317)**	321,177	(286)
Total investment contract liabilities[1]	**341,796**	**(317)**	326,448	(286)
Less investment contract liabilities classified as held for sale	**(26,145)**	**48**		
Investment contract liabilities	**315,651**	**(269)**	326,448	(286)

1. Total investment contract liabilities are presented gross of held for sale liabilities in 2017 and net of held for sale liabilities in 2016. Detailed disclosure relating to these held for sale items is included in Note 30 of the group annual report and accounts.

(b) Movement in investment contract liabilities

	Gross 2017 £m	Re-insurance 2017 £m	Gross 2016 £m	Re-insurance 2016 £m
As at 1 January	**326,448**	**(286)**	283,466	(250)
Reserves in respect of new business	**46,096**	**(36)**	27,832	(27)
Amounts paid on surrenders and maturities during the year	**(58,073)**	**31**	(43,217)	35
Investment return and related benefits	**27,576**	**(26)**	58,622	(44)
Management charges	**(251)**	**-**	(251)	-
Other	**-**	**-**	(4)	-
Total as at 31 December[1]	**341,796**	**(317)**	326,448	(286)

1. Total investment contract liabilities are presented gross of held for sale liabilities in 2017 and net of held for sale liabilities in 2016. Detailed disclosure relating to these held for sale items is included in Note 30 of the group annual report and accounts.

3.14 IFRS sensitivity analysis

	Impact on pre-tax group profit net of re-insurance 2017 £m	**Impact on group equity net of re-insurance 2017 £m**	Impact on pre-tax group profit net of re-insurance 2016 £m	Impact on group equity net of re-insurance 2016 £m
Economic sensitivity				
Long-term insurance				
100bps increase in interest rates	**195**	**59**	173	42
50bps decrease in interest rates	**(126)**	**(45)**	(111)	(9)
50bps increase in future inflation expectations	**6**	**5**	3	2
Credit spreads widen by 100bps with no change in expected defaults	**(108)**	**(172)**	(19)	(100)
25% rise in equity markets	**514**	**456**	406	475
25% fall in equity markets	**(443)**	**(399)**	(308)	(397)
15% rise in property values	**408**	**346**	278	234
15% fall in property values	**(441)**	**(373)**	(278)	(234)
10bps increase in credit default assumptions	**(477)**	**(383)**	(426)	(339)
10bps decrease in credit default assumptions	**469**	**377**	437	348
Non-economic sensitivity				
Long-term insurance				
1% increase in annuitant mortality	**186**	**197**	189	194
1% decrease in annuitant mortality	**(178)**	**(191)**	(200)	(202)
5% increase in assurance mortality	**(49)**	**(37)**	(62)	(47)
General insurance				
Single storm event with 1 in 200 year probability	**(58)**	**(47)**	(62)	(50)

The table above shows the impacts on group pre-tax profit and equity, net of reinsurance, under each sensitivity scenario. For 2017 the group has aligned sensitivity analysis disclosure requirements across various reported metrics, primarily for interest rate, equity, property value, and annuitant mortality. The current disclosure also reflects management's view of key risks in current economic conditions.

The interest rate sensitivity assumes a 100bps increase, and 50bps decrease, in the gross redemption yield on fixed interest securities together with a 100bps and 50bps change in the real yields on variable securities for respective sensitivity analyses. 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 impact of economic sensitivities on shareholders' share of with-profit bonus declared in the year is relatively nominal for its insensitivity to market movements due to the smoothing policies applied.The interest rate sensitivities reflect the impact of the regulatory restrictions on the reinvestment rate used to value the liabilities of the long term business. No yield floors have been applied in the estimation of the stresses, despite the current low interest rate environment.

The inflation stress adopted is a 50bps p.a. increase in inflation resulting in a 50bps p.a. reduction in real yield and no change to the nominal yield. In addition the expense inflation rate is increased by 50bps p.a. In the sensitivity for credit spreads, corporate bond yields have increased by 100bps, gilt and approved security yields are unchanged, and there has been no adjustment to the default assumptions.

The equity stress is a +/- 25% in equity values. The property stress adopted is a +/-15% in property market value. Rental income is assumed to be unchanged; however the vacant possession value is stressed down by 15% in line with the market value stress. Where property is being used to back liabilities, the valuation interest rate used to place a value on the liabilities moves with the implied change in property yields.

The credit default stress assumes a +/-10bps stress to the current credit default assumptions for unapproved corporate bonds which will have an impact on the valuation interest rates used to discount liabilities. The credit default assumption is set based on the credit rating of the individual bonds in the asset portfolio and their outstanding term using Moody's global credit default rates.

The annuitant mortality stress is a +/-1% in the mortality rates for immediate and deferred annuitants with no change to the mortality improvement rates. The assurance mortality stress represents an increase in mortality/morbidity rates for assurance contracts by 5%.

For any single weather event with claims in excess of £30m (2016: £30m) but less than £520m (2016: £509m) the ultimate cost to Legal & General Insurance Limited would be £30m plus 50% of the £5m XS £30m layer (2016: £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 is placed with Legal & General Assurance Society Limited, which is exposed to 93% of claims between £35m and £105m and Legal & General Reinsurance Limited, which is exposed to 71% of claims between £105 and £225m, a new participant in the Legal & General Insurance Limited catastrophe reinsurance cover in 2017. 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 £295m (2016: £280m), with an estimated total cost to Legal & General Insurance Limited of £350m (2016: £335m) and to the group of £490m (2016: £590m).

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.

3.15 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 decrease in non-controlling interest to £76m (2016: £338m) reflects the deconsolidation of the Leisure Fund Unit Trust following a reduction in the group's equity holding in the fund which, taking into account all other factors associated with the group's investment in that fund, led to the judgement that as at 31 December 2017, the group no longer exercised control over the fund.

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

3.16 Foreign exchange rates

Principal rates of exchange used for translation are:

Period end exchange rates	**2017**	2016
United States Dollar	**1.35**	1.24
Euro	**1.13**	1.17

Average exchange rates	**2017**	2016
United States Dollar	**1.29**	1.36
Euro	**1.14**	1.22

3.17 Related party transactions

There were no material transactions between key management and the Legal & General group of companies during the year. All transactions between the group and its key management are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment defined benefit plans were £93m (2016: £75m) for all employees.

At 31 December 2017 and 31 December 2016 there were no loans outstanding to officers of the company.

(i) Key management personnel compensation

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

	2017 £m	2016[1] £m
Salaries	**10**	9
Post-employment benefits	**-**	-
Share-based incentive awards	**4**	5
Key management personnel compensation	**14**	14
Number of key management personnel	**15**	15

1. For the year ended 31 December 2016, Key management personnel compensation included social security costs. These costs should not have been included in the analysis, as they are not an employee benefit. The table has therefore been restated to exclude these costs. The restatement has no impact on either Total expenses nor Profit before income tax in the Company's Statement of Comprehensive Income for the year ended 31 December 2016.

3.18 Provisions

(a) Analysis of provisions

	2017 £m	2016 £m
Retirement benefit obligations	**1,266**	1,239
Other provisions	**73**	89
Total provisions[1]	**1,339**	1,328
Less provisions classified as held for sale[1]	**(4)**	
Provisions	**1,335**	1,328

1. Total provisions are presented gross of held for sale liabilities in 2017 and net of held for sale liabilities in 2016. Detailed disclosure relating to these held for sale items is included in Note 30 of the group annual report and accounts.

(b) Retirement benefit obligations

	Fund and Scheme 2017 £m	Overseas 2017 £m	Fund and Scheme 2016 £m	Overseas 2016 £m
Gross pension obligations included in provisions	**1,261**	**5**	1,234	5
Annuity obligations insured by LGAS	**(875)**	**-**	(779)	-
Gross defined benefit pension deficit	**386**	**5**	455	5
Deferred tax on defined benefit pension deficit	**(69)**	**(1)**	(81)	(1)
Net defined benefit pension deficit	**317**	**4**	374	4

The Legal & General Group UK Pension and Assurance Fund and the Legal & General Group UK Senior Pension Scheme are defined benefit pension arrangements and account for all UK and the majority of worldwide assets of, and contributions to, such arrangements. The schemes were closed to future accrual on 31 December 2015. At 31 December 2017, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Legal & General Assurance Society) has been estimated at £317m (31 December 2016: £374m).

3.19 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 (LGAS) was required by the Institute of London Underwriters (ILU) to execute the ILU form of guarantee in respect of policies issued through the ILU's Policy Signing Office on behalf of NRG Victory Reinsurance Company Ltd (Victory), a company which was then a subsidiary of LGAS. In 1990, Nederlandse Reassurantie Groep Holding NV (the assets and liabilities of which have since been assumed by Nederlandse Reassurantie Groep NV under a statutory merger in the Netherlands) acquired Victory and provided an indemnity to LGAS against any liability LGAS may have as a result of the ILU's requirement, and the ILU agreed that its requirement of LGAS would not apply to policies written or renewed after the acquisition. Nederlandse Reassurantie Groep NV is now owned by Columbia Insurance Company, a subsidiary of Berkshire Hathaway Inc. Whether LGAS has any liability as a result of the ILU's requirement and, if so, the amount of its potential liability is uncertain. LGAS has made no payment or provision in respect of this matter.

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

Asset and premium flows

4.01 Legal & General investment management total assets under management (AUM)

	Index £bn	**Active fixed income £bn**	**Solu-tions[1] £bn**	**Real assets £bn**	**Active equities £bn**	**Total AUM £bn**
At 1 January 2017	**319.8**	**134.8**	**411.9**	**19.6**	**8.1**	**894.2**
External inflows	51.1	15.1	33.2	1.5	0.1	101.0
External outflows	(61.4)	(6.4)	(15.7)	(1.2)	(0.1)	(84.8)
Overlay/advisory net flows	-	-	27.3	-	-	27.3
External net flows[2]	**(10.3)**	**8.7**	**44.8**	**0.3**	**-**	**43.5**
Internal net flows	(0.4)	(2.0)	(1.1)	1.5	(0.7)	(2.7)
Disposal of LGN[4]	(0.3)	(0.5)	-	-	-	(0.8)
Total net flows	**(11.0)**	**6.2**	**43.7**	**1.8**	**(0.7)**	**40.0**
Cash management movements[3]	-	3.0	-	-	-	3.0
Market and other movements[2]	32.1	4.8	7.1	2.4	(0.3)	46.1
At 31 December 2017	**340.9**	**148.8**	**462.7**	**23.8**	**7.1**	**983.3**
Assets attributable to:						
External						**883.8**
Internal						**99.5**
Assets attributable to:						
UK						**755.3**
International						**228.0**

	Index £bn	Active fixed income £bn	Solu-tions[1] £bn	Real assets £bn	Active equities £bn	Total AUM £bn
At 1 January 2016	274.3	106.8	338.2	18.3	8.5	746.1
External inflows	35.2	10.8	19.9	1.4	-	67.3
External outflows	(45.0)	(6.5)	(12.4)	(1.2)	(0.2)	(65.3)
Overlay/advisory net flows	-	-	27.2	-	-	27.2
External net flows[2]	(9.8)	4.3	34.7	0.2	(0.2)	29.2
Internal net flows	(0.3)	1.5	-	0.7	0.1	2.0
Total net flows	(10.1)	5.8	34.7	0.9	(0.1)	31.2
Cash management movements[3]	-	(0.7)	-	-	-	(0.7)
Market and other movements[2]	55.6	22.9	39.0	0.4	(0.3)	117.6
At 31 December 2016	319.8	134.8	411.9	19.6	8.1	894.2
Assets attributable to:						
External						796.7
Internal						97.5
Assets attributable to:						
UK						716.8
International						177.4

1. Solutions include liability driven investments, multi-asset funds and include £272.8bn at 31 December 2017 (31 December 2016: £251.8bn) of derivative notionals associated with the Solutions business.
2. External net flows exclude movements in short-term solutions assets, as their maturity dates are determined by client agreements and subject to a higher degree of variability. The total value of these assets at 31 December 2017 was £47.0bn (31 December 2016: £52.6bn), and the movement in these assets is included in market and other movements for Solutions assets.
3. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.
4. Legal & General Netherlands was sold on 6 April 2017 to Chesnara Plc.

4.02 Legal & General investment management total assets under management half-yearly progression

	Index £bn	Active fixed income £bn	Solu-tions[1] £bn	Real assets £bn	Active equities £bn	Total AUM £bn
At 1 January 2017	**319.8**	**134.8**	**411.9**	**19.6**	**8.1**	**894.2**
External inflows	25.4	8.3	16.0	0.8	0.1	50.6
External outflows	(29.7)	(3.0)	(9.0)	(0.5)	(0.1)	(42.3)
Overlay/ advisory net flows	-	-	13.4	-	-	13.4
External net flows[2]	**(4.3)**	**5.3**	**20.4**	**0.3**	**-**	**21.7**
Internal net flows	(0.3)	(0.4)	0.4	0.5	(1.3)	(1.1)
Disposal of LGN[4]	(0.3)	(0.5)	-	-	-	(0.8)
Total net flows	**(4.9)**	**4.4**	**20.8**	**0.8**	**(1.3)**	**19.8**
Cash management movements[3]	-	4.1	-	-	-	4.1
Market and other movements[2]	16.6	1.7	13.4	0.8	0.5	33.0
At 30 June 2017	**331.5**	**145.0**	**446.1**	**21.2**	**7.3**	**951.1**
External inflows	25.7	6.8	17.2	0.7	-	50.4
External outflows	(31.7)	(3.4)	(6.7)	(0.7)	-	(42.5)
Overlay / advisory net flows	-	-	13.9	-	-	13.9
External net flows[2]	**(6.0)**	**3.4**	**24.4**	**-**	**-**	**21.8**
Internal net flows	(0.1)	(1.6)	(1.5)	1.0	0.6	(1.6)
Total net flows	**(6.1)**	**1.8**	**22.9**	**1.0**	**0.6**	**20.2**
Cash management movements[3]	-	(1.1)	-	-	-	(1.1)
Market and other movements[2]	15.5	3.1	(6.3)	1.6	(0.8)	13.1
At 31 December 2017	**340.9**	**148.8**	**462.7**	**23.8**	**7.1**	**983.3**

1. Solutions include liability driven investments, multi-asset funds, and include £272.8bn at 31 December 2017 (30 June 2017: £280.8bn) of derivative notionals associated with the Solutions business.
2. External net flows exclude movements in short-term solutions assets, as their maturity dates are determined by client agreements and subject to a higher degree of variability. The total value of these assets at 31 December 2017 was £47.0bn (30 June 2017: £81.7bn) and the movement in these assets is included in market and other movements for Solutions assets.
3. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.
4. Legal & General Netherlands was sold on 6 April 2017 to Chesnara Plc.

4.02 Legal & General investment management total assets under management half-yearly progression

	Index £bn	Active fixed income £bn	Solu-tions[1] £bn	Real assets £bn	Active equities £bn	Total AUM £bn
At 1 January 2016	274.3	106.8	338.2	18.3	8.5	746.1
External inflows	17.6	4.8	9.3	0.8	-	32.5
External outflows	(20.0)	(2.2)	(6.6)	(0.7)	(0.1)	(29.6)
Overlay/ advisory net flows	-	-	6.7	-	-	6.7
External net flows[2]	(2.4)	2.6	9.4	0.1	(0.1)	9.6
Internal net flows	(0.4)	0.7	(0.1)	0.1	-	0.3
Total net flows	(2.8)	3.3	9.3	0.2	(0.1)	9.9
Cash management movements[3]	-	(0.6)	-	-	-	(0.6)
Market and other movements[2]	28.9	16.3	41.6	(0.1)	(0.6)	86.1
At 30 June 2016	300.4	125.8	389.1	18.4	7.8	841.5
External inflows	17.6	6.0	10.6	0.6	-	34.8
External outflows	(25.0)	(4.3)	(5.8)	(0.5)	(0.1)	(35.7)
Overlay / advisory net flows	-	-	20.5	-	-	20.5
External net flows[2]	(7.4)	1.7	25.3	0.1	(0.1)	19.6
Internal net flows	0.1	0.8	0.1	0.6	0.1	1.7
Total net flows	(7.3)	2.5	25.4	0.7	-	21.3
Cash management movements[3]	-	(0.1)	-	-	-	(0.1)
Market and other movements[2]	26.7	6.6	(2.6)	0.5	0.3	31.5
At 31 December 2016	319.8	134.8	411.9	19.6	8.1	894.2

1. Solutions include liability driven investments, multi-asset funds, and include £251.8bn at 31 December 2016 (30 June 2016: £244.0bn) of derivative notionals associated with the Solutions business.
2. External net flows exclude movements in short term solutions assets, as their maturity dates are determined by client agreements and subject to a higher degree of variability. The total value of these assets at 31 December 2016 was £52.6bn (30 June 2016: £71.0bn) and the movement in these assets is included in Market and other movements for Solutions assets.
3. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.

	31 December 2017 £bn	**30 June 2017 £bn**	31 December 2016 £bn	30 June 2016 £bn
Total assets under management attributable to:				
External	**883.8**	**853.2**	796.7	749.8
Internal	**99.5**	**97.9**	97.5	91.7
Total assets under management attributable to:				
UK	**755.3**	**752.8**	716.8	689.6
International	**228.0**	**198.3**	177.4	151.9

4.03 Legal & General investment management total external assets under management net flows

	6 months to 31 December 2017 £bn	**6 months to 30 June 2017 £bn**	6 months to 31 December 2016 £bn	6 months to 30 June 2016 £bn
LGIM total external AUM net flows[1]	**21.8**	**21.7**	19.6	9.6
Attributable to:				
International	**15.1**	**17.9**	7.8	6.7
UK Institutional				
- Defined contribution	**1.3**	**1.7**	1.2	0.8
- Defined benefit	**4.1**	**0.4**	9.9	1.4
UK Retail	**1.3**	**1.7**	0.7	0.7

1. External net flows exclude movements in short term overlay assets, with maturity as determined by client agreements and cash management movements.

4.04 Legal & General investment management investment performance

Investment performance across our AUM as at 31 December 2017 is set out in the table below. This has been calculated internally by LGIM to provide general guidance as to how our AUM is performing. The data is aggregated and is not intended for clients or potential clients investing in our products.

Performance against success measures – benchmark or performance criteria

For the year ended 31 December 2017	**One year period**	**Three year period**	**Five year period**
Actively Managed AUM[1]	85%	82%	71%
Index Managed AUM[2]	98%	97%	97%
Client Solutions AUM[3]	99%	100%	100%
Percentage of AUM reported [4]	89%	72%	61%

1. Actively Managed AUM: actively managed products measured against applicable benchmark or peer group performance.
2. Index Managed AUM: assets managed against benchmark within applicable tolerance.
3. Client solutions AUM: products managed against specific risk target or client outcome.
4. Excluded from the performance measurement are non-discretionary accounts, funds on our investment only platform with external manager holdings, funds with insufficient performance history and transition management accounts.

Performance is measured on a gross-of-fee basis for institutional accounts and net-of-fee for retail funds, and is measured against benchmarks, peer group performance or risk based metrics.

4.05 Assets under management reconciliation to Consolidated Balance Sheet financial assets

	2017 £bn	2016[1] £bn
Assets under management	**983**	894
Derivative notionals[2]	**(273)**	(252)
Third party assets[3]	**(261)**	(235)
Other[4]	**42**	49
Total financial investments, investment property and cash and cash equivalents	**491**	456
Less financial assets classified as held for sale[5]	**(22)**	(2)
Financial investments, investment property and cash and cash equivalents	**469**	454

1. Following a review of short dated instruments, certain assets have been reclassified from Cash and cash equivalents to Financial investments as their maturity at the balance sheet date was greater than 3 months. These amounts totalled £10,369m and the analysis above has been restated to reflect this reclassification.
2. Derivative notionals are included in the assets under management but not for IFRS reporting and are thus removed.
3. Third party assets are those that LGIM manage on behalf of others, for which the group does not have the risks or rewards and thus are not included on the IFRS balance sheet.
4. Other includes assets that are managed by third parties on behalf of the group, other assets and liabilities related to financial investments, derivative assets, cash and broker balances.
5. Detailed disclosure relating to these held for sale items is included in Note 30 of the group annual report and accounts.

4.06 Assets under administration

	2017 Work-place £bn	**2017 Annuities £bn**	2016 Work-place £bn	2016 Annuities £bn
At 1 January	**20.8**	**54.4**	14.7	43.4
Gross inflows	5.9	4.6	4.4	7.3
Gross outflows	(1.4)	-	(1.1)	-
Payments to pensioners	-	(3.3)	-	(3.0)
Net flows	**4.5**	**1.3**	3.3	4.3
Market and other movements	2.4	2.5	2.8	6.7
At 31 December 2017	**27.7**	**58.2**	20.8	54.4

4.07 Assets under administration half-yearly progression

	2017 Work-place £bn	**2017 Annuities £bn**	2016 Work-place £bn	2016 Annuities £bn
At 1 January	**20.8**	**54.4**	14.7	43.4
Gross inflows	3.4	2.0	2.3	4.0
Gross outflows	(0.6)	-	(0.5)	-
Payments to pensioners	-	(1.6)	-	(1.4)
Net flows	**2.8**	**0.4**	1.8	2.6
Market and other movements	1.3	0.8	0.8	5.0
Disposals	-	-	-	-
At 30 June	**24.9**	**55.6**	17.3	51.0
Gross inflows	2.5	2.6	2.1	3.3
Gross outflows	(0.8)	-	(0.6)	-
Payments to pensioners	-	(1.7)	-	(1.6)
Net flows	**1.7**	**0.9**	1.5	1.7
Market and other movements	1.1	1.7	2.0	1.7
At 31 December	**27.7**	**58.2**	20.8	54.4

4.08 LGR new business

	6 months to 31 December 2017 £m	**6 months to 30 June 2017 £m**	6 months to 31 December 2016 £m	6 months to 30 June 2016 £m
Backbook acquisitions	**-**	**-**	-	2,945
Pension risk transfer				
- UK	**1,901**	**1,504**	2,698	640
- US	**428**	**115**	302	45
Individual Annuities	**326**	**345**	220	158
Lifetime Mortgage Advances	**580**	**424**	389	231
Longevity Insurance[1]	**-**	**800**	900	-
Total LGR new business	**3,235**	**3,188**	4,509	4,019

1. 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.

4.09 Insurance new business

	6 months to 31 December 2017 £m	**6 months to 30 June 2017 £m**	6 months to 31 December 2016 £m	6 months to 30 June 2016 £m
UK Retail Protection	**86**	**86**	88	82
UK Group Protection	**21**	**28**	22	36
Netherlands Protection[1]	**-**	**1**	2	2
US Protection	**41**	**38**	34	28
Total LGI new business	**148**	**153**	146	148

1. Legal & General Netherlands was sold on 6 April 2017 to Chesnara Plc.

4.10 Gross written premiums on Insurance business

	6 months to 31 December 2017 £m	**6 months to 30 June 2017 £m**	6 months to 31 December 2016 £m	6 months to 30 June 2016 £m
UK Retail Protection	**623**	**609**	597	582
UK Group Protection	**102**	**224**	100	233
General Insurance	**196**	**173**	170	156
Netherlands Protection[1]	**-**	**14**	27	25
US Protection	**482**	**491**	477	420
Longevity insurance	**186**	**175**	160	161
Total gross written premiums on Insurance business	**1,589**	**1,686**	1,531	1,577

1. Legal & General Netherlands was sold on 6 April 2017 to Chesnara Plc.

This page left intentionally blank

5.01 Group regulatory capital – Solvency II

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

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

In December 2015, the group received approval to calculate its Solvency II capital requirements using a Partial Internal Model (together with the approval by the PRA of applications for major model change in December 2016 and December 2017). The vast majority of the risk to which the group is exposed is assessed on the Internal Model basis approved by the PRA. Capital requirements for a few smaller entities are assessed using the Standard Formula basis on materiality grounds. The group's US insurance businesses are valued on a local statutory basis, following the PRA's approval to use the Deduction and Aggregation method of including these businesses in the group solvency calculation.

The table below shows the "shareholder view" of the group Own Funds, Solvency Capital Requirement (SCR) and Surplus Own Funds, based on the Partial Internal Model, Matching Adjustment and Transitional Measures on Technical Provisions (recalculated as at end December 2017 in line with the PRA guidance).

(a) Capital position

As at 31 December 2017 the group had a Solvency II surplus of £6.9bn (31 December 2016: £5.7bn) over its Solvency Capital Requirement, corresponding to a coverage ratio on a "shareholder view" basis of 189% (31 December 2016: 171%). The shareholder view of the Solvency II capital position is as follows:

	2017 £bn	2016 £bn
Core tier 1 Own Funds	**11.6**	11.0
Tier 1 subordinated liabilities[1]	**-**	0.6
Tier 2 subordinated liabilities[2]	**3.1**	2.1
Eligibility restrictions	**(0.1)**	(0.1)
Solvency II Own Funds[3,4]	**14.6**	13.6
Solvency Capital Requirement[5]	**(7.7)**	(7.9)
Solvency II surplus	**6.9**	5.7
SCR coverage ratio[6]	**189%**	171%

1. Tier 1 subordinated liabilities of £0.6bn were redeemed on 2 May 2017.
2. Tier 2 subordinated liabilities include $1.35bn of USD subordinated notes issued in 2017.
3. Own Funds do not include an accrual for the dividend of £658m (2016: £616m) declared after the balance sheet date.
4. Solvency II Own Funds allow for a risk margin of £5.9bn (2016: £6.4bn) and TMTP of £6.2bn (2016: £7.0bn).
5. The SCR is not subject to audit.
6. Coverage ratio is based on unrounded inputs.

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

On a proforma basis, which includes the contribution of with-profits fund and the final salary pension scheme in the group's Own Funds and corresponding SCR in group's SCR, the coverage ratio at 31 December 2017 is 181% (31 December 2016: 165%).

On 6 December 2017 the group announced its intention to sell the Mature Savings business to the ReAssure division of Swiss Re. Swiss Re assumed the economic exposure of the business from 1 January 2018 via a risk transfer agreement. It is expected that the formal transfer of the business will be completed in mid-2019, subject to satisfaction of normal conditions for a transaction including court sanction. The transfer will be effected by way of a Part VII transfer under the Financial Services Markets Act 2000. The impact of the risk transfer agreement has been reflected in the 2017 Own Funds. Due to the proximity of the transaction to the year end, the model change to make an allowance on the SCR will take place during 2018 and therefore the SCR in 2017 does not include any impact of the risk transfer agreement.

5.01 Group regulatory capital – Solvency II (continued)

(b) Methodology

Own Funds comprise the excess of the value of assets over the liabilities, as valued on a Solvency II basis. Subordinated debt issued by the group is considered to be part of available capital, rather than a liability, as it is subordinate to policyholder claims. Own Funds include deductions in relation to fungibility and transferability restrictions, where the surplus Own Funds of a specific group entity cannot be freely transferred around the group due to local legal or regulatory constraints.

Assets are valued at IFRS fair value with adjustments to remove intangibles and deferred acquisition costs, and to value reassurers' share of technical provisions on a basis consistent with the liabilities on the Solvency II balance sheet.

Liabilities are valued on a best estimate market consistent basis, with the application of a Solvency II Matching Adjustment for valuing annuity liabilities. This incorporates changes to the Internal Model and Matching Adjustment during 2017 and the impacts of a recalculation of the TMTP as at end December 2017. In line with the requirements to recalculate the TMTP every two years we applied to recalculate and the PRA granted approval in December 2017, but the PRA will not review our detailed methodology until later in 2018. The recalculated TMTP of £6.2bn (2016: £7.0bn) is net of amortisation to 31 December 2017.

The liabilities include a Risk Margin of £5.9bn (2016: £6.4bn) which represents an allowance for the cost of capital for a purchasing insurer to take on the portfolio of liabilities and residual risks that are deemed to be not hedgeable under Solvency II. This is calculated using a cost of capital of 6% as prescribed by the European Insurance and Occupational Pensions Authority (EIOPA).

The Solvency Capital Requirement is the amount of capital required to cover the 1-in-200 worst projected future outcome in the year following the valuation, allowing for realistic management and policyholder actions and the impact of the stress on the tax position of the group. This allows for diversification between the different firms within the group and between the risks to which they are exposed.

All material EEA insurance firms, including Legal & General Assurance Society Limited (the LGAS), Legal & General Insurance Limited, and Legal & General Assurance (Pensions Management) Limited are incorporated into the group's Solvency II Internal Model assessment of required capital, assuming diversification of the risks between and within those firms. These firms, as well as the non-EEA insurance firm (Legal & General Reinsurance Company Limited (LGRe) based in Bermuda) contribute over 97% of the group's SCR.

Firms for which the capital requirements are less material are valued on a Solvency II Standard Formula basis. Firms which are not regulated but which carry material risks to the group's solvency are modelled in the Internal Model on the basis of applying an appropriate stress to their net asset value.

Legal & General America's Banner Life and its subsidiaries (LGA) are incorporated into the calculation of group solvency using a Deduction and Aggregation basis. All risk exposure in these firms is valued on a local statutory basis, with capital requirements set to a multiple of local statutory Risk Based Capital (RBC) and further restrictions on the surplus contribution to the group. The US regulatory regime is considered to be equivalent to Solvency II by the European Commission. The contribution to group SCR is 150% of the local Company Action Level RBC (CAL RBC). The contribution to group's Own Funds is the SCR together with any surplus capital in excess of 250% of CAL RBC.

All non-insurance regulated firms are included using their current regulatory surplus.

Allowance is made within the Solvency II balance sheet for the group's defined benefit pension schemes using results on an IFRS basis. Within the SCR an allowance is made by stressing the IFRS result position using the same Internal Model basis as for the insurance firms.

The impact of the risk transfer agreement with the ReAssure division of Swiss Re has been reflected in the calculation of Own Funds. Due to the proximity of the transaction to the year end the model change required to reflect the impact of the agreement on the SCR has not been made. The change is expected in H1 2018. The impact of recognising the risk transfer in Own Funds is to reduce the reported coverage ratio by 2%. Once the model change is implemented the coverage ratio is expected to improve by an estimated 2%. It is expected that there will be a further improvement in the group's coverage ratio in 2019 when the Part VII transfer is finalised.

5.01 Group regulatory capital – Solvency II (continued)

(c) Assumptions

The calculation of the Solvency II balance sheet and associated capital requirements requires a number of assumptions, including:

(i) assumptions required to derive the present value of best estimate liability cash flows. Non-market assumptions are consistent with those underlying the group's IFRS disclosures, but with the removal of any prudence margins. Future investment returns and discount rates are those defined by EIOPA, which means that the risk free rates used to discount liabilities are market swap rates, with a 10 basis points (2016: 17 basis points) deduction to allow for a credit risk adjustment for sterling denominated liabilities. For annuities that are eligible, the liability discount rate includes a Matching Adjustment. This Matching Adjustment varies between LGAS and LGRe and by the currency of the relevant liabilities.

At 31 December 2017 the Matching Adjustment for UK GBP was 106 basis points (31 December 2016: 124 basis points) after deducting an allowance for the EIOPA fundamental spread equivalent to 51 basis points (31 December 2016: 58 basis points). The reduction in Fundamental Spread is driven by change in the factors supplied by EIOPA and changes in the asset portfolio which have improved the overall credit quality.

(ii) assumptions regarding management actions and policyholder behaviour across the full range of scenarios. The only management actions allowed for are those that have been approved by the Board and are in place at the balance sheet date;

(iii) assumptions regarding the volatility of the risks to which the group is exposed. Assumptions have been set using a combination of historic market, demographic and operating experience data. In areas where data is not considered robust, expert judgement has been used; and

(iv) assumptions on the dependencies between risks, which are calibrated using a combination of historic data and expert judgement.

(d) Analysis of change

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

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

The table below shows the movement (net of tax) during the financial year in the group's Solvency II surplus.

	2017 £bn	2016 £bn
Surplus arising from back-book (including release of SCR)	**1.3**	1.2
Release of Risk Margin[1]	**0.4**	0.3
Amortisation of TMTP[2]	**(0.4)**	(0.3)
Operational Surplus Generation[3]	**1.3**	1.2
New Business Strain	**(0.1)**	(0.1)
Net Surplus Generation	**1.2**	1.1
Dividends paid[4]	**(0.9)**	(0.8)
Operating variances[5]	**0.4**	0.2
Market movements[6]	**-**	(0.3)
Subordinated debt[7]	**0.5**	-
Total Surplus movement (after dividends paid in the year)	**1.2**	0.2

1. Based on the risk margin in force at the end of 2017 and does not include the release of any risk margin added by new business written in 2017.
2. TMTP amortisation based on a linear run down of the end-2016 TMTP of £5.9bn (net of tax, £7.0bn before tax) which was management's estimate of the TMTP on end-2017 market conditions.
3. Release of surplus generated by in-force business and includes management actions which at the start of the year could have been reasonably expected to take place. For 2017 these are to deliver further eligible assets and liabilities into the Matching Adjustment portfolio in respect of a small amount of pension risk transfer business and an increase in direct investments allocation to the annuity back-book.
4. Dividends paid are the amounts from the 2016 final and 2017 interim dividend declarations paid in 2017 (2016: 2015 final and 2016 interim dividend declarations).
5. Operating variances include the impact of experience variances, changes to valuation and capital calibration assumptions, changes to planned volumes of new business, tax rate changes, PRA approval of changes to the Internal Model and Matching Adjustment and other management actions including changes in asset mix, Matching Adjustment optimisation, hedging strategies, M&A activities (sale of Mature Savings, Legal & General Netherlands and Cofunds) and update to the longevity assumptions.
6. Market movements represents the impact of changes in investment market conditions over the period and changes to future economic assumptions. It also includes the capital impact of investment portfolio changes implemented by LGC. Market movements in 2017 include a reduction in the Risk Margin of £0.2bn (net of tax). 31 December 2016 included an increase in the Risk Margin of £1.1bn (net of tax) offset by an increase in the estimated TMTP of £1.0bn (net of tax).
7. Movement in subordinated debt includes $1.35bn US Dollar subordinated notes issued and £0.6bn of sub-debt redeemed.

5.01 Group regulatory capital – Solvency II (continued)

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

(i) The table below provides a reconciliation of the group's IFRS Release from Operations to Solvency II Operational Surplus Generation.

	2017 £bn	2016 £bn
IFRS Release from Operations	**1.3**	1.3
Expected release of IFRS prudential margins	**(0.5)**	(0.5)
Releases of IFRS specific reserves[1]	**(0.1)**	(0.1)
Solvency II investment margin[2,3]	**0.2**	0.2
Release of Solvency II Capital Requirement and Risk Margin less TMTP amortisation[4]	**0.4**	0.4
Other Solvency II items and presentational differences	**-**	(0.1)
Solvency II Operational Surplus Generation	**1.3**	1.2

1. Release of prudence from IFRS specific reserves which are not included in Solvency II (e.g. long term expenses and longevity margins).
2. Release of prudence related to differences between the EIOPA-defined fundamental spread and L&G's best estimate default assumption.
3. Expected market returns earned on LGR's free assets in excess of risk free rates over 2017.
4. Solvency II Operational Surplus Generation includes management actions which at the start of 2017 were expected to take place within the group plan.

(ii) The table below provides a reconciliation of the group's IFRS New Business Surplus to Solvency II New Business Strain.

	2017 £bn	2016 £bn
IFRS New Business Surplus	**0.2**	0.2
Removal of requirement to set up prudential margins above best estimate on New Business[1]	**0.2**	0.5
Set up of Solvency II Capital Requirement on New Business[2]	**(0.3)**	(0.7)
Set up of Risk Margin on New Business[3]	**(0.2)**	(0.1)
Solvency II New Business Strain	**(0.1)**	(0.1)

1. Release of margin was higher in 2016 primarily due to the acquisition of bulk-annuity liabilities from Aegon.
2. The lower SCR for 2017 new business strain reflects both premiums written and the success of our strategy to source direct investments (including lifetime mortgages) to back new annuity sales.
3. Risk Margin in 2016 is net of Estimated TMTP attached to the acquisition of bulk-annuity liabilities from Aegon.

(f) Reconciliation of IFRS shareholders' equity to Solvency II Own Funds

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

	2017 £bn	2016 £bn
IFRS shareholders' equity	**7.8**	6.9
Remove DAC, goodwill and other intangible assets and liabilities	**(1.9)**	(2.1)
Add IFRS carrying value of subordinated debt treated as available capital under Solvency II[1]	**2.9**	2.5
Insurance contract valuation differences[2]	**7.4**	7.9
Difference in value of net deferred tax liabilities	**(0.6)**	(0.5)
SCR for with-profits fund and final salary pension schemes	**(0.7)**	(0.7)
Other[3]	**(0.2)**	(0.3)
Eligibility restrictions[4]	**(0.1)**	(0.1)
Own Funds[5]	**14.6**	13.6

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 technical provisions between IFRS and Solvency II.
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 that are subject to local regulatory rules.
5. Own Funds do not include an accrual for the dividend of £658m (2016: £616m) declared after the balance sheet date.

5.01 Group regulatory capital – Solvency II (continued)

(g) Sensitivity analysis

The following sensitivities are provided to give an indication of how the group's Solvency II surplus as at 31 December 2017 would have changed in a variety of adverse events. These are all independent stresses to a single risk. In practice, the balance sheet is impacted by combinations of stresses and the combined impact can be larger than adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse stresses will happen together.

	Impact on net of tax Solvency II capital surplus[7] 2017 £bn	**Impact on net of tax Solvency II coverage ratio[7] 2017 %**	Impact on net of tax Solvency II capital surplus 2016 £bn	Impact on net of tax Solvency II coverage ratio 2016 %
Credit spreads widen by 100bps assuming an escalating addition to ratings[1,2]	**0.2**	**8**	0.2	7
Credit spreads narrow by 100bps assuming an escalating addition to ratings[1,2]	**(0.3)**	**(9)**	(0.2)	(7)
Credit migration[3]	**(0.5)**	**(6)**	(0.6)	(8)
25% rise in equity markets[4]	**0.5**	**5**	0.5	6
25% fall in equity markets[4]	**(0.5)**	**(5)**	(0.5)	(6)
15% fall in property markets	**(0.4)**	**(4)**	(0.2)	(3)
15% rise in property markets	**0.3**	**4**	0.2	3
100bps increase in risk free rates	**0.8**	**20**	1.0	22
50bps decrease in risk free rates[5]	**(0.5)**	**(10)**	(0.5)	(10)
Substantially reduced Risk Margin[6]	**0.1**	**1**	0.1	1

1. The spread sensitivity applies to all assets within the group's holdings where the capital treatment depends on a credit rating (for example corporate bonds and income strips), with no change in the firm's long term default expectations.
2. The stress for AA bonds is twice that for AAA bonds, for A bonds it is three times, for BBB four times and so on, such that the weighted average spread stress for the portfolio is 100 basis points.
3. Credit migration stress covers the cost of an immediate big letter downgrade on 20% of all assets where the capital treatment depends on a credit rating (including corporate bonds and income strips).
4. The +/-25% equity impacts from 2016 were approximated using existing sensitivities.
5. In the interest rate down stress negative rates are allowed, i.e. there is no floor at zero rates.
6. This represents a reduction of two-thirds in Risk Margin and subsequent recalculation of TMTP.
7. The 2017 sensitivities ignore the impact of the Mature Savings business (including the With-Profits fund) as the risks have been transferred to ReAssure division of Swiss Re from 1 January 2018.

The above sensitivity analysis does not reflect all management actions which could be taken to reduce the impacts. In practice, the group actively manages its asset and liability positions to respond to market movements. These results all allow (on an approximate basis) for the recalculation of TMTP as at 31 December 2017 where the impact of the stress would cause this to change materially.

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

5.01 Group regulatory capital - Solvency II (continued)

(h) Analysis of Group Solvency Capital Requirement

The table below shows a breakdown of the group's SCR by risk type. The split is shown before the effects of diversification and tax.

	2017 %	2016 %
Interest Rate	**2**	4
Equity	**6**	5
Property	**5**	5
Credit[1]	**26**	25
Currency	**3**	3
Inflation	**4**	2
Total Market Risk[2]	**46**	44
Counterparty Risk	**1**	1
Life Mortality	**2**	3
Life Longevity[3]	**31**	32
Life Mass Lapse	**2**	2
Life Non-Mass Lapse	**3**	3
Life Catastrophe	**3**	4
Expense	**3**	3
Total Insurance Risk	**44**	47
Non-life underwriting	**2**	2
Operational Risk	**4**	4
Miscellaneous[4]	**3**	2
Total SCR	**100**	100

1. Credit risk is one of the group's most significant exposures, arising predominantly from the portfolio of bonds and bond-like assets backing the group's annuity business.
2. In addition to credit risk the group also has significant exposure to other market risks, primarily due to the investment holdings within the shareholder funds but also the risk to fee income from assets backing unit linked Savings business.
3. Longevity risk is the group's most significant insurance risk exposure, arising from the annuity book on which the majority of the longevity risk is retained.
4. Miscellaneous includes LGA on a Deduction and Aggregation basis and the sectoral capital requirements for non-insurance regulated firms.

5.02 Estimated Solvency II new business

(a) New business by product[1]

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

	PVNBP 2017 £m	Contri-bution from new business[2] 2017 £m	Margin[3] 2017 %	PVNBP 2016 £m	Contri-bution from new business[2] 2016 £m	Margin 2016 %
LGR - UK annuity business	**4,083**	**346**	**8.5**	6,661	693	10.4
UK Protection Total	**1,496**	**129**	**8.6**	1,466	153	10.4
- Retail Protection	1,293	111	8.6	1,255	139	11.1
- Group Protection	203	18	8.7	211	14	6.6
US Protection[4]	**764**	**89**	**11.7**	631	78	12.4

1. Selected lines of business only.
2. The contribution from new business is defined as the present value at the point of sale of expected future Solvency II surplus emerging from new business written in the period using the risk discount rate applicable at the end of the reporting period.
3. Margin is based on unrounded inputs.
4. In local currency, US Protection reflects PVNBP of $985m (2016: $855m) and a contribution from new business of $115m (2016: $106m).

The change in LGR margin reflects differences in the mix of new business. In particular, 2017 margin includes a £250m scheme where the group passes on all of the risk and retains a small facilitation fee. We have maintained a strong pricing discipline in a competitive market.

In the UK Protection business, the increase in the Solvency II new business margin on Group Protection is more than offset by a reduction in the margin on new Retail Protection products, which is caused by competitive pressure and a change in mix towards lower margin products.

The new business contribution from US Protection has increased by 14% following a significant increase in new business sales. The Solvency II new business margin has reduced in the year as a result of competitive pricing movements during the year resulting in the higher new business volumes.

5.02 Estimated Solvency II new business contribution (continued)

(b) Assumptions

The key economic assumptions as at 31 December 2017 are as follows:

	%
Margin for risk	**3.0**
Risk free rate	
- UK	**1.6**
- US	**2.4**
Risk discount rate (net of tax)	
- UK	**4.6**
- US	**5.4**
Long-term rate of return on non-profit annuities in LGR	**3.0**

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

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

- The assumed future pre-tax returns on fixed interest and RPI linked securities are set by reference to the portfolio yield on the relevant backing assets held at market value at the end of the reporting period. The calculated return takes account of derivatives and other credit instruments in the investment portfolio. The returns on fixed and index-linked assets are calculated net of an allowance for default risk which takes account of the credit rating and the outstanding term of the assets. The allowance for corporate and other unapproved credit asset defaults within the new business contribution is based on a level rate deduction from the expected returns for the overall annuities portfolio of 18 basis points.

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

Tax

The profits on the new business are calculated on an after tax basis and are grossed up by the notional attributed tax rate. For the UK, the after tax basis assumes the annualised current rate of 19.25% and subsequent enacted future reductions in corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020 onwards. The tax rate used for grossing up is the long term corporate tax rate in the territory concerned, which for the UK is 17%.

US covered business profits are grossed up using the long term corporate tax rate of 21%.

5.02 Estimated Solvency II new business contribution (continued)

(c) Methodology

Basis of preparation

The group is required to comply with the requirements established by the EU Solvency II Directive. Consequently, a Solvency II value reporting framework, which incorporates a best estimate of cash flows in relation to insurance assets and liabilities, has replaced European Embedded Value (EEV) reporting in the management information used internally to measure and monitor capital resources. Solvency II new business contribution reflects the portion of Solvency II value added by new business written in the period, recognising that the statutory solvency in the UK is now on a Solvency II basis. It has been calculated in a manner consistent with EEV principles.

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

Description of methodology

The objective of the Solvency II new business contribution is to provide shareholders with information on the long term contribution of new business written in 2017.

With the exception of the discount rate, cost of currency hedging and the statutory solvency basis, new business contribution arising from the new business premiums written during the reporting period has been calculated on the same economic and operating assumptions as would have been used under the EEV methodology.

The PVNBP is equivalent to total single premiums plus the discounted value of annual premiums expected to be received over the term of the contracts using the same economic and operating assumptions used for the calculation of the new business contribution for the financial period.

The new business margin is defined as new business contribution divided by the PVNBP. The premium volumes used to calculate the PVNBP are the same as those used to calculate new business contribution.

LGA is consolidated into the group solvency balance sheet on a US Statutory solvency basis. Intra-group reinsurance arrangements are in place between the US and UK businesses, and it is expected that these arrangements will be periodically extended to cover recent new business. LGA new business premiums and contribution reflect the expected impact of LGA directly-written business at group level (i.e. looks through any intra-group reinsurance arrangements).

Comparison to EEV new business contribution

The key difference between Solvency II and EEV new business contribution is the statutory solvency basis used for UK business. Due to the different reserving and capital bases under Solvency II compared to Solvency I, the timing of profit emergence changes. The impact on new business contribution therefore largely reflects the cost of capital effect of this change in profit timing. The impact on new business contribution of moving to a Solvency II basis will differ by type of business. Products which are more capital consumptive under Solvency II will have a lower new business value and vice versa for less capital consumptive products.

Projection assumptions

Cash flow projections are determined using best estimate assumptions for each component of cash flow for each line of business. Future economic and investment return assumptions are based on conditions at the end of the financial period.

Detailed projection assumptions including mortality, morbidity, persistency and expenses reflect recent operating experience and are normally reviewed annually. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favourable changes in operating experience are not anticipated until the improvement in experience has been observed.

All costs relating to new business, even if incurred elsewhere in the group, are allocated to the new business. The expense assumptions used for the cash flow projections therefore include the full cost of servicing this business.

Tax

The projections take into account all tax which is expected to be paid, based on best estimate assumptions, applying current legislation and practice together with substantively enacted future changes.

Risk discount rate

The risk discount rate (RDR) is duration-based and is a combination of the risk free curve and a flat Margin for Risk, which reflects the residual risks inherent in the group's businesses, after taking account of margins in the statutory technical provisions, the required capital and the specific allowance for financial options and guarantees.

The risk free rates have been based on a swap curve net of the EIOPA-specified Credit Risk Adjustment 10 basis points for GBP and for USD (2016: 17 basis points for GBP and 15 basis points for USD).

The Margin for Risk has been determined based on an assessment of the group's weighted average cost of capital (WACC). This assessment incorporates a beta for the group, which measures the correlation of movements in the group's share price to movements in a relevant index. Beta values therefore allow for the market's assessment of the risks inherent in the business relative to other companies in the chosen index.

5.02 Estimated Solvency II new business contribution (continued)

(c) Methodology (continued)

The WACC is derived from the group's cost of equity and debt, and the proportion of equity to debt in the group's capital structure measured using market values. Each of these three parameters is forward looking, although informed by historic information and appropriate judgements where necessary. The cost of equity is calculated as the risk free rate plus the equity risk premium for the chosen index multiplied by the company's beta.

The cost of debt used in the WACC calculations takes account of the actual locked-in rates for our senior and subordinated long term debt. All debt interest attracts tax relief at a time adjusted rate of 17.5% (2016: 17.7%).

Whilst the WACC approach is a relatively simple and transparent calculation to apply, subjectivity remains within a number of the assumptions. Management believes that the chosen margin, together with the levels of required capital, the inherent strength of the group's regulatory reserves and the explicit deduction for the cost of options and guarantees, is appropriate to reflect the risks within the covered business.

(d) Reconciliation of PVNBP to gross written premium

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

	2017 £bn	2016 £bn
PVNBP	**6.3**	8.8
Effect of capitalisation factor	**(2.0)**	(1.8)
New business premiums from selected lines	**4.3**	7.0
Other	**2.4**	1.9
Total LGR and LGI new business	**6.7**	8.9
Annualisation impact of regular premium long-term business	**(0.2)**	(0.1)
IFRS gross written premiums from existing long-term insurance business	**2.8**	2.5
IFRS gross written premiums from Savings business[2]	**-**	0.1
Deposit accounting for lifetime mortgage advances	**(1.0)**	(0.6)
General Insurance gross written premiums	**0.4**	0.3
Future premiums on longevity swap new business	**(0.8)**	(0.9)
Total gross written premiums	**7.9**	10.2

1. Other principally includes annuity sales in the US, lifetime mortgage advances and discounted future cash flows on longevity swap new business.
2. This excludes gross written premiums from discontinued operations.

5.03 Group Economic Capital

The group defines Economic Capital to be the amount of capital that the board believes the group needs to hold, over and above its liabilities, in order to meet its strategic objectives. This is not the same as regulatory capital which reflects regulatory rules and constraints. The group's objectives include being able to meet its liabilities as they fall due whilst maintaining the confidence of our investors, rating agencies, customers and intermediaries.

The Economic Capital results are estimated and unaudited.

The table below shows the group Own Funds, Economic Capital Requirement (ECR) and Surplus Own Funds based on group's Economic Capital model.

(a) Capital position

As at 31 December 2017, the group had an Economic Capital surplus of £9.3bn (31 December 2016: £8.3bn), corresponding to an Economic Capital coverage ratio of 254% (31 December 2016: 230%). The Economic Capital position is as follows:

	2017 £bn	2016 £bn
Core tier 1 Own Funds	**12.2**	11.9
Tier 1 subordinated liabilities[1]	**-**	0.6
Tier 2 subordinated liabilities[2]	**3.1**	2.1
Own Funds[3]	**15.3**	14.6
Economic Capital Requirement[4]	**(6.0)**	(6.3)
Surplus Own Funds	**9.3**	8.3
ECR coverage ratio[5]	**254%**	230%

1. Tier 1 subordinated liabilities of £0.6bn were redeemed on 2 May 2017.
2. Tier 2 subordinated liabilities include $1.35bn of USD subordinated notes issued in 2017.
3. Economic Capital Own Funds do not include an accrual for the dividend of £658m (2016: £616m) declared after the balance sheet date.
4. The Economic Capital balance sheet and ECR are not subject to audit.
5. Coverage ratio uses unrounded inputs.

The Economic Capital position does not exclude the contribution of with-profits fund and the final salary pension schemes for Own Funds or ECR.

The impact of the risk transfer agreement with the ReAssure division of Swiss Re has been reflected in the calculation of Economic Capital Own Funds. Due to the proximity of the transaction to the year end the model change required to reflect the impact of the risk transfer agreement on the ECR has not been made. The model change is expected during 2018. It is expected that there will be a further improvement in the group's Economic Capital coverage ratio in 2019 when the Part VII transfer is finalised.

(b) Methodology

Own Funds are defined to be the excess of the value of assets over the liabilities. Subordinated debt issued by the group is considered to be part of available capital, rather than a liability, as it is subordinate to policyholder claims.

Assets are valued at IFRS fair value with adjustments to remove intangibles and deferred acquisition costs, and to value reassurers' share of technical provisions on a basis consistent with the liabilities on the Economic Capital balance sheet.

Liabilities are valued on a best estimate market consistent basis, with the application of an Economic Matching Adjustment for valuing annuity liabilities.

The Economic Capital Requirement is the amount of capital required to cover the 1-in-200 worst projected future outcome in the year following the valuation, allowing for realistic management and policyholder actions and the impact of the stress on the tax position of the group. This allows for diversification between the different firms within the group and between the risks that they are exposed to.

The liabilities include a Recapitalisation Cost to allow for the cost of recapitalising the balance sheet following the 1-in-200 stress in order to maintain confidence that our future liabilities will be met. This is calculated using a cost of capital that reflects the long term average rates at which it is expected that the group could raise debt and allowing for diversification between all group entities.

All material insurance firms, including Legal & General Assurance Society Limited, Legal & General Insurance Limited and Legal & General Assurance (Pensions Management) Limited are incorporated into the group's Economic Capital model assessment of required capital, assuming diversification of the risks between the different firms within the group and between the risks to which they are exposed. These firms, as well as the non-EEA insurance firms (Legal & General America and Legal & General Reinsurance Company Limited based in Bermuda) contribute over 97% of the group's ECR. Firms for which the capital requirements are less material, are valued on the Solvency II Standard Formula basis. Non-insurance firms are included using their current regulatory surplus, without allowing for any diversification with the rest of the group.

Allowance is made within the Economic Capital balance sheet for the group's defined benefit pension schemes based upon the scheme's funding basis, and allowance is made within the capital requirement by stressing the funding position, using the same Economic Capital basis as for the insurance firms.

5.04 Investment portfolio

	Market value 2017 £m	Market[1] value 2016 £m
Worldwide total assets under management	**984,120**	903,886
Client and policyholder assets	**(900,904)**	(821,978)
Non-unit linked with-profits assets	**(11,113)**	(11,924)
Investments to which shareholders are directly exposed	**72,103**	69,984

Analysed by investment class:

	Notes	LGR investments 2017 £m	Other non profit insurance investments 2017 £m	LGC investments 2017 £m	Other shareholder investments 2017 £m	Total 2017 £m	Total[1] 2016 £m
Equities[2]		**282**	**-**	**2,522**	**156**	**2,960**	2,558
Bonds	5.06	**52,476**	**1,619**	**2,501**	**479**	**57,075**	54,852
Derivative assets[3]		**4,018**	**-**	**44**	**-**	**4,062**	4,693
Property	5.07	**2,722[4]**	**-**	**110[5]**	**-**	**2,832**	2,604
Cash, cash equivalents and loans[1]		**1,711**	**505**	**1,648**	**220**	**4,084**	3,362
Financial investments		**61,209**	**2,124**	**6,825**	**855**	**71,013**	68,069
Other assets[6]		**455**	**-**	**548**	**87**	**1,090**	1,915
Total investments		**61,664**	**2,124**	**7,373**	**942**	**72,103**	69,984

1. Following a review of short dated instruments, certain assets have been reclassified from Cash, cash equivalents and loans to Bonds as their maturity at the balance sheet date was greater than 3 months. These amounts totalled £1,489m and the analysis above has been restated to reflect this reclassification.
2. Equity investments include a total of £260m in respect of CALA Group Limited, Peel Media Holdings Limited (MediaCityUK), NTR Wind Management Ltd and Access Development Partnership (2016: £237m).
3. Derivative assets are shown gross of derivative liabilities of £2.3bn (2016: £2.9bn). Exposures arise from the use of derivatives for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management.
4. Included within other assets outside of Financial investments, LGR has a further £419m of property-related assets. Within the group's Solvency II capital calculations, these are combined with the £2,722m of property assets within Financial investments to give a total of £3,141m (2016: £2,872m), which are designated within those calculations as £1,987m (2016: £1,883m) of bonds and £1,154m (2016: £989m) of investment property.
5. LGC property includes £23m of shareholder investment property.
6. Other assets include reverse repurchase agreements of £679m (2016: £1,883m).

5.05 Direct Investments

(a) Analysed by asset class

	Direct[1] Investments 2017 £m	**Traded[2] securities 2017 £m**	**Total 2017 £m**	Direct[1] Investments 2016 £m	Traded[2,3] securities 2016 £m	Total 2016 £m
Equities	**930**	**2,030**	**2,960**	595	1,963	2,558
Bonds[4]	**9,726**	**47,349**	**57,075**	6,256	48,596	54,852
Derivative assets	**-**	**4,062**	**4,062**	-	4,693	4,693
Property[5]	**2,832**	**-**	**2,832**	2,604	-	2,604
Cash, cash equivalents and loans	**474**	**3,610**	**4,084**	518	2,844	3,362
Other assets	**411**	**679**	**1,090**	32	1,883	1,915
	14,373	**57,730**	**72,103**	10,005	59,979	69,984

1. Direct Investments, which generally constitute an agreement with another party, represent an exposure to untraded and often less volatile asset classes. Direct Investments also include physical assets, bilateral loans and private equity, but exclude hedge funds.
2. Traded securities are defined by exclusion. If an instrument is not a Direct Investment, then it is classed as a traded security.
3. Following a review of short dated instruments, certain assets have been reclassified from Cash, cash equivalents and loans to Bonds as their maturity at the balance sheet date was greater than 3 months. These amounts totalled £1,489m and the analysis above has been restated to reflect this reclassification.
4. Direct Investment bonds include lifetime mortgages of £2,023m (2016: £852m).
5. A further breakdown of property is provided in note 5.07.

(b) Analysed by segment

	LGR 2017 £m	**LGC[1] 2017 £m**	**LGI[2] 2017 £m**	**Total 2017 £m**
Equities	**-**	**922**	**8**	**930**
Bonds[3]	**9,272**	**22**	**432**	**9,726**
Property[4]	**2,722**	**110**	**-**	**2,832**
Cash, cash equivalents and loans[5]	**88**	**150**	**236**	**474**
Other assets[6]	**92**	**319**	**-**	**411**
	12,174	**1,523**	**676**	**14,373**

1. LGI includes £8m of equity investments in LGI UK. The bonds and loans and receivables are in the US business.
2. LGC includes £30m of equities, £19m of bonds and £23m of property that belong to other shareholder funds.
3. Direct Investment bonds include lifetime mortgages of £2,023m (2016: £852m).
4. A further breakdown of property is provided in note 5.07.
5. Cash, cash equivalents and loans only include loans.
6. Other assets include finance leases of £92m and property under construction of £270m.

	LGR 2016 £m	LGC 2016 £m	LGI 2016 £m	Total 2016 £m
Equities	-	595	-	595
Bonds[1]	5,655	228	373	6,256
Property[2]	2,442	162	-	2,604
Cash, cash equivalents and loans[3]	33	120	365	518
Other assets	-	32	-	32
	8,130	1,137	738	10,005

1. Direct Investments bonds include lifetime mortgages of £852m.
2. A further breakdown of property is provided in note 5.07.
3. Cash, cash equivalents and loans only include loans.

5.05 Direct Investments

(c) Movement in the period

	Carrying value 1 January 2017 £m	Additions £m	Disposals £m	Change in market value £m	Carrying value 31 December 2017 £m
Equities	**595**	**424**	**(169)**	**80**	**930**
Bonds	**6,256**	**3,464**	**(265)**	**271**	**9,726**
Property	**2,604**	**753**	**(664)**	**139**	**2,832**
Cash, cash equivalents and loans	**518**	**32**	**(43)**	**(33)**	**474**
Other assets	**32**	**379**	**-**	**-**	**411**
	10,005	**5,052**	**(1,141)**	**457**	**14,373**

5.06 Bond portfolio summary

(a) LGR analysed by sector

Sectors analysed by credit rating

	AAA 2017 £m	AA 2017 £m	A 2017 £m	BBB 2017 £m	BB or below 2017 £m	LGR 2017 £m	LGR 2017 %
Sovereigns, Supras and Sub-Sovereigns	**1,220**	**8,604**	**186**	**238**	**10**	**10,258**	**20**
Banks:							
- Tier 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Tier 2 and other subordinated	**142**	**-**	**63**	**31**	**-**	**236**	**1**
- Senior	**-**	**682**	**1,740**	**47**	**-**	**2,469**	**5**
- Covered	**193**	**-**	**-**	**-**	**-**	**193**	**-**
Financial Services:							
- Tier 2 and other subordinated	**-**	**123**	**113**	**9**	**-**	**245**	**1**
- Senior	**-**	**307**	**348**	**187**	**-**	**842**	**2**
Insurance:							
- Tier 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Tier 2 and other subordinated	**-**	**124**	**1**	**46**	**-**	**171**	**-**
- Senior	**-**	**116**	**458**	**65**	**-**	**639**	**1**
Consumer Services and Goods:							
- Cyclical	**-**	**271**	**798**	**1,510**	**213**	**2,792**	**5**
- Non-cyclical	**201**	**574**	**1,239**	**2,031**	**126**	**4,171**	**8**
- Health care	**3**	**32**	**232**	**176**	**-**	**443**	**1**
Infrastructure:							
- Social	**93**	**708**	**3,442**	**1,111**	**21**	**5,375**	**10**
- Economic	**179**	**30**	**937**	**2,179**	**43**	**3,368**	**6**
Technology and Telecoms	**60**	**148**	**777**	**1,941**	**26**	**2,952**	**6**
Industrials	**-**	**-**	**774**	**274**	**9**	**1,057**	**2**
Utilities	**-**	**107**	**4,800**	**3,666**	**11**	**8,584**	**17**
Energy	**-**	**-**	**106**	**538**	**16**	**660**	**1**
Commodities	**-**	**-**	**246**	**490**	**19**	**755**	**1**
Oil and Gas	**-**	**304**	**616**	**541**	**170**	**1,631**	**3**
Real estate	**-**	**22**	**1,044**	**1,166**	**49**	**2,281**	**4**
Structured finance ABS / RMBS / CMBS / Other	**176**	**681**	**172**	**151**	**55**	**1,235**	**2**
Lifetime mortgage loans[1]	**-**	**1,972**	**51**	**-**	**-**	**2,023**	**4**
CDOs	**-**	**22**	**60**	**14**	**-**	**96**	**-**
Total	**2,267**	**14,827**	**18,203**	**16,411**	**768**	**52,476**	**100**
Total %	**4**	**28**	**36**	**31**	**1**	**100**	

1. The credit ratings attributed to lifetime mortgages are allocated in accordance with the internal Matching Adjustment structuring.

5.06 Bond portfolio summary (continued)

(a) LGR analysed by sector (continued)

Sectors analysed by credit rating (continued)

	AAA[1] At 2016 £m	AA[1] At 2016 £m	A[1] At 2016 £m	BBB[1] At 2016 £m	BB or below[1] At 2016 £m	LGR[1] At 2016 £m	LGR[1] At 2016 %
Sovereigns, Supras and Sub-Sovereigns	912	9,961	285	229	34	11,421	24
Banks:							
- Tier 1	-	-	-	-	12	12	-
- Tier 2 and other subordinated	211	49	62	41	-	363	1
- Senior	8	436	1,201	59	-	1,704	3
- Covered	259	-	16	-	-	275	1
Financial Services:							
- Tier 2 and other subordinated	-	87	59	56	-	202	-
- Senior	-	371	125	110	-	606	1
Insurance:							
- Tier 1	-	-	-	1	-	1	-
- Tier 2 and other subordinated	-	45	3	68	-	116	-
- Senior	8	88	485	76	-	657	1
Consumer Services and Goods							
- Cyclical	-	389	1,088	1,755	165	3,397	7
- Non-cyclical	260	647	1,380	1,373	115	3,775	8
- Health care	3	13	15	10	1	42	-
Infrastructure:							
- Social	-	624	3,259	926	148	4,957	10
- Economic	-	-	873	1,313	44	2,230	4
Technology and Telecoms	57	203	610	2,104	84	3,058	6
Industrials	-	142	741	362	37	1,282	3
Utilities	-	101	4,903	3,142	12	8,158	16
Energy	-	-	106	554	31	691	1
Commodities	-	-	304	475	77	856	2
Oil and Gas	-	281	544	633	180	1,638	3
Property	-	-	1	6	-	7	-
Real estate	-	305	628	1,063	48	2,044	4
Structured finance ABS / RMBS / CMBS / Other	121	671	572	46	49	1,459	3
Lifetime mortgage loans[2]	388	322	91	51	-	852	2
CDOs	-	-	59	14	-	73	-
Total[1]	2,227	14,735	17,410	14,467	1,037	49,876	100
Total %	4	30	35	29	2	100	

1. Following a review of short dated instruments, certain assets have been reclassified from Cash and cash equivalents to Financial investments as their maturity at the balance sheet date was greater than 3 months. These amounts totalled £406m and the analysis above has been restated to reflect this reclassification.

2. The credit ratings attributed to lifetime mortgages are allocated in accordance with the internal Matching Adjustment structuring.

5.06 Bond portfolio summary (continued)

(a) LGR analysed by sector (continued)

Sectors analysed by domicile

	UK 2017 £m	US 2017 £m	EU excluding UK 2017 £m	Rest of the World 2017 £m	LGR 2017 £m
Sovereigns, Supras and Sub-Sovereigns	**8,052**	**925**	**978**	**303**	**10,258**
Banks	**1,351**	**690**	**662**	**195**	**2,898**
Financial Services	**364**	**68**	**655**	**-**	**1,087**
Insurance	**135**	**531**	**91**	**53**	**810**
Consumer Services and Goods:					
- Cyclical	**597**	**1,919**	**210**	**66**	**2,792**
- Non-cyclical	**1,298**	**2,553**	**314**	**6**	**4,171**
- Health care	**1**	**442**	**-**	**-**	**443**
Infrastructure:					
- Social	**5,051**	**287**	**-**	**37**	**5,375**
- Economic	**2,658**	**310**	**34**	**366**	**3,368**
Technology and Telecoms	**686**	**1,300**	**556**	**410**	**2,952**
Industrials	**195**	**523**	**263**	**76**	**1,057**
Utilities	**3,997**	**1,233**	**2,280**	**1,074**	**8,584**
Energy	**-**	**583**	**5**	**72**	**660**
Commodities	**8**	**263**	**34**	**450**	**755**
Oil and Gas	**259**	**418**	**429**	**525**	**1,631**
Real estate	**1,600**	**359**	**44**	**278**	**2,281**
Structured finance ABS / RMBS / CMBS / Other	**1,011**	**192**	**10**	**22**	**1,235**
Lifetime mortgages	**2,023**	**-**	**-**	**-**	**2,023**
CDOs	**-**	**22**	**-**	**74**	**96**
Total	**29,286**	**12,618**	**6,565**	**4,007**	**52,476**

5.06 Bond portfolio summary (continued)

(a) LGR analysed by sector (continued)

Sectors analysed by domicile (continued)

	UK[1] 2016 £m	US[1] 2016 £m	EU excluding UK[1] 2016 £m	Rest of the World[1] 2016 £m	LGR[1] 2016 £m
Sovereigns, Supras and Sub-Sovereigns	9,128	782	1,003	508	11,421
Banks	948	680	537	189	2,354
Financial Services	389	76	342	1	808
Insurance	176	528	15	55	774
Consumer Services and Goods:					
- Cyclical	783	2,229	255	130	3,397
- Non-cyclical	1,142	2,419	201	13	3,775
- Health care	4	37	1	-	42
Infrastructure:					
- Social	4,785	137	-	35	4,957
- Economic	1,934	74	.	222	2,230
Technology and Telecoms	582	1,305	746	425	3,058
Industrials	148	656	301	177	1,282
Utilities	3,673	1,191	2,387	907	8,158
Energy	-	589	6	96	691
Commodities	16	290	27	523	856
Oil and Gas	183	485	417	553	1,638
Property	-	7	-	-	7
Real estate	1,629	340	17	58	2,044
Structured finance ABS / RMBS / CMBS / Other	1,016	50	375	18	1,459
Lifetime mortgages	852	-	-	-	852
CDOs	-	-	-	73	73
Total	27,388	11,875	6,630	3,983	49,876

1. Following a review of short dated instruments, certain assets have been reclassified from Cash and cash equivalents to Financial investments as their maturity at the balance sheet date was greater than 3 months. These amounts totalled £406m and the analysis above has been restated to reflect this reclassification.

5.06 Bond portfolio summary (continued)

(b) Total group analysed by sector (continued)

Sectors analysed by credit rating

	AAA 2017 £m	AA 2017 £m	A 2017 £m	BBB 2017 £m	BB or below 2017 £m	Other 2017 £m	Total 2017 £m	Total 2017 %
Sovereigns, Supras and Sub-Sovereigns	**1,477**	**9,376**	**210**	**328**	**59**	**-**	**11,450**	**20**
Banks:								
- Tier 1	**-**	**-**	**-**	**1**	**1**	**2**	**4**	**-**
- Tier 2 and other subordinated	**142**	**-**	**74**	**42**	**2**	**-**	**260**	**-**
- Senior	**-**	**1,366**	**2,782**	**90**	**-**	**-**	**4,238**	**8**
- Covered	**221**	**-**	**-**	**-**	**-**	**-**	**221**	**-**
Financial Services:								
- Tier 1	**1**	**-**	**-**	**-**	**-**	**-**	**1**	**-**
- Tier 2 and other subordinated	**-**	**123**	**118**	**10**	**-**	**-**	**251**	**-**
- Senior	**-**	**323**	**368**	**205**	**9**	**-**	**905**	**2**
Insurance:								
- Tier 1	**-**	**-**	**-**	**1**	**-**	**-**	**1**	**-**
- Tier 2 and other subordinated	**-**	**127**	**4**	**51**	**-**	**-**	**182**	**-**
- Senior	**-**	**128**	**464**	**68**	**-**	**-**	**660**	**1**
Consumer Services and Goods:								
- Cyclical	**-**	**289**	**841**	**1,542**	**271**	**2**	**2,945**	**5**
- Non-cyclical	**215**	**601**	**1,313**	**2,114**	**165**	**1**	**4,409**	**8**
- Health Care	**3**	**32**	**262**	**189**	**4**	**-**	**490**	**1**
Infrastructure:								
- Social	**93**	**708**	**3,445**	**1,111**	**21**	**-**	**5,378**	**9**
- Economic	**179**	**30**	**949**	**2,182**	**44**	**-**	**3,384**	**6**
Technology and Telecoms	**73**	**167**	**833**	**1,988**	**57**	**2**	**3,120**	**6**
Industrials	**-**	**3**	**851**	**376**	**52**	**1**	**1,283**	**2**
Utilities	**-**	**115**	**4,860**	**3,725**	**21**	**-**	**8,721**	**16**
Energy	**-**	**-**	**106**	**567**	**31**	**-**	**704**	**1**
Commodities	**-**	**-**	**260**	**494**	**39**	**-**	**793**	**1**
Oil and Gas	**-**	**322**	**640**	**566**	**213**	**1**	**1,742**	**3**
Real estate	**-**	**22**	**1,053**	**1,221**	**59**	**-**	**2,355**	**4**
Structured finance ABS / RMBS / CMBS / Other	**318**	**717**	**208**	**161**	**55**	**-**	**1,459**	**3**
Lifetime mortgage loans[1]	**-**	**1,972**	**51**	**-**	**-**	**-**	**2,023**	**4**
CDOs	**-**	**22**	**60**	**14**	**-**	**-**	**96**	**-**
Total £m	**2,722**	**16,443**	**19,752**	**17,046**	**1,103**	**9**	**57,075**	**100**
Total %	**5**	**28**	**35**	**30**	**2**	**-**	**100**	

1. The credit ratings attributed to lifetime mortgages are allocated in accordance with the internal Matching Adjustment structuring.

5.06 Bond portfolio summary (continued)

(b) Total group analysed by sector (continued)

Sectors analysed by credit rating (continued)

	AAA[1] 2016 £m	AA[1] 2016 £m	A[1] 2016 £m	BBB[1] 2016 £m	BB or below[1] 2016 £m	Other[1] 2016 £m	Total[1] 2016 £m	Total[1] 2016 %
Sovereigns, Supras and Sub-Sovereigns	1,206	10,535	370	387	102	-	12,600	24
Banks:								
- Tier 1	-	-	-	1	12	-	13	-
- Tier 2 and other subordinated	211	49	73	54	-	-	387	1
- Senior	16	1,076	2,067	133	12	-	3,304	6
- Covered	259	-	16	-	-	-	275	1
Financial Services:								
- Tier 1	-	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	87	59	63	-	-	209	-
- Senior	-	381	147	129	3	112	772	1
Insurance:								
- Tier 1	-	-	2	4	-	-	6	-
- Tier 2 and other subordinated	-	48	8	72	1	-	129	-
- Senior	29	88	495	80	-	-	692	1
Consumer Services and Goods & Health Care								
- Cyclical	-	409	1,167	1,809	244	-	3,629	7
- Non-cyclical	300	665	1,454	1,474	148	-	4,041	7
- Health Care	3	30	45	44	8	-	130	-
Infrastructure:								
- Social	-	624	3,262	926	148	-	4,960	9
- Economic	-	-	903	1,318	44	-	2,265	4
Technology and Telecoms	73	238	662	2,162	123	-	3,258	6
Industrials	-	146	840	487	107	-	1,580	3
Utilities	-	108	4,967	3,193	28	-	8,296	15
Energy	-	5	106	575	44	-	730	1
Commodities	-	-	313	478	98	-	889	2
Oil and Gas	-	290	582	692	236	-	1,800	3
Property	-	-	12	60	6	-	78	-
Real estate	-	305	629	1,067	53	-	2,054	4
Structured finance ABS / RMBS / CMBS / Other	341	729	617	90	53	-	1,830	3
Lifetime mortgage loans[2]	388	322	91	51	-	-	852	2
CDOs[3]	-	-	59	14	-	-	73	-
Total £m	2,826	16,135	18,946	15,363	1,470	112	54,852	100
Total %	5	29	35	28	3	-	100	-

1. Following a review of short dated instruments, certain assets have been reclassified from Cash and cash equivalents to Financial investments as their maturity at the balance sheet date was greater than 3 months. These amounts totalled £1,489m and the analysis above has been restated to reflect this reclassification.
2. The credit ratings attributed to lifetime mortgages are allocated in accordance with the internal Matching Adjustment structuring.

5.06 Bond portfolio summary (continued)

(b) Total group analysed by sector (continued)

Sectors analysed by domicile

	UK 2017 £m	US 2017 £m	EU excluding UK 2017 £m	Rest of the World 2017 £m	Total 2017 £m
Sovereigns, Supras and Sub-Sovereigns	**8,689**	**1,204**	**1,114**	**443**	**11,450**
Banks	**2,326**	**794**	**1,187**	**416**	**4,723**
Financial Services	**365**	**111**	**681**	**-**	**1,157**
Insurance	**143**	**555**	**92**	**53**	**843**
Consumer Services and Goods:					
- Cyclical	**604**	**2,015**	**251**	**75**	**2,945**
- Non-cyclical	**1,313**	**2,752**	**324**	**20**	**4,409**
- Health care	**10**	**480**	**-**	**-**	**490**
Infrastructure:					
- Social	**5,054**	**287**	**-**	**37**	**5,378**
- Economic	**2,661**	**321**	**34**	**368**	**3,384**
Technology and Telecoms	**692**	**1,435**	**563**	**430**	**3,120**
Industrials	**209**	**714**	**274**	**86**	**1,283**
Utilities	**4,008**	**1,334**	**2,296**	**1,083**	**8,721**
Energy	**-**	**626**	**5**	**73**	**704**
Commodities	**10**	**287**	**38**	**458**	**793**
Oil and Gas	**265**	**462**	**458**	**557**	**1,742**
Real estate	**1,602**	**422**	**48**	**283**	**2,355**
Structured Finance ABS / RMBS / CMBS / Other	**1,017**	**366**	**54**	**22**	**1,459**
Lifetime mortgages	**2,023**	**-**	**-**	**-**	**2,023**
CDOs	**-**	**22**	**-**	**74**	**96**
Total	**30,991**	**14,187**	**7,419**	**4,478**	**57,075**

5.06 Bond portfolio summary (continued)

(b) Total group analysed by sector (continued)

Sectors analysed by domicile (continued)

	UK[1] 2016 £m	US[1] 2016 £m	EU excluding UK[1] 2016 £m	Rest of the World[1] 2016 £m	Total[1] 2016 £m
Sovereigns, Supras and Sub-Sovereigns	9,569	1,038	1,264	729	12,600
Banks	1,625	803	1,005	546	3,979
Financial Services	500	124	355	2	981
Insurance	189	566	17	55	827
Consumer Services and Goods:					
- Cyclical	794	2,410	272	153	3,629
- Non-cyclical	1,155	2,650	208	28	4,041
- Health care	18	106	6	-	130
Infrastructure:					
- Social	4,788	137	-	35	4,960
- Economic	1,937	102	1	225	2,265
Technology and Telecoms	589	1,467	753	449	3,258
Industrials	166	904	312	198	1,580
Utilities	3,687	1,293	2,401	915	8,296
Energy	1	598	14	117	730
Commodities	16	292	33	548	889
Oil and Gas	190	574	450	586	1,800
Property	-	71	4	3	78
Real estate	1,631	345	17	61	2,054
Structured Finance ABS / RMBS / CMBS / Other	1,020	323	469	18	1,830
Lifetime mortgages	852	-	-	-	852
CDOs	-	-	-	73	73
Total	28,727	13,803	7,581	4,741	54,852

1. Following a review of short dated instruments, certain assets have been reclassified from Cash and cash equivalents to Financial investments as their maturity at the balance sheet date was greater than 3 months. These amounts totalled £1,489m and the analysis above has been restated to reflect this reclassification.

5.06 Bond portfolio summary (continued)

(c) LGR and total group analysed by credit rating

	Externally rated 2017 £m	**Internally rated[2] 2017 £m**	**LGR 2017 £m**	**Externally rated 2017 £m**	**Internally rated[2, 3] 2017 £m**	**Total group 2017 £m**
AAA	**1,783**	**484**	**2,267**	**2,238**	**484**	**2,722**
AA	**11,617**	**3,210**	**14,827**	**13,024**	**3,419**	**16,443**
A	**15,174**	**3,029**	**18,203**	**16,609**	**3,143**	**19,752**
BBB	**12,979**	**3,432**	**16,411**	**13,389**	**3,657**	**17,046**
BB or below	**690**	**78**	**768**	**965**	**138**	**1,103**
Other	**-**	**-**	**-**	**9**	**-**	**9**
	42,243	**10,233**	**52,476**	**46,234**	**10,841**	**57,075**

	Externally rated[1] 2016 £m	Internally rated[1, 2] 2016 £m	LGR[1] 2016 £m	Externally rated[1] 2016 £m	Internally rated[1, 2, 3] 2016 £m	Total group [1] 2016 £m
AAA	1,839	388	2,227	2,438	388	2,826
AA	13,499	1,236	14,735	14,632	1,503	16,135
A	14,637	2,773	17,410	16,063	2,883	18,946
BBB	12,405	2,062	14,467	13,068	2,295	15,363
BB or below	960	77	1,037	1,322	148	1,470
Other	-	-	-	-	112	112
	43,340	6,536	49,876	47,523	7,329	54,852

1. Following a review of short dated instruments, certain assets have been reclassified from Cash and cash equivalents to Financial investments as their maturity at the balance sheet date was greater than 3 months. These amounts totalled £1,489m and the analysis above has been restated to reflect this reclassification.
2. Where external ratings are not available an internal rating has been used where it is practicable to do so.
3. The increase in internally rated assets is due to £2.5bn of new direct investments and an increase in the value of lifetime mortgages of £1.2bn.

5.07 Property analysis

(a) Property exposure within Direct Investments

(i) Group property Direct Investments by status

	LGR[1] 2017 £m	LGC[2] 2017 £m	Total 2017 £m	2017 %
Fully let	**2,722**	**30**	**2,752**	**97%**
Development	**-**	**32**	**32**	**1%**
Land	**-**	**48**	**48**	**2%**
	2,722	**110**	**2,832**	**100%**

1. The fully let LGR property includes £2.4bn let to investment grade tenants.

2. Development includes £23m of shareholder investment property.

	LGR[1] 2016 £m	LGC 2016 £m	Total 2016 £m	2016 %
Fully let	2,442	16	2,458	94
Development	-	101	101	4
Land	-	45	45	2
	2,442	162	2,604	100

1. The fully let LGR property includes £2.1bn let to investment grade tenants.

Glossary

* These items represent an alternative performance measure (APM)

Ad valorem fees

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

Adjusted 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 continuing 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 on-going operations.

Adjusted operating profit*

Operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes and exceptional items. Adjusted operating profit further removes exceptional restructuring costs to demonstrate the profitability before these costs which are non-recurring in nature.

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. All APMs defined within this glossary are marked with an asterisk.

Annuity

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

Annual premium

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

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)*

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

Back book acquisition

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

Bundled DC solution

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

Glossary

Bundled pension schemes

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

Credit rating

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

Deduction and aggregation (D&A)

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

Defined benefit pension scheme (DB scheme)

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

Defined contribution pension scheme (DC scheme)

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

Derivatives

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

Direct investments

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

Dividend cover

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

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*

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 Requirement (ECR)

The amount of Economic Capital required to cover the losses occurring in a 1-in-200 year risk event.

Economic Capital Surplus*
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.

ECR coverage ratio*

The Eligible Own Funds on an economic basis divided by the Economic Capital Requirement (ECR). This represents the number of times that the ECR is covered by Eligible Own Funds.

Eligible Own Funds

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

Employee engagement index

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

Escape of Water

Escape of water is a type of home insurance claim relating to leakage from fixed water tanks, apparatus (e.g. washing machine) or pipes

Euro Commercial paper

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

FVTPL

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

Full year dividend

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

General insurance combined operating ratio

The combined operating ratio is calculated as the sum of incurred losses and expenses, including commission, divided by net 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 – Irish Collective Asset-Management Vehicle

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

IFRS profit before tax (PBT)

PBT measures profit attributable to shareholders incorporating actual investment returns experienced during the year but before the payment of tax.

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.

Glossary

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 Limited

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.

Matching adjustment

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

Mortality rate

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

Net release from operations*

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.

Glossary

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 LGIA 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.

Open architecture

Where a company offers investment products from a rang 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.

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.

Present value of future new business premiums (PVNBP)*

PVNBP is equivalent to total single premiums plus the discounted value of annual premiums expected to be received over the term of the contracts using the same economic and operating assumptions used for the new business value at the end of the financial period. The discounted value of longevity insurance regular premiums and quota share reinsurance single premiums are calculated on a net of reinsurance basis to enable a more representative margin figure. PVNBP therefore provides an estimate of the present value of the premiums associated with new business written in the year.

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.

Recapitalisation Cost*

An additional liability required in the group Economic Capital balance sheet, to allow for the cost of recapitalising the balance sheet following a 1-in-200 year risk event, in order to maintain confidence that our future liabilities will be met. This is calculated using a cost of capital that reflects the long term average rates at which it is expected that the group could raise debt and allows for diversification between all group entities.

Real assets

Real assets encompass a wide variety of tangible debt and equity investments, primarily real estate, infrastructure and energy. They have the ability to serve as stable sources of long term income in weak markets, while also providing capital appreciation opportunities in strong markets.

Release from operations*

The expected release of IFRS surplus from in-force business for the UK non-profit Insurance and Savings and LGR businesses, the shareholder's share of bonuses on with-profits business, the post-tax operating profit on other UK businesses, including the medium term expected investment return on LGC invested assets, and dividends remitted from LGA. Release from operations was previously referred to as operational cash generation.

Return on equity (ROE)*

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 SCR coverage ratio incorporates the impacts of a recalculation of the Transitional Measures for Technical Provisions and the contribution of with-profits fund and our defined benefit pension schemes in both Own Funds and the SCR in the calculation of the SCR coverage ratio.

SCR coverage ratio (shareholder view basis)*

In order to represent a shareholder view of group solvency position, the contribution of with-profits fund and our defined benefit pension schemes is excluded from both the group's Own Funds and the group's solvency capital requirement, by the amount of their respective solvency capital requirements, in the calculation of the SCR coverage ratio. This incorporates the impacts of a recalculation of the Transitional Measures for Technical Provisions based on end of period economic conditions. The shareholder view basis does not reflect the regulatory capital position as at 31 December 2017. This will be made public in May 2018.

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 new business contribution

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

Solvency II Risk Margin

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

Solvency II Surplus

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

Solvency Capital Requirement (SCR)

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

Total shareholder return (TSR)

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

Transitional Measures on Technical Provisions (TMTP)

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

Unbundled DC solution

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

With-profits funds

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

Yield

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