2015

Legal & General Group Plc
Annual Report and Accounts

INVESTING
for the **LONG TERM**

Legal & General

A POSITIVE FUTURE FOR ALL

Our aim is to deliver outstanding value and security for customers and sustainable growth for shareholders. We take a leadership role by investing in economic growth, aiming to help people achieve financial security in an affordable way.

This is part of our urban regeneration project in Plymouth, where our direct investments have helped build new affordable homes and transform Plymouth's Quadrant Quay area.

Watch the video at: www.legalandgeneralgroup.com/2015fastread

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STRATEGIC REPORT

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GOVERNANCE

INVESTOR CENTRE AND ONLINE 2015 FAST READ

www.legalandgeneralgroup.com/reporting-centre

Our investor website has lots of useful information for shareholders. Look here for share prices and dividend history, previous reports and facts and figures about the group:

www.legalandgeneralgroup.com/2015fastread

Our online fast read has a concise summary of the annual report, highlighting strategy, performance and how the company is structured.

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FINANCIAL STATEMENTS

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OTHER INFORMATION

REPORTING CENTRE

www.legalandgeneralgroup.com/investors/reporting-centre

The reporting centre brings together all our key reports, presentations and videos, not only for the latest results but for previous years. The latest videos feature our group chief executive officer and chief financial officer, giving their analysis of our recent results.

Our contribution to society makes us special

Having announced his decision to step down as Chairman and a Board member, John Stewart talks about his role and what it personally means to him.

When I became Chairman in March 2010, we had just been through one of the deepest recessions on record. At that time I mentioned our strong balance sheet, brand and customer focus, which all contributed to our capacity to generate cash. These strengths are unchanged and have held us in good stead, helping us give shareholders a return of nearly 400% on their investments from March 2010 until the end of 2015.

Our special culture

What's given me the greatest pleasure is to see how we've helped people in wider society. We have the responsibility of managing £746 billion in assets and are the UK's largest manager of pension funds. But we go further than helping people achieve financial security in good times and bad. Our investments have been regenerating our cities. Our community programmes are designed to reach out to the neediest in our communities. I'm really proud of the work of our employees right across the world in helping their local communities and changing people's lives.

Our performance

2015 was a volatile year for global markets. Despite this turbulence, we increased operating profit by 14% to £1,455 million (2014: £1,275 million), with adjusted earnings per share now 18.58p (2014: 16.70p). I'm pleased we now have more clarity on Solvency II, having gained approval for our internal model. With this clarity now achieved, we have agreed a new dividend policy which is set out on pages 32 and 33.

Your Board is recommending a dividend of 13.40p for 2015, 19% higher than 2014, including a final dividend of 9.95p (2014: 8.35p).

Recent Board changes

You can read about all recent Board changes on page 54. During 2015, John Pollock and Lindsay Tomlinson retired from the Board. At the 2016 AGM, Julia Wilson will succeed Rudy Markham as senior independent director and Olaf Swantee will stand down from the Board. Rudy Markham will stay on as a non-executive director until the 2017 AGM. Stuart Popham has indicated his intention to step down from the Board prior to the 2017 AGM. The Company has commenced a search for new independent non-executive directors including a Chair of the Audit Committee. Mark Gregory intends to retire from the company in January 2017. I would like to thank all directors for their contribution.

World class leadership

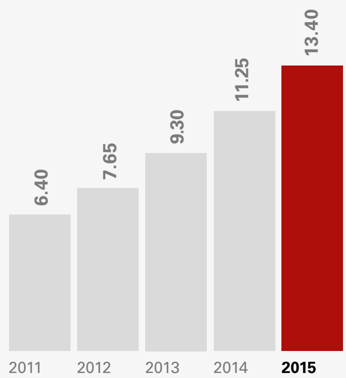
I would like to take this opportunity to thank our fantastic employees and our management team for making Legal & General such a successful UK company. The last six years has seen great change in our business and I've always been impressed by the hard work, professionalism and skills shown by our employees.

A positive future for all

The strategy which has given us so much success remains unchanged. We've benefitted by taking advantage of the opportunities offered by long-term global macro trends. The Board are confident that our financial strength, ambition and our talented leadership team will enable us to succeed and grow in future years. However, economic, political and regulatory uncertainty will continue to remain. I'm looking forward to my last AGM in May and hope to see as many of you as possible there.

John Stewart,
Chairman

Full year dividend
Five year progress (pence)



Final dividend

9.95p

To be paid on 9 June 2016 (2014: 8.35p). Our dividend policy is described on page 32.

Annual general meeting 2016

11am on 26 May 2016,
at the Honourable Artillery Company,
Armoury House, City Road,
London EC1Y 2BQ

OUR BUSINESS STRUCTURE HAS BEEN CREATED TO BUILD ASSETS AND PROTECT OUR CUSTOMERS' FINANCIAL SECURITY

We create value for shareholders, help people achieve financial security and invest in the future of society

Savings
Assets under administration £108bn

Our strategy is increasingly to offer digital investment platforms to help people take control of their personal savings. Our Cofunds platform is the UK's largest, with £77bn in assets.

Our three businesses who focus upon asset gathering act to create synergies across the group.

Legal & General Investment Management (LGIM)
Assets under management: (AUM) £746bn

Manages investments on behalf of institutional and retail customers, with a growing international focus. Responsible for managing our workplace savings business. Manages funds for businesses across the group.

Legal & General Capital (LGC)
Direct investments: £0.9bn (£7.0bn including LGIM and LGR investments)

Formed in 2013, we aim to increase the risk adjusted returns on the assets backing the group's regulatory solvency requirement and surplus, while helping to build the group's franchise. Our focus is on making direct investments in urban regeneration, housing, clean energy and alternative finance.

Legal & General Retirement (LGR)
Annuity assets: £43.4bn

Helps defined benefit (DB) pension schemes to manage liabilities with insurance solutions. Enables individual customers to manage retirement income including boosting funds by freeing up equity in their homes. Works with LGA on derisking.

Insurance
Our Insurance business covers just under two million people in group protection schemes, over four million individual protection customers and 1.4 million general insurance customers. We also help people find suitable mortgage products, distributing £46bn of mortgages in 2015.

Legal & General America (LGA)
We're a top six US protection provider with over one million customers and are now also working closely with Legal & General Retirement (LGR) to provide derisking solutions for US defined benefit (DB) pension schemes.

OUR GROUP PERFORMANCE

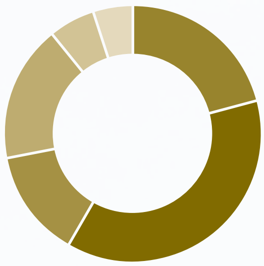
KEY PERFORMANCE INDICATORS

Key performance indicators (KPIs) are defined as the measures by which the development, performance or position of the business can be measured effectively. The Group Board reviews the KPIs annually and updates them where appropriate.

£ Key measure in the remuneration of executives

Operating profit by business segment

£1,702m*

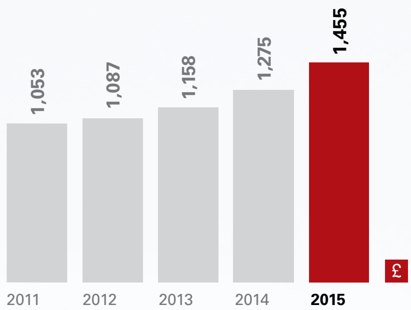


- 21% LGIM
- 37% LGR
- 14% LGC
- 17% Insurance
- 6% Savings
- 5% LGA

*2015 operating profit of £1,455m includes £1,702m from divisions, less £247m from group level investment projects, interest and expenses.

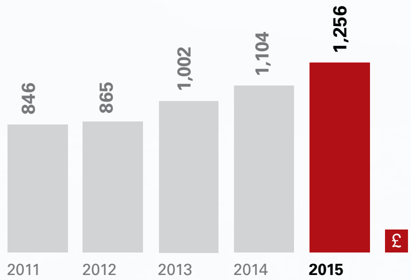
Operating profit

(£m)



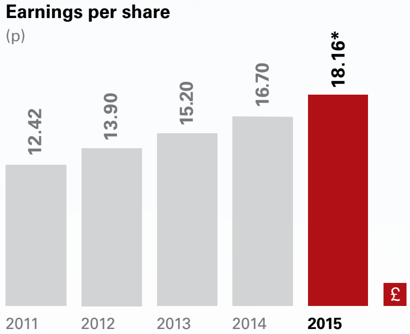
Net cash generation

(£m)



Earnings per share

(p)



*Excluding the £25m loss arising on M&A. The adjusted earnings per share is 18.58p

Return on equity*

17.7% £

(2014: 16.9%)

*Represents adjusted return on equity excluding a £25m loss arising on M&A. Unadjusted is 17.3%

Full year dividend

13.40p

(2014: 11.25p)

IFRS profit before tax*

£1,355m £

(2014: £1,238m)

*IFRS profit before tax attributable to equity holders

Worldwide employee engagement index*

64%

(2014: 78%)

*Comprises the UK and the US only

Total shareholder return (TSR)

114% £

(2014: 184%)

Over the three-year period ended 31 December 2015

OTHER INDICATORS OF FINANCIAL STRENGTH

We include other measures here which we use in deciding executive remuneration and which we believe are also integral to the group's performance.

Solvency II capital surplus

£5.5bn

Figures are pre-accrual of proposed final dividend

* Proforma basis as at 31.12.15

Solvency II capital coverage ratio

169%

* Proforma basis as at 31.12.15

Standard & Poor's financial strength

AA-

(2014: AA-)

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

DETAILED FINANCIAL INFORMATION
starts on page 92

Nigel Wilson, our group chief executive officer, talks about how the company has managed to deliver success and remain resilient in such a tough environment. He discusses the need to change attitudes on investing in UK businesses, rebuilding our infrastructure and making lives better through reforming welfare and pensions.

Nigel Wilson, on site in our Bracknell urban regeneration development, where we're rebuilding Bracknell town centre, constructing 1,000 new homes.

Q Nigel, should your shareholders be pleased with what you've achieved in 2015?

A Our strategy meant we were able to grow our business. We have maintained our market-leading positions in life insurance, pensions investment management and liability driven investment (LDI). Once again we increased earnings and assets and delivered a total shareholder return of 114% in the three years to the end of 2015. Our success and capital strength means we can recommend an increased dividend for shareholders.

Q How difficult has it been to cope with the disruption you've seen in the insurance industry in 2015?

A We have a clear strategy, with the diversity and scale to expand organically. We have grown in core markets in the UK and overseas and have selectively entered new markets including lifetime mortgages, US pension risk transfer and investment management in Asia. We have left those markets which are no longer core to our future growth.

Q Have you been a winner or loser from recent government changes in pensions? And what further changes would you like to see?

A We support UK government policy to give people greater control of managing their own retirement finances. There's a long way to go and people are just starting out to build real independence and security in retirement. We are clear market leaders in pensions investment management and have almost a 30% share of the auto-enrolment market. We have reshaped our individual retirement business, adapting our existing products and giving customers greater access to housing equity through lifetime mortgages. In 2014, the estimated amount of housing equity available to over 65s was £1.4 trillion.

Q How important is building a strategy with digital at the heart?

A We know that more and more people prefer using digital channels. We are determined to become digital market leaders. Our customers rightly expect the lowest charges possible and the freedom to take control of their own finances at a time that suits them.

Only the companies that can deliver digitally will thrive. We intend to be a digital winner and have set up online facilities for auto-enrolment, attracting businesses with strong digital capabilities such as Tesco and the John Lewis Partnership. Our investment platforms and individual retirement products benefit from digital. We have won investment mandates in Asia in some areas where we have no people on the ground.

Q You've said that the UK suffers from under investment. In what areas would you like to see more money invested?

A Institutions are awash with capital. It's time to move away from a fixation on interest rates (little 'i') to the big 'I' of more investment. We should invest in jobs by encouraging new businesses and improve productivity by investing in skills, training and digital capabilities. We want to end 'short termism' in business and have ourselves stopped quarterly reporting. Investment in infrastructure such as clean energy and housing will create employment and generate growth in areas which have missed out on the recovery.

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

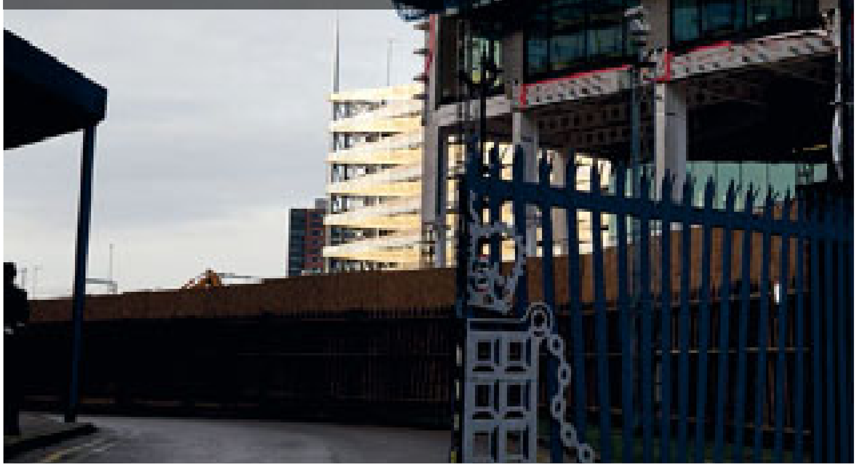
A The UK is a fantastic place to invest in. Two key goals are to improve the supply of affordable and 'last time buyer' housing and to help stimulate greater investment in the economy, building increased customer resilience. Our success and considerable investment expertise in the UK enable us to expand internationally in US DC and pension de-risking markets and Asian investment markets such as Taiwan, Korea and Japan.

Q What future risks do you worry about? Are there enough regulations in place to protect against those risks?

A The global economy gives cause for concern, with falling growth rates in emerging markets and turbulence in commodities adding to worries about the Eurozone's future. It doesn't help that the UK's role in Europe remains uncertain. However, we consider that a vote to leave would have little direct impact on trading, as our customer base is located very largely in the UK, the US and Asia. As a risk manager we seek to balance sheltering our customers and shareholders against risks, with the need to invest capital for future growth. The 2015 approval of our Solvency II internal model is a good example of successful collaboration with regulators and we want even closer links to ensure that business can play its fullest role in supporting UK Plc and the other markets we operate in.

FURTHER READING
www.legalandgeneralgroup.com/media-centre/nigels-blog

> **"We need constant, disruptive renewal. Companies that cannot modernise fall behind quickly."**
>
> **Nigel Wilson, Daily Telegraph, 3 January 2016**



Direct investments made to end 2015

£7.0bn

(31.12.14: £5.7bn)

OUR BUSINESS IS EVOLVING

OUR JOURNEY TAKES US TOWARDS BEING A GLOBAL ASSET MANAGER, WHILE REMAINING EXPERT IN MANAGING INSURANCE RISK

Our story began 180 years ago, when six lawyers founded Legal & General, insuring the lives of members of the legal profession. Five years later, we'd built up sufficient resources to loan £20,000 to build the Stockton and Hartlepool Railway, making our first infrastructure investment.

In 1970, we set up our investment management business. An important focus for us has been investing the funds of corporate defined benefit pension schemes.

We grew our traditional UK life and pensions business in the next 40 years, offering insurance, annuities, pensions and savings plans. Our international footprint expanded, especially in the US and Europe.

UK listed insurers remained resilient during the late 2000s financial crisis, with no one needing a capital injection from the state. Since 2009, we have built on our success, benefitting in the last three years, from a strategy crafted to respond to five global macro trends.

But the financial crisis meant our world changed utterly.
In addition, the online revolution saw consumers shying away from brands without digital propositions. Disposable income was squeezed, with little left for savings or insurance. Offering the lowest price became even more attractive to consumers. We responded by building a new pensions auto-enrolment business and because of our scale we could offer savers some of the lowest charges in the market.

Like many others, we re-examined our international businesses, questioning the relative merits of European markets against the high-scale demographics of North America and Asia.

Our faith in asset management made Legal & General Investment Management the heart of the company. Our global assets under management grew from £264 billion at the beginning of 2009 to £746 billion at the end of 2015. We created two new businesses, Legal & General Capital and Legal & General Retirement, with complementary skills in asset management.

We're still changing. The global economic outlook and financial markets are likely to remain uncertain for some time to come. Our challenge is to continue our journey towards being an asset manager. We also need to become a truly digital business. Our survival depends on it.

"The biggest trend was the global growth of asset management. Our assets under management grew from £264 billion at the start of 2009 to £746 billion at the end of 2015."

A NEW INTERNATIONAL FOCUS
We're starting to deliver a new international strategy based upon managing assets in the world's largest economies such as the US, China and Japan, and providing insurance cover in India. We've sold non-core businesses in France, Egypt and the Gulf.

INVESTMENT MANAGEMENT
(LGIM) We've built scale to become a top 15 global asset manager. We've integrated our market leading pensions investment and auto-enrolment businesses. We're expanding internationally, exporting our skills to invest in some of the world's largest economies.

RETIREMENT (LGR)
We are transforming the business from a focus mainly on UK annuities to diversify internationally. We're well placed to exploit the huge potential in bulk annuities globally. We've launched a lifetime mortgage business to help the over 65s use the £1.4 trillion tied up in equity in their homes.

CAPITAL (LGC)
Launched in 2013, we've not only already started to achieve better 'risk-adjusted' returns on our balance sheet but have demonstrated how financial success can also be economically useful by investing in society. We've invested into urban regeneration, housing, clean energy and alternative finance.

INSURANCE
We're the UK's largest life insurance provider and a significant player in mortgage-related financial services. We're aiming to redefine how people can protect their loved ones with market-leading digital applications.

AMERICA (LGA)
Our US business is one of the US top ten term life providers, with over one million customers. We've now added a new dimension by working with LGR to buy out liabilities from US defined benefit pension funds, using bulk annuities. And by improving efficiencies, LGA is providing more stable financial returns.

WHAT WE DO

OUR BUSINESSES HAVE CLEAR STRATEGIES AND WORK TOGETHER TO CREATE SYNERGIES

We have three asset gathering businesses

1. Legal & General Investment Management

£746bn

in assets under management

We're one of the world's top 15 asset managers, managing investments for institutions and individuals. We're increasingly diversifying the business away from UK DB schemes towards a more international focused business and one that increasingly helps DC pension schemes, including auto-enrolled schemes as well as helping individual investors.

2. Legal & General Retirement

£43.4bn

in annuity assets

We help businesses provide certainty for their pensioners' retirement income. In the UK, US and Europe, we've used derisking products to take on the responsibility of paying retirement income from DB pension schemes. Our UK individual retirement business helps people manage the income from DC pension funds. In 2015, we also launched our lifetime mortgage business to help people boost retirement funds using the equity in their homes.

3. Legal & General Capital

£0.9bn

in direct investments

We aim to increase the returns on our balance sheet. Because we need to make very long-term investments to match liabilities, we seek direct investments in assets such as urban regeneration, housing, clean energy and alternative finance.

We have two risk businesses and a savings business

1. Insurance

£2.0bn

in gross written premiums

Our Insurance business covers over five million individuals through individual life insurance, household insurance and general insurance products as well as covering around two million people in group protection schemes. We own the UK's biggest mortgage club. In 2015 we distributed £46 billion of mortgage loans. 'Insurance' also looks after our Indian joint venture which insures five million people.

2. Legal & General America

$1.2bn

in gross written premiums

We provide life insurance cover for over one million US individuals and work closely with LGR to provide bulk annuity derisking products for US pension schemes.

3. Savings

£77bn

in platform assets

Our Savings business owns the UK's largest digital investment platform, managing assets for individual investors. Increasingly, individual savers are also investing in products now managed outside our Savings division, investing in LGIM's UK retail fund products.

Our three asset gathering businesses leverage our expertise in managing pensions risk, creating synergies by working together.

FIVE STEPS
How our retirement and investment businesses work together to benefit our clients.

STEP ONE
We help companies manage investments in defined benefit (DB) pension schemes.

As the UK's largest investment manager for pension schemes, the size and range of our funds allow us to provide a tailored investment approach. We look to minimise funding level volatility against a backdrop of low interest rates and increasing longevity.

STEP TWO
Liability driven investment solutions (LDI) help pension schemes improve the balance between assets and liabilities.

We're uniquely placed to partner with clients on their full de-risking journey. We've invested heavily to develop our capabilities, building up a market-leading team in the industry. We're the UK LDI market leader with a market share of over 40%.

STEP THREE
We can take on the responsibility for administering, managing and paying pensions.

Our LDI team work closely with our bulk annuity team to help schemes transition from LDI to buyout by moving liabilities off a company's balance sheet. We can also offer longevity insurance that covers pensioners living longer than anticipated.

STEP FOUR
We help companies establish new defined contribution (DC) pension schemes.

Our market leading auto-enrolment service offers some of the lowest charges through high scale and automation. We're also building up our investment management business for DC schemes, both in the private sector and the public sector.

STEP FIVE
Investing pensions assets to benefit shareholders, customers and society.

LGIM work with LGR to invest corporate pensions money, which include direct investments. We aim to find stable, long-term investments that enable us to increase the risk adjusted returns on the group's principal balance sheet.

MARKET FORCES

Building a robust strategy

We've aligned our strategy and operating model to respond to global trends.

In 2015, we developed tactical responses to the immediate political and economic realities which face our business.

We also continued to focus our strategic plans upon our response to five long-term growth drivers.

Global economic outlook

Global investment markets were volatile in the first two months of 2016. The recovery seen in the final quarter of 2015, following the US interest rate rise has been replaced by sharp falls in many global equity markets.

The outlook for global growth is less positive than predicted in 2015. In the UK, the Bank of England have cut 2016 GDP growth forecasts to 2.2%, the same level as 2015.

Important drivers have been:

1. The slow down and rebalancing of the Chinese economy
2. Lower commodity prices, where the oil price fell below $30 a barrel
3. Strains in some of the larger emerging market economies
4. The growing strength of the US dollar

A DIGITAL FUTURE FOR ALL

Friend or foe?

The 'second machine age' is having a profound impact on financial services groups. Without executing a strategy that has digital at its heart, companies could be shunned by consumers and overtaken by new competitors. We've seen huge structural changes where new digital companies have changed the face of travel, music, retail and media and believe that the same could happen to financial services.

A digital future means less reliance on human resources, stimulating growth in more creative roles, but reducing the need for some traditional roles.

> **Legal & General manages digital money and engages digitally"**
>
> NIGEL WILSON
> TCS Summit, October 2015

Companies that succeed will have digital platforms that allow for globalisation and high scale. Customer engagement must be at the heart of the digital experience, with consumers benefitting from a seamless service across all distribution channels and all digital devices. Greater automation can lead to reductions in unit costs and competitive consumer pricing. Digital advice may be inevitable, as consumers choose 'robo advice' above expensive face-to-face processes.

WORKING TOGETHER WITH GOVERNMENTS

Ensuring changes in pension legislation improves people's lives.

We believe government and the insurance industry should work together to help people protect their health, families, homes and possessions and enjoy long and happy retirements, free from the worry of financial hardship.

The launch of the welfare state in the 1946 National Insurance Act created a three-way partnership where the financial burden is met by the individual, the state and the insurance industry.

> **We all want people to save more, to have more money in their pension... we are just starting on this process"**
>
> HM MINISTER FOR PENSIONS
> October 2015

Key to this partnership is encouraging people to have personal responsibility for their own financial security, either through their employer or by owning their own plans.

We've worked closely with government to build a robust pensions auto-enrolment policy, combining self-reliance with a 'soft compulsion' policy. Because of our scale, we've been able to lower costs to encourage increased pension saving. While auto-enrolment has driven growth in our corporate pension business, the recent 'pensions freedom' legislation has meant that we've had to reshape our individual retirement business, introducing new products and improving flexibility.

BUILDING A BUSINESS FIT FOR THE FUTURE

How we have started to evolve how we focus our business.

Our success has been built on organic growth, supplemented by selective purchases of high-performing bolt-on businesses that offer synergies with our existing businesses and can boost scale. 'Decluttering' enables us to focus on high-performing businesses.

Our entry into the lifetime mortgage market in 2015, gave us a new 'Home Finance' business which fits perfectly with our existing 'ageing populations' macro trend, enhancing the new post-retirement propositions offered by Legal & General Retirement. We restructured this business in just nine months and already have a 22% market share.

We've also used selective acquisitions to accelerate the growth of investment management in the US and our UK housing business.

In 2015 we sought to reduce costs and management distractions across the group by exiting low scale businesses and non-strategic assets. This contributed to operating cost savings of over £80 million in 2015.

We've sold non-core businesses in France, Egypt and the Gulf and no longer have our estate agency, and offshore bond businesses.

ENSURING REGULATORS WORK FOR US ALL

Have regulatory reforms been good for consumers?

Effective regulation in the markets where we operate ensures trust and confidence and can be a positive force for business. We've collaborated with legislators both in the UK and Europe to ensure customers' interests come first.

We believe that regulation which does not support financial stability, productive growth or household resilience needs to be reviewed. Regulation can often still be in analogue mode even though we live in an ever more digital world. Becoming enforcers of existing regulation and reviewing unintended consequences should be an important focus of resources.

We've been very encouraged by the Financial Advice Market Review and its aim to try and ensure that more of the population can access the advice and guidance they want at a price they can afford. We're also strong advocates of the EU's 'Capital Markets Review', which is designed to ensure that our sector can invest even more in productive infrastructure investment. It's a great start, although there's more to achieve.

GROWTH DRIVERS

Five growth drivers continue to underpin our strategy

Ageing populations

The world's getting older. In the UK, people are living longer and haven't saved enough for retirement. Yet the over 65s have around £1.4 trillion of housing equity, which could be accessed to help to fill this savings gap. Global private sector defined benefit liabilities are estimated to be in excess of $9 trillion with an increasing demand for de-risking solutions to ensure pensions get paid on time and in full.

Welfare reforms

The pressure on public finances means we need to share the provision of welfare between the state, individuals and employers. Filling the demand for the private provision of pension and protection products means people can have more secure finances and lessen the pressure on state funding.

Creating real assets

Creating real assets provides us with opportunities to invest our long-term 'slow money'. We're able to provide not only enhanced returns on our 'slow money', but we can also help rebuild communities through urban regeneration.

Globalisation of asset markets

We believe that asset markets around the world are becoming increasingly homogenous, creating attractive opportunities to grow and internationalise our successful investment management capabilities. Despite our investment management business being the 15th largest globally, we have massive opportunities for continued growth, still only holding 1% of global assets.

Digital

Changes in digital customer engagement present both opportunities and challenges to all companies. Consumers increasingly want to use digital solutions in their daily lives. Using digital capabilities to generate scale and efficiency can be the key to success.

CHALLENGING
AND CHANGING MARKETS

The global growth drivers that we've identified influence the strategic direction of our business. As we continue to respond to these drivers, we're continually evolving our business as we react to changing customer needs. Our ambition is to challenge and change markets, assumptions and perceptions for the benefit of our customers, shareholders and society.

GROWTH DRIVERS

Ageing populations

Welfare reform

Creating real assets

Globalisation of asset markets

Digital

STRATEGIC AIMS

Maintaining global leadership in pensions derisking and providing a suite of products to maximise retirement income.

Helping people achieve security affordably through insurance and workplace pensions.

Using 'slow money' to become the UK leader in direct investments, including housing and urban regeneration.

Using our existing skills and expertise to build a world class international asset management business.

Achieving market leadership in digital provision of insurance, retail investments and personal pensions.

CHALLENGING AND CHANGING MARKETS

Our businesses work together to enable companies to manage their pension liabilities by moving them away from expensive DB schemes.

Our value for money and scale help drive down prices for our customers as we aim to make markets operate more fairly.

We're using our 'slow money' to change the face of UK towns and cities.

We're using our investment expertise to strengthen our presence in international markets.

Our digital strategy aims to take the complexity out of financial services.

OUR ACHIEVEMENTS

- Launched lifetime mortgages
- UK LDI share over 40% and a US market leader
- Won National Grid £12bn mandate
- Provide investment management for around 3,000 institutional clients
- Wrote first pensions derisking deals in US and Netherlands

- 1.8m people in workplace pension schemes
- Number 1 in UK life insurance
- Won John Lewis pension scheme
- Less than 10% of people who joined auto-enrolled schemes chose to leave

- Direct investments now £7.0bn across the group
- Regenerating Cardiff city centre
- 50% Media City stake in Salford
- £200m regeneration and 1,000 new homes in Bracknell
- First wind energy deal

- International net flows of £9.5bn
- Significant growth in US index business
- New mandates in Japan, Taiwan and Korea
- Distribution agreement with Meiji Yusada in Japan

- Retail insurance 79% straight through processing
- Digital investment platform with £77bn of assets
- 'Re-platformed lifetime mortgage business', creating first fully responsive website

GIVING THE NEW GENERATION OF PENSION SAVERS A BETTER FUTURE

Every generation deserves a prosperous retirement.

We need imagination and innovation to meet the challenges of ageing.

We've developed innovative solutions in the face of change in the world of pensions. The number of UK defined benefit (DB) pension schemes continues to decline, with companies struggling to afford the costs of meeting their pension liabilities. We need to make sure that the shift to defined contribution (DC) schemes also gives younger generations the scope to build adequate levels of pension income. In the UK, the government's 'pension freedoms' mean people who've saved in DC schemes need to plan their retirement income carefully.

Investment management solutions

Our investment management business specialises in providing solutions to the challenges posed by ageing populations. This affects all global markets where populations are ageing, such as the US, parts of Asia and western Europe. The 'Globalisation of asset markets' section on pages 24–25 describes how we're expanding our investment management business internationally.

Our investment management business is the world's 15th largest (by 2014 asset values) with £746 billion assets under management. This is a diverse business, where in the UK we're continuing to attract institutional pensions' funds into both DB and DC schemes. We've almost doubled our DC assets under management since 2011, growing from £23.6 billion to £46.1 billion at the end of 2015.

One of our core strengths is managing index funds, where we have assets under management of £274 billion and are well placed to benefit from the growing global trend towards a greater use of index funds.

Our range of solutions for the maturing UK DB market is expanding and we expect demand for pooled and delegated solutions to grow rapidly as many pension schemes seek these solutions. Our liability driven investments (LDI) and multi-asset business is now our biggest segment with £338 billion of assets and £27.9 billion of net flows in 2015.

CASE STUDY

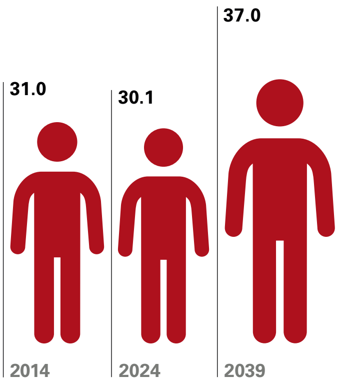
Ageing populations challenge governments across the globe.

Old age dependency ratios show the number of people above pension age for every 100 people of working age. Key influences are birth rates, longevity and migration. In Japan, with its rapidly ageing population and low birth rate, 2014 World Bank data showed there are 42 Japanese people aged over 64 supported by every 100 working age persons. Western Europe also has high ratios: 32 in Germany, 30 in France and 28 in Spain.

Ratios are lower in countries with higher birth rates: US (22) and Ireland (19).

Increasing dependency ratios matter because younger people, usually through taxation, have to support pensions, healthcare and elderly care for retired people. The challenge is to create an equitable balance between taxes paid by working people and state benefits. Encouraging people to save for their own retirements could lower the burden on the state. UK 2014 projections showed the planned state pension age increases could mean that the projected old age dependency ratio will be 34.2 in 2051, instead of 49.2.

Old age dependency ratio



Dependency ratios – number of people above state pension age supported by 100 working persons.

Source: 2014-based National Population projections published by the Office of National Statistics.

Freedom for DC scheme members

While LDI solutions help companies ensure that DB pensions are paid on time and in full, there's a growing need for people who have saved in DC schemes to plan their finances in retirement. In 2015, we developed two new plans to supplement our traditional individual annuity business, which has declined in volumes by 74% since 2013. Our new 'Fixed Term Retirement Plan' and our 'Cash Out Retirement Plan' give consumers increased choice about how to take the money they've saved in DC schemes. However, our experience has been that around 90% of people have taken their full savings in cash, with average payouts of £12,000.

> **"We're getting older and need to save more, for a longer old age and the inevitable care costs"**

The average annual cost of elderly social care is estimated to be £29,250, increasing to £39,300 if nursing care is needed. People are forced to take difficult decisions whether to fund care costs from equity in the home or to hold back a large portion of pension capital for later years.

Turning the £1.4 trillion in housing equity into retirement income

It was estimated in 2014 that people over 65 in the UK, were sitting on £1.4 trillion in equity in their own homes. 3.3 million homeowners aged over 55 have been looking to 'rightsize' to smaller homes, freeing up 7.7 million spare bedrooms for younger people who are struggling to find affordable homes to buy or rent. Yet the UK is struggling to finance elderly care. Since 2010, cuts in council-funded adult social care have totalled £4.6bn, or 31% in real terms of net budgets.

We want to give elderly people the choice of moving to a smaller 'last time buyers' home which can be more suitable in later retirement or staying in their own home freeing up some of their equity to pay for domiciliary care. In 2015, our new Home Finance business completed £201 million in new mortgages for people who wanted to increase their retirement funds. The market is vibrant and it's possible that the total lifetime mortgage market could reach £5 billion a year by 2020. Our future strategy involves diversifying our distribution channels and aiming to continue to give increased value to consumers through competitive interest rates and reduced early repayment charges.

Innovation in corporate derisking

We're one of the few companies who can provide a complete suite of derisking services for DB schemes, comprising bulk annuities and longevity insurance as well as traditional fund management and LDI solutions. In 2015, the UK bulk annuity market saw a lower level of activity than 2014's record volumes. The new Solvency II capital regime led us to adopt a capital-lite approach to writing bulk annuities in the UK and we focused our attention on international markets, entering the US and European pension risk-transfer markets. In October 2015, we announced the first pension risk-transfer deal with the US subsidiary of Royal Philips for approximately $450 million, and in December we completed a €200 million reinsurance deal with ASR Nederland NV, a Dutch insurer. We extended our reputation for innovation in the UK, completing in December 2015 the UK's largest medically underwritten bulk annuity deal with a UK DB scheme. This buy-in deal covered around £230 million in pension liabilities, for selected scheme members.

Cutting the public sector pensions gap

The 2011 Hutton report highlighted the growing cost to the taxpayer of funding public sector pensions, which was estimated to be over £1 trillion. The recommendation to move to a DC basis is being steadily implemented by the state. However, expensive DB schemes still abound and we're well placed to help the public sector manage its DB liabilities and move employees into new schemes. In November 2015, we increased our pooled passive investment mandate for a group of seven local government pension schemes to £6.5 billion. We now manage £40.2 billion for 54 local government pension schemes.

SEE THE ONLINE FAST READ
www.legalandgeneralgroup.com/2015fastread

MANAGING THE RISKS

When we write pension derisking business and products to provide retirement income, we have to estimate how long people will live. We call this longevity risk. Longevity and credit, the risk of default by the issuers of bonds used to back our annuity liabilities, continue to be the most significant risks in our retirement business and the largest on our group balance sheet. As well as our capabilities to evaluate and price for longevity, we actively use reinsurance to manage aggregate exposures. Our credit experts in LGIM manage our bond portfolios.

Creating a modern, low-cost, high-pace business.

Launching our new Home Finance business in just nine months. Bernie Hickman, managing director, Legal & General Retirement.

In February 2015, we announced our acquisition of New Life Home Finance Limited for £5 million, a successful execution of our bolt-on acquisition strategy. We also entered into a funding agreement to be the sole funder of new lifetime mortgages, giving us an attractive source of direct investment assets to back our annuity liabilities.

In March 2015, we were already seeing £1 million a week in applications as we kicked off the task of rebuilding the IT platform, changing the branding of the new company in April 2015.

By June 2015, we had already finished the work to rebuild the IT infrastructure, managing to exceed our existing group standards and creating the group's first ever fully responsive website in November 2015 to support the direct marketing of lifetime mortgage products. By developing a modern platform, we were able to improve our service delivery performance time down from 82 days to 24 days from the receipt of the application to the issuing of the completed loan to the customer.

By September 2015, we were getting around £10 million in applications every week, already making use of group synergies with our in-house surveying team. We were also able to benefit from sharing the expertise of other parts of Legal & General Retirement, economists and housing experts working in our investment management business.

£1.4 trillion

in equity in over 65s housing in 2014 (English Longitudinal Study of Ageing (ELSA).

WELFARE REFORM CREATES OPPORTUNITIES FOR US

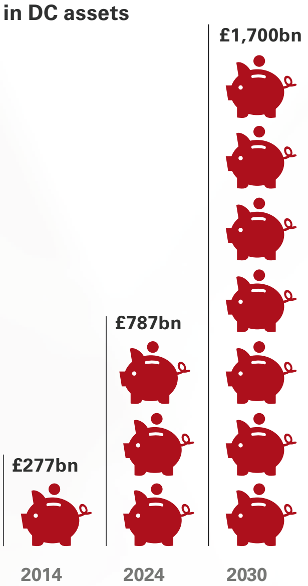
The overall market size for DC pensions assets is projected to increase to over £1.7 trillion by 2030, driven by auto-enrolment where statutory minimum contribution rates are increasing from 2% today to 8% in 2019. The incorporation of Legal & General's Workplace Savings business into LGIM enables us to bring our successful workplace savings and fund management teams closer together. We expect to add around 240,000 new members to our platform by the end of 2016, boosting our UK DC customer base which stood at 1.8 million at the end of 2015. Greater scale and focus on unit cost management are important in increasing profitability. We're also making significant progress with SMEs, introducing a straight-through process, where we can maintain our 50bps price cap for the default fund, providing a highly efficient proposition for smaller companies.

Auto-enrolment – the next stage

Auto-enrolment has been successful in increasing the number of individuals saving into a pension. Further areas which the government could consider to help people fund their own retirements include:

1. Putting in place an automatic system for pension increases
2. Reconsidering the planned upper limit of 8% for contributions. We should follow the example of success in Australia, where employees will pay up to 12% by 2025.

Projected growth in DC assets



Source: Spence Johnson and Pensions Institute.

Auto-enrolment is reversing the decline in pension saving

By March 2015, over 5.2 million British workers had been successfully auto-enrolled since the government began its reforms in 2012.

That's more than 2.2 million workers in pension schemes since 2014, and 4.2 million more than in 2013. The popularity of auto-enrolment is shown by the fact that the overall opt-out rate is around just one in ten.

Automatic enrolment has turned around the decline in pension provision. 59% of all UK employees in March 2015 were active members of a pension scheme, compared with just 47% in 2012. The pensions landscape is being completely transformed as DB schemes decline with the majority of new pension savers being enrolled into defined contribution (DC) schemes.

A second phenomenon is the growth in master trusts as 94% of employers who chose a trust-based scheme opted for a master trust. In 2015, Corporate Adviser recognised Legal & General's expertise as an auto-enrolment provider with the award of 'Best Master Trust'.

Supporting the 'time to change' campaign on mental health.

Health is a big part of our business and we're 100% committed to focusing on mental health as part of our health and wellbeing programme. A huge stigma surrounds mental health in the workplace. Mental illness affects 1 in 4 of us in any one year. Our own research amongst SMEs found that 1 in 7 business owners feel employee stress is an increasing issue. So in October 2015, to support World Mental Health Day, Nigel Wilson and Lord Dennis Stevenson from the mental health charity MQ held a dinner at our London office to facilitate a more detailed discussion on the challenges and issues we all face.

To support our pledge to the 'Time to Change' campaign, we launched the #Smallthings campaign to encourage employees to think about the small things they could do to help one another and raise awareness about mental health. Some of our colleagues have been brave to share their own, very personal battles with mental illness. We're building a network of mental health and wellbeing champions offering peer support to friends and colleagues.

FURTHER DETAIL
www.legalandgeneral group.com/media-centre/nigels-blog/

Paul Papadopoulos, one of our own employees, who shared his personal battle against depression with his work colleagues

Using the auto-enrolment model to improve welfare and social care

The success of auto enrolment has shown that people are prepared to pay for a better financial future if it is made easy for them to do so and they receive tax incentives. Reform of the national insurance (NI) system could mean that people could contribute towards the funding of better elderly care.

If people are incentivised through lower NI contributions to save into an insured workplace fund to cover potential care costs, then the state could reduce the current £17 billion cost of adult social care spent by councils in England. People entering care homes wouldn't need to deplete so much of their housing assets and could pass them on to their families.

In the same way, contributory sickness and disability benefits could be replaced by a system that provides better benefits for people and helps the government reduce borrowing costs.

Reform of higher rate tax relief and reduced NI contributions can help fund the phasing out of poor-value contributory benefits for hard working families, replacing them with 'Beveridge 2.0', a better system with more support for average earners.

Driving change in UK insurance

The vision for our UK Insurance business is to give customers access to a much fuller range of insurance products available through their choice of distribution channels and delivered digitally.

Our focus in 2015 was in improving our customer experience, making it easier for customers to apply, communicate with us and make claims.

2015 saw steady progress in digital delivery. 79% of life insurance applicants are now accepted immediately without further underwriting being needed. Our 'My Life' system made customers' lives easier by requiring fewer underwriting questions and giving clearer terms and conditions, while we were still able to apply robust risk assessment criteria.

Action to help flood victims

The horrendous floods of December 2015 and January 2016 were devastating for many of our customers and challenging for our personal claims managers. Our solution in Carlisle was to base members of our claims team in a local Community Centre all week, working with surveyors and loss-adjusters in the heart of the community. We expect to pay out a total of £15 million in flood and storm claims.

In 2015, our Mortgage Club distributed £46 billion of mortgages, representing 20% of all mortgages taken out in the UK. Our successful surveying business celebrated a new deal with Santander bank in January 2015.

The success of the mortgage club is built around our excellent distribution partnerships, good relationships with lenders and our expertise in maintaining good monitoring controls.

SEE THE ONLINE FAST READ
www.legalandgeneralgroup.com/2015fastread

MANAGING THE RISKS

Providing insurance products that help people achieve security affordably means we have to make assumptions about how long people will live, how healthy they will be and events that could give a higher rate of claims than we'd normally expect. We price and underwrite our protection products to take account of these risks, using reinsurance to manage significant exposures.

EASING THE INTER-GENERATIONAL HOUSING CRISIS

Building homes for Britain. “We need to build 250,000 new homes a year to keep up with demand.” We’re playing our part.

The UK managed to build 131,000 new homes in the year up to August 2015, the highest annual total since June 2009, but still a long way behind building levels in the 1950s and 1960s.

The government has announced an intention to deliver 275,000 affordable homes by the end of this Parliament. Whether this can be achieved depends upon getting the right investment, an improvement in planning laws and the availability of building materials and labour.

We’re committed to a homebuilding programme as one part of our direct investment programme, where we need to invest funds from our shareholder and policyholder capital to achieve a long-term financial return, sometimes for 30, 40 or 50 years. This replaces the role previously provided by banks and governments. We focus on strategic direct investments using our surplus capital to enhance yields, delivering improved returns for shareholders. We focus upon four sectors:

> **“This huge under-investment goes back a long time. Cities are not overbuilt, they are under-demolished”**
>
> **NIGEL WILSON**
> **TCS presentation, October 2015**

- UK housing
- UK urban regeneration
- Alternative finance
- Clean energy

Moving from NIMBY to PIMBY

The UK may need a complete re-think of attitudes to housing, urban regeneration and infrastructure developments in areas such as transport, where local planning decisions actively move away from a ‘not in my backyard’ attitude to ‘please in my backyard’. Planning laws are getting better, but we've still a long way to go. We want to end the inequality of opportunity in the UK, where many developments focus on the affluent south of England to the detriment of our inner city areas, especially those in the north and west of Britain. Our urban regeneration plan has

> **We need to build 250,000 new homes a year to keep up with demand. We haven't come close in decades."**
>
> **KPMG/SHELTER**
> **April 2014, 'Building the homes we need' report**

been adopted by the government's 'Regeneration Investment Organisation' (RIO). We committed £1.5 billion as part of a £15 billion fund over the next few years, working alongside international investment partners. We have nine key regeneration schemes across the UK. In the north of England there are projects in Salford, Leeds Liverpool and Wakefield. In the west of Britain we're involved in projects in Cardiff and Plymouth. In the south of England, there are schemes in Canning Town, Bracknell and Crowthorne.

Our commitment to Cardiff

In Cardiff, we're not only committed to providing local employment with 1,200 people located in our Cardiff office, but we're also working with Cardiff City Council and a local developer, Rightacres, to regenerate the city. We contributed towards the £400 million mixed-use development, including a new 'Central Square', offices, hotels and residential developments, together with a transport hub and a new headquarters for BBC Wales.

1


2


1. MediaCityUK, where we own 50% of a £500 million development, which includes accommodation for the BBC and ITV.
2. Carla, an owner of three restaurants in MediaCityUK.
3. A building project in Salford, where our urban regeneration scheme is creating 800 new homes and two million square feet of office space.

3


CASE STUDY
Regenerating Salford

In 2015 we announced two new schemes in Salford to supplement the regeneration of Salford Central which is already breathing new life into the area. We completed the purchase of a 50% interest in the Peel Group's MediaCityUK at Salford Quays.

MediaCityUK is the largest purpose-built creative digital and technology community in Europe and is home to the BBC and ITV. Secondly, we announced the development of the first custom-built private rented sector scheme, building 90 homes on the border of Salford and Manchester. Salford Central is a £650 million investment, building 800 new homes and two million square feet of office space. It includes the expansion of Salford Central Station as part of the Ordsall Chord investment by Network Rail.

WATCH THE VIDEO
www.legalandgeneralgroup.com/2015fastread

2 million

square feet of offices, including space for the BBC, ITV and University of Salford.

We need to regenerate cities, spreading wealth evenly across the UK.

By Laura Mason, director of direct investments at Legal & General Capital (LGC).

In 2013, we set up LGC to help actively invest the group's balance sheet and improve shareholders' quality earnings by increasing our exposure to strategically important direct investments for the group. We've now invested over £7.0 billion in direct investments across the group, being involved in over £2.4 billion of regeneration projects in the UK, up from £1 billion a year ago. We now have access to a portfolio of nine strategically important regeneration schemes that are fast transforming and reshaping Britain's landscape, bringing jobs and housing back into the centre of cities.

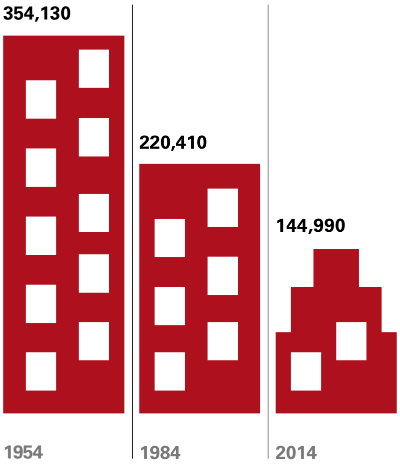
Our aim is to replace capital previously made available by banks and government. We aim to invest our long-term capital sources to match our long-term liabilities whilst wherever we can investing into socially and economically useful projects for the UK.

We partner with market leaders to ensure we have access to the most comprehensive market intelligence and skill sets.

In 2015, as well as progressing our projects in Salford, Leeds and Cardiff, we made a major breakthrough in the regeneration of Bracknell. The scheme is to regenerate Bracknell town centre and provide new retail, leisure and residential apartments, within landscaped public spaces. Through the Bracknell Regeneration Partnership, a 50:50 joint venture between LGC and Schroder UK Real Estate Fund, we announced an agreement for a 20,000 square foot pre-let to Arcadia at its 'Northern Retail Quarter'.

FURTHER DETAIL
www.legalandgeneral capital.com

UK home building volumes



Source: www.gov.uk/government/statistical-data-sets/live-tables-on-house-building
Table 241: permanent dwellings completed, by tenure, United Kingdom, historical calendar year series.

The northern 'powerhouse'

In Leeds, our first RIO development was to acquire a 50% stake in Thorpe Park Leeds, a £160 million 200 acre mixed-use business development. The joint venture with Scarborough Group is set to create 13,000 local jobs while potentially unlocking the construction of 7,000 new homes in the East Leeds area through the construction of the first section of the East Leeds Orbital Road.

Let's build Britain

Our commitment to homebuilding includes all types of housing tenures. We invest in the 'build to rent' sector as well as building homes to buy for all age groups, from first time buyers to 'last time buyers'. We're keen to see a greater supply of affordable homes and social housing. In Walthamstow, we acquired an initial £25 million regeneration site to build and rent over 300 flats. In Salford, we partnered with English Cities Fund for a £16 million scheme, part of the New Bailey development, which will create a total of 90 homes located on the border of Salford and Manchester. Both developments comprise one-, two- and three-bedroom flats.

The rent from the flats will provide an attractive long-term institutional investment return. We're investing with PGGM, a Dutch pension scheme, in the development of private rental housing assets, which will be managed by our 'Real Assets' team. Providing long-term rental income will create a good match of annuity and pension liabilities, as well as real economic growth for the UK, creating much needed new housing.

Investing in clean energy

In December 2015, we made a start in investing in clean energy by investing in NTR Wind Management Limited, a clean energy and asset management business, that has committed to building an onshore wind portfolio which could generate sufficient electricity to power up to 170,000 homes and avoid more than 300,000 tonnes of CO_2 per annum across the UK and Ireland.

Alternative finance

Our 40% equity stake in Pemberton allows us to offer direct lending through the Pemberton platform to UK and European corporates, providing much-needed loans and private placements to mid-market companies in the UK and Europe. We achieved a major milestone in 2015 with the first Pemberton fund closing. We now have €500 million invested in loans across Europe.

SEE THE ONLINE FAST READ
www.legalandgeneralgroup.com/2015fastread

MANAGING THE RISKS

Using 'slow money' to become the UK leader in direct investments inherently exposes us to property market, lending and loan default risks. We have over the years, through Legal & General Property, built significant expertise in property markets. Combined with our credit capability, we're able to assess the risks of each transaction and validate the quality of the security that we take.

TAKING OUR INVESTMENT EXPERTISE TO THE WORLD'S BIGGEST MARKETS

Huge opportunities exist to export our expertise to continue to build our successful investment management business internationally. With total private wealth estimated to reach $210 trillion in 2019, we've barely started to scratch the surface, managing just around 1% of global assets, despite being the world's 15th largest asset manager. We have significant potential for further growth, especially in the US and Asia, despite recent market volatility. Key growth areas in international markets are DC pensions, LDI, real assets and fixed income.

Taking our US business to a new level

The US continues to be the world's largest pensions market with an estimated $22 trillion of assets in 2015. Willis Towers Watson's 2016 'Global Pensions Asset Management' survey shows that the US has 60% of US pension assets in DC funds compared to 32% in the UK and just 4% in Japan. The US is our most significant growth market. We now have around 124 institutional clients compared to just 16 in 2011.

> **"Total private global financial wealth is estimated to reach $210 trillion in 2019 – with 63% in Asia and North America"**
>
> **BCG GLOBAL WEALTH PERSPECTIVES**
> **June 2015**

Around $2.8 trillion of US defined benefit private sector liabilities

Our strong position in US LDI, with $8.7 billion of assets under management, includes managing assets on behalf of five of the top ten largest US corporate DB plans. We're now expanding our LDI distribution to provide a full spectrum of LDI solutions. A successful LDI business creates synergy benefits across Legal & General's broader US pension derisking business. Our US investment management business provides the investment management capabilities for our retirement business as it expands into the US, including our recently announced $450 million bulk annuity contract with Royal Philips.

Gross financial assets

US	€56,456bn
China	€14,223bn
Japan	€12,063bn
UK	€7,642bn

Source: Allianz Global Wealth Report 2015

Our US investment management business is based in Chicago and has helped us increase our international assets under management to £122 billion at the end of 2015.

61%

growth in AUM in the Chinese asset management industry to 6.7 trillion RMB (US$1.1 trillion) in the year ended 31.12.14 in a 2015 report by Fitch ratings.

Further diversification of our US investment management business saw us introducing new index propositions in 2015 and winning a first multi-billion dollar US index mandate. Additionally, we launched a collective investment trust to target US clients.

Entering flourishing Asian markets

Asian markets remain fundamentally attractive despite recent turbulent conditions in Chinese equity markets caused by weakening economic growth rates. Wealth in the Asia-Pacific regions represented around one third of the world's economy and global finance at the start of 2015. There's great potential as the region's share of global AUM is only around 15%. Our strategy has been to focus on populous high-growth economies that have the lowest AUM penetration rates. In 2015 we took some first steps in Asia, by announcing that we were entering the markets of Japan, Korea and Taiwan.

Our Tier 1 strategy focuses on segregated mandates, primarily index and active fixed income, for large Asian sovereign wealth funds and other national institutions and aims to leverage our existing capabilities in pensions, institutional investments and lifetime savings. In Asia, the pensions industry has huge potential for growth, with a rapidly ageing population and a growing need for segregated mandates for large Asian sovereign wealth funds. In 2015, we achieved four mandate wins across two new clients totalling $1.4 billion.

Our Tier 2 strategy focuses on utilising core investment management capabilities (institutional, pensions and insurance), which are consistent with market and demographic trends. In September 2015 we announced a co-operation agreement with Meiji Yasuda Life Insurance Company, Japan's third largest insurance company. We will provide global fixed income investment management services to create products primarily for Japanese public and corporate pension funds.

> **Over 60s in China are projected to increase from 10.1% in 2000 to 29.9% in 2050"**
>
> POPULATION DIVISION, DESA, UNITED NATIONS

Changing focus for Legal & General America (LGA)

In 2015, LGA appointed Gene Gilbertson as President and Chief Executive Officer following his successful work in leading the management of a transformational US capital management programme, which has resulted in growing cash generation. LGA has gross written premiums of $1.2 billion and has over one million policies. LGA's strategy is to capitalise on new opportunities in the US protection and pension risk transfer markets and support LGIM's US investment capabilities.

SEE THE ONLINE FAST READ
www.legalandgeneralgroup.com/2015fastread

MANAGING THE RISKS

We continue to invest in our system capabilities, business processes and people to ensure that as we grow our business internationally we meet the expectations of all our clients, comply with regulation and mitigate the risks of loss or reputational damage from operational failure and external events.

THE SECOND MACHINE AGE?

Our digital vision is to automate our businesses, increasing back-office efficiency, simplifying processes for individual customers and corporate partners and delivering better value products and propositions.

Digital objectives

We're developing our key digital objectives to improve our direct to consumer capabilities and build self-serve technology to create efficiencies. Our key objectives are:

Continue to build a market-leading direct business for Retail Protection by further developing our 'My life' and 'Making life better' facilities

- Position Legal & General America as the 'simple' company with simpler products, developing a new customer website and driving simplicity in customer experience
- Continue to develop LGIM's 'direct to consumer' retail investment business
- Improve the ability of our Mature Savings customers to 'self-service' their product holdings

In addition, we're now taking advantage of the new digital platforms we've developed for pensions auto-enrolment and lifetime mortgages to drive new business.

66%

of UK home insurance sales were purchased online in an April 2015 survey.

Mintel, Home Insurance report, December 2015.

Driving digital disruption

Digital disruption has enabled brands like Uber, Airbnb and Netflix to flourish while traditional market players offering taxi services, hotel accommodation and DVD hire have seen their market shares decline. We're keen to use our scale to shake up the investment and insurance world in innovative ways.

Micro insurance in India First

In India we're working with the government, who have an outstanding digital programme encompassing mobile technology and retinal scanning. We now insure the lives of five million people, helping many lower income groups buy affordable cover for their families.

We're hoping to extend the concept of mass-market insurance to the UK, where we want to enhance financial resilience with low cost, digitally delivered protection for individuals and families. Our future intention is to offer the under 45s life insurance, with premiums of as little as £1 per month.

We aim to make insurance more accessible, giving a financial safety net to millions of people who are currently alienated from traditional financial services.

MediaCityUK's digital incubators

Our purchase of 50% of MediaCityUK in Salford, which is an overall £500 million investment project, has enabled us to play a part in the development of new digital businesses. MediaCityUK is the largest purpose-built creative, digital and technology community in Europe, and the UK's first media campus. Its vision is to provide a global centre of excellence for innovation and creation, and to be a broadcasting hub enabling businesses to operate across all media.

> **"We cannot solve our problems with the same thinking we used when we created them"**
>
> ALBERT EINSTEIN

We need a strategy that is digital

We've started to develop our digital strategy in our Insurance and workplace pensions businesses. However, we have only managed to make limited progress and there's still a long way to go.

Our strategy is to leverage our large scale businesses and drive automation to improve our propositions for customers and the value we derive from these businesses.

We are implementing new processes where Insurance customers can benefit from slicker application and underwriting processes. We also delivered a new general insurance digital platform in 2015, which was simpler, more intuitive and more logical in helping consumers buy cover.

Employers in our workplace schemes are benefitting from joined up administration processes while employees can manage their investments using online pension fund management processes.

SEE THE ONLINE FAST READ
www.legalandgeneralgroup.com/2015fastread

MANAGING THE RISKS

Our ambition is to develop our business to achieve market leadership in digital provision of insurance, retail investments and pensions. As we develop, we could be increasingly exposed to new types of risk. We're alive to cyber threats, the risks that they present to our customers' data and the potential for reputational damage and financial loss. We work closely with our IT business partners to manage new threats as well as ensuring our broader IT infrastructure is appropriately scaled to support our growth plans.

ACTING RESPONSIBLY

WITH A FOCUS ON FOUR KEY AREAS...

HOUSING	HEALTH
INCOME IN RETIREMENT	BEING AN ACTIVE INVESTOR

Addressing the housing crisis

The housing market is dysfunctional. While the over 65s sit on over £1.4 trillion of housing equity, many young people struggle to afford the costs either to rent or buy a home. Housing is important to us, not only because we're a major supplier of housing related life and general insurance products, a market-leading distributor of mortgages, and an increasingly important investor in house building.

> **Alongside the private sector, the government, has a crucial role to play in building genuinely affordable homes and boosting overall supply"**
>
> **CAMPBELL ROBB, CEO**
> **Shelter, May 2015**

We've invested our 'slow money' in housing projects, helping build homes to buy and to rent, in all sectors of the market, including social and affordable housing. We also work closely with Shelter, who campaign on housing issues and help people overcome the misery of homelessness.

Improving the nation's health

In the UK, we have relationships with a number of organisations to improve the health of the population. We've partnered with mental health charities, joining Lord Stevenson's high-profile campaign and have provided sponsorship for Alzheimer's Research UK to research causes and treatment of the disease, including work on improving awareness of dementia. Improving the nation's health is important to us as we are the UK's largest provider of life insurance.

Reducing poverty in retirement

Most people do not have any significant amounts of private retirement income and finances are often lowest when money is needed for elderly care. That's why we work with organisations that help the elderly such as the Elderly Accommodation Counsel and Age UK to improve outcomes for people in retirement. We're the UK's largest pensions investment manager, a market leader in auto-enrolled pensions, having 1.8 million workplace savings customers and provide retirement income for one million people. Our new 'Home Finance' business helps boost income through the release of housing equity.

Raising standards in the boardroom

As one of the largest investors on the UK stock market and a major global investor, we want to make sure that companies align their interests with those of their shareholders. Our aim is to improve the performance of companies in which we invest. We focus on all aspects of ESG (Environmental, Social and Governance). In 2015, we campaigned on the issues of board diversity (especially female representation on boards), executive pay, corporate reporting, cyber security (which is an increasingly important concern) and auditor independence. Our corporate governance team, led by Sacha Sadan, attended 545 meetings with 337 companies. 34.5% covered environmental and/or social topics and 45% of meetings were with non-UK companies.

MORE INFORMATION
See our Corporate Governance report: www.lgim.com/uk/en/capabilities/corporate-governance/

In addition to our four key themes, we've focused on the following key areas:

Helping vulnerable customers

In 2015, we implemented a vulnerable customers policy. The key customer groups we identified as being potentially vulnerable included the recently bereaved, the elderly, people with long-term illness and disabilities and those experiencing financial desperation. Our vulnerable customer committee helps plan our product and service design and feeds into employee training programmes. As well as training all our employees, we partner with third sector bodies such as Age UK, the Samaritans and Alzheimer's Research UK to increase employee knowledge.

Improving financial education

Many groups of consumers are alienated from financial services companies, finding products and services bewildering and confusing. As well as ensuring we engage with consumers and communicate in an understandable way, we've developed a programme of financial education. In 2015, a number of our employees attended our 'Everyday Money' awareness programme in schools across England and Wales, helping young people understand issues such as how tax works, how to borrow money and how to budget their weekly finances.

Environmental sustainability

We're a services-based business using natural resources to run our business. Our Group Environment Committee is responsible for managing our views on climate change and environmental impacts across the group. Our strategy is to build resilience and do more each year to use fewer natural resources. Our key commitments are to:

1. Reduce carbon dioxide emissions
2. Reduce waste
3. Reduce paper consumption
4. Reduce energy usage in our property investments

MORE INFORMATION
See our CSR report:
csr.legalandgeneralgroup.com/csr/

CASE STUDY
Improving awareness of Alzheimer's disease

Our work with Alzheimer's Research UK has highlighted the importance of treating dementia as a disease that afflicts many thousands of elderly people, rather than just the inevitable result of ageing.

Our work with Alzheimer's Research UK, the country's leading dementia research charity enables them to raise public awareness of the condition and provide reliable information about dementia. We helped develop a new website, 'Dementia Explained', with input from children and families with experience of dementia and with the guidance of dementia experts.

MORE DETAILS
alzheimersresearchuk.org

50%

of households in the bottom half of UK income distribution do not have any home contents insurance.

Financial Inclusion Report, 2015.

Diversity and Inclusion

We're committed to ensuring we manage and celebrate all forms of diversity in our business. We want to see greater equality of opportunity for colleagues to further their careers. We also want to ensure that our Board reflects diversity of background and management skills. Gender diversity is one key issue, where we're committed to help talented women progress their careers through our '50/50 by 2020' network. This network raises awareness of gender diversity and is a fairness test to help us check our progress towards a more balanced workforce, particularly for more senior roles in 2020.

	Female	Male
Directors	3	8
Senior leaders	60	191
All employees	3, 310	3,390

Employee engagement

In 2015, we built on great levels of engagement with employees. We actively encouraged dialogue through an ever wider range of activities, including Nigel Wilson's 'world tour', where he talked with employees in all of our principal locations.

We also started rolling out 'Yammer', an enterprise social media tool, to encourage online collaboration between people at all levels. We also upgraded a number of our HR systems for managers and individuals to make the administration of managing people simpler and to add value to performance management and reward conversations.

Over 6,400 people in our businesses in the UK and US participated in our annual 'What Matters' Employee Survey, with an overall response rate of 85%.

The 2015, overall 'Employee Engagement Index' fell from 78% in 2014 to 64% in 2015. This decrease in scores demonstrates that organisational or location change can create uncertainty in our people.

The group embarked on a programme of unprecedented change in 2015 to enable the organisation to keep costs manageable and optimise our location strategy.

In 2015, we built on our well-established 'My Money, My Life, My Health' employee wellbeing programme, with major initiatives focusing on stress and mental health. We encourage colleagues to lead a healthy and balanced lifestyle to counter stress, with exercise, such as encouraging stair-climbing in our offices, playing an important role.

Human rights

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

Tax matters

Grace Stevens
Chief Tax Officer

Paying and collecting taxes is an important part of our role as a business and our contribution to society. Taxes provide public revenues for governments to meet economic and social objectives and we are playing our part to achieve this. Our total tax contribution for 2015 was £947 million.

Tax strategy and tax risk management

We aim for our tax affairs to be transparent and sustainable in the long term. Our tax policy is clear about what we will and won't do. Details on our tax strategy, governance and risk management as well as our business model and stakeholders can be found in our tax supplement www.legaland generalgroup.com/reporting-centre/supplements

Transparency and country-by-country reporting (CBCR)

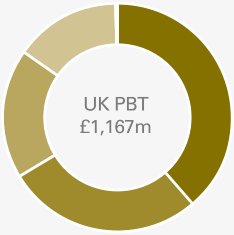
In recent times, we have seen increased pressure and scrutiny, particularly from the media for governments to raise revenues, and tackle tax avoidance and evasion. CBCR is a mandatory measure to be implemented from next year to increase the transparency of companies' tax affairs. We are committed to tax transparency and fully support CBCR. At Legal & General we already publish the profits earned and taxes paid and borne in each country where we have business and will continue to do so.

FURTHER INFORMATION ON OUR TAX MATTERS
www.legalandgeneralgroup.com/investors/group-tax.html

TAXES BORNE COUNTRY-BY-COUNTRY

The diagrams below cover the amount and type of taxes borne by our UK business and the amount of taxes borne by our overseas businesses. Further analysis of taxes borne and collected can be found in our CSR report online.

UK

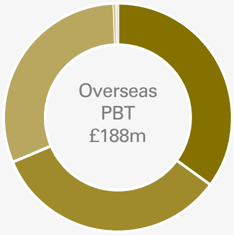


Our total tax contribution for the UK is £813m. Total UK taxes borne were £314m. UK profit taxes borne were £122m.

The bulk of our business and profit arise in the UK. UK profits totalled £1,167m. The UK tax expense attributable to equity holders is £207m, resulting in an effective tax rate of 18%.

- Profit taxes borne £122m
- Property and other taxes borne £87m
- Irrecoverable VAT and premium taxes £58m
- Payroll taxes borne £47m

Overseas

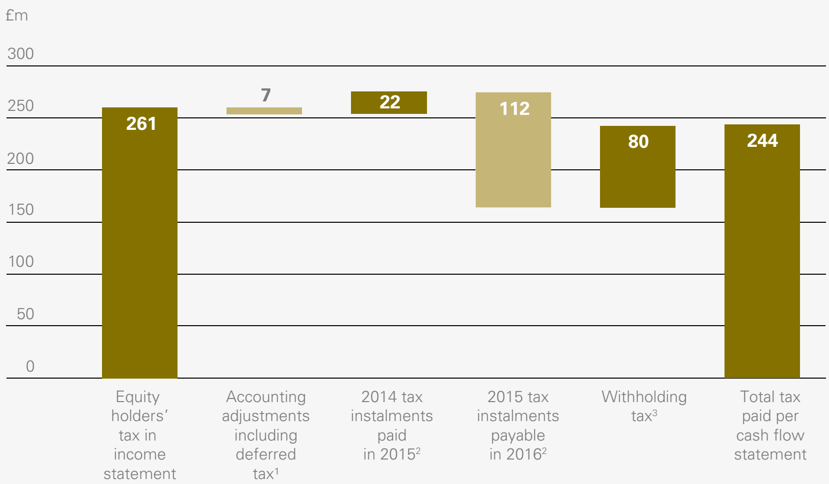


The overseas business is relatively small as compared to the UK business. Our total tax contribution overseas is £134m. Non-UK taxes borne were £63m. Profit taxes borne were £37m.

Overseas profits totalled £188m. The overseas tax expense attributable to equity holders is £54m, resulting in an effective tax rate of 29%.

- USA £47m
- Netherlands £45m
- France £41m
- Ireland £0.4m
- Bermuda £0.3m

Reconciliation of tax charge in income statement to UK tax paid per cash flow



Notes:
1. Accounting adjustments include deferred tax which arises when there are timing differences between the inclusion of items in the income statement and in the tax return. One example would be unrealised gains and losses on investments which are included in the income statement annually but not taxed until investment gains and losses are realised (e.g. on disposal of the asset).
2. The UK corporation tax payment regime is on a quarterly cycle requiring us to make two tax payments during the accounting period and two payments following the end of the accounting period.
3. Our UK entities incur withholding tax on investment income (e.g. dividends, interest) received from overseas.

Mark Gregory, Legal & General's group chief financial officer discusses this year's highlights, including Solvency II, the new dividend policy and his views on the company's future prospects.

Q Mark, what achievements were your personal highlights for 2015?

A 2015 has been another challenging but great year for Legal & General, with increased net cash generation, operating profit and return on equity. There have been many achievements. I would say that from a strategic perspective, writing our first US and European pensions risk transfer deals, LGIM becoming the world's 15th largest asset manager, with over $1.1 trillion of assets under management at year end and the progress on our urban regeneration schemes in Salford, Cardiff and Bracknell were significant steps forward. Additionally our auto-enrolment scheme wins, and the success of our newly acquired Home Finance business and Asian mandate wins in LGIM, were signs of positive momentum in our newer product offerings.

We retained our market-leading positions in LDI in the UK (over 40% market share), UK retail protection (25% market share to Q3 2015) and £77 billion assets under management on Cofunds means it's still the largest savings platform in the UK.

Mark Gregory, our group chief financial officer, on a visit to Salford, one of our urban regeneration schemes and the location for our MediaCity investment.

We started to transform the shape of our business, making us fitter for the future, with our strategy of bolt-on acquisitions and disposals.

But we aren't complacent; there are many further growth opportunities for the group and we can make more progress in improving the profitability of the Savings division.

Q You have announced a new dividend policy, how did the Board come to this decision?

A Our existing dividend policy was time-dated. We stated that we expected to reduce our net cash coverage of dividend towards returning two-thirds of our net cash to shareholders via dividends (i.e. 1.5 x in 2015), should our Solvency II surplus be no lower than Solvency I.

Now we are in the Solvency II regime, the Board has adopted a progressive dividend policy, reflecting the group's medium-term underlying business growth, including net cash generation and operating earnings.

Clarity on Solvency II means it's the right moment to announce our new policy. We view the primary method for rewarding our shareholders to be via the ordinary dividend and we think the new policy is a sustainable way of continuing to do that whilst retaining sufficient cash to invest in growth opportunities for the group.

Q Legal & General announced its new capital-lite strategy for UK bulk annuities at the time of the Interims. Could you tell us more about it?

A Our response to the potential global defined benefit liabilities estimated to be in excess of $9 trillion and the increased regulatory capital requirements for annuities under Solvency II, meant we accelerated the implementation of our capital-lite model for the pension risk transfer business. This means we take on less risk in respect of new business on our balance sheet, whilst seeking to optimise the return on capital we

Solvency II Capital Surplus

£5.5bn

169% coverage ratio

Figures are pre-accrual of proposed final dividend for 2015 on a pro-forma basis.

Solvency II

Solvency II is a risk-based capital regime designed to calculate the amount of capital needed for a worst 1-in-200 year event i.e. the impact on our business of scenarios like the Great Depression, the recent financial crisis or an epidemic like the Spanish Flu outbreak in 1919–1920.

In 2015, the PRA approved the usage of our internal model to calculate our Solvency II capital requirements for the regime which began on 1 January 2016.

Economic capital

Our corresponding economic capital surplus is £7.6bn with a coverage ratio of 230%.

Guide to symbols used in Financial review (pages 34 to 41)

Key performance indicator (KPI)

£ Key measure in the remuneration of executives

deploy in this market. For each new annuity contract we expect this to result in a higher proportion of profit emerging in the year of sale. However, we expect less total profit to emerge over the duration of the contract when compared to retaining all of the risk. We will use direct investments and selective derisking actions to optimise returns from the long-term predictable run-off of our £43.4 billion annuity back book.

Now we have clarity on Solvency II, it's the right moment to announce our new dividend policy"

Q Legal & General has been 'decluttering' non-core business units in the last year. What was behind that?

A We have been pursuing a focused and disciplined approach to executing the group's strategy. We have chosen to undertake the exit, closure or sale of a number of non-core or sub-scale businesses, such as closing our with-profits fund to new business and selling our Irish, Egyptian, Gulf, French and German businesses.

These operations were not going to be core to our group going forward and we felt that other owners may be more suitable, enabling us to reduce the management time required to oversee them.

Q You raised £600 million of sub-debt in October, why was this necessary?

A We have a long-term debt strategy which is designed to ensure we have an appropriate balance of debt and equity funding. The £600 million debt raised in 2015 was part of this long-term strategy.

Q In February 2016, you announced your intention to retire from the group in January 2017. Can you tell us about your decision?

A I've really enjoyed my time with Legal & General and the company is in great shape. By January 2017, I will have been here for 18 years and spent eight years on the Board so whilst a difficult decision, I have decided that next January is a good time for me to be retiring from the group.

Q And finally, what challenges do you face in the coming year?

A Well, the equity and bond markets are still proving to be volatile and that does give a reminder that there is still ongoing market uncertainty. But whilst no model can be completely immunised, we believe our strategy creates a high degree of resilience.

We've been very upfront about some of the challenges facing us: like the trend in maturing UK DB schemes moving out of equity index funds; legacy product run off; and the new Solvency II capital regime. However, we work hard at mitigating these exposures.

For example: we've been targeting the derisking trend by DB pension schemes being the only provider to offer the full range of pension derisking strategies; we are expanding our LGIM operations in the US; we're reducing our dependence on the UK market with pension derisking transactions in the US and Europe and have developed our new capital-lite model for UK business.

Our strategy is clear and focused. The challenge as always is to continue to execute it effectively. I'm proud of how well we respond to these challenges and have confidence in Legal & General going forward.

Strong investment and trading activity

LGR new business	LGIM total AUM	Direct investments	Gross written premiums on insurance business (GWP)	Savings assets
£2.9bn	£746bn	£7.0bn	£3.1bn	£108bn
(2014: £6.6bn)	(2014: £694bn)	(2014: £5.7bn)	(2014: £3.0bn)	(2014: £109bn)

LGR new business

Single premiums arise on the sale of new contracts where the terms of the policy do not anticipate more than one premium being paid over its lifetime, such as in individual annuity and bulk pension risk transfer. Lifetime mortgage advances represent the amount lent to the borrower upon completion.

	2015 £m	2014 £m
Bulk purchase annuities	**2,417**	5,987
Individual annuities	**327**	591
Lifetime mortgage advances	**201**	nil
Total LGR new business[1]	**2,945**	6,578

1. Excludes internal transfer from the with-profit fund of £1,953m in 2014.

LGIM total AUM

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

	2015 £bn	2014 £bn
Index	**274**	275
Active fixed income	**107**	103
Solutions	**338**	293
Real assets	**18**	15
Active equities	**9**	8
Total LGIM AUM[1]	**746**	694

1. See glossary on page 249 for definitions.

Direct investments

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

	2015 £bn	2014 £bn
Legal & General Capital	**0.9**	0.7
Legal & General Retirement	**5.5**	4.6
Legal & General America	**0.6**	0.4
Total direct investments	**7.0**	5.7

Gross written premiums on insurance business (GWP)

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

	2015 £m	2014 £m
UK Retail protection	**1,112**	1,056
UK Group protection	**330**	351
General insurance	**337**	377
France protection	**168**	173
Netherlands protection	**46**	51
US protection	**773**	678
Longevity insurance	**326**	333
Total GWP on insurance business	**3,092**	3,019

Savings assets

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

	2015 £bn	2014 £bn
Platforms[1]	**77**	72
Mature retail savings[2]	**29**	36
Suffolk Life	**9**	8
Consolidation adjustment[3]	**(7)**	(7)
Total Savings assets	**108**	109

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

BUSINESS SEGMENT

Legal & General Retirement (LGR)

£2,945m
Total new business
(2014: £6,578m)

Kerrigan Procter, MD

International expansion in PRT market and launch of lifetime mortgages
In 2015, LGR continued to selectively write bulk purchase annuities, building on the success of record volumes in 2014. Single premiums of £2.7 billion included two further pension buy-ins with ICI amounting to £1 billion, and the first medically underwritten Pension Risk Transfer (PRT) Scheme of circa £230 million.

Legal & General wrote its first bulk deal in the US during the year contributing circa $450 million, which represents a significant step forward in our continued expansion into the US PRT market. Legal & General Re (Bermuda) entered into a partnership with ASR Nederland NV for its first €200 million quota share reinsurance deal in the Netherlands.

Following the successful acquisition of New Life Home Finance in April 2015, £201 million of Lifetime Mortgage business has been written during the year. Individual annuity sales were down 45% to £327 million (FY 2014: £591 million), which is in line with expectation following UK pension reforms announced in the 2014 Budget.

Legal & General Investment Management (LGIM)

£746bn
Total AUM
(2014: £694bn)

Mark Zinkula, CEO

International expansion continues resulting in record AUM
LGIM experienced strong growth with total AUM increasing by 8% to £746 billion (2014: £694 billion).

Total external net inflows increased fivefold to £37.7 billion (2014: £7.5 billion) driven by positive net flows across every product area, region and client segment. This has been achieved despite market volatility in H2 2015 and increasing pressure in the UK DB market. The National Grid mandate was successfully integrated in Q4 adding almost £12 billion of fund flows. International AUM increased to £122 billion through strong net inflows (£9.5 billion), particularly in the US (£6.3 billion). This translated into an 8% increase in total revenue to £694 million (2014: £645 million).

Legal & General Capital (LGC)

£0.9bn
LGC direct investments
(2014: £0.7bn)

Paul Stanworth, MD

Growing and increasingly diverse investment portfolio
LGC direct investments increased by 24% to £0.9 billion reflecting further growth in the housing, urban regeneration, alternative finance and clean energy sectors.

During the year, LGC has entered into 'Build to Rent' schemes in Walthamstow and Salford, continued progress in its urban regeneration schemes in Bracknell, Canning Town, Cardiff, Leeds, Manchester and Salford, established further funding for SME lending through Pemberton Asset Management, and successfully entered the clean energy sector.

Insurance

£1,993m
Insurance GWP
(2014: £2,008m)

Duncan Finch, MD

Retail protection business extends its market-leading position
We remain the largest provider of retail protection in the UK and benefit from a highly efficient automated underwriting model and broad distribution reach.

Insurance GWP is slightly below 2014 levels largely due to general insurance, which has fallen 11% year-on-year. The market experienced generally benign weather in 2015, which resulted in downward price pressures. We have refrained from following the market fully in terms of these price reductions.

Our direct sales channel has delivered new business growth of 12% on 2014 and we have further extended our distribution in launching a new relationship with Intrinsic in Q3 2015.

Savings

£108bn
Savings assets
(2014: £109bn)

Jackie Noakes, MD

Platform assets up a further £5 billion
Assets are 7% up from the prior year to £77 billion driven by positive institutional flows. The group continues to dispose of non-core operations, with Legal & General International (Ireland) Limited (circa. £2.8 billion assets) being sold to Canada Life group in July 2015.

Mature savings assets are £29 billion, down 11% from the prior year (excluding the one-off impact from M&A) and in line with expectation. Following the closure of our with-profit fund to new business, net outflows were £3 billion again in line with our expectations.

Legal & General America (LGA)

£773m
GWP
(2014: £678m)

Gene Gilbertson, CEO

US sales maintained whilst delivering new pricing model
GWP has increased by 14% from the prior year as we continue to benefit from strong relationships with the brokerage general agents who distribute term assurance in the US market.

LGA is the sixth largest provider of term life assurance by APE in the US.

We are maintaining pricing discipline and have reflected new industry mortality tables in our new business. While volumes have been lower, LGA delivered a 210bps increase to new business margin over the prior year to 12.0% (2014: 9.9%).

Sustainable returns

Net cash generation

£1,256m

(2014: £1,104m)

Operational cash generation

Operational cash generation is defined as the expected surplus generated in the year from the in-force business for the UK non-profit Protection, Savings, Annuities and workplace businesses using best estimate assumptions. It also includes the shareholders' share of bonuses on with-profits business, the post-tax operating profit on other UK businesses, including an expected investment return on LGC invested assets, and dividends remitted from our international businesses.

New business surplus

This is the impact of writing new business on the regulatory position, including the cost of acquiring new business and the setting up of regulatory reserves (excluding solvency capital).

Net cash generation

Net cash generation is defined as operational cash generation less new business surplus.

KPI Purpose:

Net cash generation supports the ability of the group to pay returns to shareholders

	Operational cash generation 2015 £m	**New business surplus 2015 £m**	**Net cash generation 2015 £m**	Operational cash generation 2014 £m	New business surplus 2014 £m	Net cash generation 2014 £m
Legal & General Retirement	**372**	**45**	**417**	292	51	343
Legal & General Investment Management	**303**	**(22)**	**281**	275	(29)	246
Legal & General Capital	**187**	**–**	**187**	162	–	162
Insurance	**323**	**25**	**348**	332	(5)	327
Savings	**119**	**(9)**	**110**	127	(14)	113
Legal & General America	**54**	**–**	**54**	46	–	46
From divisions	**1,358**	**39**	**1,397**	1,234	3	1,237
Group investment projects, interest and expenses	**(141)**	**–**	**(141)**	(133)	–	(133)
Total	**1,217**	**39**	**1,256**	1,101	3	1,104

1. A reconciliation from operational cash generation to operating profit is provided on page 106.

BUSINESS SEGMENT	NET CASH GENERATION
Legal & General Retirement LGR net cash generation represents the expected surplus generated in the period from the in-force non-profit business less the cost of acquiring new business and setting up regulatory reserves in respect of the new business, net of tax. It also includes the net of tax operating profit reported in the year from our Home Finance business.	**£417m** (2014: £343m) Net cash generation has increased by 22% reflecting a strong back book of business as well as a favourable new business surplus of £45 million which has benefited from our capital-lite model, with selective placement of longevity and asset reinsurance, and disciplined pricing.
Legal & General Investment Management LGIM net cash generation represents the profit after tax from our managed and segregated pension business, institutional mandates, property and retail businesses. Incorporated within this segment is the net cash generation from managing internal funds and our workplace business.	**£281m** (2014: £246m) Strong growth in total assets and revenue has been accompanied by tight cost control. Whilst continuing to invest in the business LGIM has maintained a cost to income ratio, excluding workplace, of 48% (2014: 48%). This has resulted in a 14% increase in net cash generation to £281 million (2014: £246 million).
Legal & General Capital Net cash generation for LGC represents the expected return after tax on group invested assets using medium-term expected investment returns.	**£187m** (2014: £162m) The average balance of LGC assets, excluding treasury, has grown from £3.9 billion in 2014 to £4.2 billion in 2015 with the assumed average return on assets growing from 5.0% to 5.3%. This has resulted in a 15% increase in the net cash generated.
Insurance Insurance net cash generation represents the expected surplus generated in the period from the in-force non profit business less the cost of acquiring new business and setting up regulatory reserves in respect of the new business, net of tax. It also includes dividends received from the businesses in France and the Netherlands.	**£348m** (2014: £327m) Net cash generation has increased by 6%, driven by our strong commercial focus and disciplined cost management on our retail protection business, while continuing to deliver value to both customers and shareholders. In addition, we have experienced increased fees from reinsuring more business from L&G America. This was partially offset by adverse weather experienced in Q4 2015 affecting our general insurance business.
Savings Savings net cash generation represents the expected surplus generated in the period from the in-force non profit business less the cost of acquiring new business and setting up regulatory reserves in respect of the new business, net of tax. Savings net cash generation further includes the net of tax operating profit reported in the year from our investment savings businesses, excluding non-cash movements, such as amortisation.	**£110m** (2014: £113m) Savings net cash has reduced 3% reflecting the expected run-off profile of the mature non profit and with-profit businesses. This is partially offset by Cofunds which continues to positively contribute to Savings cash results through accelerated cost reduction and operational efficiencies.
Legal & General America Net cash generation represents dividends received by the group from LGA during the year.	**£54m** (2014: £46m) The dividend paid by LGA to the group increased by 9% to $83 million and reflects the focus of LGA to deliver growing net cash generation. Adjusting for foreign exchange movements, this represents a 17% increase to £54 million.

A growth story

Operating profit

£1,455m

(2014: £1,275m)

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 for the group's insurance businesses and shareholder funds, except for LGA which excludes unrealised investment returns to align with the liability measurement under US GAAP. Variances between actual and smoothed assumptions are reported below operating profit. Exceptional income and expenses which arise outside the normal course of business in the year, such as merger and acquisition, start-up and closure costs, are excluded from operating profit.

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

	Net cash generation[1] 2015 £m	Experience variances 2015 £m	Changes in valuation assumptions 2015 £m	Non-cash items and other[2] 2015 £m	Operating profit/(loss) after tax 2015 £m	Tax expense/ (credit) 2015 £m	Operating profit/(loss) before tax 2015 £m
Legal & General Retirement	**417**	**13**	**114**	**(20)**	**524**	**115**	**639**
Legal & General Investment Management	**281**	**(1)**	**1**	**(2)**	**279**	**76**	**355**
Legal & General Capital	**187**	**–**	**–**	**–**	**187**	**46**	**233**
Insurance	**348**	**(14)**	**(45)**	**(56)**	**233**	**60**	**293**
Savings	**110**	**(9)**	**–**	**(22)**	**79**	**20**	**99**
Legal & General America	**54**	**–**	**–**	**(17)**	**37**	**46**	**83**
From divisions	**1,397**	**(11)**	**70**	**(117)**	**1,339**	**363**	**1,702**
Group investment projects, interest and expenses	**(141)**	**–**	**–**	**(56)**	**(197)**	**(50)**	**(247)**
Total[3]	**1,256**	**(11)**	**70**	**(173)**	**1,142**	**313**	**1,455**

	Net cash generation[1] 2014 £m	Experience variances 2014 £m	Changes in valuation assumptions 2014 £m	Non-cash items and other[2] 2014 £m	Operating profit/(loss) after tax 2014 £m	Tax expense/ (credit) 2014 £m	Operating profit/(loss) before tax 2014 £m
Legal & General Retirement	343	(13)	48	(32)	346	82	428
Legal & General Investment Management	246	(3)	5	2	250	71	321
Legal & General Capital	162	–	–	–	162	41	203
Insurance	327	(8)	24	(56)	287	83	370
Savings	113	(7)	3	(23)	86	19	105
Legal & General America	46	–	–	(14)	32	24	56
From divisions	1,237	(31)	80	(123)	1,163	320	1,483
Group investment projects, interest and expenses	(133)	–	–	(32)	(165)	(43)	(208)
Total[3]	1,104	(31)	80	(155)	998	277	1,275

1. Net cash generation is defined in the glossary which starts on page 249 and further analysis is provided on page 107.
2. Investment gains and losses, profits and losses retained by international subsidiaries, certain restructuring costs (see note 2(i) on page 106) and other.
3. A reconciliation from operating profit to IFRS profit before tax is provided on page 106.

BUSINESS SEGMENT	OPERATING PROFIT
Legal & General Retirement Operating profit from the retirement business represents the profit from individual annuities and bulk pension risk transfer business, longevity insurance, Legal & General Re (Bermuda) and Legal & General Home Finance. Operating profit reflects the surplus released by the actual development of the business during the year and the current assessment of longer term assumptions for the future.	**£639m** (2014: £428m) LGR operating profit has increased by 49% to £639 million reflecting the continued steady profit from our back book, a favourable change in reserving assumptions in relation to unreported deaths of deferred annuitants, the benefit from selective reinsurance of longevity and asset risk and cost savings.
Legal & General Investment Management Operating profit for the investment management division represents the operating profit before tax on our managed and segregated pension business, institutional mandates, property business, retail unit trusts, internal funds and the workplace business.	**£355m** (2014: £321m) LGIM continues to diversify its business by offering a broader range of innovative solutions across client segments and markets, which has enabled delivery of strong results with operating profit up 11% to £355 million (2014: £321 million). In Workplace Savings, the operating loss was £(4) million (2014: £(15) million), and the business delivered a break even result in Q4 demonstrating continued improvement through an ongoing focus on unit cost management and increasing scale.
Legal & General Capital LGC operating profit represents the expected return on group invested assets using medium-term expected investment returns, net of investment management expenses.	**£233m** (2014: £203m) LGC operating profit has grown by 15% reflecting an increase in the average balance of invested assets and changes in the portfolio mix, including our growing direct investment portfolio, driving higher assumed returns.
Insurance Insurance operating profit includes the general insurance, retail and group protection businesses and profit from the France and Netherlands businesses. Operating profit reflects the investment returns that the business expects to make on the financial investments that back this business and on shareholder funds retained within general insurance.	**£293m** (2014: £370m) Insurance operating profit has reduced by 21%. Whilst our retail protection business continues to generate significant levels of profit, both on the existing book and the new business being written in the year, one-off changes in valuation assumptions contributed to an overall reduction to operating profit. The reinsurance modelling for our UK Protection business has been enhanced. Recent reinsurance contracts have been written on a risk premium basis (as opposed to level premium), and the model change ensures that for these treaties, sufficient prudence is being held in later years. The one-off impact reduced operating profit by £93 million in 2015. This also defers a higher proportion of cash generation into later years of these reinsurance contracts. In addition, we experienced lower profits from our general insurance business following adverse weather experience in the Q4 2015, with storm costs of circa £15 million adversely impacting profits.
Savings Savings operating profit represents the profit from the insured savings businesses (non profit investment bonds and non profit pensions, including SIPPs), the with-profits transfer and the profit from our investment savings businesses. Operating profit for the insured savings business reflects the investment returns that the business expects to make on the financial investments that back this business.	**£99m** (2014: £105m) Savings operating profit has reduced in line with the maturing book of business. Cofunds continue to positively contribute to Savings operating profits.
Legal & General America Operating profit for LGA represents the profit on our protection and universal life products written in the US. For LGA, unrealised investment returns are excluded from operating profits to align with the liability measurement under US GAAP.	**£83m** (2014: £56m) Operating profit has increased by 48% to £83 million. This is driven by continued premium growth and strong expense management, coupled with favourable mortality experience in 2015 compared to 2014.

FURTHER READING
More details of net cash generation can be found on page 107.

Disciplined investment of capital

GROUP METRICS		
IFRS profit before tax* **£1,355m** (2014: £1,238m) *IFRS profit before tax attributable to equity holders	**IFRS profit before tax (PBT)** PBT measures profit attributable to shareholders incorporating actual investment returns and other variances, including the impact of M&A experienced during the year. **KPI purpose: PBT measures the actual distributable earnings of the group, reflecting actual returns on investments, net of investment in future group-wide capabilities and new business ventures.**	Profit before tax is up 9% on 2014 due to strong operating profits including favourable new business surplus arising in our retirement business. This has more than offset the impact of equity market falls and widening spreads in government bonds in the group's investment portfolio in the second half of the year and the impact of disposals made by the group during 2015.
Return on equity* **17.7%** (2014: 16.9%) *Represents adjusted return on equity excluding the one-off impact from M&A	**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. **KPI purpose: ROE provides a link between performance and balance sheet management and ensures an appropriate balance is maintained between the two.**	The group continues to demonstrate careful use of capital across all divisions, generating a strong 17.7% return on equity, excluding the one-off impact of M&A activity during 2015. This is up 0.8 percentage points on 2014. Including the impact of M&A, the ROE was 17.3%.
Adjusted earnings per share* **18.58p** (2014: 16.70p) *Represents earnings per share excluding the one-off impact from M&A	**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 of shares outstanding in the year. **KPI purpose: EPS demonstrates the link between performance and shareholder return.**	We've delivered another year of EPS growth, driven by a 10% increase in the group profit after tax (up from £992 million in 2014 to £1,095 million in 2015). Excluding the one-off impact of mergers and acquisitions, this resulted in a 11% (1.88p) increase in EPS. Including the impact of mergers and acquisitions, the EPS was 18.16p.
Full year dividend **13.40p** (2014: 11.25p)	**Full year dividend** The full year dividend is the total dividend per share declared for the year (including interim dividend but excluding, where appropriate, any special dividend). **KPI purpose: Full year dividend demonstrates the level of distribution to shareholders.**	Consistent with our previous dividend guidance to reduce our net cash coverage of dividend towards 1.5 times, the Board has recommended an increase of 19% in the full year to 13.40p (2014: 11.25p). The cost of the full year dividend is £797 million (2014: £668 million) and is covered 1.58 times by the net cash generated. Going forward, the Board has adopted a progressive dividend policy, reflecting the Group's medium-term underlying business growth, including net cash generation and operating earnings. Please refer to page 32 of this report for further details on our dividend guidance.

GROUP METRICS

Total shareholder return **114%** (2014: 184%)	**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 shareholders. **KPI purpose: TSR measures total return to shareholders, including dividends and share price movements over time.**	We have the highest TSR of any global insurer over the past five years (as at 31 December 2015) after giving investors a 114% return over a three year period. Despite a 5% decrease in the FTSE 100 Index during the period, we were one of the world's top performing life insurance companies with an 8% increase in share price year on year.
Solvency II surplus and coverage **£5.5bn** **169%** £	**Solvency II surplus and coverage** From 1 January 2016, the group is required to measure and monitor its capital resources on a new regulatory basis and to comply with the requirements established by the Solvency II Framework Directive, as adopted by the Prudential Regulation Authority in the UK. The Solvency II surplus represents the excess of the group's total eligible own funds over the Solvency Capital Requirement (SCR). The Solvency II coverage is a measure of the group's ability to cover its losses in a 1-in-200 event and is calculated as the ratio of the group's total eligible own funds to the SCR. **Purpose: Solvency II surplus and coverage are regulatory defined metrics used for measuring and reporting of the risk profile and capital adequacy of insurers in the EU. The new regime is intended to provide a market consistent approach to insurance supervision, a shift to a more risk-based approach to capital management, and enhanced policyholder protection.**	The group is in a very strong capital position with a £5.5 billion Solvency II surplus and a 169% coverage ratio. The Solvency II surplus is higher than our IGD (Solvency I) surplus of £4.4 billion (2014: £3.9 billion). The surplus is before the accrual for the final 2015 dividend of £592 million.

FURTHER READING
More details of net cash generation can be found on page 107.

Simon Gadd, group chief risk officer for Legal & General, reviews the group's risk profile and the evolution of risk management under Solvency II.

Q Simon, a lot has been happening over the last 12 months. Has this changed the group's risk profile?

A Whilst we have done a lot this year, including writing our first US and European pension risk transfer deals, building our portfolio of direct investments and continuing to grow our scale businesses, our risk landscape still predominantly reflects:

- Longevity, mortality, morbidity and household insurance risks transferred to us by customers of our annuities, protection and general insurance businesses
- Investment risks, from holding portfolios of assets to meet our obligations to our customers and to deliver returns to shareholders
- Operational risks in respect of our business processes and IT systems, as well as broader regulatory and legislative risks that can arise in the environments in which we operate

Our entry into the lifetime mortgage market is new, but it draws upon our expertise in longevity and interest rate management, while the exit of a number of non-core and sub-scale businesses has acted to reduce management stretch risks. Our increasing use of capital-lite strategies for longevity and credit risk also acts to transfer some of our balance sheet risks to selected strongly rated counterparties.

Q Solvency II came into operation on 1 January. What is the impact of the new regime on Legal & General?

A Obviously the main change under Solvency II is that the group will now use a risk-based capital model, known as an internal model, to calculate regulatory capital requirements. Solvency II, however, also introduces other regulations covering the design of our risk management framework, internal control systems and remuneration policies. We have been preparing for the Solvency II regime for the last six years, ensuring that our business practices are aligned with the new rules so in practice many changes are incremental, and we have realigned our strategies to optimise risk-based capital requirements as the rules have become clearer. Solvency II, however, is fundamentally a new regime and there will inevitably be further developments as regulatory understanding of its practical operation evolves.

Q Can you tell us a bit more about your Solvency II internal model?

A Our internal model seeks to provide a quantitative assessment of the risks that the group is exposed to, so as to ensure that we hold sufficient capital reserves to survive our assessment of a worse case 1-in-200 year event. Our capital requirement effectively reflects our assessment of the additional capital that we may need should our assumptions for factors such as life expectancy or investment returns prove to be incorrect. The model covers all the material quantifiable risk exposures across the Group.

Q And how different are these new capital measures to those you have been using?

A We have been using risk based capital for many years as a tool in the running of our business, but the Solvency II rules do introduce a new additional material provision, the risk margin, intended to provide further capital for the orderly wind down of insurance business. This margin creates more inherent volatility to be managed in the Solvency II balance sheet than the underlying economic position would dictate and greater volatility than under the previous capital regime.

Q Finally, what are the key risks on your radar for 2016?

A 2016 has already seen a period of volatility on the financial markets, and the economic outlook is looking less positive than six months ago. Although we have now implemented Solvency II, there continue to be regulatory and legislative changes which can lead to uncertainty in our operating environments and the forthcoming EU referendum is likely to further unsettle financial markets. Cyber threats also continue to be a risk for the financial services sector as a whole.

We monitor new and emerging risks to ensure we have appropriate responses and that our exposures remain within acceptable tolerances.

Our business is to manage risks

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

Our risk landscape

We are exposed to longevity, mortality, morbidity and household insurance risks from the products we write; market and credit risks from the investments and reinsurance contracts we hold to meet our obligations; and operational and liquidity risks from the environments in which we operate.

Our risk management framework

Our structure of formal risk policies, reporting procedures and risk oversight activities, is designed to enable us to select those risks that can give us sustainable returns and to closely manage those risks that are unrewarded, and to optimise the capital that we hold so that we can deliver our strategy.

Our risk appetite

We have clearly defined quantitative and qualitative expressions for the types of risk that we are prepared to be exposed to in pursuit of our business strategy, the minimum capital requirements that we wish to maintain and the degree of volatility of earnings that we will seek to avoid. Further information is provided on page 44.

Our risk-based capital model

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

Our model seeks to measure by business line and risk type, the capital we assess as being required to survive a worse case 1-in-200 year event, taking account of correlations between risks. See page 44 and 45 for further detail.

Our principal risks and uncertainties

An assessment of principal risks and uncertainties along with the associated trends and outlooks, and the steps we take in mitigation is on pages 46 and 47.

A more detailed review of the group's inherent risk exposures and high level control processes are set out at notes 8, 17, and 43 of the financial statements.

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

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

Focus on risk appetite

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

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

Focus	Measure
Strategy: We manage a diversified portfolio in which we accept risk in the normal course of business and aim to deliver sustainable returns on risk based capital in excess of cost of capital.	Minimum return on equity over the planning cycle.
Strategy: We have an appetite for risks we understand and are rewarded for, and which are consistent with delivery of our strategic objectives.	Maximum economic capital to be deployed over the planning cycle.
Capital: We aim to maintain an appropriate buffer of capital resources over the minimum regulatory and economic capital requirements.	Minimum statutory and economic capital coverage ratios.
Earnings: We have a low appetite for volatility of earnings; in particular volatility arising from risks where Legal & General has more exposure than the wider market.	Maximum acceptable variance in earnings to plan over the planning cycle.
Customer: We treat our customers with integrity and act in a manner that protects or enhances the group franchise.	Customer and reputation risk dashboard.
Liquidity: We expect to be able to meet our payment and collateral obligations under extreme, but plausible, liquidity scenarios.	Minimum liquidity coverage ratio.

ENSURING RISK APPETITE IS AT THE HEART OF OUR DECISION MAKING

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

The Group Risk Committee leads an annual review of the group's risk appetite, and the key measures and tolerances used to assess risk. The Group Risk Committee, as part of the annual planning cycle, also considers the level of risk taking proposed in the group plan relative to the group's overall risk appetite and capacity to take risk.

The group's risk appetite is approved annually by the Group Board and the regular management information received by Group Board and Group Risk Committee includes our risk appetite dashboard setting out actual positions relative to the key targets and limits set in our risk appetite.

We cascade the parameters of our risk appetite to our business managers through 'Risk and Capital Mandates', empowering them to make decisions that are consistent with our overall appetite for risk.

The mandates articulate the products that may be written; the assets classes that may be held; the target capital positions and ranges of earnings volatility within which the overall profile of risks should be managed; and tolerances for specific risk exposures. Activities that would result in a business operating outside agreed parameters require formal approval from the group centre.

The group chief risk officer oversees the overall operation of our risk appetite framework, providing an annual review to the Group Risk Committee.

Focus on risk-based capital

Our risk-based capital model seeks to provide a quantitative assessment of the group's risk exposures. It forms part of the suite of tools that we use to evaluate our strategic plans, set risk appetite, allocate capital and evaluate product pricing. We also use our model to assess significant transactions, including large pension risk transfer deals.

The key output from our capital model is the generation of capital requirements calculated on an economic basis. We calibrate our model to a 99.5% value at risk confidence level over one year, equivalent to ensuring that we hold sufficient capital to survive our assessment of a worse case 1-in-200 year event. In terms of capital requirement, credit and longevity risks are our most significant risks. We discuss these below. Market risk, which includes equity, spread and interest rate risks, are also more material risks for which we hold capital.

Bond default

The capital requirement for credit risk reflects that the issuers of bonds could default on their obligations to us. We actively manage our bond portfolio to mitigate the risk, however, residual risk remains that in very extreme conditions a systematic default event could result in the failure of even strongly rated issuers of debt.

Longevity

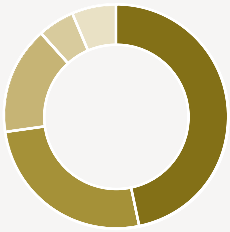
Our capital requirement reflects that annuitant life expectancy may improve faster than our assumptions. We undertake extensive analysis of trends in life expectancy to ensure that our assessment of future rates of mortality remains appropriate. However, as set out on page 46, a dramatic advance in medical science could improve the life expectancy in our annuity portfolio.

ALIGNING RISK AND CAPITAL MANAGEMENT

Legal & General's Own Risk and Solvency Assessment (ORSA) is our ongoing analysis of the group's risk profile and the sufficiency of capital resources to sustain the business strategy over the plan horizon.

The process, which covers the whole group, includes: consideration of how the nature of the risks to which we are exposed may evolve over the planning cycle; the impacts on our risk profile of a range of more extreme stresses and scenarios; and the consequential impacts on the solvency position.

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



Miscellaneous includes non-internal model firms and pension scheme capital requirements

Group Board viability statement

The Directors confirm that they have a reasonable expectation that the group will continue in operation and meet its liabilities, as they fall due, over the next three years. The Directors make this assessment with reference to the current position and potential impact of principal risks together with the group's strategy, the risk appetite of the Board and the processes and controls in place to mitigate the principal risks and uncertainties as detailed in this Strategic Report and below.

The Directors note that the group is subject to the Prudential Regulatory Regime for Insurance Groups which monitors the group's compliance with Solvency Capital Requirements. Whilst the Directors have no reason to believe that the group will not be viable over a longer period, given the inherent uncertainty which increases as longer time-frames are considered, the Directors consider three years to be an appropriate time-frame upon which they can report with a reasonable degree of confidence. Although a three year time-frame has been selected for this statement, the group, as with any insurance group, has certain policyholder liabilities in excess of three years and therefore performs planning, stress and scenario testing on time-frames in excess of the three year period including the group's business plan and other longer-term outlooks.

This three year assessment is based upon the business plan, which is underpinned by the group's strategy and principal risks detailed on pages 46 and 47, respectively. The business plan is built from the ground up on a divisional basis and the Directors use the plan to assess the prospects of the group through the strategic planning process. The strategic planning process includes an annual review of the ongoing plan with full Board participation as part of the Group Board Strategy Day. Part of the Board's role is to consider whether the plan continues to be reflective of changes in macroeconomic trends. The latest annual review process was conducted in January 2016 which resulted in the detailed business plan for 2016 to 2020.

The business plan includes detailed financial information across all of the group's key metrics including the ongoing regulatory capital position. The Board receives regular updates from the business units and risk committees in the normal course of business to perform ongoing monitoring of performance across all metrics and to consider changes in macroeconomic trends or strategy.

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

(i) Growth in the international asset management and insurance businesses

(ii) Optimisation of capital strategies for Solvency II

(iii) Continued focus on core business activities and decluttering the non-core activities

The business plan represents the Board's best estimate of the group's future prospects. Stress and scenario testing, including consideration of the principal risks and uncertainties, is carried out on the plan as part of the group's Own Risk and Solvency Assessment (ORSA – see chart above). The results of the ORSA have been submitted to the group's prudential regulator, the PRA. These stresses included a prolonged period of weak economic growth, deflation, disorderly defaults in geographic regions and other geopolitical events. The results of these stresses showed that the group would be able to withstand the impact over the forecast plan period and could further improve the position by making adjustments in its operating activity in the normal course of business.

Principal risks and uncertainties

The directors confirm that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks are set out below including details of how they have been managed or mitigated. Further details of the group's inherent risk exposures are set out at Notes 8, 17, and 43 of the financial statements.

RISKS AND UNCERTAINTIES	TREND AND OUTLOOK	MITIGATION
Reserves for long-term business 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 and persistency, valuation interest rates, expenses and credit defaults. Actual experience may result in the need to recalibrate these assumptions reducing profitability. Forced changes in reserves can also be required because of regulatory or legislative intervention in the way that products are priced, reducing profitability and future earnings.	We regularly appraise the assumptions underpinning the business that we write. In our annuities business we are, however, exposed to factors such as dramatic advances in medical science beyond those anticipated leading to unexpected changes in life expectancy. In protection business we remain inherently exposed to rates of mortality diverging from assumptions and to loss from events that cause widespread mortality/morbidity or significant policy lapse rates. There is also potential for legislative intervention in the pricing of insurance products irrespective of risk factors, such as age or health.	We undertake significant analysis of longevity and mortality risks to ensure an appropriate premium is charged for the risks we take on and that our reserves remain appropriate. We remain focused on developing a comprehensive understanding of annuitant mortality and we continue to evolve and develop our underwriting capabilities. Our risk based capital model also takes account of unanticipated rates of mortality improvements in determining our prudential capital requirement. The sensitivities of our business to a range of scenarios are set out on page 156 (note 20).
Investment market performance or conditions in the broader economy may adversely impact our earnings and profitability. 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 movement 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. In addition, significant falls in investment values can reduce fee income to our investment management business, while broader economic conditions can impact the purchase and the retention of retail financial services products, impacting profitability.	Ongoing uncertainty in the global economic outlook is expected to cause continued volatility in financial markets as they respond to falling growth rates in emerging economies and speculation to future monetary policies, with potential for more disruptive asset price shifts should markets reappraise the degree to which a further deterioration in the outlook has been priced into asset values. Current illiquidity in bond markets could exaggerate the impacts of a significant market correction further depressing asset prices. Whilst the international impact of a euro default has diminished, there also remains potential for renewed financial stress in Europe driven by political uncertainty, as well as from geo-political events. The referendum on UK membership of the European Union also has potential to increase financial market volatility as markets speculate on the impact of potential outcomes.	We model our business plans across a broad range of economic scenarios and take account of alternative economic outlooks within our overall business strategy. Our ORSA process plays an integral part in our business planning ensuring a clear link between capital sufficiency and the nature of risks to which we may be exposed. As set out within the Strategic Report on pages 6 to 13, we have sought to ensure focus upon those market segments that we expect to be resilient in projected conditions. For example, investing our long-term funds into real assets provides both enhanced returns to our 'slow money' and reduces exposure to the volatilities of short-term financial markets. Sensitivities to interest rates, exposure to worldwide equity markets and currencies are set out on page 156 (note 20), page 140 (note 16i) and page 142 (note 16ii), respectively.
In dealing with issuers of debt and other types of counterparty the group is exposed to the risk of financial loss. A systemic default event within the corporate sector, or a major sovereign debt event, could result in dislocation of bond markets, significantly widening credit spreads with consequential impacts on the value of our bond portfolios, and may result in default of even strongly rated issuers of debt, exposing us to financial loss. We are also exposed to banking, money market and reinsurance counterparties, and settlement, custody and other bespoke business services, a failure of which could expose us to both financial loss and operational disruption of our business processes.	The current economic outlook inherently increases the risk of default by some issuers of bonds, and recent months have seen a widening of credit spreads, with high yield markets showing particular signs of stress. There remain, however, a range of factors that could lead to more widespread stress in bond markets as a whole resulting in reduced profitability or financial loss to the group. Such factors include a significant deterioration in global economic conditions or a banking crisis. An economic shock or significant change in the current economic outlook may also increase potential for a supplier of business services being unable to meet their obligations to us.	We actively manage our exposure to default risks, setting counterparty selection criteria and exposure limits, and using the capabilities of LGIM's credit management team to ensure risks in our bond portfolio are effectively controlled, and if appropriate traded out. Alongside holding reserves for our assessment of default, we continue to diversify the asset classes backing our annuities business, investing in real assets and property lending investments. While our capital-lite strategy for bulk annuities will increase our counterparty risk exposure, we continue to be selective in the counterparties with which we will deal. Exposures to credit risk are on page 144 (note 17) and sensitivities to changes in credit spreads on page 156 (note 20).

RISKS AND UNCERTAINTIES	TREND AND OUTLOOK	MITIGATION
A material failure in our business processes may result in unanticipated financial loss or reputation damage. We have constructed our framework of internal controls to minimise the risk of unanticipated financial loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage.	Our plans for growth together with the regulatory change agenda will inherently increase the profile of operational risks across our businesses. We continue to invest in our system capabilities and business processes to ensure that we meet the expectations of our customers; comply with regulatory, legal and financial reporting requirements; and mitigate the risks of loss or reputational damage from operational risk events.	Our risk governance model seeks to ensure that business management are actively engaged in maintaining an appropriate control environment, supported by risk functions led by the group chief risk officer, with independent assurance from Group Internal Audit. The work of the Group Audit Committee in the review of the internal control system is set out on page 62.
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 our required reserves for future liabilities. Regulation defines the overall framework for the design, marketing, taxation and distribution of our products; and the prudential capital that we hold. Significant changes in legislation or regulation may increase our cost base, reduce our future revenues and impact profitability or require us to hold more capital. The prominence of the risk increases where change is implemented without prior engagement with the sector. The nature of long-term business can also result in some changes in regulation, and the re-interpretation of regulation over time, having a retrospective effect on our in-force books of business, impacting the value of embedded future profits.	Although the Solvency II regime came into operation on 1 January 2016, there continues to be a significant pipeline of other regulatory change. EU driven regulation includes UCITS V, MiFID II and PRIIPs, as well as various new tax rules. Within the US, a new statutory reserving regime, Principle Based Reserves (PBR), will come into operation in January 2017. In the UK, alongside the PRA ensuring the effective operation of the Solvency II regime and an ongoing requirement upon Legal & General to ensure compliance with the new regulatory framework, the FCA continues to develop its approach to consumer regulation, and there remain challenges in ensuring that regulatory interpretation of rules is proportionate and cost effective for the insurance sector, and aligns with the industry as businesses become increasingly digitalised. The FCA programme of thematic reviews of industry practices may also lead to additional business remediation costs. More broadly, we continue to see legislative and regulatory change particularly in relation to the UK pensions market, and in the applicable tax framework including as a result of devolution and implementation of the OECD BEPS recommendations.	We are supportive of regulation in the markets where we operate where it ensures trust and confidence and can be a positive force on business. We remain, however, vigilant to the risk that future legislative and regulatory change may have unintended consequences for the sectors in which we operate. 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, and have actively participated in the Financial Advice Market Review, the Capital Markets Review and various tax consultations. Internally, we evaluate the impact of all legislative and regulatory change as part of our formal risk identification and assessment processes, with material matters being considered at the Group Risk Committee and the Group Board. Our internal control framework includes processes that seek to ensure ongoing compliance with relevant legislation and regulation. We cannot, however, completely eliminate the risks that controls processes may fail or that historic accepted practices may be reappraised by regulators.
New entrants may disrupt the landscape of the markets in which we operate. As has been seen 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.	Customer facing businesses are becoming increasingly digitalised. Huge structural changes have already changed the face of travel, music, retail and media industries. There is already strong competition in all our markets, and although we have had considerable past success at building sufficient scale to offer low cost products it is possible that alternative providers emerge with lower cost or new service models that present new challenges for our businesses.	As set out on page 26, we are executing a strategy that has digital at its heart, using digital platforms that allow for globalisation and high scale. We have already delivered online facilities for auto-enrolment, investment platforms and individual retirement products and continue to focus on ensuring that customer engagement is at the heart of the digital experience. We've a clear strategy, with the diversity and scale to expand organically in our selected markets.
The financial services sector is increasingly becoming a target of 'cyber crime'. As we and our business partners increasingly digitalise our businesses, we are 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. A significant cyber event could result in reputation damage and financial loss.	The financial services sector continues to see attempts by third parties to seek and exploit perceived vulnerabilities in IT systems. Potential threats include denial of service attacks, network intrusions to steal data for the furtherance of financial crime, and the electronic diversion of funds.	We're focused on maintaining a robust and secure IT environment. Working with our business partners, we seek to ensure the security of our systems with proactive responses to emerging threats. However, the evolving nature of cyber threats means that residual risks will remain. During 2015 the Group Board received an update on cyber risks and our control framework.

GOVERNANCE

A POSITIVE FUTURE FOR ALL

Rachel is 40, but like many first time buyers, she was struggling to get on to the housing ladder. In May 2014, she managed to buy a one-bedroom apartment in Plymouth's Quadrant Quay, a development funded by our long-term direct investments into UK infrastructure projects. Rachel told us how she's lived with her family in Plymouth all her life and was "amazed to see how the Millbay area has been transformed into a safe, family-friendly environment, with fantastic views from my apartment and shops and restaurants right on my doorstep".

FURTHER DETAIL ON OUR INVESTMENTS
www.legalandgeneralgroup.com/2015fastread

Board of Directors

John Stewart
Chairman

Nigel Wilson
Group chief executive

Rudy Markham
Vice chairman
and senior independent
non-executive director

Mark Gregory
Chief financial officer

Mark Zinkula
Chief executive officer, LGIM

Carolyn Bradley
Independent
non-executive director

Richard Meddings
Independent
non-executive director

Stuart Popham
Independent
non-executive director

Olaf Swantee
Independent
non-executive director

Julia Wilson
Independent
non-executive director

Lizabeth Zlatkus
Independent
non-executive director

Geoffrey Timms
Group general counsel
and company secretary

John Stewart
Chairman

Skills and experience:
John was appointed Chairman of the company on 1 March 2010 and has extensive experience of financial services having been a member of the Court of the Bank of England until November 2015. He was previously Chairman of Guide Dogs for the Blind, a director of the Telstra Corporation, a member of the Australian Federal Attorney General's Business Government Advisory Group on National Security and a member of the Australian Prime Minister's Task Group on Emissions Trading. Other former roles include: chief executive of Woolwich (1996–2000), deputy CEO of Barclays (2000–2003) and chief executive of National Australia Bank (2004–2008).

External appointments:
- Southern Cross Stud LLP

Committee membership:
- Nominations Committee
- Corporate Governance Committee

Nigel Wilson
Group chief executive

Skills and experience:
Nigel was appointed group chief executive in 2012 having joined as group chief financial officer in 2009.

Nigel was senior independent director (SID) of The Capita Group plc from 2009 until 2012, and was SID/chairman of Halfords Group Plc from 2006 until 2011.

Previous appointments include: McKinsey & Co, (where clients included BP, Citibank, Cadbury, Santander, Kingfisher, Courtaulds, Whitbread and Globe Investment Trust). Group commercial director of Dixons Group Plc; managing director of Stanhope Properties Plc; chief executive, Corporate, Guinness Peat Aviation (G.P.A.); and managing director, Viridian Capital. Nigel was also deputy chief executive and chief financial officer at UBM. Nigel was appointed to the Prime Minister's Business Advisory Group in 2015.

Qualifications include a PhD from the Massachusetts Institute of Technology where he was a Kennedy Scholar, and a recipient of the Alfred P Sloan research scholarship. He also worked at the National Bureau of Economic Research (NBER). Nigel has won numerous athletics championships including the 800m British Masters. He was also City AM "Business Personality of the Year" in 2014.

Rudy Markham
Vice chairman and senior independent non-executive director

Skills and experience:
Rudy was appointed to the Board in October 2006. Rudy is a Fellow of the Chartered Institute of Management Accountants and the Association of Corporate Treasurers. He was awarded the CIMA Lifetime Contribution to Management Accounting Award in 2005. Former roles include: chief financial officer, director of strategy and technology and treasurer of Unilever Plc; chair and CEO of Unilever Japan; and chair of Unilever Australia.

External appointments:
- AstraZeneca Plc
- Corbion N.V. (supervisory board vice chairman)
- United Parcel Service Inc

Committee membership:
- Remuneration Committee (Chairman)
- Nominations Committee
- Risk Committee
- Corporate Governance Committee

Mark Gregory
Chief financial officer

Skills and experience:
Mark was appointed group chief financial officer on 1 July 2013. Mark was previously chief executive officer, Savings and joined the Board in January 2009. He joined Legal & General in 1998 and has held a variety of divisional finance director roles and served as group financial controller, communications and resources director, resources and international director and UK service operations director. From 2006, he was managing director, With-Profits. Prior to joining Legal & General, he worked in senior financial and business development roles at companies including Kingfisher Plc and ASDA. He is a qualified chartered accountant.

Mark Zinkula
Chief executive officer, LGIM

Skills and experience:
Mark was appointed to the Board in September 2012, having been appointed chief executive officer of Legal & General Investment Management in March 2011. Prior to that, he was CEO of Legal & General Investment Management America (LGIMA) since 2008 and played an integral part in the establishment and successful expansion of LGIMA. Prior to joining LGIMA, Mark was at Aegon Asset Management where he was global head of fixed income.

External appointments:
- The Investment Association (Board member)

Carolyn Bradley
Independent non-executive director

Skills and experience:
Carolyn was appointed to the Board in December 2014. Carolyn has a strong consumer focused background having worked at Tesco from 1986 until 2013. During this time, Carolyn held a range of senior positions in various roles including chief operating officer, Tesco.com, marketing director, UK and, most recently, as group brand director.

External appointments:
- Marston's PLC, non-executive director
- The Mentoring Foundation, non-executive director
- Trustee of Cancer Research UK

Committee membership:
- Nominations Committee
- Remuneration Committee

Richard Meddings
Independent non-executive director

Skills and experience:
Richard was appointed to the Board in December 2014. Richard is a qualified chartered accountant and has over 30 years of banking and financial services experience, most recently having spent 12 years on the board of Standard Chartered and almost eight years as finance director. Previously, Richard was group financial controller at Barclays and was also chief operating officer for the Wealth Management, Premium Retail and Life Assurance businesses. He has also served on the board of Woolwich as group finance director and as a non-executive director at 3i where he was the senior independent director and chair of the audit committee. Richard is also on the Board of Teach First, a charity committed to ending educational inequality.

External appointments:
- HM Treasury, non-executive director and chair of the audit committee
- Member of the Governing Council of the International Chamber of Commerce, UK
- Deutsche Bank, chair of the audit committee
- Trustee of Teach First

Committee membership:
- Nominations Committee
- Remuneration Committee
- Risk Committee (Chairman)
- Audit Committee
- Corporate Governance Committee

Stuart Popham
Independent non-executive director

Skills and experience:
Stuart was appointed to the Board on 1 July 2011. Stuart has extensive legal knowledge and business acumen. He was previously the senior partner of Clifford Chance LLP from 2003–2011. He is presently vice-chairman EMEA at Citigroup and was from 2008 to 2012 chairman of TheCityUK, a body created to promote financial services.

External appointments:
- Citigroup, vice chairman of EMEA Banking
- Chairman of the Royal Institute of International Affairs (Chatham House)
- Council member at Birkbeck College, University of London
- Royal National Lifeboat Institution, vice chairman

Committee membership:
- Nominations Committee
- Remuneration Committee
- Risk Committee

Olaf Swantee
Independent non-executive director

Skills and experience:
Olaf was appointed to the Board in August 2014. Olaf has significant digital and technological experience and is the former chief executive officer of EE Ltd, the UK's largest mobile phone operator and broadband provider. Previously, he was a member of the Orange executive board, heading the group's Europe division. Before joining Orange, Olaf had 17 years' experience in the IT industry in Europe and the United States, latterly serving as Hewlett-Packard's EMEA senior vice president for enterprise sales and software. He also held senior leadership, sales and marketing positions with Compaq and Digital Equipment Corporation in Europe and the United States.

Committee membership:
- Nominations Committee
- Audit Committee

Julia Wilson
Independent non-executive director

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

External appointments:
- 3i Group plc

Committee membership:
- Audit Committee (Chair)
- Nominations Committee
- Risk Committee
- Corporate Governance Committee

Lizabeth Zlatkus
Independent non-executive director

Skills and experience:
Lizabeth was appointed to the Board in December 2013. She spent the majority of her career at The Hartford Financial Services Group ('Hartford'), serving as both chief financial officer and chief risk officer of the firm. In addition, she held a range of senior operating roles including co-president of Hartford Life Insurance Companies. She served on various insurance industry committees including as regulatory chair for the North American Chief Risk Officers Council. Outside of her professional career, Lizabeth is actively involved with various educational, health and science organisations, and sits on several non-profit boards. She was previously selected to be a member of the President's Committee on Employment of People with Disabilities, due to her work with the disabled community.

External appointments:
- Boston Private Financial Holdings

Committee membership:
- Nominations Committee
- Risk Committee
- Audit Committee

Geoffrey Timms
Group general counsel and company secretary

Skills and experience:
Geoffrey has been the Group General Counsel since 1999 and, in addition, the Group Company Secretary since 2008. Prior to joining Legal & General, Geoffrey was a solicitor with Clifford Chance and then Clyde & Co.

FURTHER READING
www.legalandgeneralgroup.com/media-centre/nigels-blog

Letter from the Chairman

As Chairman, it is my role to ensure that we adhere to the highest standards of governance and that these standards cascade through the group. As we have seen over recent years, governance best practice continues to evolve with the publication of the 2014 UK Corporate Governance Code in September 2014 and the recent publication of the Financial Reporting Council's consultation on further changes to the Code.

Keeping abreast of governance developments is of upmost importance as we continue to strive to remain at the forefront of best practice whilst recognising that we will almost always find some room for improvement.

Our approach to governance

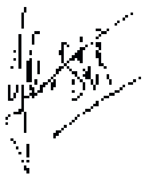
As a Board, we aspire to the highest standards of corporate governance which for us means how we conduct ourselves every day, our culture, behaviour and how we do business. Governance is not something that we consider once per year, it is a framework that we use to support the Board in ensuring that it is led in the right direction as we develop and pursue our future strategy. We have a Corporate Governance Committee which meets regularly to consider matters relating to governance on behalf of the Board.

The role of the Board is to lead the company and to oversee the governance of the group. The Board plays a key role in ensuring that the tone for the group's culture and values is set from the top. Management, on the other hand, is responsible for delivering the strategy within the framework set by the Board and ensuring that the standards set by the Board are maintained. At the heart of good governance is our culture and doing business according to our guiding principle, 'Every Day Matters'.

Governance is an important aspect of our Board environment and our governance helps us test whether we are making decisions in the right way, with the right considerations underpinning each of our decisions. Our delegated authority framework ensures that our decisions are taken by the right people and at the right level and means that we have a robust decision making process and a clear framework within which decisions can be taken.

Our shareholders also play an important role in supporting the company and the investor community continues to be an influential force in shaping corporate governance. There are a number of areas that shareholders are more interested in than ever and Boards will continue to face investor scrutiny on their activities. Shareholders provide meaningful contribution to promote effective governance through open and constructive two-way dialogue with boards. We place great value on the engagement we have with our shareholders and believe that open communication provides our investors with the opportunity to discuss particular areas of interest or concern as they arise.

As our business continues to evolve, both with the development of the group's strategy and as we respond to an ever changing regulatory environment, it is important for us to ensure that our governance framework evolves with us. With the shift in regulatory focus in relation to governance towards culture and individual accountability, our framework needs to support us at not only a group level but also at a subsidiary level. As a Board we need to ensure that this framework meets the needs of the whole business and supports the delivery of our strategy.



John Stewart
Chairman

"Good governance is key to the ensuring the Board performs effectively and our strong governance ethos and framework contribute to both the growth and success of our business."

John Stewart,
Chairman

Governance report

The UK Corporate Governance Code – committed to the highest standards

The principles of the 2014 UK Corporate Governance Code (the 'Code') are the standards against which we measure ourselves and the information on the following pages demonstrates how we apply the principles in practice. The information required under Disclosure and Transparency Rule 7.2.6 can be found in the directors' report on pages 242 to 245. Each year, the Board reviews the company's corporate governance framework and compliance with the Code and the table on pages 58 and 59 sets out at a high level how we have complied with each of the principles.

Governance at Legal & General is seen as an important element of both our Board environment and organisational culture and is a key ingredient in the success of our business. Our governance framework and policies support good decision-making thereby contributing to the success of the business over the long term. It is the Board's responsibility to ensure we have an appropriate governance framework in place to continue to support our day-to-day operations and protect the interests of our stakeholders.

The Board

As reported in 2014, we have seen two changes to the makeup of our Board during the course of the year. John Pollock, retired from his role as a director and chief executive officer, LGAS; and Lindsay Tomlinson, non-executive director, also retired from the Board, both at the conclusion of the 2015 AGM. In light of these changes, the Board has remained cognisant of the need to maintain a well-balanced Board with the right mix of individuals who can apply their wider business knowledge and experiences to the oversight and guidance of the group. The Board determined not to appoint a successor executive director to the Board following John's retirement. In non-executive director succession planning, the requirement for new or additional skills and experience on the Board will be considered in the light of Board changes.

As previously announced, John Stewart, Chairman, is retiring from the Board in 2016 and the process to identify a successor is currently underway. Olaf Swantee will step down from the Board following the conclusion of the AGM on 26 May 2016 and Julia Wilson will succeed Rudy Markham as senior independent director. Rudy will remain as a non-executive director until the AGM in May 2017, providing important continuity as the company transitions to a new Chair. Stuart Popham has indicated his intention to step down from the Board prior to the 2017 AGM. The company has commenced a search for new non-executive directors, including a Chair of the Audit Committee to succeed Julia Wilson.

Also, as previously announced, Mark Gregory intends to retire from the company in January 2017.

How the Board operates

The Board is led by the Chairman, John Stewart, and the day-to-day management of the group is led by Nigel Wilson, the group chief executive. The non-executives play a key role in contributing to the delivery of strong organisational governance but the role of the non-executives is not limited to the boardroom. Examples of some of the other activities undertaken by the non-executives during the course of the year are set out on page 54.

ACTIVITIES OUTSIDE OF THE FORMAL BOARD MEETING SCHEDULE

Julia Wilson, Carolyn Bradley, Olaf Swantee and Lizabeth Zlatkus attended the 50/50 by 2020 Networking Event, which seeks to raise awareness of gender diversity initiatives in Legal & General and has the objective of increasing the number of women in leadership roles. Lizabeth attended the event as a key note speaker and shared her career journey and advice whilst Julia, Carolyn and Olaf took part in a panel discussion looking at career challenges and how to overcome them, the benefits of diverse leadership teams and improving the balance in the executive pipeline.

A number of the non-executives attended the 2015 Community Awards ceremony, hosted by the Chairman. The awards provide an opportunity to showcase our employees who work hard to make a difference in other peoples' lives and allow them to share their stories of what inspires them to give their time to help others.

The Board is accountable for the long term success of the company by setting the group's strategic objectives and monitoring performance against those objectives. In doing so, the Board meets formally on a regular basis and at each meeting, considers strategic proposals, acquisitions and major transactions as a standing agenda item. The group and its subsidiaries operate within a clearly defined delegated authority framework, which has been fully embedded over the course of the year. The delegated authority framework ensures that there is an appropriate level of Board contribution to and oversight of key decisions and that the day-to-day business is managed effectively. The Board delegated authority framework consists of a clearly defined schedule of matters reserved for the group Board. The types of matters reserved for the Board include, amongst others, matters relating to the group's strategic plan, risk appetite, and systems of internal control and corporate governance policies. Those matters which are not reserved are delegated by the Board to group level committees and to the group CEO, who then onward delegates decision-making to the Group Capital Committee and his direct reports.

How the Board spent its time in 2015

The Board met formally ten times during 2015 and, on a number of occasions, Board sub-committees were constituted in order to deal with matters arising in the ordinary course of business. Preparation for the transition to Solvency II was a key focus of the Board. Generally, immediately preceding each Board meeting, the non-executives met privately with the group chief executive. The Board also held two separate strategy events during the year; a one-day event in June, which was followed up with a two-day event in September. A table of individual Board member attendance at the formal Board and Committee meetings is set out on page 59.

The group Board agenda is set by the Chairman and follows a set framework which consists of four broad discussion areas; an update from the group chief executive and the key business division heads; a Solvency II update and discussion; presentations and discussions on strategic proposals, acquisitions, major transactions and group matters; and a Board governance update. Board members and individuals from the relevant business areas are invited to present on each of these items.

KEY AREAS OF FOCUS	DISCUSSION AND ACTIONS ARISING
Strategy	• At its January meeting, the Board considered and approved the group's five-year Business Plan and 2015 Budget. This included a review of the divisional strategic objectives, initiatives and KPIs. • The Board held two separate strategy events in 2015; a one-day event in June and a two-day event in September. At both events, the Board discussed progress against the group's strategic plan, the individual plans for each of the business divisions and optionality for the group and its individual businesses looking forward into 2016 and beyond. • At each Board meeting, the Board considered a schedule of corporate and material transactions to ensure that proposed transactions are aligned with the group's strategy. In particular, the Board considered the disposals of Legal & General France and Legal & General International (Ireland) Limited and the sale of the company's Egyptian Life Insurance joint venture. A wide range of ongoing corporate and commercial transactions are reported to the Board to provide Board members with full opportunity to debate and provide feedback.
Solvency II	• The Board spent a significant amount of time in 2015 preparing for Solvency II and monitoring the latest developments with regards to implementation plans for Solvency II. • The Board focused in particular on the group's Matching Adjustment and Internal Model applications.
Governance	• At its January meeting, the Board considered the output from the 2014 internally facilitated Board evaluation. These findings were also considered by the Corporate Governance Committee. Detailed recommendations arising from the evaluation were then considered by the Corporate Governance Committee and the Board at their February meetings and proposed recommendations were subsequently approved by the Board. • The Board is regularly updated by the group general counsel and company secretary on emerging regulation and governance changes. The Board has particularly focused on the implementation of the Senior Insurance Managers Regime for the group.
Stakeholders	• The Board regularly considers the group's relationship with various stakeholder groups. During the course of the year, the Board's agenda allowed for discussion on various employee matters including the results of the annual employee survey, shareholders matters, customers issues, and the group's impact on and relationship with wider society. • The Board were provided with an update on the group's CSR Policy and considered performance against Environmental, Social and Governance (ESG) targets for 2014. The Board also considered forward-looking ESG targets. • The Board welcomes the opportunity to hear the views of major shareholders and following the publication of the year-end results, the company's brokers were invited to present investor feedback to the Board. • The Board also commissioned a report on investor perceptions, which was undertaken by Makinson Cowell.

Strategy away days

Strategy remains high on the Board's agenda throughout the course of the year. The Board held two separate strategy events outside of the formal Board meeting schedule in 2015. These events provide the Board with an opportunity to reflect on the progress the group's strategy is making against the backdrop of the five macro trends identified as the drivers of strategy, and also allow Board members to debate, scrutinise and review performance against the strategic plan. The Board also focuses on the future and the next phase of the company's strategy. The agendas for each of the strategy events included debate and discussion on strategic options involving the heads of each of the group's six key business divisions: Legal & General Investment Management, Legal & General Retirement, Legal & General Capital, Legal & General America, Insurance and Savings.

"The strategy events were a valuable opportunity for the Board to have time and space for a more in-depth review of the business and to discuss strategic issues, priorities and options going forward. We were also able to spend valuable time with the wider senior management team, enabling us to get a more first-hand appreciation of the talent, energy and commitment that exists in the group."

CAROLYN BRADLEY,
Non-executive

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

The Board places great value on training and development both within the business and at a group Board level, and believes that ongoing training is essential to maintaining an effective and knowledgeable Board. The group company secretary supports the Chairman in ensuring that all new directors receive a full and comprehensive induction programme on joining the Board and that continuing education and development opportunities are made available to all Board members at regular intervals throughout the year.

During the course of the year, a number of development activities have taken place including one-to-one briefing sessions for non-executive directors with key members of the senior management team and more focused group Executive Business Awareness sessions (EBAs). With the increased amount of time spent by the Board in considering Solvency II this year, there have been a number of EBAs focused on Solvency II developments and regulation. Additional EBA topics this year have also included the Economic Outlook and a deep dive into the LGIM UK business.

2015 BOARD AND COMMITTEE EVALUATIONS

Each year, the Board considers the most appropriate method for conducting a review of the Board and its Committees performance and consideration is given to the number of changes that have been made to the composition of the Board during the course of the year, the tenure of Board members and any factors which may have impacted the group's strategy during the year. The Board also considered which methods had been utilised for conducting previous reviews, the two previous years having both been facilitated internally.

The Board determined that it would be appropriate to carry out an external review by an independent reviewer in 2015. This review was facilitated by Oliver Ziehn of Lintstock who was engaged to undertake the review based on set terms of reference agreed in advance with the Chairman. Oliver has no other connection to the company. The aim of the review was to assess the effectiveness of the Board, both as a collective unitary board, and at individual Board member level, in order to implement any actions required to become a more effective Board. The performance of each of the Board Committees was also assessed.

The review focused in particular on the following areas:

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

Given the increased focus of the Board's activities with regards to Solvency II during the course of the year, the review also sought to address the effectiveness of the Board in engagement with the Solvency II process and preparations.

The review concluded that the Board had operated effectively against a backdrop of some exceptional issues including preparation for Solvency II and the Chairman succession. A summary of recommendations from the review is set out below, together with an update on the progress made against the recommendations from the 2014 review.

RECOMMENDATIONS FROM 2015

Board and Committee agendas and papers should be reviewed with a view to enhancing the structure and content of papers, in particular, ensuring that key considerations and messages are delivered effectively.

In reviewing the composition of the Board, specific consideration should be given to recruiting NEDs with insurance and/or asset management expertise. Further, NEDs with international experience were also seen to be important future additions to the Board.

The Board should continue to develop its understanding of the views of shareholders. This could be facilitated through a programme of major shareholder meetings and additional meetings with the group's Corporate Brokers.

The Board's engagement on strategy should continue to be enhanced. Following the success of the 2015 June half day 'strategy checkpoint', a further afternoon strategy discussion should be scheduled in June as a lead in to the September strategy offsite. This should be focused on 2–3 strategic priorities.

RECOMMENDATIONS FROM 2014 REVIEW	PROGRESS AGAINST 2014 RECOMMENDATIONS
In making future appointments to the Board, the Nominations Committee should consider candidates with greater international experience, asset management expertise and those from insurance backgrounds.	The Nominations Committee remains committed to considering a wide pool of candidates from diverse backgrounds when considering future appointments to the Board. This will be the case when the Board makes further appointments. There have been no new appointments during 2015.
The Board should continue to further develop strategic options and revisit the progress on discussions that took place at the strategy day.	Strategy remains a key focus at each Board meeting and during the year, the Board held both a mid-year strategy event and a two-day strategy event in September.
The non-executives should meet more regularly with the group chief executive in the absence of the rest of the executive.	Prior to each Board meeting, time is now allocated for the non-executives to meet with the group chief executive immediately preceding the Board meeting.
A review of the number of Board meetings should be undertaken and the time allocated to each meeting.	The number of Board meetings has been reviewed and as result, seven formal meetings have been scheduled for 2016. In 2015, there were eight scheduled meetings with two further meetings having been scheduled during the course of the year. Meeting durations have been extended to provide more time for discussion and debate.

Committed to the highest standards

Compliance with the September 2014 UK Corporate Governance Code. For the year ended 31 December 2015, we are pleased to report that we have applied the principles and complied with the provisions of the Code. A full version of the Code can be found on the Financial Reporting Council's website: frc.org.uk

A. LEADERSHIP

A1 The role of the Board
The Board met formally ten times during the year and a number of sub-committee meetings were also constituted to deal with matters such as the final approval of the interim and half year results. The Board's agenda is set by the Chairman and deals with those matters specifically reserved to the Board including matters relating to the group's strategic plan, risk appetite, and systems of internal control and corporate governance policies. Matters delegated to the group chief executive include managing the group's business in line with the Strategic Plan and approved risk appetite, and responsibility for the operation of the internal control framework.

A2 Division of responsibilities
The roles of the Chairman and group chief executive are clearly defined and the role profiles are reviewed as part of the annual governance review undertaken by the Board. John Stewart, the Chairman, is responsible for leading the Board while Nigel Wilson, group chief executive, is responsible for the day-to-day management of the company within the strategy set by the Board.

A3 The Chairman
The Chairman sets the agendas for meetings, manages the meeting timetable and encourages an open and constructive dialogue during the meetings.

A4 Non-executive directors
The success of the Board is underpinned by an open and constructive dialogue in the boardroom and the Chairman actively invites the views of all Board members. The Chairman is available to the non-executives and over the course of the year, the non-executives have met in the absence of the executives.

B. EFFECTIVENESS

B1 The composition of the Board
The Nominations Committee is responsible for reviewing the composition of the Board, and in making recommendations for appointments to the Board, the Committee considers the balance of skills, experience and knowledge needed in order to enhance the Board and support the company in the execution of its strategy. Details of the work undertaken by the Committee are set out on pages 60 and 61.

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

B3 Commitment
The non-executive directors' letters of appointment set out the time commitment expected from them. Given the changing regulatory environment and the preparations for Solvency II this year, this time commitment has gone beyond that set out in the letter of appointment. This time commitment is therefore reviewed regularly. External commitments, which may impact existing time commitments, must be agreed with the Chairman. The significant commitments of each of the directors are included in the Board biographies on pages 50 and 51. The Chairman's commitments have reduced during the year and he has no commitments that would impact on his time commitment to the company.

B4 Development
The Board places great value on the inductions that are offered to new non-executives and the ongoing training opportunities made available to all Board members. Further details of the development sessions which have taken place during the year are set out on page 57.

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

B6 Evaluation
The Board determined that an externally facilitated evaluation would be most appropriate in 2015 and this review was carried out by Lintstock. Details of the evaluation and an update on the recommendations from the 2014 evaluation are set out on page 57.

B7 Re-election
All directors were subject to shareholder election or re-election at the 2015 AGM, with the exception of those directors who were retiring at the conclusion of the meeting. All directors, with the exception of Olaf Swantee, who will be retiring from the Board at the conclusion of the AGM, will be subject to shareholder re-election at the 2016 AGM.

Board and committee meetings attendance

Director	Appointment Date	Board (10)	Audit Committee (9)	Nominations Committee (5)	Remuneration Committee (6)	Group Risk Committee (5)	Corporate Governance Committee (4)
J Stewart	1 January 2010	10		5			4
M J Gregory	28 January 2009	10					
R Markham	4 October 2006	10		5	6	5	4
R Meddings	8 December 2014	10	8 (8)	5	6	5	
S Popham[1]	1 July 2011	6		3	5	4	
C Bradley	8 December 2014	9		5	6		
J Wilson	9 November 2011	10	9	5		4	
N D Wilson	1 September 2009	10					
M Zinkula	18 September 2012	10					
L Zlatkus	1 December 2013	10	9	5		5	
O Swantee	1 August 2014	10	8	5			
J B Pollock[2]	11 December 2003	4 (5)					
L Tomlinson[3]	1 May 2013	5 (5)	3 (3)	2 (2)	2 (2)	2 (2)	

1. Absence from Board and Committee meetings was a result of undergoing major surgery.
2. Retired with effect from 21 May 2015.
3. Retired with effect from 21 May 2015.

C. ACCOUNTABILITY

C1 Financial and business reporting
The Strategic Report can be located on pages 1 to 47, and this sets out the performance of the company, the business model, strategy, and the risks and uncertainties relating to the company's future prospects.

C2 Risk management and internal control
The Board sets the company's risk appetite and annually reviews the effectiveness of the company's risk management and internal control systems. A description of the principal risks facing the company is set out on pages 46 and 47. Page 45 also set out how the directors have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate (the 'viability statement'). The activities of the Audit and Group Risk Committees, which assist the Board with its responsibilities in relation to financial reporting, audit matters, risk appetite setting and risk management, are set out on pages 62 to 67.

C3 Audit Committee and auditors
The Audit Committee comprises four independent non-executive directors and the Board delegates a number of responsibilities to the Audit Committee including oversight of the group's financial reporting processes, internal control and risk management framework, and the work undertaken by the external and internal auditors. The Audit Committee's terms of reference are available on the website, www.legalandgeneralgroup.com The Audit Committee chair provides regular updates to the Board on key matters discussed by the Committee.

D. REMUNERATION

D1 The level and components of remuneration
The company aims to reward employees fairly and our remuneration policy is designed to promote the long-term success of the company whilst aligning both the interests of the directors and shareholders. The work of the Committee is set out on pages 68 to 89.

D2 Procedure
The Remuneration Committee is responsible for setting the remuneration for all executive directors. Details of the composition and the work of the Remuneration Committee is set out in the Directors' Remuneration Report on pages 68 to 89.

E. RELATIONS WITH SHAREHOLDERS

E1 Dialogue with shareholders
Board members take an active role in engaging with both institutional and retail shareholders, both in private meetings and in wider forums such as the AGM. The Chairman and the senior independent director aim to meet some of the major institutional investors at least once per year and are available to meet other investors on request. The Chairman shares feedback from these meetings with the wider Board.

E2 Constructive use of the AGM
The Board values the AGM as an important opportunity to engage with investors. Attendees have the opportunity to ask questions of the Board and are invited to meet the Board following the formal business of the meeting.

Nominations Committee report

JOHN STEWART
Chairman

"

Succession planning is a key focus for the Nominations Committee as part of its role in ensuring that the Board has the right skills and experience to direct the company in the successful execution of its strategy."

The composition of the Committee

The Committee is made up of all independent non-executive directors. The table below sets out the current membership. The group chief executive and HR director may be invited to attend meetings where this may assist the Committee in fulfilling its responsibilities, and most notably in relation to executive appointments and succession planning.

Members	Members
John Stewart	Julia Wilson
Rudy Markham	Richard Meddings
Stuart Popham	Lizabeth Zlatkus
Carolyn Bradley	Olaf Swantee

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

The role of the Committee

The Committee has overall responsibility for leading the process for new appointments to the Board and ensuring that these appointments bring the required skills and experience to the Board. As part of this, the Committee reviews the structure, size and composition of the Board to ensure the Board is made up of the right people with the necessary skills and experience to direct the company in the successful execution of its strategy.

The Committee's key responsibilities are:

- Reviewing the criteria for identifying and nominating candidates based on the specification for a prospective appointment including the required skills and capabilities;
- Considering succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the company, and what skills and expertise are needed by the Board in the future;
- Keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to safeguarding the continued ability of the company to compete effectively in the market place; and
- Reviewing the time commitment required from non-executive directors and assessing the non-executive directors' other significant commitments to ensure that they continue to be able to fulfil their duties effectively.

The Committee's terms of reference which set out full details of the Committee's responsibilities can be viewed on our website.

How the Committee spent its time in 2015

The Committee met five times during 2015. Following the appointments of three new non-executive directors during 2014, the Committee has focused in the latter part of this year on determining its future requirements for supporting the company through the next phase of its strategy following the transition to the Solvency II regime.

Succession planning for both the executive and non-executive directors is a key element of the Committee's work and the Committee, led by the senior independent director, has initiated the process for a successor to the Chairman whose retirement was announced in November. The timing of the announcement of the Chairman's decision to retire allows the Committee to conduct a full and thorough search process and will ensure a smooth and orderly transition to a new Chair.

The Committee will also lead the process for the search for the successor to the group CFO who will be retiring from the group on 31 January 2017 and for further non-executive directors.

During the year, there were also changes to the executive make-up of the Board following the retirement of John Pollock from the Board at the 2015 AGM. Following the decision not to make a direct replacement for John on the Board, a new business and management structure for the LGAS business was implemented at the end of 2014.

The Committee evaluates the independence of all non-executives and undertakes an annual review of each non-executive director's other interests. The Board was satisfied that each non-executive remained independent and continued to have sufficient time to discharge their responsibilities to the company. Rudy Markham has served on the Board for nine years and, as a result, his continued independence was subject to more rigorous review. The Committee considered Rudy's external business interests and other relationships which could materially interfere with his ability to exercise independent judgement. The Committee concluded that there were no circumstances which would affect Rudy's ability to act in the best interests of the company and that his length of tenure had no detrimental impact on his level of independence.

Our approach to diversity

Our approach to diversity on the Board is set out in our Board Diversity Policy and we have continued to seek to ensure that diversity, in the widest sense, remains central to our thinking on the composition of the Board.

The Board has considered Lord Davies' final 'Women on Boards' report and noted with interest the new recommendation for a new voluntary target for a third of all Board members in FTSE 350 companies to be women by 2020.

The Board has made encouraging progress, not only in increasing the diversity on our Board but also in supporting the delivery of the talent and leadership programmes within the organisation which seek to address gender imbalance by removing barriers that prevent women from realising their potential. The box below demonstrates the progress that has been made.

Board members actively participate in discussions relating to talent and leadership and a number of Board members act as mentors to individual employees who have been identified as 'future leaders'. The company supports the Legal & General 50/50 by 2020 Network which aims to have a 50/50 balance of men and women right through the organisation by the year 2020.

John Stewart
Chairman

DIVERSITY

Gender

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

Sector experience

Board members come from a variety of backgrounds and have wide sector experience:
- 12.5% Digital and Technology
- 62.5% Financial Services
- 12.5% Customer and Retail
- 12.5% Legal

Tenure (years)

The length of tenure of the non-executives varies:
- 12.5% over six years
- 50% between one and three years
- 37.5% between three and six years

The Committee only engages executive search firms that are signatories to the executive search firms' Voluntary Code of Conduct. In the 2014 non-executive director searches, the company engaged JCA Group and Korn Ferry/Whitehead Mann, both of whom are signatories to this Code and have no other connection to the company. JCA have again been engaged to support the company through the Chairman succession process.

The Committee liaises with the search firm to ensure that candidate briefs include an appropriate emphasis on diversity of skills and background, independence of approach and thought.

Audit Committee report

JULIA WILSON
Chair

Letter from the Chair

Dear Shareholder

I am pleased to present the Audit Committee report for the year ended 31 December 2015. In addition to the disclosure requirements for Audit Committees set out in the 2014 UK Corporate Governance Code (the 'Code'), this report is intended to give some insight into the work of the Committee during 2015, in particular the significant accounting issues considered by the Committee which are set out on page 64.

The Committee covers much ground during the course of a financial year and therefore it is crucial that the Committee has an effective balance of skills and experience to deliver its responsibilities. The Committee strives to maintain membership from a variety of backgrounds, with all members possessing a wealth of operational and financial experience. A strong degree of financial literacy is a key consideration when appointing members. With this in mind, Richard Meddings was welcomed to the Committee in 2015 adding to the Committee's existing operational and financial experience. It is worth highlighting that a number of the Committee's members serve on both the Audit Committee and Group Risk Committees to ensure any overlapping issues are appropriately identified and addressed.

All members of the Committee are independent non-executive directors and I am pleased to report that the Committee's own annual evaluation found that the Committee's performance during the year remained effective.

Membership of the Committee is set out in the table below:

Members	
Julia Wilson	Committee member since 9 November 2011, Chair since 22 May 2013
Lizabeth Zlatkus	Committee member since 1 May 2014
Olaf Swantee	Committee member since 8 December 2014
Richard Meddings	Committee member since 9 April 2015

Other attendees at Committee meetings include: the group Chairman; group chief executive; group chief financial officer; group chief risk officer; group financial controller; group chief internal auditor; LGAS and Legal & General Retirement finance director; LGIM finance director; group actuary; director of group tax; and representatives of the external auditor, PricewaterhouseCoopers LLP.

During 2015, the Committee met nine times. The Committee's terms of reference are reviewed on an annual basis and the current terms of reference, reviewed in December 2015, are available on our website. The Committee's time over the course of the year was split between interim and year-end financial reporting, monitoring and reviewing internal control procedures and reviewing the effectiveness and work of both the internal and external audit functions. Another major focus of the Committee this year has been ensuring preparedness for Solvency II. Our work in this regard has been extensive, ranging from reviewing the implementation of the internal model, the modelling, methodologies and assumptions used to calculate the balance sheet, and ensuring procedures to meet the new financial reporting requirements are in place.

In addition, the Committee has also looked closely at the additional requirements introduced by the publication of the 2014 Code, in particular the requirement to include a viability statement in the 2015 annual report. The Committee considered a report from the group financial controller on this requirement and advised the Board accordingly.

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

Julia Wilson
Chair

How the Committee spent its time in 2015

The Committee is a senior Board committee and has 'third line' governance responsibilities which include the oversight of financial disclosures and corporate reporting. The responsibilities of the Committee include assisting the Board in discharging its responsibilities with regards to monitoring the integrity of the group's financial statements, monitoring the effectiveness of the internal control (including financial control) framework and the independence and objectivity of the internal and external auditors. As a Committee, we are also responsible for advising the Board on whether the annual report and accounts, taken as a whole, are fair, balanced and understandable and these considerations have been factored into our year-end processes.

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

Accounting and financial reporting:

- Reviewing the interim and annual financial statements and ensuring that the strategic report is consistent with the financial statements whilst giving consideration to issues addressed in the preparation of the accounts, including the level of insurance provisions and reserves and other significant areas of judgement
- Reviewing the group's going concern assumptions and the proposed viability statement
- Considering the findings of the internal audit function's reviews in respect of many matters including the group's Solvency II preparedness. Such reviews included reviews into Solvency II data and governance controls, Internal Model validation and business readiness
- Reviewing the external auditor's reports on the group's preparedness to implement the Solvency II regulatory framework in relation to the balance sheet, technical provisions and own funds

Internal control management:

- Reviewing and advising the Board on the content and clarity of disclosures in the directors' statements related to internal controls and risk management.

External audit and the external auditor:

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

Accounting and financial reporting

The Committee reviews the interim and annual financial statements and the significant financial reporting judgements.

The significant accounting issues considered in relation to the 2015 financial statements are detailed on page 64.

In conjunction with the Group Risk Committee, the Committee also reviews the disclosures to be made in relation to internal control and risk management, and principal risks and uncertainties. An important focus of the Committee in 2015 was assisting the Board in ensuring that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable (FBU) and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

The Committee considered the corporate governance provisions which require the Board to make this statement on the report, together with information on the processes already in place or being introduced to support the statement to be made.

To assist the Committee in assessing whether the annual report meets the FBU requirements and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy, there are robust year-end governance procedures in place. These include ensuring that all of those involved in the preparation of our annual report have been appropriately trained and fully briefed on the FBU requirements; internal legal verification of all factual statements, together with legal verification of descriptions used within the narrative; regular engagement and feedback with senior management on proposed content and changes and feedback from external advisors (corporate reporting specialists, remuneration and strategic reporting advisors, external auditor) to enhance the quality of our reporting.

The Committee recommended to the Board that, when taken as a whole, the 2015 annual report and accounts are fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy. As mentioned above, together with the Group Risk Committee, the Committee has reviewed the key assumptions and methodologies of the risk based capital model as well as related Solvency II disclosures and the proposed disclosures pertaining to the group's economic capital disclosure.

During the year, the Committee has also kept abreast of significant and emerging accounting developments, in particular the implementation of new UK GAAP accounting standards from 1 January 2015, including the proposal to adopt FRS 101 on the basis that no disclosures from our 2014 UK GAAP financial statements would be omitted on adoption of this new accounting standard.

Significant accounting issues considered by the Committee

ISSUE	COMMITTEE'S RESPONSE
Valuation of non-participating insurance contract liabilities – retirement: The non-participating insurance liabilities for retirement products are significant in size and their estimation is inherently judgemental.	The Committee monitored those factors affecting the valuation of non-participating insurance liabilities for retirement products by considering: Valuation interest rates – which are used to discount the liabilities. These are sensitive to judgements made, for example, on credit default of the backing assets, as well as the investment data used to calculate the yield on these assets and the methodology used to model the asset cash flows to calculate the internal rate of return. The Committee focused on changes to reserving assumptions and other modelling changes. Longevity assumptions – which estimate how long policyholders receiving annuity payments will live. The Committee considered the effectiveness of the controls over the accuracy and completeness of the data used in determining the longevity assumptions and the validity of independent industry data supporting those assumptions.
Valuation of complex investments – commercial loans, CDOs and direct investments: Commercial loans, CDOs, derivatives and structured solutions are significant in size and changes in estimates could result in material changes in their valuation.	The valuation of commercial loans, CDOs, derivatives and structured solutions require the use of complex models and management judgement. The Committee seeks to ensure that the valuation process for these investments is robust. The Committee considered the investment valuation processes and controls in place over such investments.
Valuation of non-participating insurance liabilities – insurance: The non-participating insurance liabilities for protection contracts are an important component of the profitability for this line of business and require judgements to be made regarding the assumed rates of mortality and persistency. The company makes extensive use of reassurance to reduce mortality risk.	The Committee has reviewed the methodology for calculating reserves including the allowance made for payments to and from reassurance counterparties. The assumptions for rate of future mortality (how many customers will die during the policy term) and persistency (how many customers will discontinue cover) are based on the company's internal experience and use judgement about how experience may vary in future. The Committee reviewed the assumptions and the expected level of prudence.

Internal control

The Committee considers the control environment and related issues, root causes and management's responses and follow up activities. It is assisted by the work of both the internal and external auditors. In conjunction with the Group Risk Committee, the Committee assists the Board in ensuring the group operates within a framework of prudent and effective controls that allows risk to be identified, assessed and managed. The group's control policies and procedures, which are in accordance with the Financial Reporting Council's Guidance on risk management, internal control and related financial and business reporting, have been in place during 2015 and up to the date this report was approved. The group's system of internal control is designed to manage rather than eliminate risk and can only provide reasonable and not absolute assurance against material loss.

During 2015, the Committee was assisted in its activities by regular reports from the group's internal audit function on their audits and assessment of the control environment. The Committee reviews the effectiveness of the group's internal audit function, including internal audit resources, plans and performance as well as how the function interacts with management and the business divisions. In particular, the Committee considers the alignment of the internal audit plan with the group's key risks.

A significant focus during 2015 has been the implementation of the Solvency II programme, with the internal audit function covering all three Solvency II pillars. This has included the Committee monitoring the internal auditor function's findings on methodology for risk calibrations, implementation of the internal model and delivery of the risk management framework.

All significant audits were reported to the Committee. The Committee also reviewed progress against the internal audit annual plan including the mid-year refreshed plan, resource requirements and open audit issues.

The Committee received and considered reports from the external auditor on their assessment of the control environment as well as reports from senior management on how they are responding to internal control recommendations made by internal audit and the external auditor. The internal control and risk management systems cover the group's financial reporting process and the group's process for preparation of consolidated financial statements. For 2015, no significant failings or weaknesses were identified.

The external auditor

Each year, the Committee reviews the external auditor's audit plan to ensure it aligns with the Committee's view of the areas of significant risk of financial misstatement. The Committee receives regular reports from the external auditor on audit findings and significant accounting issues. In 2015, the Committee also reviewed the external auditor's assurance work on Solvency II.

The Committee judges the external auditor on the quality of their audit findings, management's response and stakeholder feedback. The Committee assesses the effectiveness of the external auditor against some of the following criteria:

- Provision of timely and accurate industry specific and technical knowledge
- Maintaining a professional and open dialogue with the Committee Chairman and members at all times
- Delivery of an efficient audit and the ability to meet objectives within the agreed time frames

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

The Committee reviews and approves the terms of engagement of the external auditor and monitors the independence of the external auditor including overseeing, and in certain circumstances approving, the engagement of the external auditors for non-audit work.

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

PricewaterhouseCoopers LLP has been the group's external auditor for a number of years. The audit was last tendered in full in 2006 with a partial re-tender process in 2009. The Committee is carrying out a tender process in respect of external audit services during 2016/2017 to ensure compliance with legislation, taking into consideration FRC guidance on best practice in particular ensuring independence in respect of potential audit firms. The existing external audit firm will not be invited to re-tender given the duration of its tenure to date. We have approached a range of firms including the 'big four' and mid-tier firms. Short listed firms will be requested to complete a detailed Request For Proposal ('RFP'). A full tender will follow the receipt of firms' responses to the RFP. The new external audit firm is expected to be appointed in respect of the calendar year 2018.

There are no contractual obligations which restrict the Committee's choice of external auditor.

In 2015, the group spent £1.7 million on non-audit services provided by PricewaterhouseCoopers LLP. Further details can be found in Note 36 to the consolidated financial statements. This represents 21.3% of the total audit fee for 2015. This spend was higher than the previous year due to the significant amount of work involved in Solvency II preparations. Our policy is to approach other firms for significant non-audit work. However, for Solvency II assurance work, the external auditors' experience and built-up knowledge of the group's business meant their engagement was considered most effective and efficient.

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

	2015	2014	2013
Audit and related	8.0	5.6	5.6
Other assurance	0.4	0.9	0.1
Non-assurance	1.3	0.7	1.3
Total	9.7	7.2	7.0

The group's policy requires that all services with an anticipated cost in excess of a specified amount are subject to a full competitive tender involving at least one other alternate party in addition to the external auditor. If the external auditor is selected following the tender process, the Committee is responsible for approving the external auditors' fees on the engagement. For services with an anticipated cost below the specified amount, the group chief financial officer has authority to approve the engagement. The external auditor and management report regularly to the Committee on the nature and fees relating to non-audit services provided under this authority.

In order to maintain the objectivity of the external audit process, the Committee supports the rotation programme for audit engagement partners required every five years. The current audit partner commenced his engagement in 2013. The audit tender process will be completed in advance of the expiry of the audit partner's five year tenure. The Committee continues to consider PricewaterhouseCoopers LLP to be the appropriate audit firm for the company for 2016 taking into consideration their audit effectiveness and the audit needs of the group.

Group Risk Committee report

RICHARD MEDDINGS
Chairman of the Group Risk Committee

The Committee's role is to advise the Board on risk appetite and tolerance in setting the future strategy, and to provide advice on what constitutes acceptable risk taking."

The Committee and its remit

The Committee comprises five independent non-executive directors.

Members

Richard Meddings	Committee member since 1 December 2014, Chairman since 9 April 2015
Rudy Markham	Committee member since 15 October 2014
Stuart Popham	Committee member since 1 July 2011
Julia Wilson	Committee member since 24 July 2013
Lizabeth Zlatkus	Committee member since 26 February 2014

Other attendees at Committee meetings include: the group Chairman; group chief executive; group chief financial officer; group chief risk officer; group chief internal auditor; and representatives of the external auditor, PricewaterhouseCoopers LLP.

The Committee met five times during 2015. The effectiveness of the Committee during the year was reviewed as part of the internally facilitated evaluation of the Board and its Committees.

The purpose of the Committee is to assist the Board in fulfilling its responsibilities in relation to the oversight of risk within the group and to provide advice in relation to current and potential future risk exposures of the group. This includes reviewing the group's risk appetite and risk profile and assessing the effectiveness of the group's risk management framework. The group's approach to the management of risk is set out in more detail on pages 43 to 47.

The key responsibilities of the Committee, as set out in the terms of reference, are to:

- Advise the Board in relation to the group's overall risk appetite for each of the categories of principal risk to which the group may be exposed
- Oversee and advise the Board on the current risk exposures of the group
- Oversee the management of those categories of risk to which the group may be exposed
- Provide oversight of the group's overall risk framework ensuring that the principal risks are being appropriately assessed
- Advise the Board on the appropriateness of the group's risk appetite
- Review and approve the group's risk strategy, policies and procedures
- Monitor the impact of the principal risks on the group's strategy and consider changes to the risks arising at a group level as a consequence of the group's strategy, market and regulatory events
- Advise the Remuneration Committee on specific risk adjustments to be applied to performance objectives and other issues, as requested by the Remuneration Committee

Committee activities during 2015

The work of the Committee is supported by the group chief risk officer and company secretary who assist the Committee chairman in planning the Committee's work and ensuring that the Committee receives accurate and timely information.

During the year, the Committee focused on the following areas:

Group chief risk officer's report

Each quarter, the Committee receives a report from the group chief risk officer. This report brings to the Committee's attention key risk factors in the operating environment of the group's businesses and the potential risks that may raise. The review includes analysis of risks arising from the macro-economic outlook and conditions in financial markets, together with geopolitical, legislative and regulatory change risks that may impact the group's businesses.

Alongside the group chief risk officer's report, the Committee receives regular reporting on risk appetite, comparing actual positions relative to the group's risk appetite statement, management information detailing the group's exposures to financial and operational risks, and other matters such as the nature of reports made under the group's whistleblowing policy. At each meeting, the Committee also receives a detailed report on key conduct risk matters and an assessment of the overall profile of conduct risks for the group.

Focused business and risk reviews

Time is allocated at each Committee meeting to carry out a focused 'deep dive' review of a particular risk area. The purpose of these reviews is to enable Committee members to examine the risk profile of the core business lines and to consider the robustness of the frameworks in place to manage the key risk exposures. The table below gives examples of some of the key reviews that took place during the year:

Longevity risk – a review of the group's approach to assessing and pricing for longevity and the use of risk syndication techniques within the group's overall approach to managing longevity risk
Cofunds business – a review of the risks implicit in the platform business and the approaches by business management to ensuring risks are managed within appropriate tolerances
Interest rate, inflation, currency risks – consideration of the group's approaches to managing these risks in the context of asset liability management
Credit risk – developments in the group's approach to controlling exposures to credit risk with specific focus on bond portfolios
Liquidity risk – consideration of the group's liquidity risk management framework
LGIM business – the risk profile of LGIM's wholesale business and the management of new risks presented through its growth strategy

Risk appetite

The July meeting of the Committee undertook a detailed review of the operation of the group's risk appetite framework and the key measures and tolerances used within the framework, recommending a number of refinements to the group Board. In December, the Committee considered the risk profile of the group's strategic plan and its alignment with the group's overall risk appetite.

Risk-based capital model

The Committee has reviewed throughout the year different aspects of the group's risk-based capital model, which is used to determine the economic capital requirements for the group and forms the calculation engine for the group's Solvency II internal model. This has included the review of the key assumptions and methodologies as well as the outputs of the model itself. These reviews enabled the Committee to approve the group's Solvency II internal model application prior to its submission to the Prudential Regulatory Authority ('PRA').

Own risk and solvency assessment (ORSA)

The ORSA is an ongoing assessment of the risks to which Legal & General is exposed and an evaluation of the sufficiency of resources to sustain the business strategy over the plan horizon. Over the course of the year the Committee considered different aspects of the group's ORSA process.

Activities have included the review of proposed stress tests and scenarios to be used in the evaluation of capital adequacy, the profile of risks within the group's strategic plan and how they may change over the planning period, and the group's overall capacity to bear the risks identified. A formal ORSA report is subject to annual review by the Committee prior to formal approval of the group Board.

Risk governance

Sound frameworks of risk management and internal control are essential in the management of risks which may impact the fulfilment of the company's strategic objectives. During the year, the Committee has received updates on the continued development of our risk governance framework.

Directors' report on remuneration – introduction

RUDY MARKHAM
Chairman of the Remuneration Committee

Our remuneration report is organised into the following sections

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

Letter from the Chairman

Dear Shareholder

I am pleased to present our report on director's remuneration for 2015.

In this year's report, we are including a new 'at a glance' summary of the Group's remuneration arrangements, highlighting key aspects of the Group's performance, along with the associated achievement and reward for the Executive team.

Our full remuneration policy, as approved by Shareholders on 21 May 2014 remains unchanged and can be found on; www.legalandgeneralgroup.com/reporting-centre/supplements

Our remuneration landscape

The Group achievements in 2015 built on the strong results achieved in recent years. Over the longer term, the Group has created substantial value for shareholders, as shown in our 'at a glance' section on page 70. The Group total shareholder return (TSR) has outperformed the FTSE100 and the bespoke Insurance comparator group over the last three years. For this reason, the alignment of key measures of performance for both executive team annual variable pay (AVP), and long-term performance share plan (PSP) incentive arrangements, remained similar to the previous year, but with performance stretch added for 2015 on both financial and non-financial targets.

During 2015, the executive team remained focused on delivering the strategy using the group's core capabilities of asset management, retirement and insurance derisking to shape business dialogue on urban regeneration, welfare reform, infrastructure investment, with a particular focus on housing in the UK.

The regulatory and governance demands continued to increase in recent years, with the UK Corporate Governance code including new provisions on malus and clawback, which we have incorporated in our respective variable pay and share plans. In line with the Solvency II regime for insurers, which came into effect on 1 January 2016, we have updated some of our remuneration practices to ensure we continue to comply with the relevant remuneration obligations.

Policy implementation 2015

The financial performance, measured by the key business performance indicators, is outlined elsewhere in the annual report (pages 36–40). As mentioned, Legal & General delivered strong financial performance during 2015, some of the relevant indicators for remuneration targets include: operating profit up 14% on 2014; operating cash of £1,217m; a 11% increase in earnings per share; and a full year dividend of 13.40pence.

The Committee considered both financial performance and personal achievements against pre-determined targets, and the strategic plan, in determining the Executive Directors incentive awards in respect of 2015.

Annual variable pay (AVP)

For performance in 2015, the Committee approved awards for the executive directors of between 84% and 91% of maximum to reflect the financial performance of the group, and the LGIM Division. The personal performance of each of the executive directors was between 70% and 97% of maximum. 50% of the total award is deferred into shares for a three-year period.

Performance share plan (PSP)

Legal & General's total shareholder return performance over the three-year period to April 2015, resulted in the long-term incentive award, the performance share plan (PSP) granted in 2012, vesting in May 2015. The Committee concluded that the performance conditions were met and therefore the award vested in full. A detailed description of the performance assessment can be found on page 77 of the annual report.

At the AGM in May 2015, John Pollock (previous CEO LGAS) stood down from the Group Board and retired from the Company at the end of May. In line with the approved payments for loss of office policy, a copy of which is included on page 72, John was treated as a 'good leaver' for the purposes of incentive awards outstanding. Details relating to John's retirement can be found in the report on page 87. Also in May, Lindsay Tomlinson stood down from the Remuneration Committee to concentrate on his non-executive director role in LGIM, and I would like to thank him for his contribution over the last few years.

Current plans for 2016

During 2016, the Committee will be reviewing the remuneration policy to ensure it remains appropriate and aligned with the Group strategy. This review will reflect shifts in the balance of Legal & General as a global asset manager and insurance business. This review may consider the relative weightings of base salary, annual and long-term incentives across total compensation. Dependent on the outcome of the review, it is likely that the Committee will engage with shareholders during 2016 if any changes are required. This development and consultation activity is in preparation for the May 2017 AGM when we will again propose to shareholders a binding vote on Legal & General's new remuneration policy.

Base salary increase for employees

Across the UK employee population the base salary increment was on average 2.8%.

Base salary increases for executive directors

Nigel Wilson will receive an increase of 3% in line with the average employee increment. Mark Gregory will receive a salary increment of 2.6%.

Following a review of Mark Zinkula's remuneration arrangements, taking into consideration Mark's performance in the role since he was appointed as Executive Director, and given the increased responsibilities of Mark's role over the past year, including:

- the increasing importance of LGIM with the Group in line with its journey to be a global asset manager;
- having taken on responsibility for the Workplace pensions business following John Pollock's retirement; and
- the expansion of LGIM into Asia,

the Remuneration Committee considered it appropriate to increase Mark Zinkula's salary to £610,000 (an increase of c. 6%).

I hope that you will find this report a clear account of the Committee's implementation of the directors' remuneration policy during 2015. The committee is committed to an ongoing dialogue with shareholders regarding executive remuneration and I look forward to your continuing support for the Company's remuneration arrangements.

Rudy Markham
Chairman of the Remuneration Committee

At a glance

Our performance

Financial measures used for Annual Variable Pay (AVP)

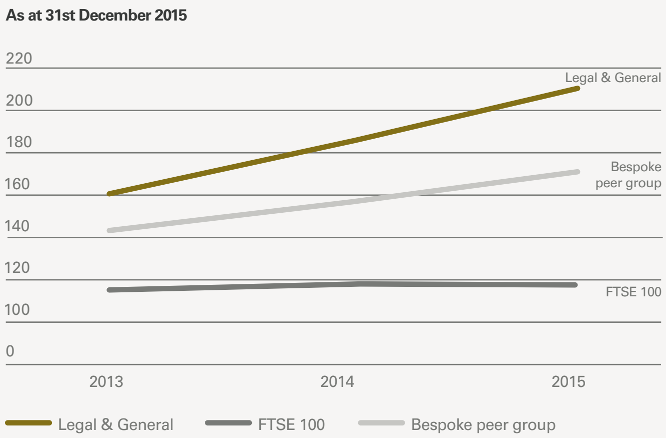
The performance measures below accounted for 40–80% of AVP performance assessment for our Executive Directors for their 2015 AVP award.

Performance measure	2015	Target	Maximum	% of target achieved	% of maximum achieved	Further information
Operating cash	£1,217m	£1,180m	£1,205m	103%	101%	p36
Operating profit	£1,455m	£1,382m	£1,410m	105%	103%	p38
Net cash	£1,256m	£1,177m	£1,210m	107%	104%	p36
Adjusted profit before tax (PBT)	£1,365m	£1,365m	£1,405m	99%	96%	
Group expenses	£1,130m	£1,150m	£1,130m	102%	100%	

Total shareholder return (TSR)

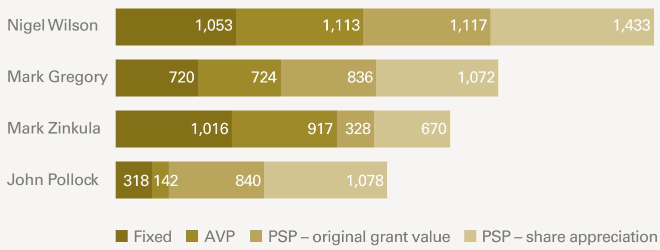
Vesting of 2012 performance share plan awards (PSP) was determined by reference to TSR of the FTSE 100 and the bespoke comparator group over a three-year performance period. The accompanying chart below sets out long-term TSR performance over the past three years.

The 2012 PSP award vested in full in May 2015 as L&G's TSR exceeded the 80th percentile of the FTSE 100 and the bespoke comparator group over the three year period.



How much our executive directors earned in 2015

	Fixed	AVP	PSP – original grant value	PSP – share appreciation
Nigel Wilson	1,053	1,113	1,117	1,433
Mark Gregory	720	724	836	1,072
Mark Zinkula	1,016	917	328	670
John Pollock	318	142	840	1,078



The fixed element for Mark Zinkula includes an international allowance relating to the US aspect of his role and some legacy housing assistance which concludes in 2016.

John Pollock retired from Legal & General on 31 May 2015.

How we will implement our remuneration policy in 2016

The table below sets out a high level summary of our Directors' Remuneration Policy (the 'Policy'), which was approved at our 2014 Annual General Meeting, as well as how that policy will be implemented in 2016. Full details of the approved Policy can be found in our Remuneration Policy supplement, which can be found on our Corporate Reporting Centre.
www.legalandgeneralgroup.com/reporting-centre/supplements

Key elements	2016	2017	2018	2019	2020	2021	Current policy Commentary	Implementation for 2016
Salary							Normally reviewed annually effective from 1 March each year	• Nigel Wilson – salary = £886,000 p.a. • Mark Gregory – salary = £590,000 p.a. • Mark Zinkula – salary = £610,000 p.a.
AVP							• For the CEO and CFO 80% financial and 20% strategic and personal objectives • For the CEO, LGIM the group financial element is reduced to 40%, with the remaining 40% determined by divisional performance and 20% strategic and personal objectives • One year performance • 50% cash, 50% L&G shares deferred (three years)	• Nigel Wilson – maximum opportunity 150% of salary • Mark Gregory – maximum opportunity 150% of salary • Mark Zinkula maximum opportunity 175% of salary
PSP							• Three-year performance period, with shares released in three equal tranches following the start of third, fourth and fifth anniversaries of the start of the performance period • For awards made in 2016, performance will be measured against: – A performance matrix of EPS and dividend per share growth, subject to a RoE underpin (50% of award). Threshold vesting requires growth rates of 5% for both measures; and achievement of ROE underpin of 12% – Relative TSR against FTSE 100 (25% of award) and bespoke group of insurance companies (25% of award). Threshold vesting at median TSR performance • Maximum award of 300% of salary	• 250% of salary for Nigel Wilson and Mark Zinkula • No award for Mark Gregory given his announced retirement

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

Shareholdings against guidelines

	Actual share ownership as % of 2015 base salary: vested shares	New guidelines on share ownership as a % of base salary	Guideline met
Nigel Wilson	996%	300%	Yes
Mark Gregory	1,052%	200%	Yes
Mark Zinkula – became an executive director in 2012	258%	200%	Yes
John Pollock – based on holding to date of retirement from the Board	3,343%	200%	Yes

Remuneration policy summary

FURTHER DETAIL
Detailed information can be found in our Remuneration Policy supplelment. Please visit:
www.legalandgeneralgroup.com/reporting-centre/supplements

"As noted in 'At a glance' our directors' Remuneration Policy (the Policy) was approved at our 2014 Annual General Meeting on 21 May 2014. The full Policy is set out in our Remuneration Policy supplement."

Overview of policy on payment for loss of office (relevant for John Pollock)

STANDARD PROVISION	POLICY AND OTHER PROVISIONS
Treatment of outstanding incentive award	Rights to annual variable pay, deferred annual variable pay awards and performance share awards are governed by their respective plan rules. **Annual variable pay** There is no automatic entitlement to an annual bonus in the year of cessation of employment. However, for a 'good leaver', the Committee may determine that an executive director will receive a pro-rata bonus in respect of the period of employment during the year of cessation based on an assessment of group and personal performance. **Deferred annual variable pay awards (awards made in relation to 2014 onwards)** In the event that a participant is a 'good leaver', any outstanding unvested deferred annual variable pay award will normally be released at the normal time. Where it considers it appropriate, for example in the circumstances of terminal illness, the Committee reserves the right to accelerate any payment due. 'Good leaver' circumstances are leaving due to circumstances such as death, disability, ill-health or injury, redundancy, retirement with company agreement, employing company/business ceasing to be part of the group, a transfer of the undertaking in which the participant's employment transfers to a company which is not a member of the group, or other circumstances at the Committee's discretion. For all other leavers outstanding unvested awards lapse. **PSP (awards made from 2014 onwards)** In the event that a participant is a 'good leaver', any outstanding unvested PSP award will normally be pro-rated for service from the start of the performance period to cessation and will vest based on performance to the end of the performance period. Awards will usually be released at the normal time. Where it considers it appropriate, for example in the case of terminal illness, the Committee reserves the right to accelerate any payment due. 'Good leaver' circumstances are leaving due to death, disability, ill-health or injury, redundancy, retirement with company agreement, employing company/business ceasing to be part of the group, a transfer of the undertaking in which the participant's employment transfers to a company which is not a member of the group, or any other reason at the discretion of the Committee. For all other leavers, outstanding unvested awards lapse. **Legacy PSP awards** For 'good leavers', in line with the plan rules, awards made prior to 2014 will be performance tested at the date of leaving and, to the extent that performance conditions are met, the award will vest on a pro-rata basis, based on service within the performance period. 'Good leaver' circumstances are leaving due to death, disability, ill-health, redundancy, retirement with company agreement, employing company/business ceasing to be part of the group, a transfer of the undertaking in which the participant's employment transfers to a company which is not a member of the group, or any other reason at the discretion of the Committee. For all other leavers outstanding unvested awards lapse.

Annual report on remuneration

This section sets out how Legal & General's policy was implemented in 2015, and how it will be implemented in 2016. The annual report on remuneration will be subject to an advisory shareholder vote at the annual general meeting on 25 May 2016.

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

The following table shows a single total figure of remuneration for each executive director in respect of qualifying services for the 2015 financial year, together with a comparative figure for 2014.

Single figure

Executive director	Salary	Benefits (b)	Pension	Annual variable pay (AVP)	Total remuneration exc. PSP/LTIPs	PSP/LTIPs	Total remuneration
2015							
Nigel Wilson	853	72	128	1,113	2,166	2,550	4,716
Mark Gregory	573	57	90	724	1,443	1,908	3,352
Mark Zinkula	573	358	86	917	1,933	998	2,931
John Pollock (up to 21 May 2015)	233	45	40	142	460	1,918	2,378
2014							
Nigel Wilson	808	80	121	1,115	2,124	2,089	4,213
Mark Gregory	560	66	90	726	1,442	1,519	2,961
Mark Zinkula (a)	560	840	88	766	2,254	1,026	3,280
John Pollock	560	69	150	713	1,492	1,563	3,055

Notes

(a) Mark Zinkula's benefits for 2014 include the vesting of shares relating to a legacy award from when he became CEO LGIM and prior to him joining the Board. For 2014, this accounts for £431,000 of the benefits figure shown above (restated: previously £418,000 disclosed).

Components of the single figure

Salary (audited)

Name	Annual base salary as at 1 January 2015	Annual base salary effective 1 March 2015	Total base salary paid in 2015
Nigel Wilson	820,000	860,000	853,333
Mark Gregory	560,000	575,000	572,500
Mark Zinkula	560,000	575,000	572,500
John Pollock	560,000	560,000	233,333

Benefits (audited)

Benefits include the elements shown in the table below.

Executive director	Car and PMI £'000	Dividends £'000	Discount SAYE and matching shares £'000	Awards made prior to joining the Board £'000	International allowance £'000	Total benefits £'000
2015						
Nigel Wilson	20	51	1	0	0	72
Mark Gregory	20	36	1	0	0	57
Mark Zinkula	30	51	0	0	277	358
John Pollock (up to May 2015)	8	34	3	0	0	45
2014						
Nigel Wilson	20	59	1	0	0	80
Mark Gregory	20	41	5	0	0	66
Mark Zinkula	31	51	0	431	327	840
John Pollock	20	48	1	0	0	69

The international allowance for Mark Zinkula includes allowances for housing, schooling, flights and associated tax advice resulting from his relocation to the UK. In 2014, a share award made to Mark Zinkula on appointment as the CEO LGIM but made prior to his appointment to the Board vested.

Pension (audited)

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

For defined benefit arrangements, of which John Pollock was a member, the value is based on the HMRC formula for assessing the annual and lifetime allowance limits (i.e. 20 times the post inflation benefit for defined benefit provisions or for the defined contribution pensions the employer defined contributions as set out below).

Executive director	Cash in lieu £000	Defined benefit £000	Defined contribution £000	Other/overseas Pension £000	Total pension £000
2015					
Nigel Wilson	128	0	0	0	128
Mark Gregory (a)	86	4	0	0	90
Mark Zinkula	86	0	0	0	86
John Pollock (up to May 2015)	51	(11)	0	0	40
2014					
Nigel Wilson	121	0	0	0	121
Mark Gregory	80	5	5	0	90
Mark Zinkula	84	0	0	4	88
John Pollock	123	27	0	0	150

(a) Prior to April 2014, Mark Gregory received a pension contribution into a defined contribution plan up to the annual allowance. Any balance above the annual allowance was paid as a cash allowance. From 1 April 2014, Mark elected to opt out of the defined contribution plan and receives a cash allowance.

Further pension information (audited)

Executive director	Age at 31 December 2015	Accrued DB pension at 31 Dec 2015 £000	Normal retirement date	Additional value of pension on early retirement
Nigel Wilson	59	0	Age 65	0
Mark Gregory	52	41	Age 60 in DB plan and age 65 in DC plan	0
Mark Zinkula	48	0	Age 65	0
John Pollock	57	199	Age 60	0

2015 annual variable pay (AVP) awards (audited)

This reflects the total AVP awards to be paid in 2016 based on performance in the year ended 31 December 2015. The value includes both the cash element and the portion deferred into shares (50% of the award).

The executive directors' AVP awards in relation to performance during 2015 were measured against a basket of metrics and objectives. For Nigel Wilson and Mark Gregory, they were weighted between group financial objectives (80%) and other strategic personal objectives (20%). For Mark Zinkula they were weighted between group financial objectives (40%), divisional objectives (40%) and other strategic personal objectives (20%).

Group financial – achievement

For 2015, AVP pay-outs as a percentage of the maximum were: Nigel Wilson 86%, Mark Gregory 84%, and Mark Zinkula 91%. The tables below illustrate performance against each of the measures.

	Weightings (as % of total AVP opportunity)			Achieved as a % of maximum				
Performance measure	Nigel Wilson	Mark Gregory	Mark Zinkula	Threshold	Target	Maximum (100%)	Actual	Payout % of maximum
Operating cash	10%	10%	5%	£1,135m	£1,180m	£1,205m	**£1,217m**	100%
Operating profit	15%	15%	7.5%	£1,270m	£1,382m	£1,410m	**£1,455m**	100%
Net cash	15%	15%	7.5%	£1,120m	£1,177m	£1,210m	**£1,256m**	100%
Adjusted profit before tax	20%	20%	10%	£1,220m	£1,365m	£1,405m	**£1,365m**	50%
Group expenses	20%	20%	10%	£1,190m	£1,150m	£1,130m	**£1,130m**	100%

Key:

Actual achievement

Divisional performance – achievement

Divisional objective maximum 40% of total AVP opportunity. For the LGIM division Mark has three key measures – LGIM profit before tax, cost income ratio, and the annualised revenue for our LGIM international business. The actual targets have not been disclosed for reasons of commercial sensitivity as LGIM is a subsidiary of the group's operations but performance commentary is given in the table below.

Executive Director	Divisional Measures	Key achievements in the year	Payout (% of maximum)
Mark Zinkula	LGIM Key measures include LGIM PBT, cost income ratio, net revenues non UK	Key highlights for 2015 include: • Operating profit of £355m, 11% higher than 2014, while maintaining a cost: income ratio below 50% • Net inflows of $38bn with positive flows in all business lines and geographic regions • Strong growth in LDI and multi-asset solutions, active fixed income and real assets	89.5%

Strategic personal performance – achievement

Personal objectives maximum 20% of total AVP opportunity

Executive director	Overview	Key achievements in the year	Payout (% of maximum)
Nigel Wilson	For 2015, Nigel's objectives were: Customer and business leadership, building key strategic relationships with customers and positioning Legal & General in the wider business, regulatory and broader community. Colleague & Talent Engagement across the group.	2015 has been a strong year for Nigel, he participated actively in promoting the organisation and its capabilities, including: • Significant LGIM, LGR and LGC transactions and the successful on boarding of substantial workplace savings customers, with excellent feedback across multiple sectors. • He continued to build his external influence with the business community, government advisors, and wider media, to promote not only outcomes that are "socially and economically good", but in line with business strategic direction. • Promoting talent programmes including 50/50 by 20/20 our approach to diversity.	81.3%
Mark Gregory	Mark's objectives focused on delivering effective management of the group's capital, achieving readiness for Solvency II regime, disposal of non-core subsidiaries and further upgrading the finance function.	• Increase in the group's Capital Return on Equity to 17.7%. • Approved by the PRA of all Legal & General's applications in respect of Solvency II. • Pro-forma Solvency II surplus of £5.5bn as at 31.12.15. • Disposal of our French, Egyptian, Gulf and Irish subsidiaries as well as Suffolk Life in January 2016. • £80m of cost savings achieved in 2015.	69.5%
Mark Zinkula	Mark's objectives focused on fund performance, building defined contribution (DC) and defined benefit (DB) businesses, building a broader non-UK-based LGIM organisation and personal leadership of the LGIM business.	• Continued growth of defined benefit (DB) business, with over 40% share of LDI market • Significant growth of defined contribution (DC) business, winning mandates that will increase our customer base by approximately 50%, from 1.4 million customers at the start of the year to over 2 million with the new mandate • Successful transfer of the Workplace Savings business to LGIM • Repositioning the unit trust business to achieve record inflows during the year • Excellent progress expanding LGIM's business internationally, with positive net flows and key new client wins in all regions • Extensive support of the LGR business and LGC business	96.7%

The divisional targets are considered by the Board to be commercially sensitive as this information is not formally disclosed in the annual report and accounts and will not be disclosed this year or in a future remuneration report.

Risk consideration

The Committee reviewed a comprehensive report from the chief risk officer to ascertain that the executive directors' objectives had been fulfilled within the risk appetite of the group. In addition, the Committee received feedback from the Group Regulatory Risk and Compliance function and from the Group Legal Counsel that there were no material issues to consider around regulatory breaches, customer outcomes or litigation that would prevent payment of any AVP award or trigger any malus. The Committee was satisfied that the AVP awards should be paid.

For 2014, AVP pay-outs as a percentage of the maximum were: Nigel Wilson 91%; Mark Gregory 86%; Mark Zinkula 78% and John Pollock 85%.

Deferral policy

In line with our policy, 50% of all 2015 AVP awards were deferred for three years into nil cost options, subject to continued employment and clawback/malus provisions.

Executive director	Cash bonus	Deferred bonus	Total bonus
Nigel Wilson	£556,313	£556,313	£1,112,625
Mark Gregory	£361,819	£361,819	£723,638
Mark Zinkula	£458,515	£458,515	£917,030
John Pollock	£71,094	£71,094	£142,188

Performance share plan (PSP) awards

Details of how the 2012 PSP award vested (audited)

The 2012 PSP award vested in full in May 2015 as Legal & General's TSR exceeded the 80th percentile of the FTSE 100 and the bespoke comparator group over the three-year performance period.

In line with policy, the Committee carefully reviewed the company's underlying performance over the performance period. The review included considerations of partnerships entered into and maintained, cost management, capital management and risk. The Committee felt the company performance had been strong over the period and saw no reason not to allow the PSP to vest in accordance with the TSR out-turn.

The results are shown below:

Grant date	Performance period	Comparator group	Legal & General's TSR	Comparator group median rank	Comparator group 80th percentile TSR performance	Legal & General's notional rank	% of award vesting against comparator group	Percentage of total award vesting
24 April 2012	24 April 2012 to 23 April 2015	FTSE 100	156.90%	48.5/96	19.7/96	6.6	100%	100%
		Bespoke comparator group		10.5/20	4.5/20	1.7	100%	

The values included in the single figure table are calculated by multiplying the number of shares vesting on 8 May 2015 by the share price on 8 May 2015 of £2.690. For 2014, 100% of the maximum PSP awards granted to the executives in 2011 vested.

LGIM LTIP Award – LGIM long-term incentive plan (LGIM LTIP) awards

Between March 2010 and March 2012, Mark Zinkula was granted LGIM LTIP awards as part of his remuneration as CEO LGIMA and CEO LGIM. Following his appointment as an executive director, Mark receives no further awards under this plan. Under the LGIM LTIP, annual awards of notional shares in LGIM are granted to participants. The vesting of these notional shares is subject to the satisfaction of the cumulative growth in PBT condition over the three-year performance period. The value of the notional LGIM shares is delivered in cash after the end of the three-year performance period. Actual targets have not been disclosed due to commercial sensitivity. The table below shows the outcome of his 2012 award, circa. 38% vested in 2015.

Executive director	Grant date	% of base salary	No. of notional shares at award	Face value at award £000	Notional share price at award £	Value at date of vest (figure shown in single figure of remuneration) £000	Notional share price at time of vest £
Mark Zinkula	1 March 2012	120%	89,821	492	5.48	249	7.30

For 2014, 61% of the maximum LGIM LTIP awards granted to Mark Zinkula in 2011 vested.

This is the final payment due to Mark Zinkula under this plan.

Scheme interests awarded during the financial year (audited)

The following table sets out details of awards made under the 2014 PSP in 2015.

	Type of award	Basis of award (% of salary and face value)	% of award vesting for threshold performance	% of award vesting for maximum performance	Performance/ holding period
Nigel Wilson	Nil-cost options	250% of salary £2,050,000[1]	15%	100%	1 January 2015 to 31 December 2017. Awards are also subject to a holding period, such that awards are released in equal tranches in years 3, 4 and 5 from the start of the performance period.
Mark Gregory	Nil-cost options	250% of salary £1,400,000[1]	15%	100%	
Mark Zinkula	Nil-cost options	250% of salary £1,400,000[1]	15%	100%	

1. The number of shares awarded is calculated based on the average share price for the five days preceding the grant which was £2.8474.

No awards were made to John Pollock under the Performance Share Plan in 2015.

Awards were also made during the year under the share bonus plan in respect of performance for 2014, in line with our policy 50% of all 2014 AVP awards were deferred into shares for three years, subject to malus provisions. The amounts deferred in respect of the 2015 bonus are set out in the deferral policy section.

Performance conditions for PSP awards granted in 2015 (audited)

Financial performance condition (50% of the 2015 award)

50% of the award will vest based on performance against the following matrix of earnings per share and dividends per share growth, subject to achieving a return on equity underpin whereby return on equity must be at least 12% over the performance period.

		Dividends per share growth (% p.a.)										
		<5	5	6	7	8	9	10	11	12	13	14
Earnings per share growth (% p.a.)	<5	0	0	0	0	0	0	0	0	0	0	0
	5	0	15	25	35	45	55	65	75	85	95	100
	6	0	25	35	45	55	65	75	85	95	100	
	7	0	35	45	55	65	75	85	95	100		
	8	0	45	55	65	75	85	95	100			
	9	0	55	65	75	85	95	100				
	10	0	65	75	85	95	100					
	11	0	75	85	95	100						
	12	0	85	95	100							
	13	0	95	100								
	14	0	100									

The vesting levels between stated points on the matrix will be calculated on a straight line basis.

TSR performance condition (50% of the 2015 award)

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

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

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

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

At the end of the three-year performance period, the Committee will critically assess whether the formulaic vesting outcome produced by the matrix is justified. To do this, the Committee will look at a number of factors including: whether the result is reflective of underlying performance and has been achieved within the company's agreed risk appetite; the quality of earnings and the nature of any changes in leverage; key assumptions; dividend cover and behaviours, etc. If such considerations mean that the formulaic outcome of the vesting schedule is not felt to be justified, then the Committee can exercise downwards discretion.

This is the only information required to be disclosed by LR9.8.4R.

Statement of directors' shareholding and share interests
Shareholding guidelines (audited)

The group chief executive is expected to build a shareholding of 300% of base salary and the other executive directors 200% of base salary. The table below shows shareholding levels as at 31 December 2015.

	Actual share ownership as % of 2016 base salary: vested shares[1]	New guidelines on share ownership as a % of base salary[2]	Guideline met	Shares owned at 1 January 2015	Shares owned at 31 December 2015	Shares sold or acquired during the period 1 January 2016 and 11 March 2016
Nigel Wilson	996%	300%	Yes	2,908,234	3,294,171	154,876
Mark Gregory	1,052%	200%	Yes	1,886,312	2,316,917	271
Mark Zinkula[2]	258%	200%	Yes	402,259	588,550	0
John Pollock	3,343%	200%	Yes	2,119,707	2,912,698	0

1. Closing share price as at 31 December 2015: £2.678.
2. Mark Zinkula joined the Board on 1 September 2012.

Notes
Shares used for the above calculation exclude those with performance conditions, any unexercised options, those shares subject to a period of deferral and any shares held in a private trust where the executive director is not a trustee. They include vested shares where the executive director has beneficial ownership, shares independently acquired in the market and those held by a spouse or civil partner or dependent child under the age of 18 years.

Although the share ownership guidelines are not contractually binding, executive directors are normally expected to retain any after tax vested share awards until the guideline is met. The Committee retains the discretion to withhold future grants under the PSP if executives are not making satisfactory progress against the guidelines. Once shareholding requirements have been met, executive directors may sell surplus shares if they wish. The Committee has discretion to allow executive directors to sell shares prior to the shareholding requirements being met if there are extenuating circumstances for example, changes to personal circumstances.

Share options exercised during 2015 (audited)

The following table shows all share options exercised by the executive directors during 2015.

Executive director	Type of option	Date of grant	Shares exercised	Exercise date	Share price at date of exercise £	Gain £
Nigel Wilson	PSP nil cost	24 April 2012	947,949	8 May 2015	2.69	2,549,983
Mark Gregory	PSP nil cost	24 April 2012	709,476	11 August 2015	2.738	1,942,545
Mark Zinkula	PSP nil cost	24 April 2012	278,359	8 May 2015	2.69	748,786
John Pollock	PSP nil cost	24 April 2012	712,871	8 May 2015	2.69	1,917,623
	PSP nil cost	17 April 2013	386,832	1 June 2015	2.624	1,015,047
	CSOP	15 April 2014	14,184	1 June 2015	2.624	7,220
	SAYE	10 April 2013	5,514	9 November 2015	2.669	7,218

Statement of implementation of remuneration policy in 2016
Salary

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

Name	Annual base salary as at 31 December 2015	Annual base salary effective 1 March 2016	% increase
Nigel Wilson	860,000	886,000	3.0%
Mark Gregory	575,000	590,000	2.6%
Mark Zinkula	575,000	610,000	6.1%

Nigel Wilson will receive a salary increase of circa 3% and Mark Gregory will receive a salary increase of circa 2.6% which are in line with the average salary increment across the Group.

Following a review of Mark Zinkula's remuneration arrangements, and taking into consideration Mark's performance in role since he was appointed as an Executive Director and given the increased responsibilities of Mark's role over the past year, including: the increasing importance of LGIM within the Group in line with its journey to be a global asset manager; having taken on responsibility for the Workplace pensions business; and the expansion of the LGIM into Asia, the Remuneration Committee considered it appropriate to increase Mark Zinkula's salary to £610,000 (an increase of c. 6%).

Benefits for 2016

Benefits for 2016 to be in line with policy.

Annual variable pay potential (AVP) 2016

In line with our policy, for 2016 the target and maximum AVP opportunities for our executive directors will be:

	Target opportunity (% of salary)	Maximum opportunity (% of salary)
Nigel Wilson	75%	150%
Mark Gregory	75%	150%
Mark Zinkula	105%	175%

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

Performance share plan (PSP) 2016

For 2016, Nigel Wilson and Mark Zinkula will be granted an award over nil-cost options with a face value of 250% of base salary.

Having considered the business plan over the coming three years and market expectations of performance, given the level of stretch within the financial and TSR performance conditions used for the 2015 award, the Committee considered it appropriate to use the same performance conditions for the 2016 award. These may be reviewed as part of the remuneration policy review undertaken during 2016.

See 'Performance conditions for PSP awards granted in 2015' for further details.

Non-executive directors' remuneration – 2015 (audited)

The table below shows the current fee structure and actual fees paid in 2015. The current aggregate limit for fees paid to NEDs is £1,500,000 p.a.

£000s	Base	Committee fee*	Committee Chairman	SID	Total fee 2015	Actual fee 2015[1]	Benefits 2015[2]	Actual fee 2014[1]	Benefits 2014[2]
John Stewart (Chairman) N CG	340	0	0	0	340	340	0	341	1
Carolyn Bradley N R	65	0	0	0	65	65	0	5	0
Rudy Markham N R Ri CG	65	10	30	20	125	127	0	115	0
Richard Meddings N R Ri A CG	65	10	30	0	105	97	0	6	0
Stuart Popham N R Ri	65	10	0	0	75	75	0	75	0
Olaf Swantee A N	65	0	0	0	65	65	0	27	0
Lindsay Tomlinson[3] A N R Ri	65	10	30	0	105	94	0	130	0
Julia Wilson A N Ri CG	65	10	30	0	105	105	0	105	0
Lizabeth Zlatkus A N Ri	65	10	0	0	75	84	9	74	2

Key:
NED committee membership:
A = Audit
N = Nominations
R = Remuneration
Ri = Risk
CG = Corporate Governance
* If sitting on two or more committees, excluding Nominations Committee.
Notes
1. Benefits are included in the actual fee totals.
2. Benefits represent expenses incurred in the performance of non-executive duties for the company that have been reimbursed or paid for directly by the company.
3. Lindsay Tomlinson stepped down as a Group NED on 21 May 2015. He continues to sit on the Board of LGIM for which he receives an annual fee of £50,000. This is included in his actual fees for 2015.

Shareholding requirements (audited)

NEDs are required to build up a shareholding equivalent to one times base fee. The table below shows their shareholding as at 2 January 2016, taking into account share purchases in relation to December 2015 fees, purchased on 2 January 2016.

Name	Shareholding as at 2 January 2016	Holding as a % of base fee	Met criteria of 1 x base fee	Shares purchased from 2 January 2015 to 11 March 2016
John Stewart	353,367	278%	Yes	6,558
Carolyn Bradley	7,698	32%	On-target	1,311
Rudy Markham	265,628	1094%	Yes	2,622
Richard Meddings	10,901	45%	On-target	2,127
Stuart Popham	60,002	247%	Yes	1,384
Olaf Swantee	17,545	72%	On-target	1,312
Lindsay Tomlinson	25,433	105%	Yes	0
Julia Wilson	33,078	136%	Yes	0
Lizabeth Zlatkus	17,832	73%	On-target	1,516

Statement of implementation of remuneration policy in 2016 – non-executive directors

The fee policy for the non-executive directors remains unchanged for 2016.

The chairman's fee will remain unchanged given his intention to retire from the Board during 2016.

Remuneration Committee

The table below shows the members and attendees of the Remuneration Committee during 2015.

Committee Members, attendees and advice

Meetings in 2015

During 2015, the Committee met six times and in addition had ongoing dialogue via email or telephone discussion. An outline of the Committee undertakings during 2015 are shown in the table below.

Regular meetings were held to review and discuss AVP awards in relation to performance in 2015, base salary adjustments for 2016 and budgets for the Group 2016 pay review. The Committee also met a number of times to discuss the review of the executive directors' remuneration structure undertaken at the beginning of 2015.

Members: during 2015 the Remuneration Committee was made up of the following NEDs:

Name	Number of Remuneration Committee meetings during 2014
Rudy Markham	6 / 6
Stuart Popham	5 / 6
Lindsay Tomlinson (until May)	2 / 2
Richard Meddings	6 / 6
Carolyn Bradley	6 / 6

COMMITTEE UNDERTAKINGS

Quarter	Governance	Performance	Implementation of policy	Regulatory
First	• Malus and clawback provisions were noted and approved	• Approved 2014 staff annual pay review awards and executive pay awards • Reviewed and approved the performance matrix for 2015 long-term incentive (PSP)	• Approved long-term incentive awards PSP/ LGIM LTIP	
Second	• Reviewed 2014 annual general meeting season, shareholder voting and engagement strategy		• Review of 2014 performance management outputs	• Professional update session on key regulatory trends in executive remuneration • Reviewed Solvency II readiness
Third	• Save as you earn (SAYE) invitation was noted and approved • Approval of malus and clawback operational process	• Financial update and indicative annual variable pay update for executive teams		• The code staff list was noted and approved
Fourth	• Approved US deferral on share bonus plan and PSP	• Noted 2016 measures and targets for executive directors • Approved base pay and variable pay budgets for 2015 performance year		• Approved 2015 Remuneration policy statement

At the invitation of the Remuneration Committee, the group Chairman, John Stewart, attends Committee meetings. Where appropriate, the group chief executive, Nigel Wilson; and the group HR director; group talent, reward and performance director; and group chief risk officer also attend meetings. No person is present during any discussion relating to his or her own remuneration.

At the invitation of the Remuneration Committee, a representative from Deloitte LLP also attends Committee meetings. During 2015, Deloitte principally advised the Committee on external developments affecting remuneration as well as specific matters raised by the Remuneration Committee. Deloitte were appointed by the Committee. It is the view of the Committee that the Deloitte LLP engagement team that provide remuneration advice to the Committee are independent. Deloitte are signatories to the remuneration consultants' group code of conduct in relation to executive remuneration consulting in the UK. The total fees paid to Deloitte in relation to Remuneration Committee work during 2015 were £118,000 (excluding VAT). While fee estimates are required for bespoke pieces of work, fees are generally charged based on time with hourly rates in line with the level of expertise and seniority of the adviser concerned. During the year, Deloitte also provided the Company with international tax advice, other consulting services and real estate advice.

Terms of reference

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

The Committee particularly focuses on:

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

Considering risk

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

Reward steering committee (RSC)

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

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

Group regulatory risk and compliance function

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

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

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

Engagement with shareholders

The Committee seeks to maintain an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and any changes to the company's executive pay arrangements. During early 2014, the Remuneration Committee sought the views of the group's major shareholders on the proposed changes to executive remuneration arrangements for 2014 onwards. Following the strong support received from shareholders at both individual meetings and at the AGM, the Committee considered it appropriate to enact the proposed changes to the policy during 2014. No changes in the overall remuneration policy were made in 2015, nor are any proposed in 2016. The Committee will review the current remuneration policy during 2016 to ensure it remains supportive of the group strategy going forward as the current policy is due to expire at the 2017 AGM. The Committee will engage with the group's major share-holders if any substantial changes in policy are considered appropriate.

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

The table below shows the voting outcomes on the Directors' Remuneration Policy and Directors' Remuneration Report at the last AGM in May 2015.

Item	For %	Against	Abstain Number
2014 remuneration report	98.08%	1.92%	–
	4,223,993,817	82,517,874	59,172,725
Directors remuneration policy	97.62%	2.38%	–
	4,154,433,976	101,243,970	21,675,520

Remuneration for employees below board

General remuneration policy

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

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

Summary of the remuneration structure for employees below Board

ELEMENT	POLICY
Base salary	We aim to attract and retain key employees by paying salaries which deliver competitive total remuneration. Factors taken into account when determining salaries include: • The nature, size and scope of the role • The knowledge, skills and experience of the individual • Individual and overall business performance • Pay and conditions elsewhere in the Group • Appropriate external market data For 2016, base salary budgets have been set on average at 2.8% for all employees below Board, including LGIM. However, this does not mean a flat increase at this level for everyone.
Annual bonus	The majority of employees participate in a discretionary bonus plan, unless an alternative plan applies based on role. An employee will be considered for a discretionary bonus award based on achievement against objectives, conduct and behaviours, the role performed during that year and internal relativities. The group operates bespoke bonus plans where business appropriate. However, the Remuneration Committee has ultimate discretion over all bonus plans. Bonuses above a certain threshold are subject to deferral with the deferral amount increasing with the size of the bonus. Deferred awards are normally held in shares for three years. The company reserves the right to adjust deferral levels for code staff as deemed appropriate.
Performance share plan (PSP)	Participation in the PSP is offered to a small number of senior executives each year in recognition of the strategic and influential role that they hold in terms of driving company performance, as well as their individual contribution. This includes employees in LGIM whose roles span different business divisions and whose participation encourages synergy and teamwork across the group. Participation in the plan for one year does not guarantee participation in future years. PSP awards will be made to under 80 employees during 2016. Where appropriate, grants under the PSP may also be made for new employees who join the company during the year in key roles.
Other share plans and long term incentives	The company operates a Share Bonus Plan (SBP) which provides the vehicle for deferral of annual bonuses in the majority of cases and also allows for a limited number of awards of shares to high potential individuals and those with critical skills. In addition, the company operates a cash based long-term incentive plan for LGIM (LGIM LTIP) based on the financial performance of the division. Participation in the LGIM LTIP is limited to senior managers within the division.
Pension	All employees are given the opportunity to participate in a group pension scheme.
Shareholding requirements	The leadership group is asked to build up a voluntary shareholding of 50% of base salary.

Annual equal pay audit

The group seeks to ensure that our pay policies and practices are free from unfair bias. Part of the pay review process is an annual equal pay audit that reviews pay and bonus decisions by gender, ethnicity, age and full-time versus part-time working. In addition, it considers the pay of the control function departments (risk, compliance and internal audit) as well as the 'oversight departments' of finance and human resources and looks at decisions for employees who report directly to the business versus those who report to the function head. The review extends to all employees, including those in LGIM.

Dilution limits

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

As at 31 December 2015, the company had 4.94% of share capital available under the 5% in ten years limit, and 9.63% of share capital under the 10% in ten years limit.

As at 31 December 2015, 17,962,834 shares were held by the Employee Benefit Trust to hedge outstanding awards of 35,225,924 shares for the PSP and SBP.

Other information relating to directors' remuneration

External appointments

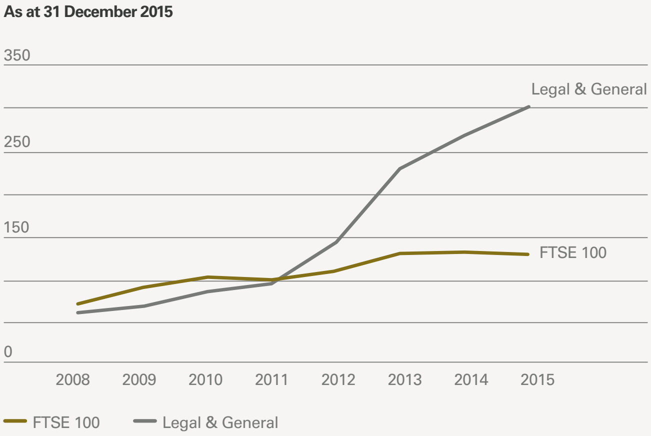
The company considers that certain external appointments can help to broaden the experience and contribution to the Board of the executive directors. Any such appointments are subject to annual agreement by the group and must not be with competing companies. Subject to the group's agreement, any fees may be retained by the individual. However, they received no fees for the below appointments.

External appointments held in 2015 are shown below:

	Role and organisation	Fees
Nigel Wilson	n/a	Nil
Mark Gregory	Director of Westdown Park Management Company Limited	Nil
Mark Zinkula	Currently on the board of the Investment Association	Nil
John Pollock	Sits on the ABI Long Term Savings & Life Insurance Committee	Nil

Total shareholder return (TSR)

The chart shows the value, as at 31 December 2015, of £100 investment in Legal & General shares on 31 December 2008, compared to £100 invested in the FTSE 100 on the same date. The other points plotted are the values at the intervening financial year-ends. The FTSE 100 Index was chosen as the company is a member of this index.



Chief executive – historic remuneration information

The table below shows the remuneration of the group chief executive in place at the time over the same period.

Year	Name	Group chief executive single figure of total remuneration (£'000)	Annual variable element against maximum opportunity	PSP vesting rates against maximum opportunity
2015	Nigel Wilson	4,716	86.25%	100%
2014	Nigel Wilson	4,213	90.67%	100%
2013	Nigel Wilson	4,072	93.10%	100%
2012[1]	Nigel Wilson Tim Breedon	898 3,280	96.00% 84.80%	0% – note 2 100% – note 3
2011	Tim Breedon	2,325	79.58%	16.6%
2010	Tim Breedon	1,526	89.98%	0%
2009	Tim Breedon	1,999	80.00%	0%

1. Tim Breedon retired as group chief executive on 30 June 2012 and Nigel Wilson took over from that date having been the chief financial officer.
2. The 2009 PSP vested in full in 2012. However, no PSP is shown in the figure for Nigel Wilson as, while he received the PSP, it vested during the time he was CFO.
3. The 2009 PSP vested in full in 2012. The PSP figure that vested for Tim Breedon is shown in his figure as it vested during the time he was group chief executive.

Percentage change in remuneration of director undertaking the role of group chief executive

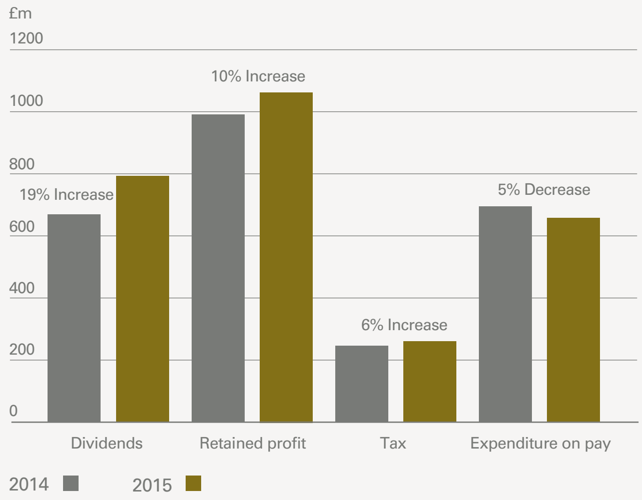
2015 over 2014

	Change to base salary %	Change to benefits %	Change in AVP %
Group chief executive	5.57%	-9.91%	-0.23%
Comparator group	2.69%	2.69%	9.66%

As with last year we have chosen the whole UK employee population as the comparator group. This group has been chosen because it includes a wider cross section of the group's employees. The increase in benefits for the employee comparator group relates to salary increases.

Relative importance of spend on pay

The chart shows the relative importance of spend on pay compared to shareholder dividends and profit for the year. Profit has been shown because it is a KPI of the business. No share buy backs were made in 2014 or 2015.



Payments to past directors (audited)

There were no payments made to past directors in 2015.

Payments for loss of office (audited) – John Pollock

As set out in the 2014 Annual Report and Accounts, following John Pollock's retirement, and consistent with the payments for loss of office policy, John Pollock was treated as a 'good leaver' on termination of employment in May 2015. The details of the payments to John are detailed below.

2015 annual variable pay (AVP) awards (audited)

In the 2014 remuneration report, we stated that John Pollock would be eligible for an AVP award 'at target' level (75% of salary) subject to performance and (pro-rated for time in service). In line with this approach, the group CEO set specific objectives with a weighting for each objective. These objectives were designed to ensure a smooth leadership transition around people management, key customer and commercial relationships. An evaluation was undertaken for each objective and the key achievements are outlined below.

Executive director	Overview	Key achievements in the year	Payout (% of maximum)
John Pollock	For part-year (Jan–May) John was given objectives relating to the transition of his LGAS responsibilities as well as key project relating to digital transformation.	• John supported Digital, Mature Savings and Insurance business leaders in their transaction to standalone organisations • He enabled the smooth integration, of key critical customers, into new relationship management models • Completed his sponsorship and launch of the digital portal for My Accounts	81.3%

The AVP payment will be subject to the policy deferral requirements (i.e. 50% will be deferred into shares for three years) and awards will be subject to malus and clawback.

Treatment of outstanding deferred share awards

As John was treated as a 'good leaver', awards were treated in line with the approved policy. Awards made prior to 2015 were released at the date of cessation, whilst the 2015 award (and the 2016 award noted above) will be released at the normal vesting date.

2013 performance share plan (PSP) award (audited)

As a 'good leaver' John Pollock's PSP awards for 2013, which were made under the legacy PSP policy approved by shareholders in 2004, vested based on performance of the award to cessation. Based on performance (see table below), 100% of the award vested, which was then pro-rated for time in service during the performance period.

Results against the TSR performance conditions are shown in the table below. Pro-rating for service led to 70.7% of the award vesting. The value of the award at vesting was £1,015,047 based on an exercise price of £2.624.

Grant date	Performance period	Comparator group	Legal & General's TSR	Comparator group median rank	Comparator group 80th percentile TSR performance	Legal & General's notional rank	% of award vesting against comparator group	Percentage of total award vesting
17 April 2013	17 April 2013 to 1 June 2015	FTSE 100	76.10%	48.5/96	19.7/96	8.2	100%	100%
		Bespoke comparator group		11/21	4.7/21	3.5	100%	

As all other outstanding awards to John Pollock were made under the new PSP approved by shareholders at the 2014 AGM, these will be pro-rated for time in service to cessation of employment, and will vest, subject to performance, at the normal time.

As at 31 December 2015, the maximum number of share John Pollock is eligible to receive is: 2014 PSP award: 282,924 shares.

The values included in the single figure table are calculated by multiplying the number of shares vesting on 8 May 2015 by the share price on 8 May 2015 of £2.690. For 2014, 100% of the maximum PSP awards granted to the executives in 2011 vested.

Total shareholding of executive directors (audited)

	Type	Owned outright/ vested shares	Subject to deferral/ holding period	Total vested and unvested shares (excludes any shares with performance conditions)	Subject to performance conditions
Nigel Wilson	Shares	3,285,102	514,876	3,799,978	0
	ESP	9,069	3,028	12,097	0
	Options	291,765	0	291,765	2,522,840
Mark Gregory	Shares	2,288,370	333,441	2,621,811	0
	ESP	28,547	5,689	34,236	0
	Options	0	9,911	9,911	1,651,678
Mark Zinkula	Shares	588,500	373,888	962,438	0
	ESP	0	0	0	0
	Options	0	0	0	1,651,678
John Pollock	Shares	2,912,698	124,675	3,037,373	0
	ESP	0	0	0	599,777
	Options	0	0	0	0

Information in relation to other outstanding awards (audited)

Performance share plan (PSP)

For information, other outstanding PSP awards are shown below. 2013 awards were granted under the legacy plan, whilst 2014 awards were granted under the new PSP.

	% of base salary	Face value £'000	Share price at award £	Max no. of shares
Grant date 17 April 2013				
Nigel Wilson	200%	1,500	1.6863	889,521
Mark Gregory	200%	922	1.6863	547,055
Mark Zinkula	200%	922	1.6863	547,055
Grant date 11 June 2014				
Nigel Wilson	250%	2,050	2.3342	878,245
Mark Gregory	250%	1,400	2.3342	599,777
Mark Zinkula	250%	1,400	2.3342	599,777

Legacy awards granted in 2013 under the PSP were subject to a TSR performance condition measured over three years, with 50% of each award subject to TSR performance relative to the FTSE 100 and 50% subject to TSR performance relative to a bespoke industry peer group.

Outstanding share bonus plan (SBP) awards

The table below shows the shares held under the SBP and those that were awarded or vested during 2015. For Mark Zinkula, these include shares awarded when he was appointed as CEO LGIM and prior to him joining the Board. The shares awarded in 2015 relate to deferred AVP in relation to the 2014 performance year. The share price used to calculate the awards is the average of the three days preceding grant.

Grant date	Awards outstanding at 1 January 2015	Awards granted in 2015	Grant price £	Face value at grant price £	Awards vesting in 2015	Awards outstanding at 31 December 2015
Nigel Wilson	464,764	195,058	2.8587	557,612	144,946	514,876
Mark Gregory	304,644	126,966	2.8587	362,958	98,169	333,441
Mark Zinkula	315,372	133,987	2.8587	383,029	75,471	373,888

Rudy Markham
Chairman of the Remuneration Committee

FINANCIAL STATEMENTS

A POSITIVE FUTURE FOR ALL

Glyn works in MediaCityUK in Salford. Life is pretty good, working in a vibrant, digital business and benefitting from the huge urban transformation in the area. Our investment in MediaCityUK is part of the £7 billion we've put into direct investments throughout the UK, not only to improve the returns for shareholders, but also to provide investments to help society. Direct investments allow us to use our 'slow money' held in retirement funds in an economically and socially useful way.

WATCH THE VIDEO:
www.legalandgeneralgroup.com/2015fastread

Consolidated Financial Statements

The Group Consolidated Financial Statements are divided into 3 sections:

- The **Primary Statements and Performance** section, which includes the Group primary statements and other notes which we believe are integral to understanding our financial performance.
- The **Balance Sheet Management** section, which provides further details on our financial position and approach to risk management.
- The **Additional Financial Information** section, which includes disclosures required to be compliant with accounting standards or the Companies Act. We view this information as important, but less significant in understanding our business and performance.

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Group Consolidated Financial Statements

Primary Statements and Performance

Balance Sheet Management

Additional Financial Information

Supplementary Financial Statements – European Embedded Value

Company Financial Statements

Independent auditors' report to the members of Legal & General Group Plc
Report on the group financial statements

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

- give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited
The financial statements, included within the Annual Report and Accounts (the Annual Report), comprise:

- the Consolidated Balance Sheet as at 31 December 2015;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Our audit approach
Overview

- Overall group materiality: £70 million (2014: £70 million) which is 4.7% (2014: 5.5%) of Operating profit before tax.
- Based on the outputs of our risk assessment, along with our understanding of the Legal & General structure, we performed full scope audits of components which, using our professional judgement, we considered significant within the following segments: Legal & General Retirement (LGR), Legal & General Investment Management (LGIM), Insurance, Savings and Legal & General America (LGA).
- In addition, specific audit procedures on investments and investment returns were performed within the Legal & General Capital (LGC) segment.
- Our risk assessment analysis identified the following as areas of focus:
  – Valuation of non-participating insurance liabilities – retirement;
  – Valuation of participating and non-participating insurance liabilities – protection; and
  – Valuation of complex financial investments – commercial loans and CDOs.

The scope of our audit and our areas of focus
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)).

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

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

Independent auditors' report to the members of Legal & General Group Plc (continued)
Report on the group financial statements (continued)

Area of focus	How our audit addressed the area of focus

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

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

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

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

Valuation interest rate
The valuation interest rate is the asset-based interest rate that is used to discount the liability cashflows to present value. This rate is derived from the yield on the assets backing the annuity liabilities and is used in calculating the present value of annuity and benefit payments. The discount rate also includes an explicit allowance for future default and reinvestment risk on the asset portfolio.

The calculation of this assumption and the default allowance is complex, and there is a risk that changes in investment yields and market spreads are not appropriately reflected. Areas of risk include:

Data input errors – the data extracted from the group's investment ledgers and input into the valuation interest rate calculation contain errors.

Credit default assumptions are inappropriate – the assumptions made in setting the credit default allowance do not appropriately represent the group's exposure and current market conditions.

Model changes leading to calculation errors – Changes to the actuarial process or model to calculate the valuation interest rate are not appropriate.

The work we performed to address the risks over determination of the valuation interest rate included the following procedures:

- We developed an understanding of the degree of rigour, challenge and oversight provided by management and the directors in relation to the setting of the credit default assumptions and the methodology used to model the cash flows. Using our actuarial specialist team members, we obtained and challenged technical papers that set out the relevant factors taken into account by management when making judgements on setting the credit default assumptions and changes to the valuation interest rate methodology.

Data input errors

- We understood and tested the group's processes for ensuring that the relevant investment data was included in the calculation of the yield on the assets and did not identify any weaknesses in these processes or controls that would cause us to change our audit approach.
- We tested the completeness and accuracy of that investment data by agreeing it to independent data sources, such as third-party custodians' reports and to independent pricing sources.
- We tested the mathematical accuracy of the internal rate of return (IRR) calculations.

Credit default assumptions are inappropriate

- We assessed the appropriateness of the credit default allowance in light of changing market conditions and other information available. We did this by comparing assumptions used by management with market observable data and our experience of market practices.
- On a sample basis, we tested the credit ratings used to estimate the default allowance back to independent third-party credit rating sources. Where internally generated ratings were used, we assessed the rating model and the methodology using specialist treasury expertise and tested the inputs by comparing it to third-party data.

Model changes leading to calculation errors

- We obtained an understanding and assessed the appropriateness of changes to the actuarial process or model underlying the calculation of the interest rate by understanding the governance process in place around changes to models, testing the controls in place to check that changes were applied appropriately, and comparing the outcome of the change to our independent expectation.

Based on the work undertaken, we found the valuation interest rate used to be appropriate.

Longevity assumptions
The large volume of annuity business, combined with the subjectivity in setting an annuitant mortality basis has a material impact on the valuation of the liabilities. Annuity liabilities are sensitive to the choice of longevity assumptions. The longevity assumption has two main components:

Mortality base assumption: this part of the assumption is mainly driven by internal experience analyses, but judgement is also required. For example, in setting the prudential margins for peak 1 and IFRS reporting, or in setting the assumption for new business over the year to reflect any changes in the mix of business due to external factors.

Rate of mortality improvements: this part of the assumption is more subjective given the lack of data and the uncertainty over how life expectancy will change in the future.

The work we performed to address the setting of the longevity assumptions included the following procedures:

- We evaluated the design and implementation as well as tested the operating effectiveness of controls over accuracy and completeness of the data used in the experience analysis. Where applicable, we also agreed data back to underlying policyholder data.
- Using our actuarial specialists, we assessed the results of the experience analysis carried out for the retirement business and were able to determine that they provided support for the assumptions used.
- We evaluated the group's choice of standard industry Continuous Mortality Investigation (CMI) tables and the group's base life expectancy data and compared this to the industry base tables to assess the reasonableness of the group's assumptions. We considered the appropriateness of the assumptions, assessed changes to the methodology, and evaluated the results of changes in comparison to our expectation.
- We compared the annuitant longevity assumptions with those adopted by other insurers using our own independent industry benchmarking survey.

Having performed our work, we found the assumptions used in the models to be appropriate. We found that the methodologies and models used are in line with the prior year and industry standards, whilst reflecting the nature of the group's retirement business.

Area of focus	How our audit addressed the area of focus
Valuation of participating and non-participating insurance liabilities – protection *Refer to the Audit Committee Report and Note 1 to the financial statements for the Directors' disclosures of the basis of preparation and use of estimates and Notes 19, 20 and 21 for related accounting policies and further information on judgements and estimates.* We focused on this area because the participating and non-participating insurance liabilities for protection products in the UK are significant in size and their estimation is inherently judgemental. The valuation of insurance liabilities for protection is sensitive to: • persistency – the rate at which policies are retained over time and therefore continue to contribute premium income; and • mortality and morbidity – the rate at which policyholders die or suffer critical illness.	
Persistency assumptions The rate at which policyholders cease protection products is projected using the group's historical experience and assumptions (experience analysis) about future changes to policyholder behaviour.	Using our actuarial specialists, we assessed the results of the experience analysis carried out by the group for the protection business to determine whether they provided support for the assumptions used. In undertaking our assessment we took account of the potential for future changes in experience arising from regulatory changes. We evaluated the design and implementation as well as testing the operating effectiveness of controls over accuracy and completeness of the data used in the experience analysis and found them to be effective. We also agreed data back to policy documentation and claims history. We compared the group's persistency assumptions with those adopted by other insurers using our own independent industry benchmarking survey. *Persistency assumptions are inherently subjective, particularly in light of recent regulatory changes. However, we found that the assumptions used were reasonable in the context of the group's products.*
Mortality and morbidity assumptions The estimates of the amount and timing of benefit payments is projected using current (base) mortality and morbidity experience calculated using the group's own data and analysis (experience analysis). Under IFRS, the setting of margins for adverse deviation are judgemental. The group uses an established methodology to set the margin in accordance with the UK regulatory rules for insurance provisions.	We evaluated the design and implementation as well as tested the operating effectiveness of controls over accuracy and completeness of the data used in the experience analysis and found them to be effective. We also agreed actuarial data back to underlying policyholder data. We obtained the experience analysis performed by the group to determine whether they provided support for the assumptions used. We compared the group's mortality and morbidity assumptions including margins with those adopted by other insurers using our own independent industry benchmarking survey. *Having performed our work we found the assumptions used in the models to be appropriate. We found that the methodologies and models used are in line with the prior year and industry standards, whilst reflecting the nature of the group's protection business.*
Valuation of complex financial investments *Refer to the Audit Committee Report and note 1 to the financial statements for the directors' disclosures of the basis of preparation and use of estimates and Note 12 for related accounting policies and further information on judgements and estimates for investment risks.* The group's financial investments enable it to support its insurance liabilities and meet regulatory capital requirements, as well as providing returns on shareholder assets (the assets available for distribution to shareholders after taking account of policyholder liabilities, including associated guarantees, options and bonuses). Most of the group's financial investments are valued by reference to prices on active markets. However, some are priced by reference to market data and/or valuation models. They vary in complexity depending on the nature of the investments. Investments that are complex to value and require the use of significant judgement include commercial loans and collateralised debt obligations (CDOs).	
We focused on the valuation of commercial loans and CDOs because they are significant in size and changes in estimates could result in material changes in their valuation. Key estimates used in the valuation models reflect observable data such as forward interest rates, foreign exchange rates and forward inflation rate curves, as well as unobservable inputs such as future cash flows and expected defaults. We also focused on the disclosure related to these complex financial instruments, which is extensive.	For the valuation of complex investments, we assessed both the methodology and assumptions used by management in the calculation of the year end values as well as testing the governance controls that the group has in place to monitor these processes. We did not identify any defective controls. For commercial loans, we: • tested the calculation in the discounted cash flow models for accuracy; • agreed the factual inputs to underlying contracts; • compared the market observable inputs to published data; and, • agreed the non-market observable inputs to calculations or supporting documents and considered whether they were in line with our expectations. We did not identify any material exceptions in our testing and the inputs to all models tested were found to be in line with our expectations. For CDOs, we: • obtained independent confirmation from the counterparties for all outstanding positions and associated collateral; • re-priced the collateral to independent external third party sources; • read the report from and met with the directors' external valuation expert to understand their objectivity, qualifications, approach, and their findings; and • compared the internal price, the counterparty price and directors' expert's price and investigated differences over a tolerance based on the component materiality. *We did not identify any material exceptions in our testing of the confirmations, the collateral, or the comparison of different estimates of the prices.*

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

Report on the group financial statements (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the scale and nature of the group's operations, the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates.

Using the outputs of a risk assessment, along with our understanding of the group, we scoped our audit based on the significance of the results and financial position of individual markets relative to the group result and financial position. In doing so, we considered qualitative factors and ensured that we obtained sufficient coverage across all financial statement line items in the consolidated financial statements. We determined the type of work that needed to be performed for each component by us – as the group engagement team, component audit teams within PwC UK and from other PwC network firms under our instructions.

The group reports in six reportable segments: LGR, LGIM, LGC, Insurance, Savings and LGA.

Based on the outputs of our risk assessment, along with our understanding of the Legal & General structure, we performed full scope audits of components which, using our professional judgement, we considered significant within the following segments: LGR, LGIM, Insurance, Savings and LGA. We performed specific audit procedures on the significant investment and investment return balances within the LGC segment.

Where work was performed by auditors of the components, we determined the level of involvement we needed as the group audit team to have in the audit work at those components to be able to conclude whether sufficient audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. The group audit team kept in regular communication with component audit teams through on-site visits, regular phone calls, discussions and written instructions, as appropriate.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£70 million (2014: £70 million).
How we determined it	Based on our professional judgement, we determined materiality for the financial statements as a whole of £70 million which represents 4.7% of operating profit before tax (2014: 5.5%).
Rationale for benchmark applied	In determining materiality, we considered financial metrics which we believed to be relevant, and concluded, consistent with last year that operating profit before tax was the most relevant benchmark because it reflects the underlying profit of the business. While this is not an IFRS measure of profit, it is reconciled to IFRS profit before tax in the financial statements and is one of the key metrics used by the group in running its business. Whilst overall materiality was assessed with reference to operating profit before tax, we compared our materiality level against other relevant benchmarks, such as total assets, total revenue and IFRS profit before tax in order to ensure the materiality benchmark selected was appropriate for our audit.
Component materiality	For each component in our audit scope, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £12 million – £60 million. Certain components that produce their own audited financial statements were audited to a local statutory audit materiality which was less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £3.5 million (2014: £3.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on pages 242 to 245, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 opinions

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Corporate Governance Statement set out on pages 54 to 59 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- the information given in the Corporate Governance Statement set out on pages 54 to 59 with respect to the company's Corporate Governance Code and practices and about its administrative, management and supervisory bodies complies with rules 7.2.2, 7.2.3 and 7.2.7 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the information referred to above in the Corporate Governance Statement. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
• information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
• the statement given by the directors on page 245, in accordance with provision C.1.1 of the UK Corporate Governance Code (the Code), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's performance, business model and strategy is materially inconsistent with our knowledge of the group acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on pages 63 to 65, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
• the directors' confirmation on page 46 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the directors' explanation on page 45 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the group and the directors' statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Independent auditors' report to the members of Legal & General Group Plc (continued)
Report on the group financial statements (continued)

Adequacy of information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement
Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit
Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 245, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter
We have reported separately on the company financial statements of Legal & General Group Plc for the year ended 31 December 2015 and on the information in the Directors' Remuneration Report that is described as having been audited.

Andrew Kail (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors, London

14 March 2016

(a) The maintenance and integrity of the Legal & General Group Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PRIMARY STATEMENTS AND PERFORMANCE

Consolidated Income Statement

For the year ended 31 December 2015	Notes	2015 £m	2014 £m
Revenue			
Gross written premiums	32	**6,321**	10,168
Outward reinsurance premiums	32	**(1,603)**	(1,122)
Net change in provision for unearned premiums		**21**	1
Net premiums earned		**4,739**	9,047
Fees from fund management and investment contracts	32	**1,139**	1,085
Investment return	33	**5,947**	40,639
Operational income	3	**876**	746
Total revenue	32	**12,701**	51,517
Expenses			
Claims and change in insurance liabilities	34	**5,080**	15,071
Reinsurance recoveries	34	**(2,466)**	(975)
Net claims and change in insurance liabilities		**2,614**	14,096
Change in provisions for investment contract liabilities	22	**5,615**	33,385
Acquisition costs	11	**838**	873
Finance costs	25	**186**	183
Other expenses	3	**1,893**	1,748
Transfers to/(from) unallocated divisible surplus	23	**141**	(181)
Total expenses		**11,287**	50,104
Profit before tax	2	**1,414**	1,413
Tax expense attributable to policyholder returns	35	**(59)**	(175)
Profit before tax attributable to equity holders		**1,355**	1,238
Total tax expense	35	**(320)**	(421)
Tax expense attributable to policyholder returns	35	**59**	175
Tax expense attributable to equity holders	35	**(261)**	(246)
Profit for the year	2	**1,094**	992
Attributable to:			
Non-controlling interests		**19**	7
Equity holders of the company		**1,075**	985
Dividend distributions to equity holders of the company during the year	4	**701**	580
Dividend distributions to equity holders of the company proposed after the year end	4	**592**	496
		p	p
Earnings per share[1]	5	**18.16**	16.70
Diluted earnings per share[1]	5	**18.04**	16.54

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

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015	Notes	2015 £m	2014 £m
Profit for the year		**1,094**	992
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) on defined benefit pension schemes	26	**47**	(117)
Tax on actuarial losses on defined benefit pension schemes	26	**(11)**	23
Actuarial (losses)/gains on defined benefit pension schemes transferred to unallocated divisible surplus	26	**(17)**	47
Tax on actuarial (losses)/gains on defined benefit pension schemes transferred to unallocated divisible surplus	26	**4**	(9)
Total items that will not be reclassified to profit or loss subsequently		**23**	(56)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations		**25**	12
Net change in financial investments designated as available-for-sale		**(64)**	40
Tax on net change in financial investments designated as available-for-sale		**22**	(14)
Total items that may be reclassified to profit or loss subsequently		**(17)**	38
Other comprehensive income/(expense) after tax		**6**	(18)
Total comprehensive income for the year		**1,100**	974
Total comprehensive income attributable to:			
Non-controlling interests		**19**	7
Equity holders of the company		**1,081**	967

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

Consolidated Balance Sheet

As at 31 December 2015	Notes	2015 £m	2014 £m
Assets			
Goodwill		**83**	79
Purchased interest in long-term businesses and other intangible assets	10	**292**	342
Deferred acquisition costs	11	**1,887**	1,936
Investment in associates and joint ventures	47	**220**	149
Property, plant and equipment		**92**	146
Investment property	12	**8,082**	8,152
Financial investments	12	**354,063**	360,614
Reinsurers' share of contract liabilities	21/22	**4,120**	2,906
UK deferred tax asset	35	**20**	54
Current tax recoverable	35	**236**	217
Other assets	15	**3,618**	2,249
Assets of operations classified as held for sale	31	**3,409**	–
Cash and cash equivalents	14	**20,677**	22,709
Total assets		**396,799**	399,553
Equity			
Share capital	39	**149**	149
Share premium	39	**976**	969
Employee scheme treasury shares	39	**(30)**	(37)
Capital redemption and other reserves		**89**	117
Retained earnings		**5,220**	4,830
Shareholders' equity		**6,404**	6,028
Non-controlling interests	40	**289**	275
Total equity		**6,693**	6,303
Liabilities			
Participating insurance contracts	21	**5,618**	6,579
Participating investment contracts	22	**4,912**	7,667
Unallocated divisible surplus	23	**893**	983
Value of in-force non-participating contracts	24	**(184)**	(208)
Participating contract liabilities		**11,239**	15,021
Non-participating insurance contracts	21	**49,754**	49,876
Non-participating investment contracts	22	**278,554**	288,558
Non-participating contract liabilities		**328,308**	338,434
Core borrowings	25	**3,092**	2,977
Operational borrowings	25	**536**	715
Provisions	26	**1,171**	1,247
UK deferred tax liabilities	35	**137**	180
Overseas deferred tax liabilities	35	**436**	434
Current tax liabilities	35	**95**	9
Payables and other financial liabilities	27	**22,709**	16,131
Other liabilities	41	**737**	963
Net asset value attributable to unit holders	12	**18,277**	17,139
Liabilities of operations classified as held for sale	31	**3,369**	–
Total liabilities		**390,106**	393,250
Total equity and liabilities		**396,799**	399,553

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

Consolidated Balance Sheet (continued)

The notes on pages 105 to 212 form an integral part of these financial statements.

The financial statements on pages 99 to 212 and the supplementary financial statements on pages 213 to 231 were approved by the board of directors on 14 March 2016 and were signed on their behalf by:

Nigel Wilson
Group chief executive

Mark Gregory
Group chief financial officer

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
As at 1 January 2015	**149**	**969**	**(37)**	**117**	**4,830**	**6,028**	**275**	**6,303**
Profit for the year	–	–	–	–	**1,075**	**1,075**	**19**	**1,094**
Exchange differences on translation of overseas operations	–	–	–	**25**	–	**25**	–	**25**
Actuarial gains on defined benefit pension schemes	–	–	–	–	**36**	**36**	–	**36**
Actuarial gains on defined benefit pension schemes transferred to unallocated divisible surplus	–	–	–	–	**(13)**	**(13)**	–	**(13)**
Net change in financial investments designated as available-for-sale	–	–	–	**(42)**	–	**(42)**	–	**(42)**
Total comprehensive income/(expense) for the year	–	–	–	**(17)**	**1,098**	**1,081**	**19**	**1,100**
Options exercised under share option schemes: Savings related share option scheme	–	**7**	–	–	–	**7**	–	**7**
Shares purchased	–	–	**(3)**	–	–	**(3)**	–	**(3)**
Shares vested	–	–	**10**	**(23)**	–	**(13)**	–	**(13)**
Employee scheme treasury shares: Value of employee services	–	–	–	**26**	–	**26**	–	**26**
Share scheme transfers to retained earnings	–	–	–	–	**(21)**	**(21)**	–	**(21)**
Dividends	–	–	–	–	**(701)**	**(701)**	–	**(701)**
Movement in third party interests	–	–	–	–	–	–	**(5)**	**(5)**
Currency translation differences	–	–	–	**(14)**	**14**	–	–	–
As at 31 December 2015	**149**	**976**	**(30)**	**89**	**5,220**	**6,404**	**289**	**6,693**

For the year ended 31 December 2014	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
As at 1 January 2014	148	959	(39)	57	4,517	5,642	265	5,907
Profit for the year	–	–	–	–	985	985	7	992
Exchange differences on translation of overseas operations	–	–	–	12	–	12	–	12
Actuarial losses on defined benefit pension schemes	–	–	–	–	(94)	(94)	–	(94)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	–	–	–	–	38	38	–	38
Net change in financial investments designated as available-for-sale	–	–	–	26	–	26	–	26
Total comprehensive income for the year	–	–	–	38	929	967	7	974
Options exercised under share option schemes: Savings related share option scheme	1	10	–	–	–	11	–	11
Shares purchased	–	–	(7)	–	–	(7)	–	(7)
Shares vested	–	–	9	(17)	–	(8)	–	(8)
Employee scheme treasury shares: Value of employee services	–	–	–	20	–	20	–	20
Share scheme transfers to retained earnings	–	–	–	–	(17)	(17)	–	(17)
Dividends	–	–	–	–	(580)	(580)	–	(580)
Movement in third party interests	–	–	–	–	–	–	3	3
Currency translation differences	–	–	–	19	(19)	–	–	–
As at 31 December 2014	149	969	(37)	117	4,830	6,028	275	6,303

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

Consolidated Cash Flow Statement

For the year ended 31 December 2015	Notes	2015 £m	2014 £m
Cash flows from operating activities			
Profit for the year		**1,094**	992
Adjustments for non cash movements in net profit for the year			
Realised and unrealised losses/(gains) on financial investments and investment properties		**4,077**	(30,851)
Investment income		**(9,760)**	(9,205)
Interest expense		**186**	183
Tax expense		**320**	421
Other adjustments		**(70)**	87
Net (increase)/decrease in operational assets			
Investments held for trading or designated as fair value through profit or loss		**1,007**	5,931
Investments designated as available-for-sale		**158**	225
Other assets		**(2,594)**	(151)
Net increase/(decrease) in operational liabilities			
Insurance contracts		**(1,083)**	9,228
Transfer to/(from) unallocated divisible surplus		**(90)**	(222)
Investment contracts		**(9,524)**	10,156
Value of in-force non-participating contracts		**24**	40
Other liabilities		**6,645**	9,811
Cash used in operations		**(9,610)**	(3,355)
Interest paid		**(186)**	(203)
Interest received		**5,286**	4,857
Tax paid[1]		**(244)**	(76)
Dividends received		**3,931**	4,264
Net cash flows (used in)/generated from operating activities		**(823)**	5,487
Cash flows from investing activities			
Net acquisition of plant, equipment and intangibles		**(24)**	(80)
Acquisitions[2]	29	**(5)**	(38)
Disposal of subsidiaries[3]	30	**(82)**	56
Investment in joint ventures		**(71)**	(77)
Net cash flows from investing activities		**(182)**	(139)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the company during the year	4	**(701)**	(580)
Proceeds from issue of ordinary share capital		**7**	11
Purchase of employee scheme shares		**(8)**	(2)
Proceeds from borrowings		**697**	674
Repayment of borrowings		**(527)**	(181)
Net cash flows used in financing activities		**(532)**	(78)
Net (decrease)/increase in cash and cash equivalents		**(1,537)**	5,270
Exchange losses on cash and cash equivalents		**(106)**	(15)
Cash and cash equivalents at 1 January		**22,709**	17,454
Cash and cash equivalents (before reallocation of held for sale cash)		**21,066**	22,709
Cash and cash equivalents classified as held for sale	31	**(389)**	–
Cash and cash equivalents at 31 December	14	**20,677**	22,709

1. Tax comprises UK corporation tax paid of £128m (2014: £29m), overseas corporate taxes of £36m (2014: £24m) and withholding tax of £80m (2014: £23m).
2. Net cash flows from acquisitions includes cash paid of £5m (2014: £38m) less cash and cash equivalents acquired of £nil (2014: £nil).
3. Net cash flows from disposals includes cash received of £242m (2014: £56m) less cash and cash equivalents disposed of £324m (2014: £nil).

The group's Consolidated Cash Flow Statement includes all cash and cash equivalent flows, including £856m (2014: £1,082m) relating to the with-profit fund policyholders and £16,116m (2014: £18,895m) relating to unit linked policyholders.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

1 Basis of preparation

Legal & General Group Plc, a public limited company incorporated and domiciled in the United Kingdom (UK), together with its subsidiaries transacts life assurance and long-term savings business, investment management and most classes of general insurance and health business through its subsidiaries and associates in the UK, the United States and other countries throughout the world.

Significant accounting policies

The group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union, and with those parts of the UK Companies Act 2006 applicable to companies reporting under IFRS. The group financial statements also comply with IFRS and interpretations by the IFRS Interpretations Committee as issued by the IASB as adopted by the European Union. The group financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

The group has selected accounting policies which state fairly its financial position, financial performance and cash flows for a reporting period. The accounting policies have been consistently applied to all years presented. Accounting policies that relate specifically to a balance or transaction are presented above the relevant numerical disclosure.

Financial assets and financial liabilities are disclosed gross in the Consolidated Balance Sheet unless a legally enforceable right of offset exists and there is an intention to settle recognised amounts on a net basis. Income and expenses are not offset in the Consolidated Income Statement unless required or permitted by any accounting standard or IFRIC interpretation, as detailed in the applicable accounting policies of the group.

Standards, interpretations and amendments to published standards that are not yet effective

Certain standards, amendments and interpretations to existing standards have been published which are mandatory for the group's accounting periods beginning on or after 1 January 2016 or later periods but which the group has not adopted early. Details of these are contained within Note 12 (Financial investments and Investment property), Note 22 (Investment contract liabilities) and Note 44 (Commitments).

Use of estimates

The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the Consolidated Balance Sheet and Income Statement and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly. This is particularly relevant for the determination of fair values of level 3 investments, particularly investment property (Note 12) and unquoted and illiquid financial investments (Note 12(iv)), and the estimation of insurance and investment contract liabilities, particularly interest rate, credit default and mortality assumptions (Notes 19 to 22). The basis of accounting for these areas, and the significant judgements used in determining them, are outlined in the respective notes to the financial statements.

Consolidation principles

Subsidiary undertakings

The consolidated financial statements incorporate the assets, liabilities, equity, revenues, expenses and cash flows of the company and of its subsidiary undertakings drawn up to 31 December each year. All intra-group balances, transactions, income and expenses are eliminated in full. Subsidiaries are those entities (including special purpose entities, mutual funds and unit trusts) over which the group directly or indirectly (when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee) (Note 46). Profits or losses of subsidiary undertakings sold or acquired during the period are included in the consolidated results up to the date of disposal or from the date of gaining control. The interests of parties, other than the group, in investment vehicles, such as unit trusts, are classified as liabilities and appear as 'Net asset value attributable to unit holders' (Note 12(v)) in the Consolidated Balance Sheet.

Associates and joint ventures

The group has interests in associates and joint ventures (Note 47) which form part of an investment portfolio held through private equity partnerships, mutual funds, unit trusts and similar entities. In accordance with the choice permitted by IAS 28, 'Investments in associates', these interests have been classified as fair value through profit or loss and measured at fair value within financial investments, with changes in fair value recognised in the Consolidated Income Statement.

Associates which do not form part of an investment portfolio are initially recognised in the Consolidated Balance Sheet at cost. The carrying amount of the associate is increased or decreased to reflect the group's share of the profit or loss after the date of the acquisition.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

1 Basis of preparation (continued)

Product classification

The group's products are classified for accounting purposes as either insurance contracts (participating and non-participating) or investment contracts (participating and non-participating). The basis of accounting for these products is outlined in Notes 21 and 22 respectively.

Fiduciary activities

Assets associated with fiduciary activities and the income arising from those assets, together with associated commitments to return such assets to customers, are not included in these financial statements. Where the group acts in a fiduciary capacity, for instance as a trustee or agent, it has no contractual rights over the assets concerned.

Foreign exchange and exchange rates

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. The functional currency of the group's foreign operations is the currency of the primary economic environment in which the entity operates. The assets and liabilities of all of the group's foreign operations are translated into sterling, the group's presentation currency, at the closing rate at the date of the balance sheet. The income and expenses for each income statement are translated at average exchange rates. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to a separate component of shareholders' equity.

Foreign exchange gains and losses are recognised in the Consolidated Income Statement, except when recognised in equity as qualifying cash flow or net investment hedges.

The year end exchange rates at 31 December 2015 were 1.47 United States Dollar, 1.36 Euro (at 31 December 2014: 1.56 United States Dollar, 1.29 Euro).

The average exchange rates for year ended 31 December 2015 were 1.53 United States Dollar, 1.38 Euro (year ended 31 December 2014: 1.65 United States Dollar, 1.24 Euro).

2 Supplementary operating profit information

(i) Reconciliation between operating profit and profit from ordinary activities after income tax

	Notes	Profit/(loss) before tax[1] 2015 £m	Tax (expense)/credit 2015 £m	Profit/(loss) after tax 2015 £m	Profit/(loss) before tax[1] 2014 £m	Tax (expense)/credit 2014 £m	Profit/(loss) after tax 2014 £m
Legal & General Retirement (LGR)		639	(115)	524	428	(82)	346
Legal & General Investment Management (LGIM)		355	(76)	279	321	(71)	250
Legal & General Capital (LGC)		233	(46)	187	203	(41)	162
Insurance		293	(60)	233	370	(83)	287
Savings		99	(20)	79	105	(19)	86
Legal & General America (LGA)		83	(46)	37	56	(24)	32
Operating profit from divisions/tax expense on divisions		1,702	(363)	1,339	1,483	(320)	1,163
Group debt costs[2]		(153)	31	(122)	(142)	30	(112)
Group investment projects and expenses[3]	2(iv)	(94)	19	(75)	(66)	13	(53)
Operating profit/tax expense		1,455	(313)	1,142	1,275	(277)	998
Investment and other variances	2(v)	(119)	53	(66)	(44)	31	(13)
Impact of change in UK tax rates		–	(1)	(1)	–	–	–
Gains on non-controlling interests		19	–	19	7	–	7
Profit for the year/tax expense for the year		1,355	(261)	1,094	1,238	(246)	992

1. The Profit/(loss) before tax reflects profit/(loss) before tax attributable to equity holders.
2. Group debt costs exclude interest on non recourse financing.
3. Group investment projects and expenses include restructuring costs of £50m (2014: £31m).

The equity holders' effective tax rate for the year is 19.3% (2014: 19.9%). The group's effective tax rate remains slightly below the UK corporation tax rate due to differences between the measurement of accounting and taxable profits.

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.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

LGR represents worldwide annuities (both individual and bulk purchase), longevity insurance and lifetime mortgages.

The LGIM segment represents institutional and retail investment management and workplace savings businesses.

LGC represents the medium-term investment return (less expenses) on group invested assets, using assumptions applied to the average balance of group invested assets (including interest bearing intra-group balances).

Insurance represents business in retail protection, group protection, general insurance, networks, Legal & General France (LGF) sold on 31 December 2015 and Legal & General Netherlands (LGN).

Savings represents business in platforms, SIPPs, mature savings, with-profits and emerging markets.

The LGA segment comprises protection business written in the USA.

Following changes to the organisational structure, Insurance and Savings are now reported as separate segments. Previously, Insurance and Savings had been reported together as the LGAS segment. In addition, the workplace savings business is now included in the LGIM segment. workplace savings had previously been recognised in the Savings (LGAS) segment. Comparatives have been amended accordingly in line with this reclassification. The impact of the workplace savings reclassification has been to reduce LGIM 2014 operating profit by £15m, with an offsetting increase in the Savings segment's 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 for the group's insurance businesses and shareholder funds, except for LGA which excludes unrealised investment returns to align with the liability measurement under US GAAP. Variances between actual and smoothed 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, start-up and closure costs, are also excluded from operating profit.

(ii) Reconciliation of operational cash to operating profit before tax

The table below provides an analysis of the operational cash generation by each of the group's business segments, together with a reconciliation to operating profit before tax.

For the year ended 31 December 2015	Operational cash generation[1] £m	New business surplus/ (strain) £m	Net cash generation £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	**372**	**45**	**417**	**13**	**114**	**(20)**	**–**	**524**	**115**	**639**
LGIM[3]	**303**	**(22)**	**281**	**(1)**	**1**	**(2)**	**–**	**279**	**76**	**355**
LGIM excluding workplace savings	282	–	282	–	–	–	–	282	77	359
Workplace savings	21	(22)	(1)	(1)	1	(2)	–	(3)	(1)	(4)
LGC	**187**	**–**	**187**	**–**	**–**	**–**	**–**	**187**	**46**	**233**
Insurance	**323**	**25**	**348**	**(14)**	**(45)**	**(46)**	**(10)**	**233**	**60**	**293**
Savings[3]	**119**	**(9)**	**110**	**(9)**	**–**	**(23)**	**1**	**79**	**20**	**99**
LGA	**54**	**–**	**54**	**–**	**–**	**–**	**(17)**	**37**	**46**	**83**
Total from divisions	**1,358**	**39**	**1,397**	**(11)**	**70**	**(91)**	**(26)**	**1,339**	**363**	**1,702**
Group debt costs	(122)	–	(122)	–	–	–	–	(122)	(31)	(153)
Group investment projects and expenses	(19)	–	(19)	–	–	–	(56)	(75)	(19)	(94)
Total	**1,217**	**39**	**1,256**	**(11)**	**70**	**(91)**	**(82)**	**1,142**	**313**	**1,455**

1. Operational cash generation includes dividends remitted from LGF of £1m (2014: £2m) and LGN of £28m (2014: £29m) within the Insurance line and LGA of £54m (2014: £46m).
2. International and other includes £40m (2014: £25m) of restructuring costs (£50m before tax) (2014: £31m before tax) within the Group investment projects and expenses line.
3. LGIM includes the workplace savings business which was previously reported in Savings. Prior year comparatives have been amended.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

2 Supplementary operating profit information (continued)

(ii) Reconciliation of operational cash to operating profit before tax (continued)

Operational cash generation for LGR, LGIM, Insurance and Savings represents the expected surplus generated in the year from the in-force non profit annuities, workplace savings, protection and savings businesses using best estimate assumptions. The LGIM operational cash generation also includes operating profit after tax from the institutional and retail investment management businesses. The Insurance operational cash generation also includes dividends remitted from LGF and LGN and operating profit after tax from general insurance and the remaining Insurance businesses. The Savings operational cash generation also includes the shareholders' share of bonuses on with-profits business and operating profit after tax from the remaining Savings businesses.

New business surplus/(strain) for LGR, LGIM, Insurance and Savings represents the cost of acquiring new business and setting up regulatory reserves in respect of the new business for UK non profit annuities, workplace savings, protection and savings, net of tax. The new business surplus/(strain) and operational cash generation for LGR, LGIM, Insurance and Savings exclude the required solvency margin from the liability calculation.

Net cash generation for LGR, LGIM, Insurance and Savings is defined as operational cash generation less new business strain.

Operational cash generation and net cash for LGC represents the operating profit (net of tax).

The operational cash generation for LGA represents the dividends received.

See Note (iii) for more detail on experience variances, assumption changes and non-cash items.

For the year ended 31 December 2014	Operational cash generation[1] £m	New business surplus/(strain) £m	Net cash generation £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	292	51	343	(13)	48	(32)	–	346	82	428
LGIM[3]	275	(29)	246	(3)	5	2	–	250	71	321
LGIM excluding workplace savings	262	–	262	–	–	–	–	262	74	336
Workplace savings	13	(29)	(16)	(3)	5	2	–	(12)	(3)	(15)
LGC	162	–	162	–	–	–	–	162	41	203
Insurance	332	(5)	327	(8)	24	(50)	(6)	287	83	370
Savings[3]	127	(14)	113	(7)	3	(22)	(1)	86	19	105
LGA	46	–	46	–	–	–	(14)	32	24	56
Total from divisions	1,234	3	1,237	(31)	80	(102)	(21)	1,163	320	1,483
Group debt costs	(112)	–	(112)	–	–	–	–	(112)	(30)	(142)
Group investment projects and expenses	(21)	–	(21)	–	–	–	(32)	(53)	(13)	(66)
Total	1,101	3	1,104	(31)	80	(102)	(53)	998	277	1,275

1. Operational cash generation includes dividends remitted from LGF of £2m and LGN of £29m within the Insurance line and LGA of £46m.
2. International and other includes £25m of restructuring costs (£31m before tax) within the Group investment projects and expenses line.
3. LGIM includes the workplace savings business which was previously reported in Savings.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

(iii) Analysis of LGR, Insurance and Savings operating profit

	LGR 2015 £m	Insurance 2015 £m	Savings[1] 2015 £m	LGR 2014 £m	Insurance 2014 £m	Savings[1] 2014 £m
Net cash generation	**417**	**348**	**110**	343	327	113
Experience variances						
Persistency	**4**	**5**	**(2)**	(3)	(3)	1
Mortality/morbidity	**18**	**(16)**	**–**	13	(7)	2
Expenses	**–**	**2**	**3**	(3)	1	(2)
Project and development costs	**(20)**	**(2)**	**(2)**	(19)	(6)	(3)
Other[2]	**11**	**(3)**	**(8)**	(1)	7	(5)
Total experience variances	**13**	**(14)**	**(9)**	(13)	(8)	(7)
Changes to valuation assumptions						
Persistency[3]	**–**	**48**	**–**	–	43	(1)
Mortality/morbidity[4]	**97**	**(20)**	**–**	61	37	–
Expenses[5]	**17**	**27**	**(2)**	(5)	11	3
Reinsurance modelling[6]	**–**	**(93)**	**–**	–	–	–
Other	**–**	**(7)**	**2**	(8)	(67)	1
Total valuation assumption changes	**114**	**(45)**	**–**	48	24	3
Movement in non-cash items						
Deferred tax	**–**	**–**	**2**	(11)	(3)	6
Utilisation of brought forward trading losses	**(25)**	**(6)**	**–**	(62)	(11)	2
Acquisition expense tax relief[7]	**–**	**(30)**	**(4)**	–	(36)	(6)
Deferred Acquisition Costs (DAC)[8]	**–**	**–**	**(54)**	–	–	(76)
Deferred Income Liabilities (DIL)[8]	**–**	**–**	**39**	–	–	50
Other	**5**	**(10)**	**(6)**	41	–	2
Total non-cash movement items	**(20)**	**(46)**	**(23)**	(32)	(50)	(22)
Other	**–**	**(10)**	**1**	–	(6)	(1)
Operating profit after tax	**524**	**233**	**79**	346	287	86
Tax gross up	**115**	**60**	**20**	82	83	19
Operating profit before tax	**639**	**293**	**99**	428	370	105

1. Savings excludes the workplace savings business which is now reported in LGIM. Prior period comparatives have been amended. The impact on the Savings comparatives is the increase of net cash generation by £16m and the increase of operating profit by £15m. Offsetting movements have been reflected in the LGIM segment.
2. The Other LGR experience variance reflects the benefit to profit of selective longevity and asset reinsurance related to bulk annuity transactions, offset by other smaller experience variances.
3. The Insurance persistency valuation assumption change reflects continued improvement in retail protection lapse rates.
4. The mortality/morbidity valuation assumption change in LGR primarily reflects late retirement factor assumption changes and a change in mortality reserving assumptions in relation to unreported deaths of deferred annuitants. The Insurance mortality/morbidity valuation assumption change has arisen on the strengthening of the reserving basis on the Whole Life Protection Product to reflect the current expectation of future mortality improvement on this business.
5. The LGR and Insurance positive expense valuation assumption changes represents the continued operational efficiency reducing the existing business cost base.
6. The reinsurance modelling for our UK protection business has been enhanced. Recent reinsurance contracts have been written on a risk premium basis (as opposed to level premium) and the model change ensures that for these treaties, sufficient prudence is being held in later years. The one-off impact reduced operating profit by £93m in 2015. This also defers a higher proportion of cash generation into the later years of these reinsurance contracts.
7. Net cash for Insurance and Savings recognises tax relief from prior year acquisition expenses, which are spread evenly over seven years under relevant 'I-E' tax legislation in the period the cash flows actually occur. In contrast, operating profit typically recognises the value of these future cash flows in the same period as the underlying expense as deferred tax amounts. The reconciling amounts arising from these items are included in the table above. Following the removal of new retail protection business from the 'I-E' tax regime, and the removal of commission from new insured savings business under the Retail Distribution Review at the end of 2012, no material amount of deferred tax assets arise on new acquisition expenses and the value of these future cash flows for post-2013 acquisition expenses have been reflected within net cash. The residual prior year acquisition expenses will run off predictably to 2018.
8. The DAC in Savings represents the amortisation charges offset by new acquisition costs deferred in the year. The DIL reflects initial fees on insured savings business which relate to the future provision of services and are deferred and amortised over the anticipated period in which these services are provided.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

2 Supplementary operating profit information (continued)

(iv) Group investment projects and expenses

	2015 £m	2014 £m
Group investment projects and central expenses	**(44)**	(35)
Restructuring costs	**(50)**	(31)
Total group investment projects and expenses	**(94)**	(66)

(v) Investment and other variances

	2015 £m	2014 £m
Investment variance[1]	**(57)**	(8)
M&A related[2]	**(57)**	(21)
Other[3]	**(5)**	(15)
Total Investment and other/variances	**(119)**	(44)

1. 2015 investment variance is negative primarily driven by below expected equity performance and a defined pension benefit scheme variance of £(15)m (2014: £40m), that reflects the actuarial losses and gains and valuation differences arising on annuity assets held by defined benefit pension schemes that have been purchased from Legal & General Assurance Society Limited (Society).
2. M&A related includes gains and losses, expenses and intangible amortisation relating to acquisitions and disposals. 2015 includes the £25m net loss resulting from the disposal of subsidiary and joint venture investments during the year.
3. Other includes new business start-up costs and other non-investment related variance items.

3 Other operational income and expense

Operational income comprises fee income from estate agency operations, agency fee income relating to distribution services and revenue of £640m (2014: £628m) from consolidated private equity investments. Operational income is accounted for on an accruals basis. The total operational income for the year is £876m (2014: £746m).

Other expenses comprise:	Notes	2015 £m	2014 £m
Staff costs (including pensions and share-based payments)	37	**611**	639
Redundancy costs		**10**	17
Operating lease rentals[1]		**23**	26
Auditors' remuneration	36	**9**	7
Depreciation of plant and equipment		**15**	13
Amortisation of purchased interest in long-term businesses and other intangibles	10	**51**	50
Reinsurance commissions		**(5)**	(6)
Direct operating expenses arising from investment properties which generate rental income		**52**	52
Expenses attributable to consolidated private equity investment vehicles		**586**	613
Other administrative expenses		**541**	337
Total other expenses		**1,893**	1,748

1. Where a significant proportion of the risks and rewards of ownership is retained by the lessor, leases are classified as operating leases. Payments made by lessees under operating leases (net of any incentives from the lessor) are charged to the Consolidated Income Statement on a straight line basis over the period of the lease.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

4 Dividends

A dividend distribution to the company's shareholders is recognised as a liability in the period in which the dividends are authorised and are no longer at the discretion of the company.

	Dividend 2015 £m	Per share[1] 2015 p	Dividend 2014 £m	Per share[1] 2014 p
Ordinary share dividends paid in the period:				
Prior year final dividend	**496**	**8.35**	408	6.90
Current year interim dividend	**205**	**3.45**	172	2.90
	701	**11.80**	580	9.80
Ordinary share dividend proposed[2]	**592**	**9.95**	496	8.35

1. The dividend per share calculation is based on the number of equity shares registered on the ex-dividend date.
2. The dividend proposed is not included as a liability on the Consolidated Balance Sheet.

5 Earnings per share

Earnings per share is a measure of the portion of the group's profit allocated to each outstanding share. It is calculated by dividing net income attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the year, excluding employee scheme treasury shares. For this purpose, net income is defined as the profit after tax, attributable to equity holders of the company, derived from continuing operations.

For diluted earnings per share, the weighted average number of ordinary shares in issue, excluding employee scheme treasury shares, is adjusted to assume conversion of all dilutive potential ordinary shares, such as share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

A reconciliation of the earnings and weighted average number of shares used in the calculations is provided below:

(i) Earnings per share

	Profit after tax 2015 £m	Earnings per share[1] 2015 p	Adjusted profit after tax 2015 £m	Adjusted earnings per share[1,2] 2015 p	Profit after tax 2014 £m	Earnings per share[1] 2014 p
Operating profit	**1,142**	**19.29**	**1,142**	**19.29**	998	16.92
Investment and other variances	**(67)**	**(1.13)**	**(42)**	**(0.71)**	(13)	(0.22)
Earnings per share based on profit attributable to equity holders	**1,075**	**18.16**	**1,100**	**18.58**	985	16.70

1. Earnings per share is calculated by dividing profit after tax derived from continuing operations by the weighted average number of ordinary shares in issue during the year, excluding employee scheme treasury shares.
2. Adjusted earnings per share has been calculated excluding the net loss, £25m, resulting from the disposal of subsidiary and joint venture investments.

(ii) Diluted earnings per share

	Number of shares[1] 2015 m	Profit after tax 2015 £m	Earnings per share 2015 p	Adjusted profit after tax 2015 £m	Adjusted earnings per share[1,2] 2015 p	Number of shares[1] 2014 m	Profit after tax 2014 £m	Earnings per share 2014 p
Profit attributable to equity holders of the company	**5,920**	**1,075**	**18.16**	**1,100**	**18.58**	5,897	985	16.70
Net shares under options allocable for no further consideration	**38**	**–**	**(0.12)**	**–**	**(0.12)**	59	–	(0.16)
Diluted earnings per share	**5,958**	**1,075**	**18.04**	**1,100**	**18.46**	5,956	985	16.54

1. For diluted earnings per share, the weighted average number of ordinary shares in issue, excluding employee scheme treasury shares, is adjusted to assume conversion of all potential ordinary shares, such as share options granted to employees.
2. Adjusted earnings per share has been calculated excluding the net loss, £25m, resulting from the disposal of subsidiary and joint venture investments.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

6 New business

New business premiums reflect income arising from the sale of new insurance contracts during the reporting period and any changes to existing contracts, which were not anticipated at the outset of the contract.

New annual premiums arise where the terms and conditions of a policy anticipate more than one premium being paid over its lifetime; new single premiums comprise all premiums which are not categorised as new annual premiums.

	Annual 2015 £m	Single 2015 £m	Annual 2014 £m	Single 2014 £m
UK retail protection	162	–	165	–
UK group protection	69	–	65	–
France (LGF)[1]	30	303	33	283
Netherlands (LGN)	10	81	8	111
Platforms (Cofunds & IPS)[2]	39	3,154	56	3,624
Suffolk Life[1]	–	1,153	–	1,239
Mature retail savings[3]	9	396	10	791
With-profits	45	89	53	75
Total Insurance and Savings	364	5,176	390	6,123
Workplace savings	1,068	1,219	592	1,061
Retail investments[4]	11	5,394	13	4,018
Total LGIM	1,079	6,613	605	5,079
Annuities				
Individual	–	327	–	591
Bulk purchase[5]	–	2,417	–	5,987
Lifetime mortgages advances	–	201	–	–
Total LGR	–	2,945	–	6,578
US protection	70	–	91	–
India (26% share)	5	33	4	40
Egypt (55% share)[1]	12	–	13	–
Gulf (50% share)[1]	1	2	2	3
Total emerging markets	18	35	19	43
Total worldwide new business	1,531	14,769	1,105	17,823

1. LGF, Egypt and Gulf were all disposed of during 2015, refer Note 30. Suffolk Life is held for sale at 31 December 2015, refer Note 31.
2. Platforms premiums include retail business only.
3. Includes bonds and retail pensions.
4. Includes retail unit trusts and structured products.
5. Bulk purchase annuities are written to customers in the UK £1,977m (2014: £5,987m), in the USA £295m (2014: £nil) and the Netherlands £145m (2014: £nil).

BALANCE SHEET MANAGEMENT

7 Principal products
A significant part of the group's business involves the acceptance and management of risk.

A description of the principal products offered by the group's segments is outlined below. The group seeks to manage its exposure to risk through control techniques which ensure that the residual exposures are within acceptable tolerances agreed by the board. The group's risk appetite framework and the methods used to monitor risk exposures can be found on pages 42 to 47.

Details of the risks associated with the group's principal products and the control techniques used to manage these risks can be found in Notes 8 and 18.

LGF was disposed of in the year as referred to in Note 30. LGF primarily wrote unit linked savings, including shares in open ended investment vehicles (SICAVs), risks for which are borne by unit holders of these funds, Euro denominated funds with a 100% profit sharing clause and bank based investment accounts.

LGR
Annuity contracts
Annuity products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump sum capital payment. No surrender value is available under any of these products. Immediate and deferred annuity contracts are offered. Immediate annuities provide a regular income stream to the policyholder, purchased with a lump sum investment, where the income stream starts immediately after the purchase. The income stream from a deferred annuity is delayed until a specified future date. Bulk annuities are also offered, where the group accepts the assets and liabilities of a company pension scheme or a life fund, predominantly to UK clients, but also for US, Dutch and Irish clients. A small portfolio of immediate annuities has been written as participating business. Some non-participating deferred annuities sold by the group contain guaranteed cash options, predominantly minimum factors for commuting part of the annuity income into cash at the date of vesting. The value of such guaranteed options are currently immaterial. There is a block of immediate and deferred annuities within the UK non profit business with benefits linked to changes in the RPI or for a minority the CPI, but with contractual maximum or minimum increases. In particular, most of these annuities have a provision that the annuity will not reduce if RPI, or for a minority CPI, becomes negative. The total of such annuities in payment at 31 December 2015 was £572m (2014: £524m). Thus, 1% negative inflation, which was reversed in the following year, would result in a guarantee cost of approximately £6m (2014: £5m). Negative inflation sustained over a longer period would give rise to significantly greater guarantee costs. Some of these guarantee costs have been partially matched through the purchase of negative inflation hedges and limited price indexation swaps.

The group also offers products for individuals that provide a guaranteed level of income over a chosen fixed period of time, in exchange for an initial lump sum payment from the policyholder. The products can provide a fixed lump sum at maturity and/or options to surrender on non-guaranteed terms.

The group has written some deferred annuity contracts with guaranteed minimum pensions. These options expose the group to interest rate and longevity risk as the cost would be expected to increase with decreasing interest rates and improved longevity. The market consistent value of these guarantees carried in the balance sheet is £176m (2014: £196m).

Longevity insurance contracts
The group also provides longevity insurance products for company pension schemes, under which regular payments are made to the scheme reflecting their actual longevity experience, while the scheme makes an agreed set of regular payments in return. Some policies contain a guaranteed surrender value which is currently immaterial.

Lifetime mortgages
Lifetime mortgages are a form of equity release mortgage that provide non-commercial borrowers with a loan secured against their main residence, without the need for regular repayments. They are regulated retail mortgages offered only to borrowers over the age of 60 through specialist intermediaries. Interest accrues over the term of the loan and is repayable at the time the principal becomes due. All Lifetime mortgages provide a 'no negative equity' guarantee, which means that if the loan is repaid from the sale of the property and the net sale proceeds are lower than the balance of the loan, the group will accept the net sale proceeds as full settlement.

LGIM
LGIM offers both active and passive management on either a pooled or segregated basis. Assets are managed on behalf of pension funds, institutional clients, sovereign wealth clients, retail funds and subsidiary companies within the group. The core products are set out below.

Index fund management
LGIM provides a diversified range of pooled index funds, providing a wide choice and the ability to pursue specific benchmarks efficiently. In addition, segregated solutions are offered to institutional clients providing large scale customisation against established market capitalisation weighted and alternative indices.

BALANCE SHEET MANAGEMENT (CONTINUED)

7 Principal products (continued)

Active fixed income and liquidity management

A range of pooled and segregated active fixed income funds. The LGIM liquidity funds offer institutional investors a solution for their cash management requirements across a range of core currencies. The liquidity funds aim to deliver competitive returns with a high level of diversification, whilst focusing on capital preservation through portfolios of high quality, liquid assets.

Solutions and Liability Driven Investment (LDI)

A range of pooled and bespoke solutions to help de-risk defined benefit pension schemes. These solutions will usually combine active or passive underlying portfolios with derivative overlays designed to meet clients' specific requirements.

Solutions also includes a range of pooled multi-asset funds for retail and institutional clients, built using LGIM's expertise in asset allocation which is informed by an in-house research capability. The underlying asset classes may be managed on an active or passive basis within LGIM. An allocation strategy service is also offered to institutional clients, which may also allocate some of the portfolio to managers other than LGIM.

Active equity

An active equity management business comprising focused teams managing stock selection across different regions.

Property

A range of pooled or segregated real estate funds for both UK and overseas investors, offered via a mixture of pooled funds, specialist funds and partnerships. The business is based around in-house sector specialists with a dedicated research team.

LGC

Legal & General Capital (LGC) actively invests the group's balance sheet and improves shareholder returns through increasing exposure to direct investments and the efficient management of the group's traded portfolio.

Investment strategy and implementation

LGC manages a diversified portfolio of shareholder assets that include global equities, property, bonds and other direct investments not directly required to meet contractual obligations to policyholders. The potential volatility is managed using performance benchmarks, foreign exchange and equity derivative hedging and portfolio diversification to limit investment variance and concentrations of exposures by asset type, sector and geographic region.

Direct investments and structuring

Direct investments are an increasingly important part of the group's growth strategy and cover a diverse set of assets such as loans made directly to European SMEs, a property purchase or an equity stake in a private company. LGC invests in direct investments to achieve better risk adjusted returns, provide diversity to its traded market portfolio and develop synergies with other parts of the group's business. There is currently a sector focus on housing, urban regeneration, clean energy and alternate finance.

INSURANCE

Insurance business comprises retail and group protection, general insurance products and the Netherlands business (LGN).

Protection business (retail and group)

The group offers protection products which provide mortality or morbidity benefits. They may include health, disability, critical illness and accident benefits; these additional benefits are commonly provided as supplements to main life policies but can also be sold separately. The benefit amounts would usually be specified in the policy terms. Some sickness benefits cover the policyholder's mortgage repayments and are linked to the prevailing mortgage interest rates. In addition to these benefits, some contracts may guarantee premium rates, provide guaranteed insurability benefits and offer policyholders conversion options.

General insurance

The group offers Household and Accident, Sickness and Unemployment (ASU) products:

- Household. These contracts provide cover in respect of policyholders' homes, investment properties, contents, personal belongings and incidental liabilities which they may incur as a property owner, occupier and individual. Exposure is normally limited to the rebuilding cost of the home, the replacement cost of belongings and a policy limit in respect of liability claims.
- ASU. These contracts provide cover in respect of continuing payment liabilities incurred by customers when they are unable to work as a result of accident, sickness or unemployment. They protect predominantly mortgage payments. Exposure is limited to the monthly payment level selected by the customer sufficient to cover the payment and associated costs, up to the duration limit specified in the policy, usually 12 months.

In addition, there are portfolios of Motor Insurance (administered but not underwritten) and Domestic Mortgage Indemnity Insurance (DMI) in run-off. Since 1993, the DMI contract included a maximum period of cover of ten years, and a cap on the maximum claim. For business accepted prior to 1993, cover is unlimited and lasts until the insured property is remortgaged or redeemed. The group also sells pet insurance products.

BALANCE SHEET MANAGEMENT (CONTINUED)

Legal & General Netherlands (LGN)

In addition to protection products, LGN also write savings business, which includes unit linked and index linked savings products, bank based investment accounts and corporate pension products.

Certain savings products include an exposure to interest rate and credit risk, managed through an active asset-liability management programme.

SAVINGS

A range of contracts are offered in a variety of different forms to meet customers' long-term savings objectives. Policyholders may choose to include a number of protection benefits within their savings contracts. Typically, any guarantees under the contract would only apply on maturity or earlier death. On certain older contracts there may be provisions guaranteeing surrender benefits. Savings contracts may or may not guarantee policyholders an investment return. The contracts fall into three main types:

- Non-participating savings, pensions and endowment contracts;
- Participating savings business, comprising endowment contracts and with-profits bonds; and
- Unit linked savings contracts and collective investment savings products.

For unit linked savings contracts and collective investment savings products, there is a direct link between the investments and the obligations. The financial risk on these contracts is borne by the policyholders and therefore detailed risk disclosures have not been presented in respect of the associated assets and liabilities. Unit linked business is written in the Society with-profits fund. Collective investment business is administered by Legal & General (Portfolio Management Services) Limited.

Pensions (individual and corporate)

These are long-term savings contracts through which policyholders accumulate pension benefits. Some older contracts contain a basic guaranteed benefit expressed as an amount of pension payable or a guaranteed annuity option. Other options provided by these contracts include an open market option on maturity, early retirement and late retirement. The group would generally have discretion over the terms on which the latter types of options are offered.

Endowment policies

These contracts provide a lump sum on maturity determined by the addition of annual and final bonuses over the duration of the contract. In addition, the contracts provide a minimum sum assured death benefit.

With-profits bonds

These contracts provide an investment return to the policyholder which is determined by the attribution of regular and final bonuses over the duration of the contract. In addition, the contracts provide a death benefit, typically of 101% of the value of the units allocated to the policyholder.

Participating contracts

The with-profits fund ceased writing new business on 31 January 2015. Only increases to existing pension policies and new members to existing Group Personal Pension Schemes, where allowed for in the policy terms and conditions, have been accepted after that date. Regular premiums in payment at the date of closure will also continue to be accepted. Sales of new with-profits bonds were suspended in January 2014 before closing with-profits bonds to increments at the end of December 2014.

Discretionary increases to benefits on participating contracts are allowed in one or both of annual and final bonus form. These bonuses are determined in accordance with the principles outlined in the Society's Principles and Practices of Financial Management (PPFM) for the management of the with-profits fund. The principles include:

- The with-profits fund will be managed with the objective of ensuring that its assets are sufficient to meet its liabilities without the need for additional capital;
- Bonus rates will be smoothed so that some of the short-term fluctuations in the value of the investments of the with-profits fund and the business results achieved in the with-profits fund are not immediately reflected in payments under with-profits policies; and
- Some older participating contracts include a guaranteed minimum rate of roll up of the policyholder's fund up to the date of retirement or maturity.

The inherited estate is the excess of assets held within the with-profits fund over and above the amount required to meet liabilities, including those which arise from the regulatory duty to treat customers fairly in settling discretionary benefits. Following the closure of the with-profit sub fund, the board will consider annually whether part of the inherited estate should be distributed to with-profits policyholders. In adverse circumstances this may result in a deduction from investment returns in order to increase the value of the inherited estate. The amount and timing of any distribution from or deduction to increase the inherited estate shall be determined by the Board. Following this approach, the Board has agreed a charge of 0.2% in respect of changes in the cost of guarantees and options to be made as part of the 2015 bonus declaration.

BALANCE SHEET MANAGEMENT (CONTINUED)

7 Principal products (continued)

The distribution of surplus to shareholders depends upon the bonuses declared for the year. Typically, bonus rates are set having regard to investment returns, although the group has some discretion setting rates and would normally smooth bonuses over time. The volatility of investment returns could impact the fund's capital position and its ability to pay bonuses. If future investment conditions were less favourable than anticipated, the lower bonus levels resulting would also reduce future distributions to shareholders. The unallocated divisible surplus in the fund would normally be expected to absorb the impact of these investment risks. Only in extreme scenarios, where shareholders were required to provide support to the with-profits fund to meet its liabilities, would these risks affect equity. As part of the 2007 with-profit fund restructure, the 1996 sub-fund (£321m) was merged into the Shareholder Retained Capital (SRC). As a result, Society's Board of Directors undertook to initially maintain £500m of assets within Society to support the with-profits business. The amount of the commitment reduced to £100m at the end of 2015 and will then gradually reduce to zero by the end of 2017.

LGA

Protection business

Protection consists of individual term assurance, which provides death benefits over the medium to long term. The contracts have level premiums for an initial period with premiums set annually thereafter. During the initial period, there is generally an option to convert the contract to a universal life contract. After the initial period, the premium rates are not guaranteed, but cannot exceed the age-related guaranteed premium.

Universal life

Universal life contracts written by LGA provide savings and death benefits over the medium to long term. The savings element has a guaranteed minimum growth rate. LGA has exposure to loss in the event that interest rates decrease and it is unable to earn enough on the underlying assets to cover the guaranteed rate. LGA is also exposed to loss should interest rates increase, as the underlying market value of assets will generally fall without a change in the surrender value. The reserves for universal life totalled $625m (£424m) at 31 December 2015 (2014: $653m (£419m)). The guaranteed interest rates associated with those reserves ranged from 1.5% to 6% (2014: 1.5% to 6%), with the majority of the policies having guaranteed rates ranging from 3% to 4% (2014: 3% to 4%).

BALANCE SHEET MANAGEMENT (CONTINUED)

8 Asset risk

The group is exposed to the following categories of risk as a consequence of offering the principal products outlined in Note 7.

Market risk

Exposure to loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets.

Credit risk

Exposure to loss if another party fails to perform its financial obligations to the group.

Liquidity risk

The risk that the group, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

The financial risks associated with LGIM's businesses are directly borne by the investors in its funds. Therefore detailed risk disclosures have not been presented.

The group seeks to manage its exposures to risk through control techniques which ensure that the residual risk exposures are within acceptable tolerances agreed by the Board. A description of the risks associated with the group's principal products and the associated control techniques is detailed below.

Market risk

Principal risks	Product	Controls to mitigate the risk
Investment performance risk The group is exposed to the risk that the income from, and value of, assets held to back insurance liabilities do not perform in line with investment and product pricing assumptions leading to a potential financial loss.	Annuities and protection	Stochastic models are used to assess the impact of a range of future return scenarios on investment values and associated liabilities in order to determine optimum portfolios of invested assets. For immediate annuities, which are sensitive to interest rate risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes in line with the value of liabilities when interest rates change.
The financial risk exposure for participating contracts is different from that for non-participating business. Greater emphasis is placed on investing to maximise future investment returns rather than matching assets to liabilities. This results in holding significant equity and property investments. Lower investment returns increase the costs associated with maturity and investment guarantees provided on these contracts.	With-profits	These risks are managed by maintaining capital sufficient to cover the consequences of mismatch under a number of adverse scenarios. In addition, different investment strategies are followed for assets backing policyholder asset shares and assets backing other participating liabilities and surplus. The former include significant equity and property holdings, whilst the latter are invested largely in fixed interest securities. The assets held are managed so as to provide a partial hedge to movements in fixed interest yields and equity markets. The methodology used to calculate the liabilities for participating contracts makes allowance for the possibility of adverse changes in investment markets on a basis consistent with the market cost of hedging the guarantees provided. The methodology also makes allowance for the cost of future discretionary benefits, guarantees and options. The value of future discretionary benefits depends on the return achieved on assets backing these contracts. The asset mix varies with investment conditions reflecting the group's investment policy, which aims to optimise returns to policyholders over time whilst limiting capital requirements for this business.
For unit linked contracts, there is a risk of volatility in asset management fee income due to the impact of interest rate and market price movements on the fair value of the assets held in the linked funds, on which investment management fees are based. There is also the risk of expense over-runs should the market depress the level of charges which could be imposed.	Unit linked	The risk is managed through maintaining a diversified range of funds in which customers may invest. The performance of linked investment funds relative to their investment objectives are subject to regular monitoring. Periodic assessment is also made of the long-term profitability to the group of these funds. For some contracts the group has discretion over the level of management charges levied.
Property risk Lifetime mortgages include a no-negative equity guarantee which transfers to the group, an exposure to loss as a result of low house price inflation and an exposure on specific properties which may underperform the general house price inflation for whatever reason	Lifetime mortgages	To mitigate the risk, maximum loan to value ratios are set for all lending with further underwriting criteria setting out acceptable properties for lending purposes. Policy terms also require properties to be fully insured and maintained, including the right of inspection. Diversification of lending by property type and geographic region seek to control exposures to specific aspects of the property market.

BALANCE SHEET MANAGEMENT (CONTINUED)

8 Asset risk (continued)

Market risk (continued)

Principal risks	Product	Controls to mitigate the risk
Currency risk To diversify credit risk within the annuities business corporate bond portfolio, investments are held in corporate bonds denominated in non-sterling currencies. Fluctuations in the value of, or income from, these assets relative to liabilities denominated in Sterling could result in unforeseen loss.	Annuities	To mitigate the risk of loss from currency fluctuations, currency swaps are used to hedge exposures to corporate bonds denominated in currencies other than Sterling. Hedging arrangements are placed with strongly rated counterparties with collateral requirements being subject to regular review and reconciliation with the counterparties. In all cases, it is not possible to perfectly hedge currency risk, leading to some residual risk.
The consolidated international subsidiaries are revalued into Sterling potentially resulting in a loss to equity.	Group and LGC	Balance sheet foreign exchange currency translation exposure in respect of the group's international subsidiaries is managed in accordance with a policy, agreed by the Group Board, which allows net foreign currency assets to be hedged through the use of derivatives. In all cases, it is not possible to perfectly hedge currency risk leading to some residual risk.
Inflation risk Inflation risk is the potential for loss as a result of relative or absolute changes in inflation rates. Annuity contracts may provide for future benefits to be paid taking account of changes in the level of inflation. Annuity contracts in payment may include an annual adjustment for movements in price indices.	Annuities	The investment strategy for annuities business takes explicit account of the effect of movements in price indices on contracted liabilities. Significant exposures that may adversely impact profitability are hedged using inflation swaps. Annuity contracts also typically provide for a cap on the annual increase in inflation linked benefits in payment. It is not possible to perfectly hedge inflation risk linked with contracted liabilities, leading to some residual risk.
Interest rate risk Interest rate risk is the risk that the group is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates.	Annuities	To mitigate the risk that guarantees and commitments are not met, financial instruments are purchased, which broadly match the expected non-participating policy benefits payable, by their nature and term. The composition of the investment portfolio is governed by the nature of the insurance or savings liabilities, the expected rate of return applicable on each class of asset and the capital available to meet the price fluctuations for each asset class, relative to the liabilities they support.
The group is exposed to interest rate risk on the investment portfolio it maintains to meet the obligations and commitments under its non-linked insurance and investment contracts, in that the proceeds from the assets may not be sufficient to meet the group's obligations to policyholders. Additionally, the group is exposed to interest rate fluctuations on the repayments on the variable rate debt issued by the group.	Group and LGC	Asset liability matching significantly reduces the group's exposure to interest rate risk. IFRS sensitivity to interest rate changes is included in Note 20.

BALANCE SHEET MANAGEMENT (CONTINUED)

Credit risk

Principal risks	Product	Controls to mitigate the risk
Bond default risk A significant portfolio of corporate bonds and commercial loans are held to back the liabilities arising from writing annuities and general insurance business. Whilst the portfolio is diversified, the asset class is inherently exposed to the risk of issuer default, with financial loss.	Annuities, general insurance, and LGA	Issuer limits are set by financial strength rating, sector and geographic region so as to limit exposure from a default event. Issuer limits are regularly reviewed to take account of changes in market conditions, sector performance and the re-assessment of financial strength by rating agencies and the group's own internal analysts. Exposures are monitored relative to limits. Financial instruments are also used to mitigate the impact of rating downgrades and defaults. If appropriate, actions are taken to trade out investments at risk of default.
Reinsurance counterparty risk Exposure to insurance risk is mitigated by ceding part of the risks assumed to the reinsurance market. Default of a reinsurer would require the business to be re-brokered potentially on less advantageous terms, or for the risks to be borne directly resulting in financial loss. Credit risk syndication also exposes the group to counterparty default risks with the group being required to carry an element of associated credit risk capital requirement on its balance sheet should the business not be re-brokered on the same terms.	Annuities, general insurance, and LGA	When selecting new reinsurance partners, the group considers only companies which have a minimum credit rating equivalent to A- from Standard & Poor's. For each reinsurer, exposure limits are determined based on credit ratings and projected exposure over the term of the treaty. Actual exposures are regularly monitored relative to these limits. Similarly, for longevity and credit risk syndication transactions, the group targets the use of strongly rated counterparties and seeks to ensure that positions are fully collateralised. The adequacy and quality of collateral is subject to ongoing monitoring.
Property lending counterparty risk As part of our asset diversification strategy, we hold property lending and sale and leaseback investments. We are inherently exposed to the risk of default by a borrower or tenant.	Annuities	Each property lending and sale and leaseback investment transaction is subject to a due diligence process to assess the credit risks implicit in the transaction and confirm that any risk of default has been appropriately mitigated. We also protect our interests through taking security over the underlying property associated with the investment transaction.
Banking counterparty risk The group is exposed to potential financial loss should banks or the issuers of financial instruments default on their obligations to us. We are also exposed to counterparty risks in respect of the providers of settlement and custody services.	Group and LGC	The group controls its exposures to banking counterparties and the issuers of financial instruments using a framework of counterparty limits. These limits take account of the relative financial strength of the counterparty as well as other exposures that the group may have. Limits are subject to regular review with actual exposures monitored to limits. The group has defined criteria for the selection of custody and settlement services. The financial strength of providers is regularly reviewed.

Liquidity risk

Principal risks	Product	Controls to mitigate the risk
Contingent event risk Events that result in liquidity risk may include a flu pandemic or natural disaster leading to significantly higher levels of claims than would normally be expected, or extreme events impacting the timing of cash flows or the ability to realise investments at a given value within a specified timeframe.	Protection, general insurance and group	The group seeks to ensure that it meets its obligations as they fall due and avoids incurring material losses on forced asset sales in order to meet those obligations. A limited level of contingent liquidity risk is however an accepted element of writing contracts of insurance. It is furthermore a consequence of the markets in which the group operates and the executions of investment management strategies. However, the group's insurance businesses seek to maintain sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may arise from contingent events. The level of required liquidity is identified using techniques including stress tests for shock events, with the profile of actual liquid assets being regularly compared to the required profile. The group's treasury function provides formal facilities to the rest of the group to cover contingent liquidity requirements arising from more extreme events and where investment assets may not be readily realisable. The level of assets backing insurance liabilities held in cash and other readily realisable assets at 31 December 2015 was £3.7bn (2014: £2.7bn).
Collateral liquidity risk Within the annuities businesses, the use of financial instruments to hedge default, interest rate, currency and inflation risks can require the posting of collateral with counterparties, and as such an appropriate pool of the asset types specified by counterparties must either be held or readily available.	Annuities	Liquidity requirements to meet potential collateral calls are actively managed. Typically within the overall fund of investment assets held to meet the long-term liabilities arising from annuity business, £500m is held in cash and other highly liquid investment types for general liquidity purposes. As at 31 December 2015, eligible assets worth five times the outstanding collateral were held (using the most representative definition of collateral contained within the different collateral agreements).

BALANCE SHEET MANAGEMENT (CONTINUED)

8 Asset risk (continued)

Liquidity risk (continued)

Principal risks	Product	Controls to mitigate the risk
Investment liquidity risk Within the with-profits fund, exposure to liquidity risk may arise if the profile of investment assets held to meet obligations to policyholders is not aligned with the maturity profile of policies, or the profile does not adequately take account of the rights of policyholders to exercise options or guarantees to specified early surrender terms or minimum rates of return.	With-profits	Liquidity risk is managed ensuring that an appropriate proportion of the fund is held in cash or other readily realisable assets to meet each tranche of maturities and anticipated early withdrawals as they fall due. Where policyholders have discretion to require early payment of policy proceeds, contractual safeguards are in place to ensure that the fund and remaining policyholders are not disadvantaged should a material number of policyholders exercise this discretion.
Non-participating savings contracts are exposed to liquidity risk in that certain asset classes in which underlying funds invest, such as property, may not be readily realisable in certain market conditions, or only realisable at a diminution of value.	Non-participating savings	Liquidity risks associated with non-participating savings contracts are documented and communicated to customers within product terms and conditions. The terms also highlight that for certain asset classes such as property, the group retains the right to defer the processing of fund withdrawal requests for up to six months, should underlying assets need to be realised to meet payment requests.
Direct lending, sales and leaseback investments and lifetime mortgage business are inherently illiquid forms of investment, with limited secondary markets to realise the value of assets outside agreed redemption terms.	LGC, annuities, lifetime mortgages	Given the illiquid nature of the annuity and other liabilities, the group is able and willing to take advantage of the premium offered by illiquid assets. The group, however, sets limits on the overall exposure to illiquid investment types taking account of the nature and type of liabilities that the assets are held to meet.

The group seeks to manage its funds and liquidity requirements on a pooled basis and to ensure the group maintains sufficient liquid assets and standby facilities to meet a prudent estimate of its net cash outflows. In addition, it ensures that, even under plausible but unlikely severe conditions, the group has access to the funds necessary to cover all outgoings such as surrenders, withdrawals and maturing liabilities.

As at 31 December 2015, the group had in place a £1.00bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2020. This facility replaced the syndicated facility totalling £1.00bn, of which £0.04bn was due to mature in October 2017 and £0.96bn was due to mature in October 2018. No drawings were made under either facility during 2015.

LGA has similar risks to the UK protection business and controls to mitigate significant risks.

9 Assets analysis

The group has categorised its assets and liabilities in the following disclosure in accordance with the level of shareholder exposure to market and credit risks. The four categorisations presented are:

- **Unit linked**

For unit linked contracts, there is a direct link between the investments and the obligations. Unit linked business is written in both Society and Legal & General Assurance (Pensions Management) Limited. The financial risk on these contracts is borne by the policyholders. The group is, therefore, not directly exposed to any market risk, currency risk or credit risk for these contracts. As a result, risk disclosures have not been presented for unit linked assets and liabilities.

- **With-profits**

Policyholders and shareholders share in the risks and returns of the with-profits fund. The return to shareholders on virtually all participating products is in the form of a transfer to shareholders' equity, which is analogous to a dividend from the fund and is dependent upon the bonuses credited or declared on policies in that year. The bonuses are broadly based on historic and current rates of return on equity, property and fixed income securities, as well as expectations of future investment returns. The with-profits classification excludes unit linked contracts.

- **Non profit non-unit linked**

Shareholders are exposed to the risk and rewards of ownership of assets backing non profit non-unit linked business held in the UK with-profits fund, which comprise of annuities, protection and non profit savings products.

BALANCE SHEET MANAGEMENT (CONTINUED)

• **Shareholder**

All other assets are classified as shareholder assets. Shareholders of the group are directly exposed to market and credit risk on these assets. This includes the assets and liabilities of our overseas insurance operations and general insurance.

The table below presents an analysis of the balance sheet by category. All of the quantitative risk disclosures in Notes 16 and 17 have been provided using this categorisation.

As at 31 December 2015	Shareholder £m	Non profit non-unit linked £m	With-profits £m	Unit linked £m	Total £m
Assets					
Goodwill and Purchased interests in long-term business	317	10	48	–	375
Investment in associates and joint ventures	220	–	–	–	220
Property, plant and equipment	83	–	9	–	92
Investments	9,812	46,354	11,643	315,013	382,822
Reinsurers' share of contract liabilities	350	3,494	1	275	4,120
Other operational assets	2,198	799	268	2,496	5,761
Held for sale assets	48	–	–	3,361	3,409
Total assets	**13,028**	**50,657**	**11,969**	**321,145**	**396,799**
Liabilities					
Core borrowings	3,160	–	–	(68)	3,092
Operational borrowings	255	–	165	116	536
Participating contract liabilities	4	13	11,222	–	11,239
Non-participating contract liabilities	2,088	45,907	240	280,073	328,308
Other liabilities	2,533	3,196	342	37,492	43,563
Held for sale liabilities	8	–	–	3,361	3,369
Total liabilities	**8,048**	**49,116**	**11,969**	**320,974**	**390,107**

As at 31 December 2014	Shareholder £m	Non profit non-unit linked £m	With-profits £m	Unit linked £m	Total £m
Assets					
Goodwill and Purchased interests in long-term business	337	14	70	–	421
Investment in associates and joint ventures	149	–	–	–	149
Property, plant and equipment	132	–	14	–	146
Investments	9,590	47,379	15,242	319,264	391,475
Reinsurers' share of contract liabilities	332	2,238	(13)	349	2,906
Other operational assets	2,216	944	313	983	4,456
Total assets	12,756	50,575	15,626	320,596	399,553
Liabilities					
Core borrowings	3,053	–	–	(76)	2,977
Operational borrowings	367	2	205	141	715
Participating contract liabilities	–	14	14,336	671	15,021
Non-participating contract liabilities	2,087	45,786	404	290,157	338,434
Other liabilities	3,318	3,370	661	28,754	36,103
Total liabilities	8,825	49,172	15,606	319,647	393,250

BALANCE SHEET MANAGEMENT (CONTINUED)

10 Purchased interest in long-term businesses (PILTB) and other intangible assets

Portfolios of in-force insurance or investment contracts acquired either directly or through the acquisition of a subsidiary undertaking are capitalised at fair value. The value of business acquired represents the present value of anticipated future profits in acquired contracts. These amounts are amortised over the anticipated lives of the related contracts in the portfolio.

Intangible assets acquired via business combinations, such as the value of customer relationships, are recognised at fair value and are subsequently amortised over their useful life in line with the expected emergence of profit from the business. Where software costs are separately identifiable and measurable they are capitalised at cost and amortised over their expected useful life.

Purchased interest in long-term businesses and other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

	PILTB insurance contracts 2015 £m	PILTB investment contracts 2015 £m	Other intangible assets 2015 £m	Total 2015 £m
Cost				
As at 1 January	347	138	336	821
Acquisition of subsidiary	–	1	1	2
Additions	–	–	39	39
Disposals	–	–	(44)	(44)
Held for sale	–	(47)	(17)	(64)
Net exchange difference	11	2	2	15
As at 31 December	358	94	317	769
Accumulated amortisation and impairment				
As at 1 January	(328)	(60)	(91)	(479)
Amortisation for the year	(5)	(8)	(38)	(51)
Impairment loss	–	–	(2)	(2)
Disposals	–	–	32	32
Held for sale	–	28	8	36
Net exchange difference	(11)	(1)	(1)	(13)
As at 31 December	(344)	(41)	(92)	(477)
Net book value as at 31 December	14	53	225	292
To be amortised within 12 months				65
To be amortised after 12 months				227

BALANCE SHEET MANAGEMENT (CONTINUED)

	PILTB insurance contracts 2014 £m	PILTB investment contracts 2014 £m	Other intangible assets 2014 £m	Total 2014 £m
Cost				
As at 1 January	336	111	268	715
Acquisition of subsidiaries	–	25	13	38
Additions	–	–	55	55
Net exchange difference	11	2	–	13
As at 31 December	347	138	336	821
Accumulated amortisation and impairment				
As at 1 January	(308)	(45)	(54)	(407)
Amortisation for the year	(9)	(8)	(33)	(50)
Impairment loss	–	(7)	(5)	(12)
Net exchange difference	(11)	–	1	(10)
As at 31 December	(328)	(60)	(91)	(479)
Net book value as at 31 December	19	78	245	342
To be amortised within 12 months				65
To be amortised after 12 months				277

BALANCE SHEET MANAGEMENT (CONTINUED)

11 Deferred acquisition costs

The group incurs costs to obtain and process new business. These are accounted for in line with the appropriate accounting standards as follows:

Long-term insurance business
Acquisition costs comprise direct costs, such as initial commission, and the indirect costs of obtaining and processing new business. Acquisition costs relating to non-participating insurance contracts written outside the with-profits fund which are incurred during a financial year are deferred by use of an asset which is amortised over the period during which the costs are expected to be recoverable, and in accordance with the expected incidence of future related margins. For participating contracts, acquisition costs are charged to the income statement when incurred.

General insurance
A proportion of commission and other acquisition costs relating to unearned premiums is carried forward as deferred acquisition costs or, in respect of reinsurance outwards, as deferred income.

Investment contracts
For participating investment contracts, acquisition costs comprise direct costs such as initial commission and the indirect costs of obtaining and processing new business. These costs are charged to the income statement when incurred. For non-participating investment contracts, only directly attributable costs relating to investment management services which vary with, and are related to, securing new contracts and renewing existing contracts, are capitalised and amortised over the period during which the costs are expected to be recoverable from future revenue. All other costs are recognised as expenses when incurred.

	Insurance contracts 2015 £m	Investment contracts 2015 £m	Total 2015 £m	Insurance contracts 2014 £m	Investment contracts 2014 £m	Total 2014 £m
As at 1 January	**1,143**	**793**	**1,936**	991	889	1,880
Acquisition costs deferred	**221**	**19**	**240**	275	9	284
Amortisation charged to income	**(154)**	**(123)**	**(277)**	(191)	(117)	(308)
Increase/(decrease) due to currency translation	**64**	**(4)**	**60**	61	(4)	57
Disposals	**–**	**(77)**	**(77)**	–	–	–
Other	**2**	**3**	**5**	7	16	23
As at 31 December	**1,276**	**611**	**1,887**	1,143	793	1,936
To be amortised within 12 months	**93**	**75**	**168**	109	216	325
To be amortised after 12 months	**1,183**	**536**	**1,719**	1,034	577	1,611

Of the total gross deferred acquisition costs £1,211m (2014: £1,064m) relates to the LGA insurance business.

The deferred acquisition costs in relation to reinsurance contracts are £70m (2014: £69m). The total acquisition costs incurred for the year are £838m (2014: £873m).

BALANCE SHEET MANAGEMENT (CONTINUED)

12 Financial investments and investment property

The group holds financial investments and investment property to back insurance contracts on behalf of policyholders and as group capital.

The group classifies its financial investments on initial recognition as held for trading (HFT), designated at fair value through profit or loss (FVTPL), available-for-sale (AFS) or loans and receivables. Initial recognition of financial investments is on the trade date.

The group's policy is to measure investments at FVTPL except for certain overseas assets where the related liability is valued on a passive basis (not using current information), in which case investments are classified as AFS. All derivatives other than those designated as hedges are classified as HFT.

Certain financial investments held by the group are designated as FVTPL as their performance is evaluated on a total return basis, consistent with asset performance reporting to the Group Investment and Market Risk Committee and the group's investment strategy. Assets designated as FVTPL include debt securities (including lifetime mortgages) and equity instruments which would otherwise have been classified as AFS or loans and receivables under IAS 39, 'Financial instruments: recognition and measurement'. Assets backing participating and non-participating policyholder liabilities outside the US are designated as FVTPL. For participating contracts the assets are managed on a fair value basis to maximise the total return to policyholders over the contract life. The group's non-participating investment contract liabilities outside of the US are measured on the basis of current information and are designated as FVTPL to avoid an accounting mismatch in the income statement.

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

Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which represent current best practice, developed by the Association Français des Investisseurs en Capital, the British Venture Capital Association and the European Private Equity and Venture Capital Association. The techniques used for determining fair value include earnings multiples, the price of a recent investment or a net asset basis.

Financial investments classified as HFT and FVTPL are measured at fair value with gains and losses reflected in the Consolidated Income Statement. Transaction costs are expensed as incurred.

Financial investments classified as AFS are measured at fair value with unrealised gains and losses recognised in a separate reserve within equity. Realised gains and losses, impairment losses, dividends, interest and foreign exchange movements on non-equity instruments are reflected in the Consolidated Income Statement. Directly attributable transaction costs are included in the initial measurement of the investment.

Loans and receivables are initially measured at fair value plus acquisition costs, and subsequently measured at amortised cost using the effective interest method.

Investment property comprises land and buildings which are held for long-term rental yields and capital growth. It is carried at fair value with changes in fair value recognised in the Consolidated Income Statement within investment return.

Investment property in the UK is valued bi-annually by external chartered surveyors at open market values in accordance with the 'Appraisal and Valuation Manual' of The Royal Institution of Chartered Surveyors or using internal valuations and estimates during the intervening period. Outside the UK, valuations are produced in conjunction with external qualified professional valuers in the countries concerned. In the event of a material change in market conditions between the valuation date and balance sheet date, an internal valuation is performed and adjustments made to reflect any material changes in fair value.

The group receives and pledges collateral in the form of cash or non-cash assets in respect of various transactions, in order to reduce the credit risk of these transactions. The amount and type of collateral required where the group receives collateral depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, where the group has contractual rights to receive the cash flows generated, is recognised as an asset in the Consolidated Balance Sheet with a corresponding liability for its repayment. Non-cash collateral received is not recognised in the Consolidated Balance Sheet, unless the counterparty defaults on its obligations under the relevant agreement.

BALANCE SHEET MANAGEMENT (CONTINUED)

12 Financial investments and investment property (continued)

Non-cash collateral pledged where the group retains the contractual rights to receive the cash flows generated is not derecognised from the Consolidated Balance Sheet, unless the group defaults on its obligations under the relevant agreement.

Cash collateral pledged, where the counterparty has contractual rights to receive the cash flows generated, is derecognised from the Consolidated Balance Sheet and a corresponding receivable is recognised for its return.

Future developments

In July 2014, the IASB issued IFRS 9, 'Financial instruments' which is effective for annual periods beginning on or after 1 January 2018, subject to EU endorsement and the IASB's consideration of its exposure draft, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'. On adoption, IFRS 9 contains three key elements:

- A principle-based model for classification and measurement of financial instruments driven by cash flow characteristics and the business model in which an asset is held. Financial assets are classified under either amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss;
- A single expected loss impairment model that will require more timely recognition of expected credit losses on assets classified as amortised cost or FVOCI. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised, and it lowers the threshold for recognition of full lifetime expected losses; and
- A substantially-reformed model for hedge accounting with enhanced disclosures about risk management activities, enabling entities to better reflect these activities in their financial statements.

The impact of IFRS 9 on the group's financial statements will depend on the interaction of the asset classification and measurement with the insurance contract measurement at the date of transition, particularly for liabilities which are measured using locked in discount rates. Given the IASB's consideration of deferral of IFRS 9 for certain insurance companies, the group does not intend to early adopt this Standard.

(i) Financial investments and investment property at fair value

	Note	Shareholder 2015 £m	Non profit non-unit linked 2015 £m	With-profits 2015 £m	Unit linked 2015 £m	Total 2015 £m
Financial investments at fair value designated as:						
Fair value through profit or loss		4,879	39,502	9,819	288,288	342,488
Available-for-sale		1,592	–	–	9	1,601
Held for trading		36	3,640	38	5,795	9,509
Financial investments at fair value		6,507	43,142	9,857	294,092	353,598
Loans and receivables	12(iii)	465	–	–	–	465
Total financial investments		6,972	43,142	9,857	294,092	354,063
Investment property		190	2,157	930	4,805	8,082
Total financial investments and investment property		7,162	45,299	10,787	298,897	362,145
Expected to be received within 12 months						37,180
Expected to be received after 12 months						324,965

BALANCE SHEET MANAGEMENT (CONTINUED)

	Note	Shareholder 2014 £m	Non profit non-unit linked 2014 £m	With-profits 2014 £m	Unit linked 2014 £m	Total 2014 £m
Financial investments at fair value designated as:						
Fair value through profit or loss		5,267	40,993	13,036	289,075	348,371
Available-for-sale		1,698	–	–	7	1,705
Held for trading		113	3,850	61	6,011	10,035
Financial investments at fair value		7,078	44,843	13,097	295,093	360,111
Loans and receivables	12(iii)	286	–	29	188	503
Total financial investments		7,364	44,843	13,126	295,281	360,614
Investment property		151	1,879	1,034	5,088	8,152
Total financial investments and investment property		7,515	46,722	14,160	300,369	368,766
Expected to be received within 12 months						45,996
Expected to be received after 12 months						322,770

Investment risks on unit linked assets are borne by the policyholders. The remaining risks associated with financial investments are outlined in Note 8.

Financial investments, cash and cash equivalents include £1,571m (2014: £1,004m) of assets pledged as collateral against derivative liabilities. The assets used as collateral are Treasury Gilts, Foreign Government Bonds, AAA and AA Corporate Bonds and cash (2014: Treasury Gilts, Foreign Government Bonds, AAA Supranational Bonds and AA Corporate Bonds) having a residual maturity of over 52 years (2014: over 46 years). The group is entitled to receive all of the cash flows from the asset during the period when it is pledged as collateral. Further, there is no obligation to pay or transfer these cash flows to another entity. The group can decide to substitute an asset which is designated as collateral at any time, provided the relevant terms and conditions of the International Swap Dealers Association agreement are met.

Various bulk purchase annuity deals were undertaken throughout the year and £4,040m (2014: £3,803m) of Corporate Bonds and Treasury Gilts and cash are pledged as collateral in relation to these.

Collateral of £261m (2014: £184m) made up of Treasury Gilts, Foreign Government Bonds and Corporate Bonds (AAA, AA, A and BBB) was pledged out in respect of the reinsurance agreements. These assets are neither past due, nor impaired. The carrying value of these assets reflects the full exposure value of these assets.

Financial investments have been allocated between those expected to be settled within 12 months and after 12 months in line with the expected settlement of the backed liabilities. Assets in excess of the insurance and investment contract liabilities have been classified as expected to be settled after 12 months.

BALANCE SHEET MANAGEMENT (CONTINUED)

12 Financial investments and investment property (continued)

(i) Financial investments and investment property at fair value (continued)

	Note	Shareholder 2015 £m	Non profit non-unit linked 2015 £m	With-profits 2015 £m	Unit linked 2015 £m	Total 2015 £m
Equity securities		**1,923**	**149**	**3,365**	**167,476**	**172,913**
Debt securities[1]		**4,516**	**38,888**	**6,385**	**119,931**	**169,720**
Accrued interest		**32**	**465**	**69**	**890**	**1,456**
Derivative assets	13	**36**	**3,640**	**38**	**5,795**	**9,509**
Total investments at fair value		**6,507**	**43,142**	**9,857**	**294,092**	**353,598**

	Note	Shareholder 2014 £m	Non profit non-unit linked 2014 £m	With-profits 2014 £m	Unit linked 2014 £m	Total 2014 £m
Equity securities		1,891	279	4,065	163,471	169,706
Debt securities[1]		5,033	40,238	8,860	124,635	178,766
Accrued interest		41	476	111	976	1,604
Derivative assets	13	113	3,850	61	6,011	10,035
Total investments at fair value		7,078	44,843	13,097	295,093	360,111

1. Non profit non-unit linked debt securities include £1,687m (2014: £1,147m) of commercial loans and £207m (2014: £nil) of lifetime mortgages designated as fair value through profit and loss.

Non consolidated private equity investments are included within equity securities. A loss of £3m (2014: loss of £14m) has been recognised in the Consolidated Income Statement in respect of the movement in fair value of these investments.

Property investments which are held via partnerships or unit trust vehicles are also included within equity securities. A gain of £84m (2014: gain of £47m) has been recognised in the Consolidated Income Statement in respect of the movement in fair value of these investments.

Included within unit linked equity securities are £336m (2014: £315m) of debt instruments which incorporate an embedded derivative linked to the value of the group's share price.

BALANCE SHEET MANAGEMENT (CONTINUED)

(ii) Collateralised debt obligations (CDOs)

The group holds CDOs with a market value of £1,173m at 2015 (2014: £1,215m).

These holdings include £1,000m (2014: £994m) relating to four CDOs that were constructed in 2007 and 2008 in accordance with terms specified by Legal & General as part of a strategic review of the assets backing the annuity portfolio. These CDOs mature in 2017 and 2018. The group selected at outset and manages the reference portfolios underlying the CDOs to give exposure to globally diversified portfolios of investment grade corporate bonds. The group is able to substitute the constituents of the original reference portfolios with new reference assets, allowing the management of the underlying credit risk although there have been no substitutions in 2014 or 2015. A breakdown of the underlying CDO reference portfolio by sector is provided below:

Sector	2015 %	2014 %
Banks	**14**	14
Utilities	**10**	10
Consumer Services and Goods	**25**	25
Financial Services	**6**	6
Technology and Telecoms	**9**	9
Insurance	**6**	6
Industrials	**20**	20
Oil and Gas	**6**	6
Health Care	**4**	4
	100	100

The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the four CDOs, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, over 39% of the reference names would have to default before the CDOs incur any default losses.

Beyond 27.5% of default losses on the reference portfolio, losses to the CDO would occur at a rate that is a multiple of the loss rate on the reference portfolio. For illustration, a £200m loss could be incurred if default losses to the reference portfolios exceeded 30.4% or if 43.5% of the names in the reference portfolio defaulted with an average 30% recovery rate. (All figures are averages across the four CDOs).

The underlying reference portfolio has had no reference entity defaults in 2014 or 2015.

Losses are limited under the terms of the CDOs to assets and collateral invested.

These CDOs also incorporate features under which, in certain circumstances, the group can choose either to post additional cash collateral or to allow wind up of the structures. These features are dependent on the portfolios' weighted average spreads, default experience to date and time to maturity. No additional collateral was posted to any of the CDOs during 2015 (2014: £nil). During 2015, the group received £nil (2014: £nil) of previously posted collateral. The amount of the cash equivalent collateral attached to CDOs during the year is £nil (2014: £nil).

These CDOs are valued using an external valuation based on observable market inputs, which include CDX and iTraxx index tranches and CDS spreads on underlying reference entities. This is then validated against the internal valuation.

Unit linked CDOs are excluded from the analysis as the risk is retained by the policyholders.

BALANCE SHEET MANAGEMENT (CONTINUED)

12 Financial investments and investment property (continued)

(iii) Loans and receivables

	Shareholder 2015 £m	Non profit non-unit linked 2015 £m	With-profits 2015 £m	Unit linked[2] 2015 £m	Total 2015 £m
Deposits with credit institutions	1	–	–	–	1
Policy loans	40	–	–	–	40
Other loans[1]	424	–	–	–	424
Total loans and receivables	465	–	–	–	465

1. Other loans include £310m (2014: £188m) of commercial mortgage loans.
2. All unit linked loans and receivables are held by Suffolk Life. At 31 December 2015, Suffolk Life was transferred to held for sale.

	Shareholder 2014 £m	Non profit non-unit linked 2014 £m	With-profits 2014 £m	Unit linked 2014 £m	Total 2014 £m
Deposits with credit institutions	1	–	1	188	190
Policy loans	39	–	28	–	67
Other loans[1]	246	–	–	–	246
Total loans and receivables	286	–	29	188	503

There are no material differences between the carrying values reflected above and the fair values of these loans.

(iv) Fair value hierarchy

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

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

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

Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: fair values measured using valuation techniques for all inputs significant to the measurement other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs).

All of the group's level 2 assets have been valued using standard market pricing sources, such as iBoxx, IDC and Bloomberg, which use mathematical modelling and multiple source validation in order to determine consensus prices, except for bespoke CDOs and swaps holdings (see below). In normal market conditions, we would consider these market prices to be observable market prices. Following consultation with our pricing providers and a number of their contributing brokers, we have considered that these prices are not from a suitably active market and have classified them as level 2. The CDOs are valued using an external valuation based on observable market inputs, which include CDX and iTraxx index tranches and CDS spreads on underlying reference entities. This is then validated against the internal valuation. Accordingly, these assets have also been classified in level 2.

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

There have been no significant transfers between level 1 and level 2 in 2015 (2014: £nil).

BALANCE SHEET MANAGEMENT (CONTINUED)

For the year ended 31 December 2015	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	**1,923**	**1,663**	**–**	**260**
Debt securities	**4,516**	**1,966**	**2,188**	**362**
Accrued interest	**32**	**16**	**14**	**2**
Derivative assets	**36**	**13**	**23**	**–**
Investment property	**190**	**–**	**–**	**190**
Non profit non-unit linked				
Equity securities	**149**	**138**	**11**	**–**
Debt securities	**38,888**	**5,174**	**32,646**	**1,068**
Accrued interest	**465**	**34**	**426**	**5**
Derivative assets	**3,640**	**74**	**3,566**	**–**
Investment property	**2,157**	**–**	**–**	**2,157**
With-profits				
Equity securities	**3,365**	**3,002**	**6**	**357**
Debt securities	**6,385**	**3,029**	**3,343**	**13**
Accrued interest	**69**	**24**	**45**	**–**
Derivative assets	**38**	**11**	**27**	**–**
Investment property	**930**	**–**	**–**	**930**
Unit linked				
Equity securities	**167,476**	**164,118**	**3,112**	**246**
Debt securities	**119,931**	**82,388**	**37,537**	**6**
Accrued interest	**890**	**310**	**580**	**–**
Derivative assets	**5,795**	**332**	**5,463**	**–**
Investment property	**4,805**	**–**	**–**	**4,805**
Total financial investments at fair value and investment property	**361,680**	**262,292**	**88,987**	**10,401**

For the year ended 31 December 2014	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	1,891	1,664	1	226
Debt securities	5,033	1,975	2,818	240
Accrued interest	41	20	19	2
Derivative assets	113	28	85	–
Investment property	151	–	–	151
Non profit non-unit linked				
Equity securities	279	268	–	11
Debt securities	40,238	6,315	32,951	972
Accrued interest	476	42	427	7
Derivative assets	3,850	41	3,809	–
Investment property	1,879	–	–	1,879
With-profits				
Equity securities	4,065	3,531	14	520
Debt securities	8,860	4,174	4,668	18
Accrued interest	111	45	66	–
Derivative assets	61	31	30	–
Investment property	1,034	–	–	1,034
Unit linked				
Equity securities	163,471	157,191	5,895	385
Debt securities	124,635	84,287	40,344	4
Accrued interest	976	339	637	–
Derivative assets	6,011	444	5,567	–
Investment property	5,088	–	–	5,088
Total financial investments at fair value and investment property	368,263	260,395	97,331	10,537

BALANCE SHEET MANAGEMENT (CONTINUED)

12 Financial investments and investment property (continued)

(iv) Fair value hierarchy (continued)

(a) Assets measured at fair value based on level 3

Level 3 assets where internal models are used, represent a small proportion of assets to which shareholders are exposed, comprise both property and unquoted equities, the latter including investments in private equity, property vehicles and suspended securities.

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

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

Where quoted market prices are not available, fair value estimates are made at a point in time, based on relevant market data, as well as the best information about the individual financial instrument. Illiquid market conditions have resulted in inactive markets for certain of the group's financial instruments. As a result, there is generally no or limited observable market data for these assets and liabilities. Fair value estimates for financial instruments deemed to be in an illiquid market are based on judgements regarding current economic conditions, liquidity discounts, currency, credit and interest rate risks, loss experience and other factors. These fair values are estimates and involve considerable uncertainty and variability as a result of the inputs selected and may differ significantly from the values that would have been used had a ready market existed, and the differences could be material. As a result, such calculated fair value estimates may not be realisable in an immediate sale or settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique could significantly affect these fair value estimates.

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

	Equity securities 2015 £m	Other financial investments[1] 2015 £m	Investment property 2015 £m	Total 2015 £m	Equity securities 2014 £m	Other financial investments[1] 2014 £m	Investment property 2014 £m	Total 2014 £m
As at 1 January	**1,142**	**1,243**	**8,152**	**10,537**	974	633	6,377	7,984
Total gains or (losses) for the period recognised in profit:								
in other comprehensive income	**–**	**(12)**	**–**	**(12)**	–	9	–	9
realised and unrealised gains or (losses)[2]	**110**	**(10)**	**486**	**586**	71	99	668	838
Purchases/additions	**68**	**394**	**1,061**	**1,523**	210	1,026	1,579	2,815
Sales/disposals	**(246)**	**(234)**	**(482)**	**(962)**	(118)	(531)	(472)	(1,121)
Transfers into level 3[3]	**66**	**76**	**–**	**142**	5	10	–	15
Transfers out of level 3[3]	**(260)**	**–**	**–**	**(260)**	–	(3)	–	(3)
Transfers to held for sale[4]	**(17)**	**(1)**	**(1,135)**	**(1,153)**	–	–	–	–
As at 31 December	**863**	**1,456**	**8,082**	**10,401**	1,142	1,243	8,152	10,537

1. Other financial investments comprise debt securities, lifetime mortgages and derivative assets.
2. The realised and unrealised gains and losses have been recognised in investment return in the Consolidated Income Statement.
3. The group holds regular discussions with its pricing providers to determine whether transfers between levels of the fair value hierarchy have occurred. The above transfers occurred as a result of this process.
4. The Suffolk Life Group was sold in January 2016 and therefore was classified as held for sale at 31 December 2015.

BALANCE SHEET MANAGEMENT (CONTINUED)

(b) Effect on changes in significant unobservable inputs to reasonably possible alternative assumptions on level 3 assets

Fair values of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the level 3 financial instruments carried at fair value as at the balance sheet date, the valuation basis, main assumptions used in the valuation of these instruments and reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

		Reasonably possible alternative assumptions		
For the year ended 31 December 2015 Financial instruments and investment property	Main assumptions	Current fair value £m	Increase in fair value £m	Decrease in fair value £m
Assets				
Shareholder				
Private equity investment vehicles[1]	Price earnings multiple	9	1	(1)
Unquoted investments in property vehicles[2]	Property yield; occupancy	244	11	(11)
Untraded and other debt securities[3]	Cash flows; expected defaults	364	1	(1)
Unquoted and other securities[3]	Cash flows; expected defaults	7	–	–
Investment property[2]	Property yield; occupancy	190	9	(9)
Non profit non-linked				
Lifetime mortgage loans	Market spreads; LTVs	206	5	(7)
Untraded and other debt securities[3]	Cash flows; expected defaults	867	–	–
Investment property[2]	Property yield; occupancy	2,157	110	(110)
With-profits				
Private equity investment vehicles[1]	Price earnings multiple	11	1	(1)
Unquoted investments in property vehicles[2]	Property yield; occupancy	346	21	(21)
Untraded and other debt securities[3]	Cash flows; expected defaults	13	–	–
Investment property[2]	Property yield; occupancy	930	47	(47)
Unit linked				
Private equity investment vehicles[1]	Price earnings multiple	8	–	–
Unquoted investments in property vehicles[2]	Property yield; occupancy	133	8	(8)
Untraded and other debt securities[3]	Cash flows; expected defaults	6	–	–
Unquoted and other securities[3]	Cash flows; expected defaults	105	5	(5)
Investment property[2]	Property yield; occupancy	4,805	243	(243)
Total		10,401	462	(464)

1. Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined using alternative price earnings multiples.
2. Unquoted investments in property vehicles and direct holdings in investment property are valued by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. Reasonably possible alternative valuations have been determined using alternative yield and occupancy assumptions.
3. No reasonably possible increases or decreases in fair values have been given for securities where the broker methodology is unknown.

BALANCE SHEET MANAGEMENT (CONTINUED)

12 Financial investments and investment property (continued)

(iv) Fair value hierarchy (continued)

(b) Effect on changes in significant unobservable inputs to reasonably possible alternative assumptions on level 3 assets (continued)

For the year ended 31 December 2014 Financial instruments and investment property	Main assumptions	Current fair value £m	Reasonably possible alternative assumptions Increase in fair value £m	Decrease in fair value £m
Assets				
Shareholder				
Private equity investment vehicles[1]	Price earnings multiple	16	1	(1)
Unquoted investments in property vehicles[2]	Property yield; occupancy	117	7	(7)
Untraded and other debt securities[3]	Cash flows; expected defaults	241	–	–
Unquoted and other securities[3]	Cash flows; expected defaults	94	2	(2)
Investment property[2]	Property yield; occupancy	151	8	(8)
Non profit non-linked				
Untraded and other debt securities[3]	Cash flows; expected defaults	778	–	–
Unquoted and other securities[3]	Cash flows; expected defaults	173	–	–
Other		39	–	–
Investment property[2]	Property yield; occupancy	1,879	94	(94)
With-profits				
Private equity investment vehicles[1]	Price earnings multiple	160	9	(9)
Unquoted and other securities[3]	Cash flows; expected defaults	375	18	(18)
Other		3	–	–
Investment property[2]	Property yield; occupancy	1,034	52	(52)
Unit linked				
Suspended securities	Estimated recoverable amount	7	–	–
Asset backed securities	Cash flows; expected defaults	7	4	(4)
Untraded and other debt securities[3]	Cash flows; expected defaults	2	–	–
Unquoted and other securities[3]	Cash flows; expected defaults	373	15	(15)
Investment property[2]	Property yield; occupancy	5,088	255	(255)
Total		10,537	465	(465)

1. Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined using alternative price earnings multiples.
2. Unquoted investments in property vehicles and direct holdings in investment property are valued by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. Reasonably possible alternative valuations have been determined using alternative yield and occupancy assumptions.
3. No reasonably possible increases or decreases in fair values have been given for securities where the broker methodology is unknown.

(v) Net asset value attributable to unit holders

Amounts attributable to unit holders are repayable on demand and the group is responsible for ensuring there is sufficient liquidity within the corresponding asset portfolio to enable the liability to be met as it falls due.

At 31 December 2015, the level 1 net asset value attributable to unit holders is £18,277m (2014: £17,139m).

BALANCE SHEET MANAGEMENT (CONTINUED)

13 Derivative assets and liabilities

The group's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The group uses derivatives such as foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The group uses hedge accounting, provided the prescribed criteria in IAS 39 are met, to recognise the offsetting effects of changes in the fair value or cash flow of the derivative instrument and the hedged item. The group's principal uses of hedge accounting are to:

- Recognise in shareholders' equity the changes in the fair value of derivatives designated as hedges of a net investment in a foreign operation. Any cumulative gains and/or losses are recognised in the Consolidated Income Statement on disposal of the foreign operation;
- Defer in equity the changes in the fair value of derivatives designated as the hedge of a future cash flow attributable to a recognised asset or liability, a highly probable forecast transaction, or a firm commitment until the period in which the future transaction affects profit or loss or is no longer expected to occur; and
- Hedge the fair value movements in loans due to interest rate and exchange rate fluctuations. Any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the Consolidated Income Statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Consolidated Income Statement.

The relationship between the hedging instrument and the hedged item, together with the risk management objective and strategy for undertaking the hedge transaction, are documented at the inception of the transaction. The effectiveness of the hedge is documented and monitored on an ongoing basis. Hedge accounting is only applied for highly effective hedges (between 80% and 125% effectiveness) with any ineffective portion of the gain or loss recognised in the Consolidated Income Statement, within other expenses, in the current year.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments which do not qualify for hedge accounting are recognised immediately in the Consolidated Income Statement.

Where the risks and characteristics of derivatives embedded in other contracts are not closely related to those of the host contract and the whole contract is not carried at fair value, the derivative is separated from that host contract and measured at fair value, with fair value movements reflected within investment return, unless the embedded derivative itself meets the definition of an insurance contract.

Cash inflows and outflows are presented on a net basis where the group is required to settle net or has a legally enforceable right of offset and the intention is to settle on a net basis.

BALANCE SHEET MANAGEMENT (CONTINUED)

13 Derivative assets and liabilities (continued)

	Contract/ notional amount 2015 £m	Fair values Assets 2015 £m	Fair values Liabilities[1] 2015 £m	Contract/ notional amount 2014 £m	Fair values Assets 2014 £m	Fair values Liabilities[1] 2014 £m
Shareholder derivatives:						
Interest rate contracts – held for trading	**565**	**–**	**22**	1,605	31	49
Forward foreign exchange contracts – net investment hedges	**78**	**–**	**1**	589	1	1
Forward foreign exchange contracts – held for trading	**65**	**13**	**31**	577	77	29
Equity/index derivatives – held for trading	**(300)**	**1**	**6**	(324)	2	1
Credit derivatives – held for trading	**8**	**–**	**–**	99	1	3
Other derivatives – held for trading	**–**	**22**	**–**	83	1	1
Total shareholder derivatives		**36**	**60**		113	84
Non profit non-unit linked derivatives:						
Interest rate contracts – held for trading	**22,420**	**3,336**	**1,775**	22,692	3,615	1,991
Forward foreign exchange contracts – net investment hedges	**–**	**–**	**1**	–	–	–
Forward foreign exchange contracts – held for trading	**–**	**74**	**91**	–	41	149
Currency swap contracts – held for trading	**9,449**	**–**	**222**	3,636	–	62
Inflation swap contracts – held for trading	**6,450**	**161**	**631**	6,387	118	475
Credit derivatives – held for trading	**1,031**	**28**	**–**	1,157	26	1
Other derivatives – held for trading	**194**	**41**	**–**	194	50	–
Total non profit non-unit linked derivatives		**3,640**	**2,720**		3,850	2,678
With-profits derivatives:						
Interest rate contracts – held for trading	**744**	**25**	**–**	749	28	1
Forward foreign exchange contracts – held for trading	**–**	**1**	**28**	–	9	20
Equity/index derivatives – held for trading	**(221)**	**10**	**3**	(253)	24	32
Credit derivatives – held for trading	**47**	**2**	**1**	–	–	–
Total with-profits derivatives		**38**	**32**		61	53
Unit linked derivatives:						
Interest rate contracts – held for trading	**11,193**	**5,413**	**1,644**	11,576	5,507	1,669
Forward foreign exchange contracts – held for trading	**–**	**295**	**1,244**	–	387	269
Credit derivatives – held for trading	**(1,346)**	**13**	**31**	1,170	2	18
Inflation swap contracts – held for trading	**–**	**39**	**275**	–	–	–
Equity/index derivatives – held for trading	**2,226**	**20**	**1,521**	3,514	99	1,498
Other derivatives – held for trading	**19**	**15**	**1**	19	6	–
Inflation rate contracts – held for trading	**3,495**	**–**	**519**	3,530	10	608
Total unit linked derivatives		**5,795**	**5,235**		6,011	4,062
Total derivative assets and liabilities		**9,509**	**8,047**		10,035	6,877

1. Derivative liabilities are reported in the Consolidated Balance Sheet within Payables and other financial liabilities (Note 27).

The notional amounts of some derivative instruments provide a basis for comparison with instruments recognised on the Consolidated Balance Sheet. However, these amounts do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and therefore, do not indicate the group's exposure to credit or price risks.

BALANCE SHEET MANAGEMENT (CONTINUED)

The contractual undiscounted cash flows in relation to non-unit linked derivatives have the following maturity profile. Unit linked derivatives have not been included as shareholders are not directly exposed to liquidity risks.

		Maturity profile of undiscounted cash flows					
As at 31 December 2015	Fair values £m	Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Cash inflows							
Shareholder derivatives							
Derivative assets	36	769	–	–	–	–	769
Derivative liabilities	(60)	699	–	–	–	–	699
Non profit non-unit linked derivatives							
Derivative assets	3,640	6,447	1,595	3,513	1,722	1,472	14,749
Derivative liabilities	(2,720)	8,527	3,057	6,255	3,670	2,618	24,127
With-profits derivatives							
Derivative assets	38	87	44	61	–	–	192
Derivative liabilities	(32)	813	–	–	–	–	813
Total	902	17,342	4,696	9,829	5,392	4,090	41,349
Cash outflows							
Shareholder derivatives							
Derivative assets	36	(733)	–	–	–	–	(733)
Derivative liabilities	(60)	(736)	–	–	–	–	(736)
Non profit non-unit linked derivatives							
Derivative assets	3,640	(6,166)	(772)	(2,311)	(1,368)	(842)	(11,459)
Derivative liabilities	(2,720)	(8,979)	(3,994)	(7,726)	(4,168)	(3,013)	(27,880)
With-profits derivatives							
Derivative assets	38	(67)	(33)	(58)	–	–	(158)
Derivative liabilities	(32)	(847)	(2)	–	–	–	(849)
Total	902	(17,528)	(4,801)	(10,095)	(5,536)	(3,855)	(41,815)
Net shareholder derivatives cash flows		(1)	–	–	–	–	(1)
Net non profit non-unit linked derivatives cash flows		(171)	(114)	(269)	(144)	235	(463)
Net with-profits derivatives cash flows		(14)	9	3	–	–	(2)

BALANCE SHEET MANAGEMENT (CONTINUED)

13 Derivative assets and liabilities (continued)

As at 31 December 2014	Fair values £m	Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
		Maturity profile of undiscounted cash flows					
Cash inflows							
Shareholder derivatives							
Derivative assets	113	966	–	–	–	–	966
Derivative liabilities	(84)	1,183	3	1	–	–	1,187
Non profit non-unit linked derivatives							
Derivative assets	3,850	2,214	1,701	3,828	3,642	3,877	15,262
Derivative liabilities	(2,678)	8,813	2,430	3,133	2,557	2,500	19,433
With-profits derivatives							
Derivative assets	61	406	47	70	23	1	547
Derivative liabilities	(53)	539	–	–	–	–	539
Total	1,209	14,121	4,181	7,032	6,222	6,378	37,934
Cash outflows							
Shareholder derivatives							
Derivative assets	113	(871)	–	–	–	–	(871)
Derivative liabilities	(84)	(1,226)	(9)	–	–	–	(1,235)
Non profit non-unit linked derivatives							
Derivative assets	3,850	(1,939)	(831)	(2,666)	(2,638)	(2,307)	(10,381)
Derivative liabilities	(2,678)	(9,374)	(3,300)	(3,942)	(3,054)	(2,903)	(22,573)
With-profits derivatives							
Derivative assets	61	(363)	(33)	(69)	(23)	(1)	(489)
Derivative liabilities	(53)	(591)	–	–	–	–	(591)
Total	1,209	(14,364)	(4,173)	(6,677)	(5,715)	(5,211)	(36,140)
Net shareholder derivatives cash flows		52	(6)	1	–	–	47
Net non profit non-unit linked derivatives cash flows		(286)	–	353	507	1,167	1,741
Net with-profits derivatives cash flows		(9)	14	1	–	–	6

Future cash flows on the floating legs of interest rate and exchange derivatives are calculated using current spot rates, which may differ from the market expectation incorporated in the fair value.

Cash flows arising from implied events covered by credit derivatives are presented in the table above on an expected basis as cash flows within one year.

Forward foreign exchange contracts – net investment hedges
Historically, the group hedged part of the foreign exchange translation exposure on its net investment in its overseas subsidiaries, using forward foreign exchange contracts. It recognised the portion of the gain or loss which is determined to be an effective hedge through reserves within shareholders' equity, along with the gain or loss on translation of the foreign subsidiaries. These forward foreign exchange contracts were closed out during 2015.

Derivative contracts – held for trading
The group uses certain derivative contracts which are effective hedges of economic exposures in accordance with the group's risk management policy, but for various reasons are not designated within a formal hedge accounting relationship. Therefore, these contracts must be designated as held for trading, and gains and losses on these contracts are recognised immediately in the Consolidated Income Statement.

Derivative liabilities and their related assets are subject to master netting arrangements.

BALANCE SHEET MANAGEMENT (CONTINUED)

14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with maturities of three months or less from the date of acquisition.

	Shareholder 2015 £m	Non profit non-unit linked[1] 2015 £m	With-profits 2015 £m	Unit linked 2015 £m	Total 2015 £m
Cash at bank and in hand	**514**	**365**	**321**	**461**	**1,661**
Cash equivalents	**2,136**	**690**	**535**	**15,655**	**19,016**
Cash and cash equivalents	**2,650**	**1,055**	**856**	**16,116**	**20,677**

	Shareholder 2014 £m	Non profit non-unit linked[1] 2014 £m	With-profits 2014 £m	Unit linked 2014 £m	Total 2014 £m
Cash at bank and in hand	578	208	170	1,079	2,035
Cash equivalents	1,497	449	912	17,816	20,674
Cash and cash equivalents	2,075	657	1,082	18,895	22,709

1. Included within cash equivalents is £2m (2014: £nil) of collateral posted to CDOs which is not available for shareholder liquidity requirements.

15 Other assets

	Total 2015 £m	Total 2014[2] £m
Reinsurance receivables	**26**	46
Accrued interest and rent	**230**	181
Prepayments and accrued income	**480**	478
Insurance and intermediaries receivables[1]	**175**	354
Reverse repurchase agreements	**550**	–
Other receivables[2]	**2,157**	1,190
Other assets	**3,618**	2,249
Due within 12 months	**3,428**	2,013
Due after 12 months	**190**	236

1. Insurance and intermediaries receivables in 2014 included £178m relating to LGF. LGF was disposed of during 2015.
2. Other receivables include amounts receivable from brokers and clients for investing activities, unsettled cash and other sundry balances.

BALANCE SHEET MANAGEMENT (CONTINUED)

16 Market risk

(i) Investment performance risk

(a) Equity securities

The group controls its exposure to geographic price risks by using internal country credit ratings. These ratings are based on macroeconomic data and key qualitative indicators. The latter take into account economic, social and political environments. The table below indicates the group's exposure to different equity markets around the world. Unit linked equity investments are excluded from the table as the risk is retained by the policyholder.

Exposure to worldwide equity markets	Shareholder 2015 £m	Non profit non-unit linked 2015 £m	With-profits 2015 £m	Total 2015 £m	Shareholder 2014 £m	Non profit non-unit linked 2014 £m	With-profits 2014 £m	Total 2014 £m
United Kingdom	562	112	1,135	1,809	564	188	1,354	2,106
North America	360	16	543	919	327	16	713	1,056
Europe	317	17	564	898	301	68	662	1,031
Japan	108	–	266	374	80	–	261	341
Asia Pacific	128	4	345	477	183	7	500	690
Other	21	–	166	187	31	–	179	210
Listed equities	**1,496**	**149**	**3,019**	**4,664**	1,486	279	3,669	5,434
Unlisted UK equities	103	–	–	103	98	–	38	136
Holdings in unit trusts	324	–	346	670	307	–	358	665
Total equities	**1,923**	**149**	**3,365**	**5,437**	1,891	279	4,065	6,235

(b) Debt securities

Total debt securities and accrued interest[1]	Shareholder 2015 £m	Non profit non-unit linked 2015 £m	With-profits 2015 £m	Total 2015 £m	Shareholder 2014 £m	Non profit non-unit linked 2014 £m	With-profits 2014 £m	Total 2014 £m
United Kingdom	686	20,387	3,927	25,000	966	20,055	4,015	25,036
USA	2,178	9,543	786	12,507	2,324	9,515	919	12,758
Netherlands	278	1,663	231	2,172	272	1,910	377	2,559
France	223	1,284	118	1,625	314	1,412	1,573	3,299
Germany	316	284	363	963	304	378	467	1,149
Greece	1	–	–	1	–	–	–	–
Ireland	26	334	33	393	27	276	66	369
Italy	114	172	17	303	128	301	59	488
Portugal	7	–	–	7	10	1	–	11
Spain	61	126	8	195	48	212	58	318
Russia	8	–	7	15	18	19	4	41
Rest of Europe	247	1,695	404	2,346	307	1,857	721	2,885
Brazil	11	91	22	124	18	139	40	197
Rest of World	392	2,707	447	3,546	338	3,542	577	4,457
CDOs[2]	–	1,082	91	1,173	–	1,120	95	1,215
	4,548	**39,368**	**6,454**	**50,370**	5,074	40,737	8,971	54,782
Analysed as[1]								
Debt securities	4,516	38,903	6,385	49,804	5,033	40,261	8,860	54,154
Accrued interest	32	465	69	566	41	476	111	628
	4,548	**39,368**	**6,454**	**50,370**	5,074	40,737	8,971	54,782

1. For financial risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the balance sheet the components of the CDOs are shown within non profit non-unit linked investments (2015: £985m; 2014: £971m), cash equivalents (2015: £2m; 2014: £nil) and derivative assets/(liabilities) (2015: £13m; 2014: £23m).
2. £1,047m (2014: £1,043m) of the CDOs are domiciled in Ireland and £35m (2014: £77m) are domiciled in the rest of the world.

BALANCE SHEET MANAGEMENT (CONTINUED)

(c) Additional disclosures on shareholder and non profit non-unit linked debt securities exposure

	2015 £m	2015 %	2014 £m	2014 %
Sovereigns, Supras and Sub-Sovereigns	**7,549**	**16**	9,249	20
Banks:				
Tier 1	**248**	**1**	26	–
Tier 2 and other subordinated	**272**	**1**	621	1
Senior	**1,920**	**4**	2,221	5
Financial Services:				
Tier 1	**–**	**–**	–	–
Tier 2 and other subordinated	**58**	**–**	132	–
Senior	**857**	**2**	1,138	3
Insurance:				
Tier 1	**6**	**–**	129	–
Tier 2 and other subordinated	**219**	**–**	375	1
Senior	**471**	**1**	704	2
Utilities	**4,691**	**11**	5,824	13
Consumer Services, Consumer Goods and Health Care	**5,088**	**12**	4,726	10
Technology and Telecoms	**2,881**	**7**	2,836	6
Industrials	**2,221**	**5**	2,514	6
Oil and Gas	**2,125**	**5**	2,414	5
Property	**1,805**	**4**	2,126	5
Asset backed securities	**795**	**2**	1,234	3
Securitisations and debentures	**11,421**	**27**	8,422	18
Lifetime mortgages	**207**	**–**	–	–
CDOs	**1,082**	**2**	1,120	2
Total	**43,916**	**100**	45,811	100

BALANCE SHEET MANAGEMENT (CONTINUED)

16 Market risk (continued)

(i) Investment performance risk (continued)

(c) Additional disclosures on shareholder and non profit non-unit linked debt securities exposure (continued)

Analysis of Sovereigns, Supras and Sub-Sovereigns	2015 £m	2014 £m
Market value by region		
United Kingdom	**4,665**	6,267
USA	**792**	772
Netherlands	**237**	153
France	**90**	138
Germany	**322**	417
Greece	**1**	–
Ireland	**7**	8
Italy	**97**	96
Portugal	**7**	9
Spain	**31**	10
Russia	**8**	28
Rest of Europe	**739**	922
Brazil	**36**	64
Rest of World	**517**	365
Total	**7,549**	9,249

Analysis of securitisation and debentures	2015 £m	2014 £m
Sovereigns, Supras and Sub-Sovereigns	**682**	151
Banks	**–**	11
Financial Services	**2,166**	1,356
Insurance	**132**	27
Utilities	**1,768**	835
Consumer Services, Consumer Goods and Health Care	**416**	297
Technology and Telecoms	**1**	–
Industrials	**711**	592
Oil and Gas	**65**	64
Property	**403**	408
Infrastructure / PFI / Social housing	**1,234**	1,280
Covered Bonds[1]	**279**	328
Whole Business Securitised	**626**	569
Residential Mortgage Backed Securities	**668**	670
Commercial Mortgage Backed Securities	**1,092**	577
Secured Bonds[2]	**959**	961
Other	**219**	296
Total	**11,421**	8,422

1. Covered bonds are typically issued by banks and are secured on pools of residential mortgages.
2. Secured bonds are typically issued by Special Purpose Vehicles and are secured on various assets and/or cashflows within the issuer's business.

(ii) Currency risk

The table below summarises the group's exposure to foreign currency exchange risk, in sterling. The functional currency represents the currency of the primary economic environment in which each of the group's subsidiaries operates.

BALANCE SHEET MANAGEMENT (CONTINUED)

As at 31 December 2015 Shareholder	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Total assets	269	1,648	112	324	10,675	13,028
Total liabilities	180	613	85	1	7,169	8,048
Net assets	89	1,035	27	323	3,506	4,980
Non profit non-unit linked						
Total assets	1,550	16,149	–	12	32,946	50,657
Total liabilities	1,450	16,465	–	–	31,201	49,116
Net assets/(liabilities)	100	(316)	–	12	1,745	1,541
With-profits						
Total assets	597	1,114	276	872	9,110	11,969
Total liabilities	243	572	68	22	11,064	11,969
Net assets/(liabilities)	354	542	208	850	(1,954)	–

As at 31 December 2014 Shareholder	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Total assets	459	1,062	21	401	10,813	12,756
Total liabilities	512	1,327	–	1	6,985	8,825
Net assets/(liabilities)	(53)	(265)	21	400	3,828	3,931
Non profit non-unit linked						
Total assets	801	11,294	–	41	38,439	50,575
Total liabilities	676	10,963	–	–	37,533	49,172
Net assets	125	331	–	41	906	1,403
With-profits						
Total assets	397	1,338	246	1,079	12,566	15,626
Total liabilities	7	608	–	27	14,964	15,606
Net assets/(liabilities)	390	730	246	1,052	(2,398)	20

The group's management of currency risk reduces shareholders' exposure to exchange rate fluctuations. The group's exposure to a 10% exchange movement in the US Dollar and Euro on an IFRS basis, net of hedging activities, is detailed below.

Currency sensitivity test	Impact on pre-tax profit 2015 £m	Impact on equity 2015 £m	Impact on pre-tax profit 2014 £m	Impact on equity 2014 £m
10% Euro appreciation	19	15	7	6
10% US Dollar appreciation[1]	72	58	7	5

1. The increase in sensitivity to the US Dollar is due to the group no longer hedging its investment in LGA.

BALANCE SHEET MANAGEMENT (CONTINUED)

17 Credit risk

The credit profile of the group's assets exposed to credit risk is shown below. The credit rating bands are provided by independent rating agencies. For unrated assets, the group maintains internal ratings which are used to manage exposure to these counterparties. Unit linked assets have not been included as shareholders are not directly exposed to risk.

As at 31 December 2015	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated bespoke CDOs £m	Internally rated other £m	Total £m
Shareholder									
Government securities		1,005	238	29	213	35	–	6	1,526
Other fixed rate securities		315	518	671	732	200	–	115	2,551
Variable rate securities		291	51	87	5	4	–	1	439
Total debt securities	12(i)	1,611	807	787	950	239	–	122	4,516
Accrued interest	12(i)	6	4	7	12	3	–	–	32
Loans and receivables	12(iii)	–	–	196	71	44	–	154	465
Derivative assets	13	–	–	35	1	–	–	–	36
Cash and cash equivalents	14	749	1,276	406	163	–	–	56	2,650
Financial assets excluding equities		2,366	2,087	1,431	1,197	286	–	332	7,699
Reinsurers' share of contract liabilities		–	175	83	–	–	–	92	350
Other assets		2	125	28	17	24	–	513	709
		2,368	2,387	1,542	1,214	310	–	937	8,758

As at 31 December 2015	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated bespoke CDOs[1] £m	Internally rated other[1] £m	Total £m
Non profit non-unit linked									
Government securities		266	4,245	–	149	29	–	–	4,689
Other fixed rate securities		920	3,685	9,140	9,861	789	–	2,918	27,313
Variable rate securities[2]		503	1,424	2,058	522	187	1,000	1,000	6,694
Lifetime mortgages		–	–	–	–	–	–	207	207
Total debt securities[2]	12(i)	1,689	9,354	11,198	10,532	1,005	1,000	4,125	38,903
Accrued interest	12(i)	22	72	151	189	17	–	14	465
Loans and receivables	12(iii)	–	–	–	–	–	–	–	–
Derivative assets[2]	13	–	–	2,002	1,625	–	–	–	3,627
Cash and cash equivalents	14	183	367	377	32	–	–	94	1,053
Financial assets excluding equities		1,894	9,793	13,728	12,378	1,022	1,000	4,233	44,048
Reinsurers' share of contract liabilities		–	2,670	778	–	–	–	46	3,494
Other assets		2	2	3	48	3	–	258	316
		1,896	12,465	14,509	12,426	1,025	1,000	4,537	47,858

1. Of the total debt securities and accrued interest that have been internally rated, £6m is rated AAA, £1,551m AA, £1,903m A, £1,659m BBB and £20m BB or below.
2. For financial risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the Consolidated Balance Sheet the components of the CDOs are shown within non profit non-unit linked investments (£985m), cash equivalents (£2m) and derivative assets (£13m).

At the year end, the group held £2,218m (2014: £1,358m) of collateral in respect of non-unit linked derivative assets.

BALANCE SHEET MANAGEMENT (CONTINUED)

As at 31 December 2015	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated bespoke CDOs £m	Internally rated other £m	Total £m
With-profits									
Government securities		**72**	**2,563**	**33**	**45**	**6**	**–**	**–**	**2,719**
Other fixed rate securities		**725**	**480**	**723**	**993**	**133**	**–**	**605**	**3,659**
Variable rate securities		**–**	**–**	**1**	**4**	**2**	**–**	**–**	**7**
Total debt securities	12(i)	**797**	**3,043**	**757**	**1,042**	**141**	**–**	**605**	**6,385**
Accrued interest	12(i)	**15**	**22**	**10**	**19**	**2**	**–**	**1**	**69**
Loans and receivables	12(iii)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Derivative assets	13	**–**	**–**	**26**	**12**	**–**	**–**	**–**	**38**
Cash and cash equivalents	14	**59**	**218**	**237**	**108**	**3**	**–**	**231**	**856**
Financial assets excluding equities		**871**	**3,283**	**1,030**	**1,181**	**146**	**–**	**837**	**7,348**
Reinsurers' share of contract liabilities		**–**	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Other assets		**–**	**–**	**3**	**1**	**–**	**–**	**199**	**203**
		871	**3,284**	**1,033**	**1,182**	**146**	**–**	**1,036**	**7,552**

As at 31 December 2014	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated bespoke CDOs £m	Internally rated other £m	Total £m
Shareholder									
Government securities		839	237	22	213	55	–	5	1,371
Other fixed rate securities		319	466	1,031	841	159	–	228	3,044
Variable rate securities		350	124	125	13	6	–	–	618
Total debt securities	12(i)	1,508	827	1,178	1,067	220	–	233	5,033
Accrued interest	12(i)	7	6	11	14	3	–	–	41
Loans and receivables	12(iii)	–	39	113	53	22	–	59	286
Derivative assets	13	–	6	93	–	–	–	14	113
Cash and cash equivalents	14	348	936	314	106	11	–	360	2,075
Financial assets excluding equities		1,863	1,814	1,709	1,240	256	–	666	7,548
Reinsurers' share of contract liabilities		–	139	100	–	–	–	93	332
Other assets		12	83	76	1	–	–	666	838
		1,875	2,036	1,885	1,241	256	–	1,425	8,718

As at 31 December 2014	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated bespoke CDOs[1] £m	Internally rated other[1] £m	Total £m
Non profit non-unit linked									
Government securities		191	5,263	–	234	–	–	–	5,688
Other fixed rate securities		1,242	3,564	10,979	9,206	614	–	2,193	27,798
Variable rate securities[2]		479	1,449	2,074	752	5	994	1,022	6,775
Total debt securities	12(i)	1,912	10,276	13,053	10,192	619	994	3,215	40,261
Accrued interest	12(i)	24	81	178	168	11	–	14	476
Loans and receivables	12(iii)	–	–	–	–	–	–	–	–
Derivative assets	13	–	357	2,760	644	–	–	66	3,827
Cash and cash equivalents	14	89	336	182	–	–	–	50	657
Financial assets excluding equities		2,025	11,050	16,173	11,004	630	994	3,345	45,221
Reinsurers' share of contract liabilities		–	1,372	765	–	–	–	101	2,238
Other assets		–	11	38	2	–	–	327	378
		2,025	12,433	16,976	11,006	630	994	3,773	47,837

1. Of the total debt securities and accrued interest that have been internally rated, £nil is rated AAA, £1,565m AA, £1,394m A, £1,201m BBB and £63m BB or below.
2. For financial risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the Consolidated Balance Sheet the components of the CDOs are shown within investments (£971m), cash equivalents (£nil) and derivative liabilities (£23m).

BALANCE SHEET MANAGEMENT (CONTINUED)

17 Credit risk (continued)

As at 31 December 2014	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Internally rated bespoke CDOs £m	Internally rated other £m	Total £m
With-profits									
Government securities		142	3,416	55	88	5	–	2	3,708
Other fixed rate securities		1,227	929	1,323	1,346	124	–	181	5,130
Variable rate securities		–	–	7	10	–	–	5	22
Total debt securities	12(i)	1,369	4,345	1,385	1,444	129	–	188	8,860
Accrued interest	12(i)	21	44	20	25	1	–	–	111
Loans and receivables	12(iii)	–	–	1	–	–	–	28	29
Derivative assets	13	–	9	47	5	–	–	–	61
Cash and cash equivalents	14	70	419	164	–	–	–	429	1,082
Financial assets excluding equities		1,460	4,817	1,617	1,474	130	–	645	10,143
Reinsurers' share of contract liabilities		–	1	–	–	–	–	(14)	(13)
Other assets		–	–	1	–	–	–	219	220
		1,460	4,818	1,618	1,474	130	–	850	10,350

Impairment

The group reviews the carrying value of its financial assets (other than those held at FVTPL) at each balance sheet date. If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the Consolidated Income Statement. There must be objective evidence of impairment as a result of one or more events which have occurred after the initial recognition of the asset. Impairment is only recognised if the loss event has an impact on the estimated future cash flows of assets held at amortised cost or fair value of assets classified as AFS.

Assets which are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The table below provides information regarding the carrying value of financial assets which have been impaired and the ageing analysis of financial assets which are past due but not impaired. Unit linked assets have not been included as shareholders are not exposed to the risks from unit linked policies.

Ageing of financial assets that are past due but not impaired

		Financial assets that are past due but not impaired					
As at 31 December 2015	**Neither past due nor impaired £m**	**0-3 months £m**	**3-6 months £m**	**6 months-1 year £m**	**Over 1 year £m**	**Financial assets that have been impaired £m**	**Carrying value £m**
Shareholder	**8,206**	**9**	**6**	**6**	**17**	**–**	**8,244**
Non profit non-unit linked[1]	**47,318**	**141**	**8**	**17**	**9**	**–**	**47,493**
With-profits	**7,185**	**40**	**4**	**1**	**1**	**–**	**7,231**

1. For risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the Consolidated Balance Sheet the components of the CDOs are shown within investments (£985m), cash equivalents (£2m) and derivative assets (£13m).

		Financial assets that are past due but not impaired					
As at 31 December 2014	Neither past due nor impaired £m	0-3 months £m	3-6 months £m	6 months-1 year £m	Over 1 year £m	Financial assets that have been impaired £m	Carrying value £m
Shareholder	8,100	28	8	3	1	–	8,140
Non profit non-unit linked[1]	47,444	152	10	10	13	–	47,629
With-profits	10,125	50	1	2	2	–	10,180

1. For risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the Consolidated Balance Sheet the components of the CDOs are shown within investments (£994m), cash equivalents (£nil) and derivative liabilities (£nil).

BALANCE SHEET MANAGEMENT (CONTINUED)

Offsetting

Financial assets and liabilities are offset in the Consolidated Balance Sheet when the group has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis, or to realise the asset and liability simultaneously.

The group has not entered into any financial transactions resulting in financial assets and liabilities which have been offset in the Consolidated Balance Sheet. The table below shows the financial assets and liabilities that are subject to master netting agreements in the shareholder, non profit non-unit linked and with-profits. Unit linked assets and liabilities have not been included as shareholders are not exposed to the risks on these policies.

	Amounts subject to enforceable netting arrangements				
		Amounts under master netting arrangements but not offset			
As at 31 December 2015	**Gross and net amounts reported in the Balance Sheet £m**	**Related financial instruments[1] £m**	**Cash collateral £m**	**Securities collateral pledged £m**	**Net amount 2015 £m**
Derivative assets	**3,714**	**(2,370)**	**–**	**–**	**1,344**
Repurchase agreement assets	**89**	**(89)**	**–**	**–**	**–**
Total financial assets	**3,803**	**(2,459)**	**–**	**–**	**1,344**
Derivative liabilities	**(2,812)**	**2,370**	**–**	**260**	**(182)**
Total financial assets	**(2,812)**	**2,370**	**–**	**260**	**(182)**

	Amounts subject to enforceable netting arrangements				
		Amounts under master netting arrangements but not offset			
As at 31 December 2014	Gross and net amounts reported in the Balance Sheet £m	Related financial instruments[1] £m	Cash collateral £m	Securities collateral pledged £m	Net amount 2015 £m
Derivative assets	4,024	(2,398)	–	–	1,626
Total financial assets	4,024	(2,398)	–	–	1,626
Derivative liabilities	(2,807)	2,398	–	135	(274)
Total financial assets	(2,807)	2,398	–	135	(274)

1. Related financial instruments represent outstanding amounts with the same counterparty which, under agreements such as the ISDA Master Agreement, could be offset and settled net following certain predetermined events.

BALANCE SHEET MANAGEMENT (CONTINUED)

18 Insurance risk

The group is exposed to insurance risk as a consequence of offering the principal products outlined in Note 7. Insurance risk is the exposure to loss arising from experience being different to that anticipated. Detailed below are the risks associated with each of the group's segments and the associated controls operated.

Insurance risk

Principal risks	Product	Controls to mitigate the risk
Longevity, mortality and morbidity risks For contracts providing death benefits, higher mortality rates would lead to an increase in claims costs. The cost of health related claims depends on both the incidence of policyholders becoming ill and the duration over which they remain ill. Higher than expected incidence or duration would increase costs over the level currently assumed in the calculation of liabilities.	Protection	The pricing of protection business is based on assumptions as to future trends in mortality and morbidity having regard to past experience. Underwriting criteria are defined setting out the risks that are unacceptable and the terms for non-standard risks presented by the lives to be insured. Extensive use of reinsurance is made within the individual protection business, placing a proportion of all risks meeting prescribed criteria. Mortality and morbidity experience is compared to that assumed within the pricing basis with variances subject to actuarial investigation.
For savings contracts providing minimum assured death benefits, higher mortality rates may result in an increase in claims costs.	Savings	The pricing basis for contracts providing minimum assured death benefits include provision for future trends in mortality based on past experience. The level of mortality risk accepted within each contract is not sufficiently material to warrant formal underwriting at an individual policy level.
Older contracts containing a basic guaranteed benefit expressed as an amount of pension payable or a guaranteed annuity option, expose the group to interest rate and longevity risk. The cost of guarantees increases during periods when interest rates are low or when annuitant mortality improves faster than expected.	Pensions	The ultimate cost of basic guarantees provided on older contracts will depend on the take-up rate of any option and the final form of annuity selected by the policyholder. The group has limited ability to control the take-up of these options. However, the book of business itself is diminishing in size. As at 31 December 2015, the value of guarantees is estimated to be £40m (31 December 2014: £50m).
For annuity contracts, the group is exposed to the risk that mortality experience is lower than assumed. Lower than expected mortality would require payments to be made for longer and increase the cost of benefits provided. Lifetime mortgage business also explicitly has some exposure to the life expectancy of borrowers.	Annuities and lifetime mortgages	Annuity business is priced having regard to trends in improvements in future mortality. Enhanced annuities, which are priced taking account of impairments to life expectancy, are subject to specific underwriting criteria. Certain annuitant mortality risks, including enhanced annuities, are placed with reinsurers. The group regularly reviews its mortality experience and industry projections of longevity and adjusts the pricing and valuation assumptions accordingly. In pricing lifetime mortgage business, account is taken of trends in mortality rates in setting the amounts that are advanced to borrowers relative to the value of the property on which the loan is secured.
Persistency risk In the early years of a policy, lapses may result in a loss to the group, as the acquisition costs associated with the contract would not have been recovered from product margins.	Protection and savings	The pricing basis for protection business includes provision for policy lapses. Following the adoption of PS06/14 in 2006, the persistency assumption for non-participating protection business allows for the expected pattern of persistency, adjusted to incorporate a margin for adverse deviation. Actual trends in policy lapse rates are monitored with adverse trends being subject to actuarial investigation. For insured contracts, terms and conditions typically include surrender deductions to mitigate the risk. In later periods, once the acquisition costs have been recouped, the effect of lapses and surrenders depends upon the relationship between the exit benefit, if any, and the liability for that contract. Exit benefits are not generally guaranteed and the group has some discretion in determining the amount of the payment. As a result, the effect on profit in later periods is expected to be broadly neutral.
Expense risk In pricing long-term insurance business, assumptions are made as to the future cost of product servicing. A significant adverse divergence in actual expenses experience could reduce product profitability.	Protection, savings and annuities	In determining pricing assumptions, account is taken of changes in price indices and the costs of employment, with stress testing used to evaluate the effect of significant deviations. Actual product servicing costs are monitored relative to the costs assumed with the product pricing basis, with variances investigated.

BALANCE SHEET MANAGEMENT (CONTINUED)

Insurance risk

Principal risks	Product	Controls to mitigate the risk
Concentration (catastrophe) risk Insurance risk may be concentrated in geographic regions, altering the risk profile of the group. The most significant exposure of this type arises for group protection business, where a single event could result in a large number of related claims.	Group protection and general insurance	Group protection business contracts include an 'event limit' capping the total liability under the policy from a single event. Excess of loss reinsurance further mitigates loss from the exposure. For general insurance business, the risk acceptance policy, terms and premiums reflect expected claims and cost associated with a location and avoids adverse selection. Additionally, exposure by location is monitored to ensure there is a geographic spread of risk. Catastrophe reinsurance cover also mitigates loss from concentrations of risk.
Catastrophe (epidemics) The spread of an epidemic could cause large aggregate claims across the group's portfolio of protection businesses.	Protection	The pricing basis for protection business includes an assessment of potential claims as a result of epidemic risks. Quota share and excess of loss reinsurance contracts are used by individual and group protection, respectively, to further mitigate the risk. Depending on the nature of an epidemic, mortality experience may lead to a reduction in the cost of claims for annuity business.
Weather events Significant weather events such as windstorms and coastal and river floods can lead to a higher instance of claims than anticipated.	General insurance	The impact of events is mitigated by excess of loss catastrophe treaties, under which the cost of claims from a weather event in excess of an agreed retention level, is recovered from insurers. The reinsurance is designed to protect against a modelled windstorm and coastal flood event with a return probability of 1 in 200 years.

Other risks	Product	Controls to mitigate the risk
Subsidence The incidence of subsidence can have a significant impact on the level of claims on household policies.	General insurance	Underwriting criteria for general insurance business includes assessment of subsidence risk, with an appropriate premium being charged for the risk accepted. Reinsurance arrangements are used to further mitigate the risk.

The financial risks associated with LGIM's businesses are directly borne by the investors in its funds. Therefore detailed risk disclosures have not been presented.

The principal risks and associated controls relevant to our LGA business are consistent with those identified for our Insurance, Savings and LGR businesses and therefore have not been repeated here.

Accumulation of risks

There is limited potential for single incidents to give rise to a large number of claims across the different contract types written by the group. In particular, there is little significant overlap between the long-term and short-term insurance business written by the group. However, there are potentially material correlations of insurance risk with other types of risk exposure. The group's capital model seeks to measure risk correlations particularly those that would tend to be more acute as the underlying risk scenarios become more extreme. An example of the accumulation of risk is the correlation between reinsurer credit risk with mortality and morbidity exposures.

Operational risk

Operational risk is defined as loss arising from inadequate or failed internal processes, people, systems or external events. Potential for exposure to operational risk extends to all the group's businesses. The group has constructed a framework of internal controls to minimise material loss from operational risk events recognising that no system of internal control can completely eliminate the risk of error, financial loss, fraudulent action, or reputational damage.

BALANCE SHEET MANAGEMENT (CONTINUED)

19 Long-term insurance valuation assumptions

The group's insurance assumptions, described below, relate exclusively to the UK insurance business. The non-UK businesses do not constitute a material component of the group's operations and consideration of geographically determined assumptions is therefore not included.

(i) Non-participating business

For its non-participating business the group seeks to make prudent assumptions about its future experience based on current market conditions and recent experience. The approach used to set non-participating assumptions is generally similar to that used to determine the assumptions used for PRA statutory Peak 1, although the actual assumptions may sometimes differ from those used for regulatory reporting purposes. These assumptions incorporate prudent margins in excess of our best estimate assumptions to reduce the possibility of actual experience being less favourable than assumed.

Valuation rates of interest and discount rates

The valuation interest rate for each contract type is based on the yield on the assets backing the contract adjusted for the risk that asset proceeds are not received by the group. For some business, this yield is the gross redemption yield or appropriate forward yield on fixed interest securities and the running yield on variable interest securities. For other business, it is the Internal Rate of Return on the portfolio of backing assets.

In 2015, the group continued to hold an additional reserve to protect against the risk of an uplift in defaults in the current economic environment and maintained the level of the long-term default allowance for unapproved securities at 40bps (2014: 40bps). Default risk on property backing non profit business was provided for by adding 2bps to the long term default allowance (in 2014 property default risk was provided for separately), this addition being calculated to maintain the level of the reserve for property default risk. The group also maintained the 35bps per annum (2014: 35bps) for unapproved securities backing non-participating, with-profits business. For approved securities and swaps backing the non-profit annuity business, the allowance is 9bps per annum (2014: 9bps). For approved securities and swaps backing non participating with-profits business the allowance is unchanged at 5bps per annum (2014: 5bps). For unapproved securities backing non-profit annuity business, the credit default allowances equate to 55bps per annum (2014: 54bps) when expressed over the duration of the assets held, leading to an overall total default provision of £2.2bn (2014: £2.3bn).

The group believes the total default allowance is prudent to cover all reasonably foreseeable circumstances.

For equity investments, the yield is based on the current dividend yield, adjusted for prudence.

For property holdings, yields are based on the rental income payable. In 2014, this continued to be adjusted for the cost of default, where the default rates used in the calculations vary by tenant category. From 2015, this is allowed for in the long-term default allowance (as discussed above).

Mortality and morbidity

Mortality and morbidity assumptions are set with reference to standard tables drawn up by the Continuous Mortality Investigation Bureau (CMIB) of the Institute and Faculty of Actuaries and/or UK death registrations, with an appropriate allowance for prudence. These tables are based on industry-wide mortality and morbidity experience for insured lives.

The majority of internal statistical investigations are carried out at least annually to determine the extent to which the group's experience differs from that of the industry and suggest appropriate adjustments which need to be made to the valuation assumptions.

Persistency

The group monitors its persistency experience and carries out detailed investigations annually. Persistency can be volatile and past experience may not be an appropriate future indicator.

The group tries to balance past experience and future conditions by making prudent assumptions about the future expected long-term average persistency levels.

For non-participating contracts where explicit persistency assumptions are not made, prudence is also incorporated into the liabilities by ensuring that they are sufficient to cover the more onerous of the two scenarios where the policies either remain in-force until maturity or where they discontinue at the valuation date.

BALANCE SHEET MANAGEMENT (CONTINUED)

Expenses
The group monitors its expense experience and carries out detailed investigations regularly to determine the expenses incurred in writing and administering the different products and classes of business. Adjustments may be made for known future changes in the administration processes, in line with the group's business plan. An allowance for expense inflation in the future is also made, taking account of both salary and price information. The expense assumptions also include an appropriate allowance for prudence.

Premiums
For those contracts where the policyholder does not have the right to vary the amount of the premium paid, full credit is taken for the premiums contractually due at the valuation date. For contracts where the policyholder has the option to vary the rate of premium, the provision is taken as being the higher of the amount calculated as if the policyholder continues to make premium payments or, alternatively, ceases to pay premiums altogether.

(ii) Participating business
For its participating business, the group seeks to establish its liabilities at their realistic value following requirements that were previously set out in FRS 27. Although FRS 27 is no longer an operational standard, the group has grandfathered the provisions into its IFRS reserving methodology.

Non-economic assumptions
Non-economic assumptions are set to represent the group's best estimates of future experience.

Premiums
For those contracts where the policyholder does not have the right to vary the amount of the premium paid, full credit is taken for the premiums contractually due at the valuation date. For contracts where the policyholder has the option to vary the rate of premium, the provision is taken as being the higher of the amount calculated as if the policyholder continues to make premium payments or, alternatively, ceases to pay premiums altogether.

Economic assumptions
The PRA's realistic reporting regime requires a market consistent economic model. The model is calibrated using market data from a variety of market sources. This enables assumptions to be determined for the term structure of risk free interest rates, and for property and equity volatility. Risk free interest rates are determined with reference to the gilt yield curve on the valuation date increased by ten basis points.

Property volatility is set with reference to historic variations in property prices. Equity volatility is set so that the model reproduces observed market prices of traded equity derivatives. Correlations between asset classes are based on historic data.

Each investment scenario contains a consistent set of assumptions for investment returns and inflation.

Future bonuses
Future reversionary and terminal bonuses are consistent with the bonus policies set out in the Society's Principles and Practices of Financial Management (PPFM).

Guaranteed annuity options
The guarantees are valued on a market consistent basis. The valuation methodology allows for the correlation between interest rates and the proportion of the policyholders who take up the option.

Guaranteed cash options
The liability is determined assuming that policyholders choose the most valuable alternative between the annuity and cash available at retirement.

Value of in-force non-participating contracts
The group makes a deduction from the liabilities for the expected value of future profits arising on non-participating contracts written in the with-profits fund.

The economic assumptions used to calculate the value of these profits are consistent with those used to calculate liabilities for with-profits business. Non-economic assumptions represent best estimates of expected future experience on this business. An explicit allowance is made for non-market risk.

BALANCE SHEET MANAGEMENT (CONTINUED)

19 Long-term insurance valuation assumptions (continued)

(iii) Long-term valuation assumptions

The table below sets out the current valuation assumptions used to establish the long-term liabilities for Legal & General Assurance Society Limited.

	2015	2014
Rate of interest/discount rates		
Non-participating business		
Life assurances[1]	**2.10% p.a. and 4.60% p.a.**	1.75% p.a. and 6.60% p.a.
Pension assurances[1]	**2.00% p.a. and 4.60% p.a.**	1.75% p.a. and 6.60% p.a.
Annuities in deferment	**3.33% p.a.**	3.03% p.a.
Annuities in deferment (RPI-linked; net rate after allowance for inflation)	**0.00% p.a.**	(0.26)% p.a.
Vested annuities	**1.00% – 3.33% p.a.**	0.75% – 3.03% p.a.
Vested annuities (RPI-linked; net rate after allowance for inflation)	**0.00% p.a.**	(0.26)% p.a.
Participating business		
Risk free rate (10 years)	**2.13% p.a.**	1.94% p.a.
Future bonuses	**Determined stochastically in line with bonus policy as stated in PPFM**	Determined stochastically in line with bonus policy as stated in PPFM
UK equity volatility (10 year option term)	**22.8%**	22.3%
Property volatility	**15.0%**	15.0%
Mortality tables		
Non-participating business		
Non-linked individual term assurances:		
Smokers	**78% TMS00/TFS00 Sel 5**	84% TMS00/TFS00 Sel 5
Non-smokers	**82% TMN00/TFN00 Sel 5**	86% TMN00/TFN00 Sel 5
Non-linked individual term assurances with terminal illness		
Smokers[2]	**64% – 84% TMS00/TFS00 Sel 5**	68% – 87% TMS00/TFS00 Sel 5
Non-smokers[2]	**66% – 83% TMN00/TFN00 Sel 5**	75% – 94% TMN00/TFN00 Sel 5
Non-linked individual term assurances with critical illness		
Smokers[3]	**109% – 139% ACSL04M/F**	115% – 145% ACSL04M/F
Non-smokers[3]	**124% – 166% ACNL04M/F**	130% – 173% ACNL04M/F
Other non-linked non profit life assurances	**100% of A67/70 Ult**	100% of A67/70 Ult
Smokers	**Bespoke tables based on TMS00/TFS00, AM92/AF92 and UK death registrations**	57% – 88% TMS00/TFS00 Sel 5
Non-smokers	**Bespoke tables based on TMN00/TFN00, AM92/AF92 and UK death registrations**	55% – 98% TMN00/TFN00 Sel 5
Annuities in deferment[4]	**81.3% – 86.7% PNMA00/PNFA00**	81.3% – 86.7% PNMA00/PNFA00
Vested annuities[5]		
Bulk purchase annuities[6]	**82.2% – 86.7% PCMA00/PCFA00**	82.2% – 86.7% PCMA00/PCFA00
Other annuities[7]	**63.9% – 133.5% PCMA00/PCFA00**	63.9% – 122.3% PCMA00/PCFA00

1. For life assurances, from 2015, an appropriate valuation interest rate is applied at all times during the projection, i.e. when liabilities switch from being negative to positive the valuation interest rate will also switch from being high (4.60%) to low (2.60% gross and 2.10% net). The crossover point at which the margin changes direction is assessed for broad product groups but applied at a policy by policy level. A single rate is used if liabilities are negative (4.60%) or positive (2.60% gross and 2.10% net) throughout. For 2014, for product groups where liabilities were positive, the lower interest rate (2.25% gross and 1.75% net) was used. However, for product groups where liabilities were negative, the higher rate (6.60%) was used. Consistent approaches are used for pension assurances, with a higher rate of 4.60% (2014: 6.60%) applied if liabilities are negative and a lower rate of 2.00% (2014: 1.75%) applied if liabilities are positive.
2. The percentage of the table varies with the duration that the policy has been in-force for the first five years.
3. The percentage of the table varies with the duration that the policy has been in-force for the first two years. For term assurance with critical illness, morbidity rates are assumed to deteriorate at a rate of 0.50% p.a. for males and 0.75% p.a. for females (2014: 0.50% p.a. for males and 0.75% p.a. for females). There is an additive loading of 1.00% (2014: 1.00%) for guaranteed term contracts post policy duration 5.
4. Table created by blending PCXA00 with PNXA00 tables. The base table to be used for bulk purchase annuity policies in deferment is PNMA00 up to and including age 55 and PCMA00 for age 65 and above for males. The identical method is applied to females using PNFA00 and PCFA00.
5. For vested annuities, mortality rates are assumed to reduce according to an adjusted version of CMIB's mortality improvement model; CMI 2013 (2014: CMI 2013) with the following parameters:
   Males: Long Term Rate of 2.00% p.a. (2014: 2.00% p.a.) up to age 85 tapering to 0% at 120
   Females: Long Term Rate of 1.50% p.a. (2014: 1.50% p.a.) up to age 85 tapering to 0% at 120
   For certain annuities, a further allowance is made for the effect of initial selection.
   The basis above is applicable up to age 90. After age 90 the basis is blended towards a bespoke table from age 100 onwards.
6. The percentage of the TM00/TF00 tables varies with the duration that the policy has been in-force for the first five years. Thereafter, a bespoke mortality table constructed based on TM00/TF00 tables, AM92/AF92 tables and UK death registrations. Mortality rates are assumed to reduce whilst business is ceded to reinsurer (after which any reduction is maintained but no further reduction is applied) based on CMI2013B model with a long-term annual improvement rate of 1.5% for males and 1.0% for females.
7. There is no change in basis on pre-2015 business. The 133.5% applies to 2015 business.

BALANCE SHEET MANAGEMENT (CONTINUED)

Persistency assumptions

Lapse rate assumptions are used in the PRA statutory Peak 1 valuation of certain classes of long-term business. Where this is the case, the valuation persistency basis is set by applying a prudential margin over the best estimate assumptions. The tables below show the major products where lapse rates have been used.

For term assurance business, the margin acts to increase the best estimate lapse rate in the early part of a policy's lifetime (when it is treated as an asset) but acts to reduce the best estimate lapse rate later in the policy's lifetime (when it is treated as a liability). The crossover point at which the margin changes direction is assessed for broad product groups but is applied at a policy by policy level. Any liability to reinsurers on discontinuance within the first four years from inception is allowed for explicitly in the cash flows, using the valuation lapse basis, together with a prudent allowance for clawback of commission from agents upon lapse.

For unitised business, the margin acts to either increase or decrease the best estimate lapse rates, depending upon which approach results in the higher liability. The direction of the margin is assessed for unit life business and unit pensions business separately.

A summary of the lapse basis for major classes of non profit business, as defined by the requirements of the annual returns to the PRA, is shown below. The lapse rates for unit linked business represent the decrement from in-force to surrender.

	2015 Average lapse rate for the policy years			
Product	**1-5 %**	**6-10 %**	**11-15 %**	**16-20 %**
Level term	**10.5**	**6.2**	**4.5**	**4.4**
Decreasing term	**10.6**	**7.4**	**5.4**	**5.3**
Accelerated critical illness cover	**15.7**	**9.9**	**5.3**	**5.1**
Pensions term	**9.4**	**6.6**	**4.8**	**4.8**
Whole of Life (conventional non profit)	**4.7**	**1.4**	**1.3**	**1.3**
Bond (unit linked non profit)	**2.6**	**9.2**	**5.0**	**4.2**

	2014 Average lapse rate for the policy years			
Product	1-5 %	6-10 %	11-15 %	16-20 %
Level term	12.1	8.5	6.1	4.1
Decreasing term	12.0	8.5	6.3	6.3
Accelerated critical illness cover	18.9	12.0	5.4	5.2
Pensions term	10.7	7.6	5.7	5.6
Whole of Life (conventional non profit)	5.3	2.2	1.2	1.1
Bond (unit linked non profit)	1.7	6.1	3.3	2.8

BALANCE SHEET MANAGEMENT (CONTINUED)

19 Long-term insurance valuation assumptions (continued)

(iii) Long-term valuation assumptions (continued)

For with-profits business the Peak 2 (realistic) valuation is currently the biting basis and therefore detail of the long-term best estimate lapse rates is given below for unitised with-profits (UWP) and unit linked non-participating products. The lapse rates for unit linked business represent the decrement from in-force to surrender and combine experience for non profit and non-participating business.

	2015 Average lapse rate for the policy years			
Product	1-5 %	6-10 %	11-15 %	16-20 %
Savings endowment (unitised with-profits)	–	–	3.7	5.4
Target cash endowment (unitised with-profits)	–	–	5.2	4.5
Savings endowment (unit linked non-participating)	–	–	3.7	5.4
Target cash endowment (unit linked non-participating)	–	–	5.2	4.5
Bond (unitised with-profits)	1.9	6.4	5.5	5.0
Bond (unit linked non-participating)	–	3.5	5.8	4.8
Individual pension regular premium (unitised with-profits)	4.5	4.5	4.5	4.5
Individual pension regular premium (unit linked non-participating)	5.8	5.4	5.1	5.1
Group pension regular premium (unitised with-profits)	14.4	14.2	13.9	13.9
Group pension regular premium (unit linked non-participating)	8.7	7.4	5.7	5.7
Individual pension single premium (unitised with-profits)	3.7	3.6	3.6	3.6
Individual pension single premium (unit linked non-participating)	4.8	4.2	4.0	4.0
Group pension single premium (unitised with-profits)	6.9	6.8	6.6	6.6
Group pension single premium (unit linked non-participating)	12.3	11.5	8.9	9.2
Trustee Investment Plan single premium (unitised with-profits)	3.5	19.2	16.3	16.3
Trustee Investment Plan single premium (unit linked non-participating)	3.5	19.2	16.3	16.3

BALANCE SHEET MANAGEMENT (CONTINUED)

	2014 Average lapse rate for the policy years			
Product	1-5 %	6-10 %	11-15 %	16-20 %
Savings endowment (unitised with-profits)	–	–	6.7	8.9
Target cash endowment (unitised with-profits)	–	–	6.1	4.6
Savings endowment (unit linked non-participating)	–	–	6.7	8.9
Target cash endowment (unit linked non-participating)	–	–	6.1	4.6
Bond (unitised with-profits)	2.1	7.1	6.1	4.7
Bond (unit linked non-participating)	–	5.3	6.2	5.1
Individual pension regular premium (unitised with-profits)	4.5	4.5	4.5	4.5
Individual pension regular premium (unit linked non-participating)	5.9	5.4	5.1	5.1
Group pension regular premium (unitised with-profits)	14.5	14.4	14.1	14.1
Group pension regular premium (unit linked non-participating)	8.9	7.7	6.0	6.0
Individual pension single premium (unitised with-profits)	3.7	3.6	3.6	3.6
Individual pension single premium (unit linked non-participating)	4.9	4.3	4.0	4.0
Group pension single premium (unitised with-profits)	6.9	6.8	6.6	6.6
Group pension single premium (unit linked non-participating)	12.1	11.4	8.8	9.1
Trustee Investment Plan single premium (unitised with-profits)	3.5	19.2	16.3	16.3
Trustee Investment Plan single premium (unit linked non-participating)	3.5	19.2	16.3	16.3

Endowment reserve

The endowment reserve has been set taking reasonable account of assessment of the expected future population of complaints, the expected uphold rate for these companies, the potential impact of any Financial Ombudsmen Service decisions on referred complaints and the average compensation per complaint.

Overseas business

In calculating the long-term business provisions for international long-term businesses, local actuarial tables and interest rates are used.

BALANCE SHEET MANAGEMENT (CONTINUED)

20 IFRS sensitivity analysis

	Impact on pre-tax group profit net of re-insurance 2015 £m	Impact on group equity net of re-insurance 2015 £m	Impact on pre-tax group profit net of re-insurance 2014 £m	Impact on group equity net of re-insurance 2014 £m
Economic sensitivity				
Long-term insurance				
1% increase in interest rates	**48**	**(36)**	120	54
1% decrease in interest rates	**(168)**	**(49)**	(245)	(146)
1% increase in long-term inflation expectations	**(38)**	**(31)**	(193)	(152)
Credit spread widens by 100bps with no change in expected defaults	**(102)**	**(138)**	(177)	(212)
10% decrease in listed equities	**(124)**	**(103)**	(155)	(126)
10% fall in property values	**(81)**	**(65)**	(130)	(102)
10bps increase in credit default assumption	**(324)**	**(258)**	(370)	(290)
10bps decrease in credit default assumption	**366**	**292**	344	270
Non-economic sensitivity				
Long-term insurance				
1% decrease in annuitant mortality	**(132)**	**(105)**	(170)	(133)
5% increase in assurance mortality	**(64)**	**(49)**	(56)	(44)
Default of largest external reinsurer	**(835)**	**(666)**	(657)	(516)
General insurance				
Single storm event with 1 in 200 year probability	**(67)**	**(54)**	(74)	(59)
Subsidence event – worst claims ratio in last 30 years	**(72)**	**(57)**	(54)	(43)

For any single event with claims in excess of £30m (2014: £30m) but less than £496m (2014: £466m), the ultimate cost to Legal & General Insurance Limited (LGI) would be £30m plus 50% of the £5m XS £30m layer (2014: £30m plus 50% of the £5m XS £30m layer). 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 75% of claims between £35m and £85m, 75% of claims between £85m and £200m and 45% of claims between £200m and £467m. 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 £270m (2014: £252m), with an estimated total cost to LGI of £330m (2014: £317m) and to the group of £563m (2014: £538m).

BALANCE SHEET MANAGEMENT (CONTINUED)

The table shows the impacts on group pre-tax profit and equity, net of reinsurance, under each sensitivity scenario for the group. The participating funds have been excluded in the above sensitivity analysis as the impact of the sensitivities on IFRS profit and equity is offset by the movement in the unallocated divisible surplus (UDS). The shareholders' share of with-profit bonus declared in the year is relatively insensitive to market movements due to the smoothing policies applied.

The interest rate sensitivity assumes a 100bps change in the gross redemption yield on fixed interest securities together with a 100bps change in the real yields on variable securities. For the UK with-profit funds, valuation interest rates are assumed to move in line with market yields adjusted to allow for the impact of PRA regulations. The interest rate sensitivities reflect the impact of the regulatory restrictions on the reinvestment rate used to value the liabilities of the long-term business. Modelling improvements have been made in the year which more accurately isolate the impacts of discrete assumptions changes. No yield floors have been applied in the estimation of the stresses, despite the current low interest rate environment.

Interest rate and inflation expectation have historically shown positive correlation and have therefore been presented next to each other.

The inflation stress adopted is a 1% pa increase in inflation resulting in a 1% pa reduction in real yield and no change to the nominal yield. In addition the expense inflation rate is increased by 1% pa.

In the sensitivity for credit spreads, corporate bond yields have increased by 100bps, gilt and approved security yields are unchanged, and there has been no adjustment to the default assumptions.

The equity stress is a 10% fall in listed equity market values. The property stress adopted is a 10% fall in property market value. Rental income is assumed to be unchanged; however the vacant possession value is stressed down by 10% in line with the market value stress. Where property is being used to back liabilities, the valuation interest rate used to place a value on the liabilities moves with the implied change in property yields.

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

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

For the sensitivity to the default of the group's largest external reinsurer, the reinsurer stress shown is equal to the technical provisions ceded to the external reinsurer and represents the impact of the default of largest external reinsurer at an entity level.

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 of the group's experience may be correlated. The sensitivity of the profit and equity to changes in assumptions may not be linear. These results should not be extrapolated to changes of a much larger order, which could be significantly more or less than the amounts shown above.

BALANCE SHEET MANAGEMENT (CONTINUED)

21 Insurance contract liabilities

Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract.

A number of insurance and investment contracts contain discretionary participating features (DPF) which entitle the policyholders to receive guaranteed benefits as well as additional benefits:

- the amount or timing of which is contractually at the discretion of the group; and
- which are contractually based on:
  - the performance of a specified pool of contracts or a specified type of contract;
  - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - the profit or loss of the company, fund or other entity which issues the contract.

Contracts with DPF are referred to as participating contracts. With-profits contracts in the UK and previously most Garantie Long Terme contracts in France were classified as participating.

Long-term insurance

Death claims are accounted for on notification of death. Surrenders for non-linked policies are accounted for when payment is made. Critical illness claims are accounted for when admitted. All other long-term claims and surrenders are accounted for when payment is due. Claims payable include the direct costs of settlement.

The change in the insurance liability reflects the reduction in liabilities due to the payment of claims in the year, offset by liabilities arising from new business. The movement also reflects assumption changes relating to variables such as claims expectations, expenses and the unwind of the previous period's expectations.

Under current IFRS requirements, insurance contract liabilities are measured using local Generally Accepted Accounting Principles (GAAP), as permitted by IFRS 4, 'Insurance contracts'.

– UK

In the UK, insurance contract liabilities are determined following an annual investigation of the insurance entities in accordance with regulatory requirements.

For non-participating insurance contracts, the liabilities are calculated on the basis of current information using the gross premium valuation method. This brings into account the full premiums receivable under contracts written, having prudent regard to expected lapses and surrenders, estimated renewal and maintenance costs and contractually guaranteed benefits. For unit linked insurance contract liabilities the provision is based on the fund value together with an allowance for any excess of future expenses over charges where appropriate.

For participating contracts, the liabilities to policyholders are determined on a realistic basis in accordance with guidance previously set out in Financial Reporting Standard (FRS) 27, 'Life assurance'. Although FRS 27 is no longer an operational standard, the group has grandfathered the provisions into its IFRS reserving methodology. This includes an assessment of the cost of any future options and guarantees granted to policyholders valued on a market consistent basis. The calculation also takes account of bonus decisions which are consistent with Legal & General Assurance Society Limited's (Society's) Principles and Practices of Financial Management (PPFM). The shareholders' share of the future cost of bonuses is excluded from the assessment of the realistic liability.

In determining the realistic value of liabilities for participating contracts, the value of future profits on non-participating business written in the with-profits part of the fund is accounted for as part of the calculation. The present value of future profits (PVFP) for this business is separately determined and its value is deducted from the sum of the liabilities for participating contracts and the unallocated divisible surplus.

Unitised liabilities are recognised when premiums are received and non-unitised liabilities are recognised when premiums are due.

– Overseas

All annuity business written by overseas subsidiaries is recognised in line with those written in the UK. All other long-term insurance contract liabilities for business transacted by overseas subsidiaries are determined on the basis of recognised actuarial methods which reflect local supervisory principles or, in the case of the US, on the basis of US GAAP.

BALANCE SHEET MANAGEMENT (CONTINUED)

General insurance
Liabilities, together with related reinsurance recoveries, are established on the basis of current information. Such liabilities can never be definitive as to their timing or the amount of claims and are therefore subject to subsequent reassessment on a regular basis. Claims and related reinsurance recoveries are accounted for in respect of all incidents up to the year end. Provision is made on the basis of available information for the estimated ultimate cost, including claims settlement expenses, claims reported but not yet settled and claims incurred but not yet reported. An unexpired risk provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums and after taking account of investment return.

Liability adequacy tests
The group performs liability adequacy testing on its insurance liabilities to ensure that the carrying amount of liabilities (less related deferred acquisition costs) is sufficient to cover current estimates of future cash flows. When performing the liability adequacy test, the group discounts all contractual cash flows and compares this amount with the carrying value of the liability. Any deficiency is immediately charged to the Consolidated Income Statement, initially reducing deferred acquisition costs and then by establishing a provision for losses.

Reinsurance
The group's insurance subsidiaries cede insurance premiums and risk in the normal course of business in order to limit the potential for losses and to provide financing. Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured. Reinsurance assets include balances due from reinsurers for paid and unpaid losses and loss adjustment expenses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded as an asset in the Consolidated Balance Sheet unless a right of offset exists, in which case the associated liabilities are reduced commensurately.

Contracts with reinsurers are assessed to determine whether they contain significant insurance risk. Contracts that do not give rise to significant transfer of insurance risk to the reinsurer are considered to be financial reinsurance and are accounted for and disclosed in a manner consistent with financial instruments.

BALANCE SHEET MANAGEMENT (CONTINUED)

21 Insurance contract liabilities (continued)

(i) Analysis of insurance contract liabilities

	Notes	Gross 2015 £m	Re-insurance 2015 £m	Gross 2014 £m	Re-insurance 2014 £m
Participating insurance contracts	21(iii)	**5,618**	**(1)**	6,579	(1)
Non-participating insurance contracts	21(iv)	**49,470**	**(3,861)**	49,589	(2,587)
General insurance contracts	21(v)	**284**	**(8)**	287	(8)
Insurance contract liabilities		**55,372**	**(3,870)**	56,455	(2,596)

During the year, the group continued utilising prospective reinsurance arrangements which resulted in a profit of £503m (2014: £298m). This profit has been reflected in the Consolidated Income Statement for the year and arises from new reinsurance arrangements or the reinsurance of new business under existing arrangements.

(ii) Expected insurance contract liability cash flows

	Date of undiscounted cash flow					
As at 31 December 2015	**0-5 years £m**	**5-15 years £m**	**15-25 years £m**	**Over 25 years £m**	**Total £m**	**Carrying value £m**
Participating insurance contracts	**2,938**	**2,286**	**702**	**262**	**6,188**	**5,618**
Non-participating insurance contracts	**9,410**	**18,988**	**15,166**	**17,445**	**61,009**	**32,356**
General insurance contracts[1]	**109**	**1**	**–**	**–**	**110**	**110**
Insurance contract liabilities	**12,457**	**21,275**	**15,868**	**17,707**	**67,307**	**38,084**

	Date of undiscounted cash flow					
As at 31 December 2014	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating insurance contracts	3,383	2,482	784	308	6,957	6,579
Non-participating insurance contracts	11,282	21,704	18,346	19,147	70,479	33,356
General insurance contracts[1]	88	3	–	–	91	91
Insurance contract liabilities	14,753	24,189	19,130	19,455	77,527	40,026

1. Excludes unearned premium reserve of £174m (2014: £196m) for which there are no cash flows.

Insurance contract undiscounted cash flows are based on the expected date of settlement.

Amounts under unit linked contracts are generally repayable on demand and the group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due. However, the terms of funds investing in less liquid assets permit the deferral of redemptions for predefined periods in circumstances where there are not sufficient liquid assets within the fund to meet the level of requested redemptions. Accordingly, unit linked liabilities have been excluded from the table.

BALANCE SHEET MANAGEMENT (CONTINUED)

(iii) Movement in participating insurance contract liabilities

	Gross 2015 £m	Re-insurance 2015 £m	Gross 2014 £m	Re-insurance 2014 £m
As at 1 January	**6,579**	**(1)**	6,972	(1)
New liabilities in the year	**52**	**–**	61	–
Liabilities discharged in the year	**(977)**	**–**	(1,159)	–
Unwinding of discount rates	**40**	**–**	54	–
Effect of change in non-economic assumptions	**5**	**–**	(5)	–
Effect of change in economic assumptions	**81**	**–**	561	–
Disposals[1]	**(171)**	**–**	–	–
Other	**9**	**–**	95	–
As at 31 December	**5,618**	**(1)**	6,579	(1)
Expected to be settled within 12 months (net of reinsurance)	**844**		1,194	
Expected to be settled after 12 months (net of reinsurance)	**4,773**		5,384	

1. Reflects the disposal of LGF and LGII.

(iv) Movement in non-participating insurance contract liabilities

	Gross 2015 £m	Re-insurance 2015 £m	Gross 2014 £m	Re-insurance 2014 £m
As at 1 January	**49,589**	**(2,587)**	39,975	(2,596)
New liabilities in the year	**2,866**	**(768)**	7,325	(446)
Liabilities discharged in the year	**(2,744)**	**(39)**	(2,469)	259
Unwinding of discount rates	**1,451**	**(93)**	1,493	(145)
Effect of change in non-economic assumptions	**(384)**	**157**	(569)	362
Effect of change in economic assumptions	**(1,335)**	**(513)**	3,844	(3)
Foreign exchange adjustments	**27**	**(18)**	(10)	(18)
As at 31 December	**49,470**	**(3,861)**	49,589	(2,587)
Expected to be settled within 12 months (net of reinsurance)	**1,832**		3,584	
Expected to be settled after 12 months (net of reinsurance)	**43,777**		43,418	

(v) Analysis of general insurance contract liabilities

	Gross 2015 £m	Re-insurance 2015 £m	Gross 2014 £m	Re-insurance 2014 £m
Outstanding claims	**75**	**(1)**	61	(1)
Claims incurred but not reported	**35**	**–**	30	–
Unearned premiums	**174**	**(7)**	196	(7)
General insurance contract liabilities	**284**	**(8)**	287	(8)

BALANCE SHEET MANAGEMENT (CONTINUED)

21 Insurance contract liabilities (continued)

(vi) Movement in general insurance claim liabilities

	Gross 2015 £m	Re-insurance 2015 £m	Gross 2014 £m	Re-insurance 2014 £m
As at 1 January	**91**	**(1)**	103	–
Claims arising	**181**	**(1)**	182	(2)
Claims paid	**(161)**	**1**	(183)	1
Adjustments to prior year liabilities	**(1)**	**–**	(11)	–
As at 31 December	**110**	**(1)**	91	(1)
Expected to be settled within 12 months (net of reinsurance)	**95**		62	
Expected to be settled after 12 months (net of reinsurance)	**14**		28	

(vii) Unearned premiums

	Gross 2015 £m	Re-insurance 2015 £m	Gross 2014 £m	Re-insurance 2014 £m
As at 1 January	**196**	**(7)**	195	(5)
Earned in the year	**(337)**	**12**	(377)	15
Gross written premiums in respect of future periods	**315**	**(12)**	378	(17)
As at 31 December	**174**	**(7)**	196	(7)
Expected to be earned within 12 months (net of reinsurance)	**167**		189	
Expected to be earned after 12 months (net of reinsurance)	**–**		–	

(viii) Claims development – general insurance

Changes may occur in the amount of the group's obligations at the end of a contract period. The top section of each table below illustrates how the estimate of total claims outstanding for each accident year developed over time. The bottom section of the table reconciles the cumulative claims to the amount appearing in the Consolidated Balance Sheet.

Gross of reinsurance

Accident year	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	Total £m
Estimate of ultimate claims costs:						
At end of accident year	**124**	**164**	**162**	**169**	**172**	
One year later	**119**	**150**	**156**	**163**	**–**	
Two years later	**116**	**148**	**156**	**–**	**–**	
Three years later	**116**	**148**	**–**	**–**	**–**	
Four years later	**116**	**–**	**–**	**–**	**–**	
Estimate of cumulative claims	**116**	**148**	**156**	**163**	**172**	**755**
Cumulative payments	**(120)**	**(147)**	**(151)**	**(153)**	**(86)**	**(657)**
Outstanding claims provision	**(4)**	**1**	**5**	**10**	**86**	**98**
Prior year outstanding claims						**9**
Claims handling provision						**3**
Total claims liabilities recognised in the Consolidated Balance Sheet						**110**

No net of reinsurance claims development table has been presented as it would not be materially different from the gross claims development table above.

BALANCE SHEET MANAGEMENT (CONTINUED)

22 Investment contract liabilities

Under current IFRS requirements, participating investment contract liabilities are measured using local GAAP, as permitted by IFRS 4. In the UK, participating investment contract liabilities are determined in accordance with guidance previously set out in FRS 27, including a value for guarantees, in the same way as participating insurance contracts. Although FRS 27 is no longer an operational standard, the group has grandfathered the provisions into its IFRS reserving methodology.

Non-participating investment contracts are unit linked contracts. Unit linked liabilities are measured at fair value by reference to the value of the underlying net asset values of the group's unitised investment funds at the balance sheet date.

Unitised liabilities are recognised when premiums are received and non-unitised liabilities are recognised when premiums are due.

Claims are not included in the income statement but are deducted from investment contract liabilities. The movement in investment contract liabilities consists of claims incurred in the year less the corresponding elimination of the policyholder liability originally recognised in the balance sheet and the investment return credited to policyholders.

Future developments
IFRS 15, 'Revenue from Contracts with Customers', issued in May 2014, is effective, subject to EU endorsement, for annual periods beginning on or after 1 January 2018. This standard provides clear guidance over when and how much revenue should be recognised. It provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. An assessment is currently ongoing to determine the impact upon the group, focusing, in particular, on our investment management business. The standard does not apply to business classified as insurance contracts. The group does not intend to early adopt this standard.

(i) Analysis of investment contract liabilities

	Note	Gross 2015 £m	Re-insurance 2015 £m	Gross 2014 £m	Re-insurance 2014 £m
Participating investment contracts		**4,912**	**–**	7,667	14
Non-participating investment contracts		**278,554**	**(250)**	288,558	(324)
Investment contract liabilities	22(ii)	**283,466**	**(250)**	296,225	(310)
Expected to be settled within 12 months (net of reinsurance)		**33,907**		40,645	
Expected to be settled after 12 months (net of reinsurance)		**249,309**		255,270	

(ii) Movement in investment contract liabilities

	Gross 2015 £m	Re-insurance 2015 £m	Gross 2014 £m	Re-insurance 2014 £m
As at 1 January	**296,225**	**(310)**	286,247	(295)
Reserves in respect of new business	**37,639**	**(598)**	30,645	(334)
Amounts paid on surrenders and maturities during the year	**(46,557)**	**164**	(53,311)	60
Investment return and related benefits	**5,160**	**455**	33,126	259
Management charges	**(303)**	**–**	(309)	–
Foreign exchange adjustments	**(162)**	**–**	(177)	–
Disposals[1]	**(5,321)**	**–**	–	–
Transfer to held for sale	**(3,235)**	**39**	–	–
Other	**20**	**–**	4	–
As at 31 December	**283,466**	**(250)**	296,225	(310)

1. Reflects the disposal of LGF and LGII.

Change in provisions for investment contract liabilities represents the total gross and reinsurance investment return and related benefits of £5,615m (2014: £33,385m).

Fair value movements of £5,175m (2014: £33,198m) are included within the Consolidated Income Statement arising from movements in investment contract liabilities designated as fair value through profit and loss.

BALANCE SHEET MANAGEMENT (CONTINUED)

22 Investment contract liabilities (continued)

(iii) Non-participating investment contract liability fair value hierarchy

As at 31 December 2015	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Non-participating investment contracts[1]	**278,554**	**278,554**	**–**	**–**	**–**

As at 31 December 2014	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Non-participating investment contracts[1]	288,558	286,054	2,473	31	–

1. Level 2 and level 3 investment contract liabilities reported in 2014 related to LGII, which was disposed of in 2015.

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

Non-participating unit linked investment contracts include £nil (2014: £31m) valued using significant unobservable inputs and have been classified as level 3. These liabilities have limited transactions and are backed by property investments.

There have been no significant transfers between any of the levels.

(iv) Expected investment contract liability cash flows

	Date of undiscounted cash flow					
As at 31 December 2015	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating investment contracts	**2,229**	**2,771**	**780**	**46**	**5,826**	**4,912**

	Date of undiscounted cash flow					
As at 31 December 2014	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating investment contracts	3,035	3,882	1,324	357	8,598	7,667

Investment contract undiscounted net cash flows are based on the expected date of settlement.

Amounts under unit linked contracts are generally repayable on demand and the group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due. However, the terms of funds investing in less liquid assets permit the deferral of redemptions for predefined periods in circumstances where there are not sufficient liquid assets within the fund to meet the level of requested redemptions. Accordingly unit linked liabilities have been excluded from the reported cash flows.

A maturity analysis based on the earliest contractual repayment date would present investment contract liabilities as due on the earliest period of the table because policyholders can exercise cancellation options at their discretion. In such a scenario, the liability would be reduced due to the application of surrender penalties.

BALANCE SHEET MANAGEMENT (CONTINUED)

23 Unallocated divisible surplus

The participating funds operate with an excess of assets over the amount required to meet the policyholder liabilities.

The nature of benefits for the contracts within these funds is such that the allocation of surpluses between ordinary equity holders and participating policyholders is uncertain. The amount of surplus which has not been allocated at the balance sheet date is classified within liabilities as the unallocated divisible surplus. Adjustments made to comply with guidance previously set out in FRS 27 are charged to the unallocated divisible surplus.

	2015 £m	2014 £m
As at 1 January	**983**	1,221
Transferred from/(to) the income statement	**141**	(181)
Actuarial gains/(losses) on defined benefit pension schemes transferred from the statement of comprehensive income, net of tax	**13**	(38)
Foreign exchange adjustments	**(19)**	(19)
Disposal[1]	**(225)**	–
As at 31 December	**893**	983

1. Reflects the disposal of LGF.

With effect from 31 January 2015 the with-profits fund was closed to new business.

24 Value of in-force non-participating contracts

(i) Movement in value of in-force non-participating contracts

	2015 £m	2014 £m
As at 1 January	**208**	248
Unwinding of the discount rates	**2**	3
Investment return	**10**	(6)
Other	**(36)**	(37)
As at 31 December	**184**	208
Expected to be settled within 12 months	**20**	20
Expected to be settled after 12 months	**164**	188

(ii) Expected net cash flows

	Date of undiscounted cash flow					
As at 31 December 2015	**0-5 years £m**	**5-15 years £m**	**15-25 years £m**	**Over 25 years £m**	**Total £m**	**Carrying value £m**
Value of in-force non-participating contracts	**125**	**81**	**23**	**8**	**237**	**184**

	Date of undiscounted cash flow					
As at 31 December 2014	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Value of in-force non-participating contracts	135	87	29	16	267	208

Value of in-force (VIF) non-participating undiscounted net cash flows are based on the expected date of realisation. The VIF relates entirely to insurance contracts.

BALANCE SHEET MANAGEMENT (CONTINUED)

25 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs. Borrowings classified as liabilities are subsequently stated at amortised cost. The difference between the net proceeds and the redemption value is recognised in the income statement over the borrowing period using the effective interest method.

Borrowings comprise core borrowings such as subordinated bond issues and long-term unsecured senior debt. Operational borrowings include commercial paper issuance and bank borrowings under both committed and uncommitted debt facilities, including bank overdrafts. Borrowings secured on specific assets/cash flows, such as Triple X securitisations and private equity fund linked partnership assets, are included as non recourse borrowings. Mortgage loans raised by SIPP clients secured on those properties invested in their portfolio of linked SIPP investments which we manage on their behalf are treated as unit linked borrowings.

(i) Analysis by type

	Borrowings excluding unit linked borrowings 2015 £m	Unit linked borrowings 2015 £m	Total 2015 £m	Borrowings excluding unit linked borrowings 2014 £m	Unit linked borrowings 2014 £m	Total 2014 £m
Core borrowings	**3,092**	**–**	**3,092**	2,977	–	2,977
Operational borrowings	**534**	**2**	**536**	590	125	715
Total borrowings	**3,626**	**2**	**3,628**	3,567	125	3,692

BALANCE SHEET MANAGEMENT (CONTINUED)

(ii) Analysis by nature

Unit linked borrowings are excluded from the analysis below as the risk is retained by the policyholders.

(a) Core borrowings

	Carrying amount 2015 £m	Coupon rate 2015 %	Fair value 2015 £m	Carrying amount 2014 £m	Coupon rate 2014 %	Fair value 2014 £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities (Tier 1)	**637**	**6.39**	**631**	658	6.39	642
5.875% Sterling undated subordinated notes (Tier 2)	**413**	**5.88**	**426**	416	5.88	431
4.0% Euro subordinated notes 2025 (Tier 2)	**–**	**–**	**–**	472	4.00	482
10% Sterling subordinated notes 2041 (Tier 2)	**310**	**10.00**	**398**	310	10.00	424
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**5.50**	**570**	588	5.50	666
5.375% Sterling subordinated notes 2045 (Tier 2)	**602**	**5.38**	**611**	–	–	–
Client fund holdings of group debt[1]	**(26)**	**–**	**(27)**	(28)	–	(31)
Total subordinated borrowings	**2,525**		**2,609**	2,416		2,614
Senior borrowings						
Sterling medium-term notes 2031-2041	**609**	**5.88**	**779**	609	5.88	800
Client fund holdings of group debt[1]	**(42)**	**–**	**(54)**	(48)	–	(62)
Total senior borrowings	**567**		**725**	561		738
Total core borrowings	**3,092**		**3,334**	2,977		3,352

1. £68m (2014: £76m) of the group's subordinated and senior borrowings are currently held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total core borrowings in the table above.

All of the group's core borrowings are measured using amortised cost. The presented fair values of the group's core borrowings reflect quoted prices in active markets and they have been classified as level 1 in the fair value hierarchy.

Subordinated borrowings

6.385% Sterling perpetual capital securities

In 2007, Legal & General Group Plc issued £600m of 6.385% Sterling perpetual capital securities. These securities are callable at par on 2 May 2017 and every three months thereafter. If not called, the coupon from 2 May 2017 will be reset to three month LIBOR plus 1.93% pa. For Solvency I purposes these securities are treated as tier 1 capital and for Solvency II purposes these securities are treated as tier 1 own funds.

5.875% Sterling undated subordinated notes

In 2004, Legal & General Group Plc issued £400m of 5.875% Sterling undated subordinated notes. These notes are callable at par on 1 April 2019 and every five years thereafter. If not called, the coupon from 1 April 2019 will be reset to the prevailing five year benchmark gilt yield plus 2.33% pa. These notes are treated as lower tier 2 capital for Solvency I purposes and tier 2 own funds for Solvency II purposes.

4.0% Euro subordinated notes 2025

In 2005, Legal & General Group Plc issued €600m of 4.0% Euro dated subordinated notes. The proceeds were swapped into Sterling. On 8 June 2015, the group redeemed these notes at par. Prior to redemption, these notes were treated as lower tier 2 capital for Solvency I and tier 2 own funds for Solvency II purposes.

10% Sterling subordinated notes 2041

In 2009, Legal & General Group Plc issued £300m of 10% dated subordinated notes. The notes are callable at par on 23 July 2021 and every five years thereafter. If not called, the coupon from 23 July 2021 will be reset to the prevailing five year benchmark gilt yield plus 9.325% pa. These notes mature on 23 July 2041. They are treated as lower tier 2 capital for Solvency I purposes and tier 2 own funds for Solvency II purposes.

BALANCE SHEET MANAGEMENT (CONTINUED)

25 Borrowings (continued)

(ii) Analysis by nature (continued)

(a) Core borrowings (continued)

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 lower tier 2 capital for Solvency I purposes and tier 2 own funds for Solvency II purposes.

5.375% Sterling subordinated notes 2045

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

Non recourse borrowings

US Dollar Triple X securitisation 2037

In 2006, a subsidiary of LGA issued US$450m of non recourse debt in the US capital markets to meet the Triple X reserve requirements of part of the US term insurance written after 2005 and 2006. It is secured on the cash flows related to that tranche of business.

LGV 6/LGV 7 Private Equity Fund Limited Partnerships

These borrowings are non recourse bank borrowings.

Consolidated Property Limited Partnerships

These borrowings are non recourse bank borrowings.

(b) Operational borrowings

	Carrying amount 2015 £m	Coupon rate 2015 %	Fair value 2015 £m	Carrying amount 2014 £m	Coupon rate 2014 %	Fair value 2014 £m
Short-term operational borrowings						
Euro Commercial Paper	**15**	**0.47**	**15**	73	0.58	73
Bank loans/other	**–**	**–**	**–**	8	0.45	8
Total short-term operational borrowings	**15**		**15**	81		81
Non recourse borrowings						
US Dollar Triple X securitisation 2037	**302**	**0.56**	**258**	286	0.54	240
LGV 6/LGV 7 Private Equity Fund Limited Partnership	**98**	**3.43**	**98**	136	3.89	136
Consolidated Property Limited Partnerships	**184**	**1.94**	**184**	148	1.89	148
Total non recourse borrowings	**584**		**540**	570		524
Group holding of operational borrowings[1]	**(65)**	**–**	**(56)**	(61)	–	(52)
Total operational borrowings	**534**		**499**	590		553

1. The group investments in operational borrowings have been eliminated from the group Consolidated Balance Sheet.

£152m of interest expense was incurred during the year (2014: £142m) on borrowings excluding non recourse and unit linked borrowings. The total financing costs incurred for the year were £186m (2014: £183m).

The presented fair values of the group's operational borrowings reflect observable market information and have been classified as level 2 in the fair value hierarchy.

BALANCE SHEET MANAGEMENT (CONTINUED)

(iii) Analysis by maturity

As at 31 December 2015	Carrying amount £m	Maturity profile of undiscounted cash flows: Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Subordinated borrowings							
6.385% Sterling perpetual capital securities (Tier 1)	**637**	**(6)**	**–**	**–**	**–**	**(600)**	**(606)**
5.875% Sterling undated subordinated notes (Tier 2)	**413**	**(6)**	**–**	**–**	**–**	**(400)**	**(406)**
10% Sterling subordinated notes 2041 (Tier 2)	**310**	**(13)**	**–**	**–**	**–**	**(300)**	**(313)**
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**–**	**–**	**–**	**–**	**(600)**	**(600)**
5.375% Sterling subordinated notes 2045 (Tier 2)	**602**	**(6)**	**–**	**–**	**–**	**(600)**	**(606)**
Senior borrowings							
Sterling medium-term notes 2031-2041	**609**	**(11)**	**–**	**–**	**(590)**	**(10)**	**(611)**
Client fund holdings of group debt	**(68)**	**–**	**–**	**–**	**–**	**–**	**–**
Total core borrowings	**3,092**	**(42)**	**–**	**–**	**(590)**	**(2,510)**	**(3,142)**
Short-term operational borrowings							
Euro Commercial Paper	**15**	**(15)**	**–**	**–**	**–**	**–**	**(15)**
Non recourse borrowings							
US Dollar Triple X securitisation 2037	**302**	**–**	**–**	**–**	**(305)**	**–**	**(305)**
LGV 6/LGV 7 Private Equity Fund Limited Partnership	**98**	**(39)**	**(60)**	**–**	**–**	**–**	**(99)**
Consolidated Property Limited Partnerships	**184**	**–**	**(184)**	**–**	**–**	**–**	**(184)**
Group holding of operational borrowings	**(65)**	**–**	**–**	**–**	**–**	**–**	**–**
Total operational borrowings	**534**	**(54)**	**(244)**	**–**	**(305)**	**–**	**(603)**
Total borrowings excluding unit linked borrowings	**3,626**	**(96)**	**(244)**	**–**	**(895)**	**(2,510)**	**(3,745)**
Contractual undiscounted interest payments		**(201)**	**(780)**	**(1,778)**	**(1,654)**	**(954)**	**(5,367)**
Total contractual undiscounted cash flows		**(297)**	**(1,024)**	**(1,778)**	**(2,549)**	**(3,464)**	**(9,112)**

BALANCE SHEET MANAGEMENT (CONTINUED)

25 Borrowings (continued)

(iii) Analysis by maturity (continued)

As at 31 December 2014	Carrying amount £m	Maturity profile of undiscounted cash flows: Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Subordinated borrowings							
6.385% Sterling perpetual capital securities (Tier 1)	658	(6)	–	–	–	(600)	(606)
5.875% Sterling undated subordinated notes (Tier 2)	416	(6)	–	–	–	(400)	(406)
4.0% Euro subordinated notes 2025 (Tier 2)	472	(11)	–	(465)	–	–	(476)
10% Sterling subordinated notes 2041 (Tier 2)	310	(13)	–	–	–	(300)	(313)
5.5% Sterling subordinated notes 2064 (Tier 2)	588	–	–	–	–	(600)	(600)
Senior borrowings							
Sterling medium-term notes 2031-2041	609	(11)	–	–	(590)	(10)	(611)
Client fund holdings of group debt	(76)	–	–	–	–	–	–
Total core borrowings	2,977	(47)	–	(465)	(590)	(1,910)	(3,012)
Short-term operational borrowings							
Euro Commercial Paper	73	(73)	–	–	–	–	(73)
Bank loans/other	8	(8)	–	–	–	–	(8)
Non recourse borrowings							
US Dollar Triple X securitisation 2037	286	–	–	–	(289)	–	(289)
LGV 6/LGV 7 Private Equity Fund Limited Partnership	136	(27)	(107)	–	–	–	(134)
Consolidated Property Limited Partnerships	148	–	(148)	–	–	–	(148)
Group holding of operational borrowings	(61)	–	–	–	–	–	–
Total operational borrowings	590	(108)	(255)	–	(289)	–	(652)
Total borrowings excluding unit linked borrowings	3,567	(155)	(255)	(465)	(879)	(1,910)	(3,664)
Contractual undiscounted interest payments		(188)	(731)	(1,709)	(1,367)	(163)	(4,158)
Total contractual undiscounted cash flows		(343)	(986)	(2,174)	(2,246)	(2,073)	(7,822)

The maturity profile above is calculated on the basis that a facility to refinance a maturing loan is not recognised unless the facility and loan are related. If refinancing under the group's credit facilities was recognised, then all amounts shown as repayable within one year would be reclassified as repayable between one and five years.

Undiscounted interest payments are estimated based on the year end applicable interest rate and spot exchange rates.

As at 31 December 2015, the group had in place a £1.00bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2020. This facility replaced the syndicated facility totalling £1.00bn, of which £0.04bn was due to mature in October 2017 and £0.96bn was due to mature in October 2018. No drawings were made under either facility during 2015.

Short-term assets available at the holding company level exceeded the amount of non-unit linked short-term operational borrowings of £15m (2014: £81m). Short-term operational borrowings comprise Euro Commercial Paper, bank loans and overdrafts.

BALANCE SHEET MANAGEMENT (CONTINUED)

26 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

(i) Analysis of provisions

	2015 £m	2014 £m
Retirement benefit obligations	**1,131**	1,217
Other provisions	**40**	30
	1,171	1,247

(ii) Retirement benefit obligations

Defined contribution plans

The group operates the following principal defined contribution pension schemes in the UK and overseas:

- Legal & General Group Personal Pension Plan (UK);
- Legal & General Staff Stakeholder Pension Scheme (UK);
- Legal & General America Inc. Savings Plan (US); and
- Legal & General Nederland Stichting Pensioenfonds (Netherlands), replacing the early retirement scheme previously part of the defined benefit plan. As from 1 January 2014 the plan was closed for future additions.

The group pays contractual contributions in respect of defined contribution schemes. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Contributions of £51m (2014: £52m) were charged as expenses during the year in respect of defined contribution plans.

Defined benefit plans

The group operates the following defined benefit pension schemes in the UK and overseas:

- Legal & General Group UK Pension and Assurance Fund (the Fund). The Fund was closed to new members from January 1995; the last full actuarial valuation was as at 31 December 2012.
- Legal & General Group UK Senior Pension Scheme (the Scheme). The Scheme was, with a few exceptions (principally transfers from the Fund), closed to new members from August 2000 and finally closed to new members from April 2007; the last full actuarial valuation was as at 31 December 2012.
- Legal & General America Inc. Cash Balance Plan (US); the last full actuarial valuation was as at 31 December 2014.
- Legal & General Nederland Stichting Pensioenfonds (Netherlands); the last full actuarial valuation was as at 31 December 2014.

The UK Fund and Scheme were closed to future accrual on 31 December 2015. As part of this arrangement, payments to the Fund and Scheme in respect of future accruals will cease from this date and be replaced with a company contribution payment of between 5% and 15%. In addition, as part of the closure, the company will contribute an additional £3m per annum over the next nine years towards the deficit.

The assets of all UK defined benefit schemes are held in separate trustee administered funds to meet long-term pension obligations to past and present employees. Trustees are appointed to the schemes and have a responsibility to act in the best interest of the scheme beneficiaries. The trustees' long-term objectives are to minimise the risk that there are insufficient assets to meet the liabilities of the scheme over the longer term, control the ongoing operational costs of the schemes and to maximise returns for the beneficiaries within an acceptable level of risk.

BALANCE SHEET MANAGEMENT (CONTINUED)

26 Provisions (continued)

(ii) Retirement benefit obligations (continued)

The total number of members of the UK Fund and Scheme was:

	2015	2014
Active	**445**	537
Deferred	**4,013**	4,173
Pensioners	**3,493**	3,371
	7,951	8,081

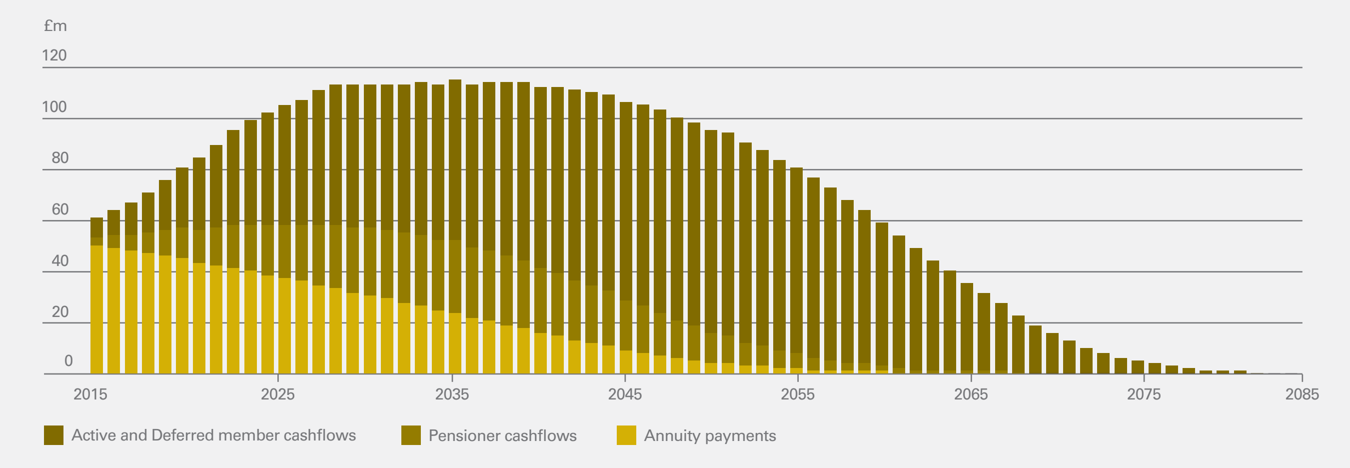
The group works closely with the trustees to develop an investment strategy for each UK scheme in order to meet the long-term objectives of the trustees as noted above. Each UK scheme has a Statement of Investment Principles which governs the mix of assets and limits for each class of asset. As noted below the asset mix of the schemes is primarily split between bonds and equities. Additionally certain of the liabilities of the scheme are secured by way of annuities purchased from the group. These annuities are not recognised as an asset for IAS 19 purposes but at 31 December 2015 the value of these annuities, on an IAS 19 basis, was £746m (2014: £723m).

The Scheme and Fund are primarily exposed to equity price risk, interest rate risk, inflation risk and longevity risk. These risks are managed within the risk appetite of the Scheme and Fund and the sensitivity of the net obligations to changes in any of the variables are monitored and action is taken if any risk moves outside of the appetite. Annuities are purchased to mitigate these risks for certain of the pension liabilities which passes the risks from the Scheme and Fund onto the group.

Full actuarial valuations are carried out on the Scheme and Fund every three years, updated by formal reviews at each reporting date. The actuarial assumptions used in the triennial valuation would normally be more prudent than those used for the purposes of IAS 19 reporting. Where the Scheme or Fund are in deficit following the triennial valuation, the group and the trustee agree a deficit recovery plan. Both the Scheme and Fund have formal deficit recovery plans which agree to make good the deficits over a certain period of time. The triennial valuation at 31 December 2012 showed a total funding deficit for both the Scheme and the Fund of £494m. As a result of this, a recovery plan was agreed of £55m a year until 2024. The latest triennial valuation at 31 December 2015 is ongoing and due to be completed shortly.

The Scheme and the Fund liabilities have an average duration of 19.3 years (2014: 23.4 years) and 19.4 years (2014: 23.6 years) respectively. The expected undiscounted benefits payments to members of the Scheme and Fund, including pensions in payment secured by annuities purchased from the group, are shown in the chart below:

UNDISCOUNTED BENEFIT PAYMENTS



BALANCE SHEET MANAGEMENT (CONTINUED)

The liability recognised in the Consolidated Balance Sheet in respect of defined benefit pension schemes is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, provided any surplus in the fund is not restricted. Plan assets exclude any insurance contracts issued by the group. The defined benefit obligation is calculated actuarially each year using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The discount rate is based on market yields of high quality corporate bonds which are denominated in the currency in which the benefits will be paid, and that have terms to maturity which approximate to those of the related pension liability.

Where the unallocated divisible surplus or equity holders' funds are affected as a result of actuarial gains and losses on the defined benefit pension scheme, the charge or credit is not recognised in the income statement but through the Consolidated Statement of Comprehensive Income.

The benefits paid from the defined benefit schemes are based on percentages of the employees' final pensionable salary for each year of credited service. The group has no liability for retirement benefits other than for pensions. The Fund and Scheme account for all of the UK and over 97% of worldwide assets of the group's defined benefit schemes.

The principal actuarial assumptions for the UK defined benefit schemes were:

	Fund and Scheme 2015 %	Fund and Scheme 2014 %
Rate used to discount liabilities	**3.80**	3.60
Rate of increase in pensionable salaries[1, 2]	**2.30**	2.30
Rate of increase in pensions in payment	**3.60**	3.40
Rate of increase in deferred pensions	**3.66**	4.30
Rate of general inflation (RPI)	**3.00**	3.10
Rate of wage inflation	**2.30**	2.30
Post retirement mortality		
2015: 100% (Fund) / 85% (Scheme) of PCMA/PCFA 00 with improvement at CMI 2011 base date 2000 with long-term rates 1.5% pa males and 1.0% pa females, with tapering linearly down to nil between ages 90 and 120.		
2014: 100% (Fund) / 85% (Scheme) of PCMA/PCFA 00 with improvement at CMI 2011 base date 2000 with long-term rates 1.5% pa males and 1.0% pa females, with tapering linearly down to nil between ages 90 and 120.		

1. On 1 December 2008, the conditions of the Fund and Scheme were amended to cap future pensionable salary increases at a maximum of 2.5% each year with effect from 1 January 2009; benefits accrued before that date have an underpin of the early leaver benefits.
2. On 31 December 2015 the Fund and Scheme were closed to future accrual. This assumption will not be required after this date.

This equates to average life expectancy as follows:

	Fund and Scheme 2015 years	Fund and Scheme 2014 years
Normal retirement age	**60.0**	60.0
Male life expectancy at retirement age	**89.2**	89.0
Female life expectancy at retirement age	**90.5**	90.4
Male life expectancy at 20 years younger than retirement age	**91.7**	91.6
Female life expectancy at 20 years younger than retirement age	**92.1**	92.0

BALANCE SHEET MANAGEMENT (CONTINUED)

26 Provisions (continued)

(ii) Retirement benefit obligations (continued)

	Fund and Scheme 2015 £m	Overseas 2015 £m	Fund and Scheme 2014 £m	Overseas 2014 £m
Movement in present value of defined benefit obligations				
As at 1 January	**(2,348)**	**(56)**	(2,069)	(41)
Current service cost	**(8)**	**(3)**	(12)	(2)
Interest expense	**(83)**	**(2)**	(90)	(2)
Actuarial remeasurement (recognised in Consolidated Statement of Comprehensive Income)	**108**	**1**	(234)	(13)
Benefits paid	**72**	**1**	57	1
Exchange differences	**–**	**–**	–	1
Disposal of LGF	**–**	**1**	–	–
As at 31 December	**(2,259)**	**(58)**	(2,348)	(56)
Movement in fair value of plan assets				
As at 1 January	**1,133**	**54**	956	44
Expected return on plan assets at liability discount rate	**41**	**2**	42	2
Actuarial remeasurement (recognised in Consolidated Statement of Comprehensive Income)	**(61)**	**(1)**	124	9
Employer contributions	**92**	**1**	68	1
Benefits paid	**(72)**	**(1)**	(57)	(1)
Exchange differences	**–**	**(1)**	–	(1)
Disposal of LGF	**–**	**(1)**		
As at 31 December	**1,133**	**53**	1,133	54
Gross pension obligations	**(1,126)**	**(5)**	(1,215)	(2)
Gross pension obligations included in provisions	**(1,126)**	**(5)**	(1,215)	(2)
Annuity obligations insured by Society	**746**	**–**	723	–
Gross defined benefit pension deficit	**(380)**	**(5)**	(492)	(2)
Deferred tax on defined benefit pension deficit	**72**	**–**	98	–
Net defined benefit pension deficit	**(308)**	**(5)**	(394)	(2)

The total amount of actuarial losses net of tax recognised in the Consolidated Statement of Comprehensive Income for the year was £36m (2014: £(94)m) net of tax; cumulative £(694)m (2014: £(741)m). Actuarial profit net of tax relating to with-profits policyholders of £13m (2014: £(38)m loss) have been allocated to the unallocated divisible surplus.

The mortality base assumptions are aligned with those used by the Scheme's trustees at the last valuation. The effect of assuming reasonable alternative assumptions in isolation to the gross defined benefit pension deficit are shown below. Opposite sensitivities are broadly symmetrical, but larger sensitivities are not necessarily broadly proportionate due to the existence of maxima and minima for inflation linked benefits.

	2015 £m	2014 £m
1 year increase in longevity	**(55)**	(49)
0.1% decrease in the rate used to discount liabilities	**(34)**	(38)
0.1% increase in the rate of general inflation (RPI)	**(19)**	(33)
0.1% increase in the rate of wage inflation	**–**	–

BALANCE SHEET MANAGEMENT (CONTINUED)

The historic funding and experience adjustments are as follows:

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Present value of defined benefit obligations	**(2,317)**	(2,404)	(2,110)	(1,890)	(1,695)
Fair value of plan assets	**1,186**	1,187	1,000	924	829
Restricted surplus not recognised	**–**	–	(3)	(3)	(5)
Gross pension obligations included in provisions	**(1,131)**	(1,217)	(1,113)	(969)	(871)
Experience adjustments on plan liabilities	**37**	(7)	(11)	(10)	(17)
Experience adjustments on plan assets	**(62)**	133	39	53	1

The fair value of the plan assets at the end of the year is made up as follows:

	Valuation based on quoted market price		**Valuation based on other than quoted market price**	
As at 31 December 2015	**UK £m**	**Overseas £m**	**UK £m**	**Overseas £m**
Equities	**523**	**14**	**–**	**–**
Bonds	**534**	**36**	**–**	**–**
Properties	**–**	**–**	**66**	**–**
Other investments	**10**	**–**	**–**	**3**
	1,067	**50**	**66**	**3**

	Valuation based on quoted market price		Valuation based on other than quoted market price	
As at 31 December 2014	UK £m	Overseas £m	UK £m	Overseas £m
Equities	502	12	–	2
Bonds	546	35	–	–
Properties	–	–	58	–
Other investments	27	1	–	4
	1,075	48	58	6

In 2015, the return on plan assets was £30m (2014: £168m). The average credit rating of the bond portfolio is A (2014: A).

Employer contributions of £93m (2014: £69m) include a pension deficit reduction payment of £84m (2014: £61m). Employer contributions of £72m are expected to be paid to the plan during 2016.

The following amounts have been charged to the Consolidated Income Statement:

	Note	2015 £m	2014 £m
Current service costs		**11**	14
Net interest expense		**42**	48
Total included in other expenses	37	**53**	62

BALANCE SHEET MANAGEMENT (CONTINUED)

27 Payables and other financial liabilities

Trail commission

The group operates distribution agreements with intermediaries where further commission costs are payable in each period in which a relevant policy remains in-force. For relevant non-participating investment contracts, a liability for the present value of this future commission cost is recognised in the balance sheet on inception of the contract. The present value of future commission costs is deferred as an asset and amortised over the period during which the related revenue will be recognised. At each subsequent reporting date, the liability is re-measured to fair value because this financial liability is part of a portfolio of unit linked assets and liabilities whose performance is evaluated on a fair value basis. Any increase in the liability is recognised as an additional deferred cost. Any change in lapse assumptions or revisions to the underlying assumptions for future cash flows will be reflected in the fair value movement for a year. If the future commission liability decreases, a corresponding adjustment is made to the amortisation of the asset.

	2015 £m	2014 £m
Derivative liabilities	**8,047**	6,877
Repurchase agreements[1]	**13,343**	7,016
Other[2]	**1,319**	2,238
Payables and other financial liabilities	**22,709**	16,131
Due within 12 months	**20,027**	11,887
Due after 12 months	**2,682**	4,244

1. The repurchase agreements are presented gross, however they and their related assets are subject to master netting arrangements.
2. Other financial liabilities include net variation margins on derivative contracts, which are maintained daily. Included within the variation margins are collateral held and pledged of £94m and £50m respectively (2014: £107m and £235m respectively). Other also includes the present value of future commission costs which have contingent settlement provisions of £175m (2014: £186m).

Fair value hierarchy

As at 31 December 2015	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	**8,047**	**1,451**	**6,596**	**–**	**–**
Repurchase agreements	**13,343**	**–**	**–**	**–**	**13,343**
Other	**1,319**	**5**	**12**	**175**	**1,127**
Payables and other financial liabilities	**22,709**	**1,456**	**6,608**	**175**	**14,470**

As at 31 December 2014	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	6,877	593	6,284	–	–
Repurchase agreements	7,016	–	–	–	7,016
Other	2,238	869	29	186	1,154
Payables and other financial liabilities	16,131	1,462	6,313	186	8,170

Future commission costs are modelled using expected cash flows, incorporating expected future persistency. They have therefore been classified as level 3 liabilities. The entire movement in the balance has been reflected in the Consolidated Income Statement during the period. A reasonably possible alternative persistency assumption would have the effect of increasing the liability by £6m (2014: £6m).

Significant transfers between levels

There have been no significant transfers between levels 1, 2 and 3 for the period ended 31 December 2015 (2014: No significant transfers between levels 1, 2 and 3).

BALANCE SHEET MANAGEMENT (CONTINUED)

28 Management of capital resources

Capital resources (unaudited)

The group is required to measure and monitor its capital resources on a regulatory basis and to comply with the minimum capital requirements of regulators in each territory in which it operates. At a group level, Legal & General had to comply with the requirements of the European Insurance Groups Directive (IGD) at the balance sheet date. The table below shows the total group capital resources, group capital resources requirement and the group surplus on an IGD basis. These results are not audited.

	2015 £bn	2014 £bn
Core tier 1 capital	**7.0**	6.4
Innovative tier 1 capital	**0.6**	0.6
Tier 2 capital[1]	**1.8**	1.7
Deductions	**(1.2)**	(1.0)
Group capital resources	**8.2**	7.7
Group capital resources requirement[2]	**3.8**	3.8
IGD surplus	**4.4**	3.9
Group capital resources requirement coverage ratio[3]	**217%**	201%

1. The group redeemed €0.6bn Euro subordinated notes in June 2015 and issued £0.6bn subordinated notes in October 2015, both constituting Lower Tier 2 capital.
2. Group capital resources requirement includes a With-profits Insurance Capital Component (WPICC) of £0.4bn (2014: £0.4bn).
3. Coverage ratio is calculated on unrounded values.

A reconciliation of the capital and reserves attributable to the equity holders of the company on an IFRS basis to the group capital resources on an IGD basis is given below.

	2015 £bn	2014 £bn
Capital and reserves attributable to equity holders on an IFRS basis	**6.4**	6.0
Innovative tier 1 capital	**0.6**	0.6
Tier 2 capital	**1.8**	1.7
Unallocated divisible surplus (UK only)	**0.9**	0.7
Proposed dividends	**(0.6)**	(0.5)
Intangibles	**(0.4)**	(0.4)
Other regulatory adjustments[1]	**(0.5)**	(0.4)
Group capital resources	**8.2**	7.7

1. Other regulatory adjustments include differences between accounting and regulatory bases.

Capital management policies and objectives

The group aims to manage its capital resources to maintain financial strength, policyholder security and relative external ratings advantage. The group also seeks to maximise its financial flexibility by maintaining strong liquidity and by utilising a range of alternative sources of capital including equity, senior debt, subordinated debt and reinsurance.

Capital measures

The group measures its capital on a number of different bases, including those which comply with the regulatory frameworks within which the group operates and those which the directors consider most appropriate for managing the business. The measures used by the group include:

Accounting bases

Management use financial information prepared on both an IFRS and Economic Capital basis to manage capital and cash flow usage and to determine dividend paying capacity.

Regulatory bases

The financial strength of the group's insurance subsidiaries is measured under various local regulatory requirements (see below). One of these regulatory measures, Individual Capital Assessment (ICA), measures capital using risk based stochastic techniques, and provides a measure of the level of economic capital required to run the group's business. In addition, management assess financial strength under the requirements of the Solvency II rules.

BALANCE SHEET MANAGEMENT (CONTINUED)

28 Management of capital resources (continued)

Basis of regulatory capital and corresponding regulatory capital requirements

In each country in which the group operates, the local insurance regulator specifies rules and guidance for the minimum amount and type of capital which must be held by insurance subsidiaries in excess of their insurance liabilities. The minimum capital requirements have been maintained at all times throughout the year. This helps to ensure that payments to policyholders can be made as they fall due.

The required capital is calculated by either assessing the additional assets which would be required to meet the insurance company's liabilities in specified, stressed financial conditions, or by applying fixed percentages to the insurance company's liabilities and risk exposures. The requirements in the different jurisdictions in which the group operates are detailed below:

UK regulatory basis

At the balance sheet date, required capital for the life business was based on PRA rules. Society was required to hold assets in excess of the higher of two amounts; the first being calculated using the PRA rules specified by the regulator (Pillar 1), the second being an economic capital assessment by the company which is reviewed by the PRA (Pillar 2), otherwise known as ICA.

The public Pillar 1 capital calculation is calculated by applying fixed percentages to liabilities and sums assured at risk or setting aside a proportion of expenses (Peak 1). There are further stress tests for participating business, as measured in the Realistic Balance Sheet (Peak 2), which may increase the required capital under Peak 1 calculations.

The private Pillar 2 capital calculation is an assessment of the economic capital required to ensure that the company can meet its liabilities, with a high likelihood, as they fall due. This is achieved by application of stochastic modelling and scenario testing. The result is reviewed and may be modified by the PRA.

Regulatory capital for the general insurance business is also calculated using PRA Pillar 1 and Pillar 2 requirements. The Pillar 1 calculation applies fixed percentages to premiums and claims. Pillar 2 creates a higher capital requirement and is therefore applied in this business.

US regulatory basis

Required capital is determined to be the Company Action Level Risk Based Capital (RBC) based on the National Association of Insurance Commissioners' RBC model. RBC is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations, taking into account its size and risk profile. The calculation is based on applying factors to various asset, premium, claims, expense and reserve items, with higher factors used for those items with greater underlying risk and lower factors for less risky items.

Dutch regulatory basis

The minimum required capital is defined by the 'De Nederlandsche Bank N.V.' (Dutch Supervisory Body). The basis of the calculation is a percentage of the liabilities plus a percentage of the sum assured at risk and, for some contracts, the premium. The percentages depend on the guarantees given and the amount of reinsurance cover.

Bermudan regulatory basis

Bermudan regulated insurers are required to hold sufficient capital to meet 120% of the Bermudan Solvency Capital Requirement (BSCR). The BSCR model follows a standard formula framework; capital attributed to each risk is calculated by applying capital factors to the assets and liabilities. The individual risk elements (excluding operational risk) are combined using a covariance matrix and then added to an operational risk charge.

Group regulatory basis

In addition to the regulatory capital calculations for the individual firms, the group is required to comply with the requirements of the Insurance Groups Directive (IGD) at the balance sheet date.

BALANCE SHEET MANAGEMENT (CONTINUED)

Solvency II (unaudited)

From 1 January 2016, the group is required to measure and monitor its capital resources on a new regulatory basis and to comply with the requirements established by the Solvency II Framework Directive, as adopted by PRA in the UK.

In December 2015, the group received approval to calculate its Solvency II capital requirements using a Partial Internal Model. The vast majority of the risk to which the group is exposed is assessed on the Internal Model basis approved by the PRA. Capital requirements for a handful of 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 of the group's application to use the Deduction and Aggregation method of including these businesses in the group solvency calculation.

The table below shows the estimated Group Eligible own funds, Solvency Capital Requirement (SCR) and Surplus own funds based on the Internal Model, Matching Adjustment and Transitional Measures on Technical Provisions (TMTP) approved by the PRA in December 2015. The Solvency II results are not audited.

	2015 £bn
Eligible own funds[1]	13.5
Solvency capital requirement	8.0
Surplus	**5.5**
SCR coverage ratio[2]	**169%**

1. Eligible own funds do not include an accrual for the 2015 final dividend (£592m) declared in 2016.
2. Coverage ratio is calculated on unrounded values.

29 Acquisition

Business combinations are accounted for using the purchase method, under which the acquirer recognises the acquiree's fair value of the identifiable assets, liabilities and contingent liabilities at the acquisition date. Purchased goodwill is recognised as an asset on the Consolidated Balance Sheet and is carried at cost less any accumulated impairment losses in accordance with IAS 36, 'Impairment of Assets'.

Private equity investment vehicles classified as subsidiaries are those entities over which the group directly or indirectly has the power to govern the operating and financial policies, in order to gain economic benefits. Profits or losses of subsidiary undertakings sold or acquired during the year are included in the consolidated results up to the date of disposal or from the date of gaining control.

On 1 April 2015, the group acquired 100% of New Life Home Finance Limited, a UK based lifetime mortgage provider for a consideration of £5m. The acquisition gave rise to an increase in the group's goodwill of £2m and an increase in purchased interest in long-term businesses (PILTB) and other intangibles of £2m. This enables the group to offer lifetime mortgages as part of the retirement solutions suite of products.

BALANCE SHEET MANAGEMENT (CONTINUED)

30 Disposals

During 2015, the group made the following disposals:

- Snow + Rock Group Holding Limited was sold to Cotswold Outdoor Limited for £34m. The carrying value of the investment was £6m, realising a profit on disposal of £28m reported in operational income in the Consolidated Income Statement. The majority of the profit on disposal is allocated to the with-profits fund.
- Legal & General International (Ireland) Limited (LGII), the group's Dublin based offshore bond provider was sold to Canada Life for £16m. The carrying value of the business was £14m, and disposal costs totalled £1m, realising a profit on disposal of £1m reported in operational income in the Consolidated Income Statement.
- Commercial International Life Insurance Company SAE (CIL), the group's Egypt based life insurance joint venture, was sold to AXA for £33m. The carrying value of the business was £14m, realising a profit on disposal of £19m reported in operational income in the Consolidated Income Statement.
- The group's interest in Legal & General Gulf BSC (LGG), the group's Bahrain based life insurance joint venture, was sold to a third party for £1. The carrying value of the business was £2m, realising a loss on disposal of £2m reported in operational income in the Consolidated Income Statement.
- Legal & General Holdings (France) S.A. (LGF), the group's French insurance business, was sold to APICIL Prévoyance. A loss on disposal of £43m is reported in operational income in the Consolidated Income Statement.

None of the disposals completed during 2015 are discontinued operations as they do not represent major lines of business or geographical segments of the group.

31 Held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

On 15 January 2016, the group sold Suffolk Life Group Limited (SLG) to Curtis Banks Group plc for £45m (excluding transaction costs), subject to regulatory approval. The assets and liabilities of SLG have accordingly been assessed as a disposal group and have been classified as held for sale as at 31 December 2015. SLG formed part of the Savings segment in Note 32.

SLG is not a discontinued operation as it does not represent a major line of business or geographical segment of the group.

	Total 2015 £m
Assets classified as held for sale	
Purchased interest in long-term business and other intangible assets	28
Property, plant and equipment	1
Investment property	1,140
Financial investments	1,801
Reinsurers' share of contract liabilities	39
Cash and cash equivalents	389
Other assets	11
Total assets of the disposal group	**3,409**
Liabilities classified as held for sale	
Investment contract liabilities	(3,235)
Operational borrowings	(102)
Tax liabilities	(5)
Payables and other financial liabilities	(10)
Other liabilities	(17)
Total liabilities of the disposal group	**(3,369)**
Total net assets of the disposal group	**40**

ADDITIONAL FINANCIAL INFORMATION

32 Segmental analysis

The group provides a segmental analysis to enhance the understanding of the financial statements.

Under the requirements of IFRS 8, 'Operating segments', operating and reportable segments are presented in a manner consistent with the internal reporting provided to the chief operating decision maker, which has been identified as the Board of Legal & General Group Plc.

Reportable segments

The group has six reportable segments comprising LGR, LGIM, LGC, Insurance, Savings and LGA. Central group expenses and debt cost are reported separately.

LGR represents annuities (both individual and bulk purchase), longevity insurance and lifetime mortgages.

The LGIM segment represents institutional and retail investment management, and workplace savings businesses.

The LGC segment includes shareholders' equity supporting the non profit LGR, Insurance and Savings businesses held within Society and capital held by the group's treasury function. LGC and group expenses also incorporate inter-segmental eliminations, consolidated unit trusts and property partnerships managed on behalf of clients, which do not constitute a separately reportable segment.

Following changes to the organisational structure, Insurance and Savings are now reported as separate segments. Previously, Insurance and Savings had been reported together as the LGAS segment. In addition, the workplace savings business is now included in the LGIM segment. Workplace savings had previously been recognised in the Savings segment. Comparatives have been amended accordingly in line with this reclassification. The impact of the workplace savings reclassification has been to reduce LGIM 2014 operating profit by £15m, with an offsetting increase in the Savings segment's operating profit.

Insurance represents business in retail protection, group protection, general insurance, networks, Legal & General France (LGF), sold on 31 December 2015, and Legal & General Netherlands (LGN).

Savings represents business in platforms, SIPPs, mature savings, with-profits and emerging markets.

The LGA segment represents protection business written in the USA.

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

(a) Profit/(loss) for the year

For the year ended 31 December 2015	LGR £m	LGIM £m	LGC £m	Insurance £m	Savings £m	LGA £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	**639**	**355**	**233**	**293**	**99**	**83**	**(247)**	**1,455**
Investment and other variances[1]	79	(20)	(116)	(40)	3	(13)	(12)	(119)
Gains attributable to non-controlling interests	–	–	–	–	–	–	19	19
Profit/(loss) before tax attributable to equity holders	**718**	**335**	**117**	**253**	**102**	**70**	**(240)**	**1,355**
Tax (expense)/credit attributable to equity holders of the company	(131)	(74)	(9)	(61)	(15)	(41)	70	(261)
Profit/(loss) for the year	**587**	**261**	**108**	**192**	**87**	**29**	**(170)**	**1,094**

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

32 Segmental analysis (continued)

(a) Profit/(loss) for the year (continued)

For the year ended 31 December 2014	LGR £m	LGIM[2] £m	LGC £m	Insurance £m	Savings[2] £m	LGA £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	428	321	203	370	105	56	(208)	1,275
Investment and other variances	67	(7)	(37)	12	(24)	(13)	(42)	(44)
Gains attributable to non-controlling interests	–	–	–	–	–	–	7	7
Profit/(loss) before tax attributable to equity holders	495	314	166	382	81	43	(243)	1,238
Tax (expense)/credit attributable to equity holders of the company	(97)	(68)	(9)	(90)	(14)	(19)	51	(246)
Profit/(loss) for the year	398	246	157	292	67	24	(192)	992

1. 2015 Investment and other variances – Insurance and Savings include the gain/(loss) resulting from the disposal of subsidiary and associated joint venture investments during the year.
2. LGIM includes the workplace savings business which was previously reported in Savings. Prior period comparatives have been amended. At 2014, the impact includes the reduction of operating profit by £15m and profit before tax by £10m. Offsetting movements have been reflected in the Savings segment.

(b) Revenue

For the year ended 31 December 2015	**LGR £m**	**LGIM[1] £m**	**Insurance £m**	**Savings[1] £m**	**LGA £m**	**LGC and other[2] £m**	**Total £m**
Internal revenue	**–**	**267**	**495**	**–**	**(203)**	**(559)**	**–**
External revenue	**2,528**	**5,514**	**2,132**	**2,478**	**312**	**(262)**	**12,702**
Total revenue	**2,528**	**5,781**	**2,627**	**2,478**	**109**	**(821)**	**12,702**

For the year ended 31 December 2014	LGR[3] £m	LGIM[1] £m	Insurance £m	Savings[1] £m	LGA £m	LGC and other[2,3] £m	Total £m
Internal revenue	–	220	300	–	(218)	(302)	–
External revenue	13,767	28,345	2,444	2,154	377	4,430	51,517
Total revenue	13,767	28,565	2,744	2,154	159	4,128	51,517

1. LGIM includes the workplace savings business which was previously reported in Savings. Prior year comparatives have been amended. The impact includes the increase of LGIM external revenue for 2014 by £373m. Offsetting movements have been reflected in the Savings segment.
2. LGC and other includes LGC, inter-segmental eliminations and group consolidation adjustments.
3. LGC and other internal revenue includes £373m of inter-segmental eliminations previously classified as LGR.

Total revenue includes investment return of £5,947m (2014: £40,639m).

(c) Gross written premiums on insurance contracts

Gross written premium is the total written by the group before deductions for reinsurance.

Long-term insurance premiums are recognised as revenue when due for payment. General insurance premiums are accounted for in the period in which the risk commences. Estimates are included for premiums not notified by the year end and provision is made for the anticipated lapse of renewals not yet confirmed. Those proportions of premiums written in a year which relate to periods of risk extending beyond the end of the year are carried forward as unearned premiums.

Premiums received relating to investment contracts are not recognised as revenue, but are included in the balance sheet investment contract liability.

Outward reinsurance premiums of £1,603m (2014: £1,122m) are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

	2015 £m	2014 £m
Insurance and Savings		
Non-participating UK protection business	**1,441**	1,407
Non-participating UK savings business	**31**	33
Participating UK savings business	**57**	81
Netherlands (LGN)	**161**	200
France (LGF)	**440**	432
General insurance		
Household	**316**	354
Other business	**21**	23
Total Insurance and Savings	**2,467**	2,530
LGR		
Non-participating annuity business	**3,081**	6,960
LGA	**773**	678
Total gross written premiums	**6,321**	10,168

(d) Fees from fund management and investment contracts

Fees charged for investment management services are recognised as revenue as the services are provided. Initial fees which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the anticipated period in which the services will be provided. The total fees earned from fund management and investment contracts for the year is £1,139m (2014: £1,085m).

33 Investment return

Investment return includes fair value gains and losses, excluding fair value movements attributable to available-for-sale (AFS) investments, dividends, rent and interest. Dividends are accrued on an ex-dividend basis. Interest and rent are included on an accruals basis. Interest income for financial assets which are not classified as fair value through profit or loss (FVTPL) is recognised using the effective interest method.

The group earns an investment return from holdings in financial instruments and property investments, held to back insurance and investment contracts on behalf of policyholders and as group capital.

	2015 £m	2014 £m
Dividend income	**3,978**	4,265
Interest income on financial investments at fair value through profit or loss	**5,196**	4,875
Other investment income/(expense)[1]	**79**	(59)
(Losses)/gains on financial investments at fair value through profit or loss	**(3,707)**	29,493
(Losses)/gains on derivative instruments (designated as held for trading)	**(541)**	1,161
Realised gains on available-for-sale financial assets	**27**	35
(Losses)/gains on loans and receivables	**(1)**	1
Financial investment return	**5,031**	39,771
Rental income	**535**	463
Fair value gains on properties	**381**	405
Property investment return	**916**	868
Investment return	**5,947**	40,639

1. Interest income of £60m (2014: £67m) arose on financial investments designated as AFS. There were no impairments on assets classified as AFS during the year (2014: £nil).

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

34 Net claims and change in insurance liabilities

Insurance claims are paid in accordance with the individual policy terms typically arising from an insured event.

Long-term insurance

Death claims are accounted for on notification of death. Surrenders for non-linked policies are accounted for when payment is made. Critical illness claims are accounted for when admitted. All other long-term claims and surrenders are accounted for when payment is due. Claims payable include the direct costs of settlement.

The change in the insurance liability reflects the reduction in liabilities due to the payment of claims in the year, offset by liabilities arising from new business. The movement also reflects assumption changes relating to variables such as claims expectations, expenses and the unwind of the previous period's expectations.

General insurance

Claims and related reinsurance recoveries are accounted for in respect of all incidents up to the year end. Provision is made on the basis of available information for the estimated ultimate cost, including claims settlement expenses, claims reported but not yet settled and claims incurred but not yet reported. An unexpired risk provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums and after taking account of investment return.

	Long-term insurance 2015 £m	General insurance 2015 £m	Total 2015 £m	Long-term insurance 2014 £m	General insurance 2014 £m	Total 2014 £m
Claims paid						
gross	5,598	161	5,759	5,519	182	5,701
reinsurance recoveries	(1,192)	(1)	(1,193)	(996)	(1)	(997)
	4,406	160	4,566	4,523	181	4,704
Change in insurance liabilities						
gross	(1,151)	472	(679)	9,353	18	9,371
reinsurance recoveries	(1,273)	–	(1,273)	22	(1)	21
Net claims and change in insurance liabilities	**1,982**	**632**	**2,614**	13,898	198	14,096

The roll-forward of the insurance contract liabilities is provided in Note 21.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

35 Tax

The tax shown in the Consolidated Income Statement comprises current and deferred tax.

Current tax

Current tax comprises tax payable on current year profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous periods. Current tax is recognised in the Consolidated Income Statement unless it relates to items which are recognised in the Consolidated Statement of Comprehensive Income.

Deferred tax

Deferred tax is calculated on differences between the accounting value of assets and liabilities and their respective tax values. Deferred tax is also recognised in respect of unused tax losses to the extent it is probable that future taxable profits will arise against which the losses can be utilised. Deferred tax is charged or credited to the Consolidated Income Statement, except when it relates to items charged or credited directly to equity.

The tax shown in the Consolidated Income Statement has been apportioned between that attributable to policyholders and that attributable to equity holders.

The judgements made in arriving at tax balances in the financial statements are discussed in the notes below.

Tax rates

The table below provides a summary of the current tax and deferred tax rates for the year.

	2015		2014	
	Current tax	**Deferred tax**	Current tax	Deferred Tax
UK	**20.25%**	**20–18%**	21.5%	20.0%
USA	**35.0%**	**35.0%**	35.0%	35.0%
France	**38.0%**	**34.4%**	38.0%	34.4%
Netherlands	**25.0%**	**25.0%**	25.0%	25.0%
Ireland	**12.5%**	**12.5%**	12.5%	12.5%
Bermuda	**0%**	**0%**	0%	0%

Following the 2015 Finance Act, the rate of corporation tax will reduce to 19% from 1 April 2017. There will be a further 1% reduction to 18% from 1 April 2020. The enacted rates of 20 – 18% have been used in the calculation of UK's deferred tax assets and liabilities, depending on which is the rate of corporation tax that is expected to apply when the differences as mentioned above reverse.

To calculate the current tax on profits, the rate of tax used is 20.25% (2014: 21.5%), which is the average rate of corporation tax applicable for the year.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

35 Tax (continued)

(i) Tax charge in the Consolidated Income Statement

	2015 £m	2014 £m
Current tax	**327**	160
Deferred tax		
Movement in temporary differences	**(3)**	253
Reduction in UK corporate tax rate to 18% from 2020	**1**	–
Total deferred tax	**(2)**	253
Adjustment to equity holders' tax in respect of prior years	**(5)**	8
Total tax	**320**	421
Less tax attributable to policyholder returns	**(59)**	(175)
Tax attributable to equity holders	**261**	246

The total movement in deferred tax of £(2)m (2014: £253m) disclosed above differs from the amount of £(16)m (2014: £246m) disclosed in the note below by £(14)m (2014: £7m) being the deferred tax prior year adjustment included within the 'Adjustment to equity holders' tax in respect of the prior years' line.

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

	2015 £m	2014 £m
Profit before tax attributable to equity holders	**1,355**	1,238
Tax calculated at 20.25% (2014: 21.5%)	**274**	266
Effects of:		
Adjustments in respect of prior years	**(5)**	8
Income not subject to tax, such as dividends	**(11)**	(9)
Change in valuation of tax losses	**–**	(6)
Higher rate of tax on profits taxed overseas	**16**	8
Additional allowances/non-deductible expenses	**(4)**	(7)
Impact of reduction in UK corporate tax rate to 18% from 2020 on deferred tax balances	**1**	–
Differences between taxable and accounting investment gains	**(10)**	(15)
Other	**–**	1
Tax attributable to equity holders	**261**	246
Equity holders' effective tax rate	**19.3%**	19.9%

Equity holders' effective tax rate is calculated by dividing the tax attributable to equity holders over profit before tax attributable to equity holders.

Tax calculated on profit before tax at 20.25% (2014: 21.5%) would amount to £286m (2014: £304m). The difference between this number and the total tax of £320m (2014: £421m) is made up of the reconciling items above, which total £(13)m (2014: £(20)m), and the effect of the apportionment methodology on tax applicable to policyholder returns of £47m (2014: £135m).

(ii) Tax charge to equity

Deferred tax recognised directly in equity	2015 £m	2014 £m
Relating to net gains or losses recognised directly in equity	**(4)**	6
Exchange gains	**20**	17
Deferred tax recognised directly in equity	**16**	23

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

(iii) Deferred tax – Consolidated Balance Sheet

Deferred tax assets and liabilities have been recognised/(provided) for the temporary differences and unused tax losses. The recognition of a deferred tax asset in respect of tax losses is supported by management's best estimate of future taxable profits to absorb the losses in future years. These taxable profit projections are based on assumptions consistent with those used for EEV reporting purposes. Deferred tax assets and liabilities have been offset to the extent it is permissible under the accounting standard. The net movement in deferred tax assets and liabilities during the year is as follows:

(a) UK deferred tax assets/(liabilities)

	Net tax liability as at 1 January 2015 £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to equity £m	Transfers[3] £m	Net tax liability as at 31 December 2015 £m
Realised and unrealised gains on investments	**(168)**	**42**	**–**	**(20)**	**(146)**
Excess of depreciation over capital allowances	**19**	**(1)**	**–**	**–**	**18**
Excess expenses[1]	**105**	**(31)**	**–**	**–**	**74**
Deferred acquisition expenses	**(61)**	**10**	**–**	**–**	**(51)**
Difference between the tax and accounting value of insurance contracts	**(143)**	**67**	**(7)**	**–**	**(83)**
Accounting provisions	**3**	**5**	**–**	**–**	**8**
Trading losses[2]	**45**	**(39)**	**–**	**–**	**6**
Pension fund deficit	**98**	**(15)**	**(11)**	**–**	**72**
Purchased interest in long-term business	**(24)**	**6**	**–**	**3**	**(15)**
UK deferred tax assets/(liabilities)	**(126)**	**44**	**(18)**	**(17)**	**(117)**
Presented in the Consolidated Balance Sheet as:					
– UK deferred tax asset	**54**	**(34)**	**–**	**–**	**20**
– UK deferred tax liability	**(180)**	**78**	**(18)**	**(17)**	**(137)**

1. The reduction in the deferred tax asset on excess expenses reflects the unwind of the spread acquisition expenses.
2. LGR and Insurance utilised their remaining losses against profits that arose during the first half of the year. The remaining losses mainly relate to Cofunds.
3. £20m relates to a reclassification between current and deferred tax.

	Net tax asset as at 1 January 2014 £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to equity £m	Transfers £m	Net tax liability as at 31 December 2014 £m
Realised and unrealised gains on investments	(160)	(8)	–	–	(168)
Excess of depreciation over capital allowances	24	(5)	–	–	19
Excess expenses	192	(87)	–	–	105
Deferred acquisition expenses	(72)	19	(8)	–	(61)
Difference between the tax and accounting value of insurance contracts	(70)	(73)	–	–	(143)
Accounting provisions	8	(4)	–	(1)	3
Trading losses	93	(48)	–	–	45
Pension fund deficit	93	(13)	18	–	98
Purchased interest in long-term business	(26)	2	–	–	(24)
UK deferred tax assets/(liabilities)	82	(217)	10	(1)	(126)

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

35 Tax (continued)

(iii) Deferred tax – Consolidated Balance Sheet (continued)

(b) Overseas deferred tax assets/(liabilities)

	Net tax liability as at 1 January 2015 £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to equity £m	Transfers[1] £m	Net tax liability as at 31 December 2015 £m
Realised and unrealised gains on investments	**(53)**	**16**	**22**	**7**	**(8)**
Deferred acquisition expenses	**(295)**	**(16)**	**(16)**	**19**	**(308)**
Difference between the tax and accounting value of insurance contracts	**(242)**	**15**	**(14)**	**–**	**(241)**
Accounting provisions	**(23)**	**(5)**	**–**	**1**	**(27)**
Trading losses	**186**	**(35)**	**10**	**(2)**	**159**
Pension fund deficit	**3**	**(3)**	**–**	**–**	**–**
Purchased interest in long-term business	**(10)**	**–**	**–**	**(1)**	**(11)**
Overseas deferred tax assets/(liabilities)	**(434)**	**(28)**	**2**	**24**	**(436)**

1. In 2015, LGF was sold and the associated deferred tax balances are therefore no longer included on the Consolidated Balance Sheet.

	Net tax liability as at 1 January 2014 £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to equity £m	Transfers £m	Net tax liability as at 31 December 2014 £m
Realised and unrealised gains on investments	(33)	(3)	(17)	–	(53)
Deferred acquisition expenses	(241)	(41)	(13)	–	(295)
Difference between the tax and accounting value of insurance contracts	(229)	1	(14)	–	(242)
Accounting provisions	(20)	(3)	–	–	(23)
Trading losses	158	17	11	–	186
Pension fund deficit	3	–	–	–	3
Purchased interest in long-term business	–	–	–	(10)	(10)
Overseas deferred tax assets/(liabilities)	(362)	(29)	(33)	(10)	(434)

Unrecognised deferred tax assets

The group has the following unrelieved tax losses carried forward as at 31 December 2015. No deferred tax asset has been recognised in respect of these tax losses as at 31 December 2015 (or 31 December 2014), as it is not probable that there will be suitable taxable profits emerging in future periods against which to relieve them. Relief for these tax losses will only be recognised if it becomes probable that suitable taxable profits will arise in future periods. The potential deferred tax asset unrecognised as at 31 December 2015 is £22m (2014: £23m).

	Gross 2015 £m	Tax 2015 £m	Gross 2014 £m	Tax 2014 £m
Trading losses	**21**	**4**	45	7
Realised and unrealised losses on investments	**77**	**15**	58	12
Post cessation losses	**–**	**–**	5	1
Unrelieved interest payments on debt instruments	**14**	**3**	14	3
Unrecognised deferred tax asset	**112**	**22**	122	23

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

(iv) Current tax – Consolidated Balance Sheet

	2015 £m	2014 £m
Tax due within 12 months	41	23
Tax due after 12 months	195	194
Current tax assets	**236**	**217**

	2015 £m	2014 £m
Tax due within 12 months	95	8
Tax due after 12 months	–	1
Current tax liabilities	**95**	**9**

36 Auditors' remuneration

	2015 £m	2014 £m
Remuneration receivable by the company's auditors for the audit of the consolidated and company financial statements	1.2	1.1
Remuneration receivable by the company's auditors and its associates for the supply of other services to the company and its associates, including remuneration for the audit of the financial statements of the company's subsidiaries:		
The audit of the company's subsidiaries	3.7	3.2
Audit related assurance services	2.7	1.3
Other assurance services	0.4	0.9
Total assurance services	**8.0**	**6.5**
Tax compliance services	0.2	0.1
Other tax services	0.3	0.2
Internal audit services	–	0.1
Services related to corporate finance transactions	–	0.1
Other services not covered above	0.8	0.2
Total non-assurance services	**1.3**	**0.7**
Total remuneration	**9.3**	**7.2**

In addition to the above, fees payable to the company's auditors and its associates for audit services supplied to the company's associated pension schemes amounted to £42k (2014: £31k).

The group is compliant with guidance issued by the FRC, requiring fees for non-audit services to be no more than 70% of the average of fees paid in the last three consecutive financial years for the statutory audit of the group.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

37 Employee information

	2015	2014
Monthly average number of staff employed during the year:		
UK	**7,719**	8,014
Europe	**405**	431
USA	**506**	560
Total excluding consolidated private equity investment vehicles	**8,630**	9,005
Consolidated private equity investment vehicles[1]	**1,518**	2,033
Worldwide employees	**10,148**	11,038

	Note	2015 £m	2014 £m
Wages and salaries		**427**	438
Social security costs		**54**	59
Share-based incentive awards	38	**26**	28
Defined benefit pension costs	26	**53**	62
Defined contribution pension costs	26	**51**	52
Total excluding consolidated private equity investment vehicles		**611**	639
Consolidated private equity investment vehicles[1]		**46**	56
		657	695

1. The private equity investment vehicles are controlled by virtue of majority holdings owned by the with-profits funds. The £46m (2014: £56m) costs of employment for private equity investment subsidiaries primarily comprise salaries and £0.5m of defined contribution pension costs (2014: £0.4m).

38 Share-based payments

The fair value at the date of grant of the equity instrument is recognised as an expense, spread over the vesting period of the instrument. The total amount to be expensed is determined by reference to the fair value of the awards, excluding the impact of any non-market vesting conditions. At each balance sheet date, the group revises its estimate of the number of equity instruments which are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment is made to equity. On vesting or exercise, the difference between the expense charged to the income statement and the actual cost to the group is transferred to retained earnings. Where new shares are issued, the proceeds received are credited to share capital and share premium.

(i) Description of schemes

The group provides a number of equity settled share-based long-term incentive plans for directors and eligible employees.

The Savings related share option scheme (SAYE) allows employees to enter into a regular savings contract over either three or five years, coupled with a corresponding option over shares of the group. The grant price is equal to 80% of the quoted market price of the group shares on the invitation date. Fair value is calculated using the Black-Scholes model.

Conditional shares can be granted to top managers under the Performance Share Plan (PSP), based upon individual and company performance. Pre the 2014 award, the number of performance shares transferred to the individual at the end of the three year vesting period is dependent on the group's relative Total Shareholder Return (TSR). New performance conditions attached to the 2014 award onwards result in the number of shares being transferred being equally dependent on the group's relative TSR and Earnings per Share (EPS)/Dividend per Share (DPS) growth. In addition, the shares vest evenly over three, four and five years.

The company share option scheme (CSOP), approved by HMRC, and unapproved Executive share option scheme (ESOS) are designed to provide a long-term incentive to directors and managers of the group. The number of options granted is based on the manager's grade, salary and performance. In order for the options to be exercisable, Legal & General's TSR must exceed the median TSR of the FTSE 100 for a period of at least three years commencing on the date of the grant. Fair value is calculated using a binomial model, reflecting the historic exercise patterns.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

The Share bonus plan (SBP) awards restricted shares and nil-paid options. Recipients of restricted shares are entitled to both vote and receive dividends. Fair value is calculated as the market value on the grant date, adjusted to reflect the eligibility for dividend payments.

Under the Employee share plan (ESP), approved by HMRC, permanent UK employees may elect to purchase group shares from the market at the prevailing market price on a monthly basis. The group supplements the number of shares purchased by giving employees one free matching share for every one share purchased up to the first £20 of the employees' contributions and one free matching share for every two shares purchased with contributions between £20 and £150. From time to time, the group may make a grant of free shares. Both the free and matching shares must be held in trust for three years before they may vest to the employee. The fair value of granted shares is equal to the market value at grant date.

The fair values of the share grants made during the year have been calculated using the following assumptions:

	SAYE	SAYE	PSP
Award date	**08-Apr-15**	**04-Sep-15**	**14-Apr-15**
Weighted average share price	**283p**	**247.2p**	**282.9p**
Weighted average exercise price	**227p**	**221p**	**n/a**
Expected volatility	**26%**	**26%**	**19%**
Expected life	**3–5 years**	**3–5 years**	**3–5 years**
Risk free investment rate	**0.69%–1.1%**	**0.82%–1.24%**	**0.56%**
Dividend yield	**4.1%**	**4.1%**	**4.0%**

(ii) Total recognised expense

The total recognised expense relating to share-based payments in 2015 was £26m (2014: £28m) before tax, all of which related to equity settled share schemes. This is broken down between the group's plans as detailed below:

	2015 £m	2014 £m
Share bonus plan (SBP)	**12**	13
Performance share plan (PSP)	**8**	7
Employee share plan (ESP)	**4**	6
Savings related share option scheme (SAYE)	**2**	2
Total share-based payment expense	**26**	28

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

38 Share-based payments (continued)

(iii) Outstanding share options

	SAYE Options 2015	Weighted average exercise price 2015 p	CSOP/ESOS Options 2015	Weighted average exercise price 2015 p	SBP Options 2015	Weighted average exercise price 2015 p
Outstanding at 1 January	**20,182,359**	**124**	**5,080,159**	**158**	**546,519**	**–**
Granted during the year	**6,613,284**	**225**	**1,383,249**	**286**	**161,559**	**–**
Forfeited during the year	**(1,304,213)**	**187**	**–**	**–**	**–**	**–**
Exercised during the year	**(6,718,251)**	**102**	**(2,400,419)**	**123**	**(54,564)**	**–**
Expired during the year	**(785,782)**	**159**	**(320,573)**	**202**	**(70,455)**	**–**
Outstanding at 31 December	**17,987,397**	**164**	**3,742,416**	**225**	**583,059**	**–**
Exercisable at 31 December	**225,315**	**97**	**89,245**	**105**	**–**	**–**
Weighted average remaining contractual life (years)	**2**		**8**		**8**	

Exercised during the year includes 2,400,419 options, which were predominantly CSOP options linked to SBP which have been settled using employee scheme shares.

	SAYE Options 2014	Weighted average exercise price 2014 p	CSOP/ESOS Options 2014	Weighted average exercise price 2014 p	SBP Options 2014	Weighted average exercise price 2014 p
Outstanding at 1 January	41,804,268	67	7,262,864	126	401,072	–
Granted during the year	5,387,224	188	1,688,881	212	189,185	–
Forfeited during the year	(969,983)	135	–	–	–	–
Exercised during the year	(25,003,593)	43	(3,562,693)	118	(37,738)	–
Expired during the year	(1,035,557)	116	(308,893)	148	(6,000)	–
Outstanding at 31 December	20,182,359	124	5,080,159	158	546,519	–
Exercisable at 31 December	195,759	70	35,293	85	–	–
Weighted average remaining contractual life (years)	2		2		8	

Exercised during the year includes 3,562,693 options which were predominantly CSOP options linked to SBP which have been settled using employee scheme shares.

(iv) Total options

Options over 22,312,872 shares (2014: 25,809,037 shares) are outstanding under CSOP, ESOS, SAYE and SBP as at 31 December 2015. These options have a range of exercise prices between 0p and 225p (2014: 0 and 220p) and maximum remaining contractual life up to 2025 (2014: 2024).

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

39 Share capital, share premium and employee scheme treasury shares

An equity instrument is any contract which evidences a residual interest in the net assets of an entity. It follows that a financial instrument is treated as equity if:

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on unfavourable terms; and
- the instrument is either a non-derivative which contains no contractual obligation to deliver a variable number of own equity instruments, or is a derivative which will be settled only by the group exchanging a fixed amount of cash, or other financial assets, for a fixed number of its own equity instruments.

Where any group entity purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to shareholders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to shareholders, net of any directly attributable incremental transaction costs and the related income tax effects. Shares held on behalf of employee share schemes are disclosed as such on the balance sheet.

(i) Share capital and share premium

Authorised share capital	2015 Number of shares	2015 £m	2014 Number of shares	2014 £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 2015	**5,942,070,229**	**149**	**969**
Options exercised under share option schemes			
Savings related share option scheme	**6,718,251**	**–**	**7**
As at 31 December 2015	**5,948,788,480**	**149**	**976**

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2014	5,917,066,636	148	959
Options exercised under share option schemes			
Savings related share option scheme	25,003,593	1	10
As at 31 December 2014	5,942,070,229	149	969

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

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

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

39 Share capital, share premium and employee scheme treasury shares (continued)

(ii) Employee scheme treasury shares

The group uses the Employee Share Ownership Trust (ESOT) and the Legal & General Group Employee Share Plan (ESP) to purchase and hold shares of the group for delivery to employees under various employee share schemes. Shares owned by these vehicles are included at cost in the Consolidated Balance Sheet and are shown as a deduction from shareholders' equity. They are disclosed as employee scheme treasury shares until they vest to employees. Share-based liabilities to employees may also be settled via purchases directly from the market or by the issue of new shares.

The ESOT has waived its voting rights and its rights to some of the dividends payable on the shares it holds. Employees are entitled to dividends on the shares held on their behalf within the ESP.

	2015 Number of shares	2015 £m	2014 Number of shares	2014 £m
As at 1 January	**29,484,405**	**37**	32,902,447	39
Shares purchased	**1,244,999**	**3**	3,720,595	7
Shares vested	**(8,472,755)**	**(10)**	(7,138,637)	(9)
As at 31 December	**22,256,649**	**30**	29,484,405	37

40 Non-controlling interests

Non-controlling interests represent third party interests in private equity and property investment vehicles which are consolidated in the group's results. The majority of the net increase in the non-controlling interests in 2015 arises from further investment in the Leisure Fund Unit Trust (LFUT) and revaluations of LFUT and Legal & General UK Property Ungeared Fund Limited Partnership (PUFLP). This increase has been partly countered by the wind down of the PUFLP.

41 Other liabilities

	2015 £m	2014 £m
Accruals	**335**	327
Reinsurers' share of deferred acquisition costs	**70**	69
Deferred income liabilities	**90**	216
Other	**242**	351
Other liabilities	**737**	963
Settled within 12 months	**512**	696
Settled after 12 months	**225**	267

Other liabilities settled after 12 months are expected to be settled within five years.

42 Related party transactions

There were no material transactions between key management and the Legal & General group of companies during the period. All transactions between the group and its key management are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment defined benefit plans were £93m (2014: £69m) for all employees.

At 31 December 2015 and 31 December 2014 there were no loans outstanding to officers of the company.

Key management personnel compensation

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

	2015 £m	2014 £m
Salaries	**10**	8
Social security costs	**2**	2
Post-employment benefits	**1**	2
Share-based incentive awards	**5**	4
Key management personnel compensation	**18**	16
Number of key management personnel	**16**	16

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

The group has the following related party transactions:

- Annuity contracts issued by Society for consideration of £105m (2014: £60m) purchased by the group's UK defined benefit pension schemes during the period, priced on an arm's length basis;
- Investments in venture capital, property and financial investments held via collective investment vehicles. The net investments into associate investment vehicles totalled £nil during the period (2014: £5m). The group received investment management fees of £nil during the period (2014: £1m). Distributions from these investment vehicles to the group totalled £nil (2014: £13m);
- Loans outstanding from CALA at 31 December 2015 total £59m (2014: £55m);
- Further conditional commitments of £8m (2014: £9m) in the equity stake in Pemberton of £7m (2014: £6m). A commitment of £182m was previously made to Pemberton's first co-mingled funds, none of which was drawn as at 31 December 2015. An additional commitment of £73m (2014: £78m) was previously made to a group segregated account with Pemberton. As at 31 December 2015, this was fully invested (2014: £25m) and transferred into the co-mingled account and the balance of the segregated account was reduced to zero;
- A 50/50 joint venture in MediaCity entered in March 2015 in the form of £61m equity and £55m loan notes. The loans outstanding from MediaCity total £55m as at 31 December 2015;
- A 50/50 joint venture in Thorpe Park Developments Limited, a major mixed use development, entered in August 2015 in the form of £23m equity shares and £6m preference shares. In December 2015, the company invested a further £2m in the form of preference shares; and
- An 18% equity stake in NTR Wind Management Limited, an asset management company set up to manage wind farms, entered in December 2015 of £2m. The equity stake will be increased to 25% in 2016.

43 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, litigations or issues. Legal & General (Portfolio Management Services) Limited (PMS) is currently cooperating with an investigation by FCA into Structured Deposits products issued by PMS between 2006 and 2014. PMS has responded to FCA's requests for information and awaits FCA's feedback. This matter is at an early stage, management and legal advisers will evaluate on an ongoing basis whether any provision should be recognised.

In 1975, Society was required by the Institute of London Underwriters (ILU) to execute the ILU form of guarantee in respect of policies issued through the ILU's Policy Signing Office on behalf of NRG Victory Reinsurance Company Ltd (Victory), a company which was then a subsidiary of the Society. In 1990, Nederlandse Reassurantie Groep Holding NV (the assets and liabilities of which have since been assumed by Nederlandse Reassurantie Groep NV under a statutory merger in the Netherlands) acquired Victory and provided an indemnity to the Society against any liability the Society may have as a result of the ILU's requirement, and the ILU agreed that its requirement of the Society would not apply to policies written or renewed after the acquisition. Nederlandse Reassurantie Groep NV is now owned by Columbia Insurance Company, a subsidiary of Berkshire Hathaway Inc. Whether the Society has any liability as a result of the ILU's requirement and, if so, the amount of its potential liability is uncertain. The Society has made no payment or provision in respect of this matter.

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

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

44 Commitments

(i) Capital commitments

	2015 £m	2014 £m
Authorised and contracted commitments not provided for in respect of investment property development, payable after 31 December:		
Long-term business	**138**	119

(ii) Operating lease commitments

	2015 £m	2014 £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Not later than 1 year	**26**	29
Later than 1 year and not later than 5 years	**97**	102
Later than 5 years	**394**	477
Lease commitment payable	**517**	608
Future aggregate minimum sublease payments expected to be received under operating subleases	**182**	181
The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:		
Not later than 1 year	**369**	405
Later than 1 year and not later than 5 years	**1,353**	1,389
Later than 5 years	**4,370**	4,156
Lease commitment receivable	**6,092**	5,950

The group leases offices and other premises under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

Future developments

In January 2016, the IASB issued IFRS 16, 'Leases', effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement. IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts, bringing commitments in relation to operating leases (as currently defined in IAS 17, 'Leases') onto the balance sheet. The impact of the standard on lessor accounting is significantly smaller with the provisions remaining closely aligned to those in IAS 17 although the IASB have issued updated guidance on the definition of a lease. An assessment of the impacts of the standard on the group's financial statements will be carried out in 2016. The group does not intend to early adopt this standard.

45 Post balance sheet events

On 15 January 2016, the group sold Suffolk Life Group Limited (SLG) to Curtis Banks Group Plc for £45m, subject to regulatory approval. The assets and liabilities of SLG have accordingly been assessed as a disposal group and have been classified as held for sale as at 31 December 2015. For held for sale details refer to Note 31.

On 21 January 2016, the group made a formal decision to close an office located in Kingswood, Surrey, UK. The group plans to close the office in 2018. The net cost, associated with this closure, (including write-off of previously capitalised property, plant and equipment and expenditure relating to redundancy and rent and rates) is estimated to be £50m, which is expected to be recognised in the 2016 Consolidated Income Statement.

46 Subsidiaries

The Companies Act 2006 requires disclosure of information about the group's subsidiaries, associates, joint ventures and other significant holdings. A complete list of the group's subsidiaries, associates, joint ventures and significant holdings in this context is provided in Notes 46 and 47.

Subsidiaries are those entities (including special purpose entities, mutual funds and unit trusts) over which the group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. Profits or losses of subsidiary undertakings sold or acquired during the year are included in the consolidated results up to the date of disposal or from the date of gaining control. The interests of parties, other than the group, in investment vehicles, such as unit trusts, are classified as liabilities and appear as 'Net asset value attributable to unit holders' in the Consolidated Balance Sheet. The basis by which subsidiaries are consolidated in the group financial statements is outlined in the basis of preparation (Note 1).

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

(i) Subsidiaries

The particulars of the company's subsidiaries as at 31 December 2015 are listed below. The main territory of operation of subsidiaries incorporated in England and Wales is the UK. For overseas subsidiaries the principal country of operation is the same as the country of incorporation. All operating subsidiaries have a 31 December year end reporting date and are 100% owned apart from Investment Discounts Online Limited, which is 95% owned. The registered office of all subsidiaries is One Coleman Street, London EC2R 5AA, United Kingdom, unless otherwise noted. All subsidiaries are held through intermediate holding companies unless noted that they are held direct by the company.

Company name	Nature of business	Country of incorporation
Adam Kennedy Estate Agents Limited	Real estate agencies	England and Wales
Broad St. Reading Nominee (No.1) Limited	Holds legal title to property	England and Wales
Broad St. Reading Nominee (No.2) Limited	Holds legal title to property	England and Wales
BTR Residential Development Company Limited	Development of building projects	England and Wales
Burgage Square Estate Management Company Limited	Estate management company	England and Wales
Cargo 2 Plot Management Company Limited	Estate management company	England and Wales
Cargo Commercial Property Limited	Estate management company	England and Wales
Cargo Plot Management Company Limited	Estate management company	England and Wales
Central Saint Giles General Partner Limited	Development of building projects	England and Wales
Chineham General Partner Limited	Development of building projects	England and Wales
City & Urban Developments Limited	Holding company	England and Wales
Cofunds (Holdings) Limited	Provision of services	England and Wales
Cofunds Leasing Limited	Provision of services	England and Wales
Cofunds Limited	Provision of services	England and Wales
Cofunds Nominees Limited	Provision of services	England and Wales
Corby (General Partner) Limited	Development of building projects	England and Wales
Corby Rail Services Limited	Holds legal title to property	England and Wales
Dorset Nominees Limited	Fund nominee	England and Wales
ECF (Canning Town) Limited	Property management	England and Wales
ECF (General Partner) Limited	Development of building projects	England and Wales
Ellis & Co (Estate Agents) Limited	Real estate management	England and Wales
First British American Reinsurance Company II	Reinsurance	England and Wales
First British Bermuda Reinsurance Company II Limited	Reinsurance	England and Wales
First British Vermont Reinsurance Company II	Reinsurance	England and Wales
FIX-UK General Partner Limited	Property management	England and Wales
FIX-UK Nominee Limited	Property management	England and Wales
Harrow Shopping Centre Nominee Limited	Fund nominee	England and Wales
Insurebeam Limited	Holding company	England and Wales
Investment Discounts On Line Limited	Provision of services	England and Wales
Key Consultants Mortgages Nationwide Limited	Estate agency	England and Wales
Key Mortgage & Property Limited	Estate agency	England and Wales
Key Surveyors Nationwide Limited	Dormant company	England and Wales
Land & Co Limited	Real estate management	England and Wales
Latchmore Park Nominee No.1 Limited	Holds legal title to property	England and Wales
Legal & General (Caerus) Limited	Institutional fund management	England and Wales
Legal & General (PMC Trustee) Limited	Long-term business	England and Wales
Legal & General (Portfolio Management Services) Limited	Institutional fund management	England and Wales
Legal & General (SPV No.2) Limited	SPV	England and Wales

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

46 Subsidiaries (continued)
(i) Subsidiaries (continued)

Company name	Nature of business	Country of incorporation
Legal & General (Strategic Land) Limited	Holding company	England and Wales
Legal & General (Unit Trust Managers) Limited	Institutional fund management	England and Wales
Legal & General (Unit Trust Managers) Nominees Limited	Holds legal title to property	England and Wales
Legal & General Capital Investments Limited[1]	Long-term business	England and Wales
Legal & General Co Sec Limited[1]	Dormant company	England and Wales
Legal & General Development Assets Holdings Limited	Holding company	England and Wales
Legal & General Direct (Holdings) Limited	Holding company	England and Wales
Legal & General Direct Limited	Dormant company	England and Wales
Legal & General Distribution Services Limited	Insurance broker	England and Wales
Legal & General Estate Agencies (FS) Limited	Long-term business	England and Wales
Legal & General Estate Agencies Limited	Long-term business	England and Wales
Legal & General Finance Plc[1]	Treasury operations	England and Wales
Legal & General Financial Services Limited[1]	Financial service provision	England and Wales
Legal & General FX Structuring (SPV) Limited	SPV	England and Wales
Legal & General Group Plc	Holding company	England and Wales
Legal & General Holdings Limited[1]	Holding company	England and Wales
Legal & General Homes (Services Co) Limited	Provision of service	England and Wales
Legal & General Homes Holdings Limited[1]	Holding company	England and Wales
Legal & General Homes Limited	Building development	England and Wales
Legal & General Insurance Holdings Limited	Holding company	England and Wales
Legal & General Insurance Holdings No. 2 Limited[1]	Holding company	England and Wales
Legal & General Insurance Limited	General insurance	England and Wales
Legal & General International (Holdings) Limited	Holding company	England and Wales
Legal & General International Limited	Institutional fund management	England and Wales
Legal & General Investment Management (Holdings) Limited[1]	Holding company	England and Wales
Legal & General Investment Management Limited	Institutional fund management	England and Wales
Legal & General Middle East Limited[1]	Long-term business	England and Wales
Legal & General Overseas Holdings Limited	Holding company	England and Wales
Legal & General Overseas Operations Limited[1]	Long-term business	England and Wales
Legal & General Partnership Holdings Limited[1]	Holding company	England and Wales
Legal & General Partnership Services Limited	Provision of services	England and Wales
Legal & General Pensions Limited[2]	Insurance SPV	England and Wales
Legal & General Property Limited	Institutional fund management	England and Wales
Legal & General Property Partners (Industrial Fund) Limited	Building development	England and Wales
Legal & General Property Partners (Industrial) Nominees Limited	Holds legal title to property	England and Wales
Legal & General Property Partners (Leisure) Limited	Building development	England and Wales
Legal & General Property Partners (Operator) Limited	Operator for regulated activities	England and Wales
Legal & General Property Partners (UK PIF Geared) Limited	Building development	England and Wales
Legal & General Property Partners (UK PIF) Limited	Building development	England and Wales
Legal & General Property Partners (UKPIF Geared Two) Limited	Building development	England and Wales
Legal & General Property Partners (UKPIF Two) Limited	Building development	England and Wales
Legal & General Resources Limited[1]	Provision of services	England and Wales
Legal & General Retail Investments (Holdings) Limited[1]	Holding company	England and Wales
Legal & General Share Scheme Trustees Limited	Share scheme trustee	England and Wales
Legal & General Surveying Services Limited	Provision of services	England and Wales
Legal & General Trustees Limited	Fund trustee	England and Wales
Legal and General Assurance (Pensions Management) Limited	Institutional fund management	England and Wales

1. Directly held by Legal & General Group Plc. All other subsidiaries are held through intermediate holding companies.
2. At 31 December 2015 the insurance liabilities of Legal & General Pensions Limited were recaptured into its parent, Legal & General Assurance Society Limited. From this date the company will operate as an investment SPV.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

Company name	Nature of business	Country of incorporation
Legal & General Assurance Society Limited	Long-term and general insurance	England and Wales
LGIM Commercial Lending Limited	Institutional fund management	England and Wales
LGIM Corporate Director Limited	Institutional fund management	England and Wales
LGIM International Limited	Institutional fund management	England and Wales
LGP Newco Limited	Dormant company	England and Wales
LGV Capital Limited	Private equity	England and Wales
Meteor (GP) Limited	Building development	England and Wales
Meteor Properties No.1 Limited	Property management	England and Wales
Meteor Properties No.2 Limited	Property management	England and Wales
Millbay Estate Management Company Limited	Estate management company	England and Wales
Minster Nominees Limited	Fund nominee	England and Wales
Mulberry House (Wakefield) Management Company Limited	Estate management company	England and Wales
New Life Administration Services Limited	Provision of services	England and Wales
New Life Home Finance Limited	Long-term business	England and Wales
New Life Mortgage Funding Limited	Long-term business	England and Wales
New Life Mortgages Limited	Long-term business	England and Wales
New Life Reversions Limited	Long-term business	England and Wales
New Life Secured Loans Limited	Long-term business	England and Wales
NLR Nominee No.1 Limited	Dormant company	England and Wales
NLR Nominee No.2 Limited	Dormant company	England and Wales
Performance Retail (General Partner) Limited	Building development	England and Wales
Performance Retail (Nominee) Limited	Holds legal title to property	England and Wales
Quadrant Quay Plot Management Company Limited	Estate management company	England and Wales
Rathbone Market Management Company Limited	Estate management company	England and Wales
SLA Property Company Limited	Dormant company	England and Wales
Suffolk Life (Spartan Estate) Limited	Long-term business	England and Wales
Suffolk Life Annuities Limited	Long-term business	England and Wales
Suffolk Life Group Limited	Long-term business	England and Wales
Suffolk Life Pensions Limited	Long-term business	England and Wales
Suffolk Life Trustees Limited	Fund trustee	England and Wales
Terminus Road (Nominee 1) Limited	Holds legal title to property	England and Wales
Terminus Road (Nominee 2) Limited	Holds legal title to property	England and Wales
The Pathe Building Management Company Limited	Estate management company	England and Wales
The St Pauls (Building 2 – Internal Parts) Management Company Limited	Estate management company	England and Wales
The St Pauls (Building 2) Management Company Limited	Estate management company	England and Wales
The St Pauls Estate Management Company Limited	Estate management company	England and Wales
UKPIF Founder GP Limited	Property management	England and Wales
UKPIF Two Founder GP Limited	Property management	England and Wales
Vimto Gardens Management Company Limited	Estate management company	England and Wales
Warrington (General Partner) Limited	Dormant company	England and Wales
Warrington Nominee Limited	Dormant company	England and Wales
Whitegates (Holdings) Limited	Holding company	England and Wales
Whitegates (Tyne & Wear) Limited	Dormant company	England and Wales
William Parker and Son (Reading) Limited	Real estate management	England and Wales

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

46 Subsidiaries (continued)

(i) Subsidiaries (continued)

Company name	Nature of business	Country of incorporation
First British Bermuda Reinsurance Company II Limited[1]	Reinsurance	Bermuda
Legal & General Reinsurance Company Limited[1]	Reinsurance	Bermuda
Legal & General Resources Bermuda Limited[1]	Provision of services	Bermuda
Legal & General SAC Limited[2]	Reinsurance	Bermuda
Legal & General Deutschland Service-GmbH[3]	Long-term business	Germany
Legal & General Investment Management Asia Limited[4]	Institutional fund management	Hong Kong
IndiaFirst Life Insurance Company Limited[5]	Long-term and general insurance	India
Legal & General Fund Managers (Ireland) Limited[6]	Institutional fund management	Ireland
Legal & General Protected Investments Public Limited Company[7]	Institutional fund management	Ireland
Legal & General UCITS Managers (Ireland) Limited[8]	Institutional fund management	Ireland
LGIM (Ireland) Risk Management Solutions Public Limited Company[7]	Institutional fund management	Ireland
LGIM Liquidity Funds plc[7]	Long-term business	Ireland
Bishopsgate Long Term Property Fund General Partner Limited[9]	Long-term business	Jersey
Vantage General Partner Limited[10]	Long-term business	Jersey
Legal & General Nederland Beleggingen B.V.[11]	Long-term business	Netherlands
Legal & General Nederland Exploitatie Maatschappij B.V.[11]	Long-term business	Netherlands
Legal & General Nederland Levensverzekering Maatschappij N.V.[11]	Long-term business	Netherlands
Legal & General Overseas Holdings B.V.[11]	Holding company	Netherlands
Stichting Beleggersgiro Legal & General Nederlands[11]	Long-term business	Netherlands
Stichting Bewaarder Legal & General Nederlands[11]	Long-term business	Netherlands
Stichting Pensioenfonds Legal & General[11]	Long-term business	Netherlands
Banner Life Insurance Company (USA)[12]	Long-term business	USA
First British American Reinsurance Company II[13]	Reinsurance	USA
First British Vermont Reinsurance Company[14]	Reinsurance	USA
First British Vermont Reinsurance Company II[14]	Reinsurance	USA
Global Index Advisors Inc.[15]	Investment advisory	USA
Legal & General America Inc.[15]	Institutional fund management	USA
Legal & General Investment Management America Inc.[15]	Institutional fund management	USA
Legal & General Investment Management United States (Holdings), Inc.[15]	Holding company	USA
William Penn Life Insurance Company of New York Inc[16]	Long-term business	USA

1. Registered office: Clarendon House, 2 Church Street, Hamilton, Bermuda.
2. Registered office: Crown House, 3rd Floor, 4 Par La Ville Road, Hamilton, Bermuda.
3. Registered office: Mommsenstr 160, 50935 Cologne, Germany.
4. Registered office: Room 902, 9th Floor, Chinachem Tower, 34-37 Connaught Road Central, Hong Kong.
5. Registered office: 301, B Wing, The Qube, Infinity Park, Dindoshi Filmcity Road, Malad East, Mumbai, 400 097, India.
6. Registered office: Grand Canal House, 1 Upper Grand Canal Street, Dublin 4, Ireland.
7. Registered office: Goodbody Secretarial Limited, 25-28 North Wall Quay, IFSC, Dublin 1, Ireland.
8. Registered office: Dillon Eustace, 33 Sir John Rogerson's Quay, Dublin 2, Ireland.
9. Registered office: 12 Castle Street, St Helier, Jersey, JE2 3RT.
10. Registered office: 11-15 Seaton Place, St Helier, Jersey, JE4 0GH.
11. Registered office: Laapersveld 68, 1213 VB Hilversum, Holland.
12. Registered office: 1701 Research Boulevard, Rockville, Maryland 20850, United States.
13. Registered office: 151 Meeting Street, Suite 301, Charleston SC 29401, United States.
14. Registered office: Marsh Management Services, 100 Bank Street, Suite 610, Burlington VT 05402, United States.
15. Registered office: Corporation Trust Centre, 1209 Orange Street, Willmington, New Castle, United States.
16. Registered office: 100 Quentin Roosevelt Blvd, PO Box 519, Garden City New York 11530, United States.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

(ii) Investment vehicles

The following mutual funds and partnerships have been consolidated as a result of the group's ability to exert control over the financial and operating activities of the investment vehicle so as to obtain economic benefits. The registered office of all subsidiaries in England and Wales is One Coleman Street, London EC2R 5AA, United Kingdom, and in Ireland is Dillon Eustace, 33 Sir John Rogerson's Quay, Dublin 2, Ireland, unless otherwise noted.

Vehicle name	Vehicle type	Territory	Year end reporting date	% of equity shares held by the group
103 Wardour Street Retail Investment Company Limited	Limited company	England and Wales	31/12/2015	100.0
7T Developments Limited	Limited company	England and Wales	31/12/2015	100.0
Antham 1 Limited	Limited company	England and Wales	31/12/2015	100.0
Bucklersbury House General Partner Limited	Limited company	England and Wales	31/12/2015	100.0
Chineham Shopping Centre Limited Partnership	Limited partnership	England and Wales	31/12/2015	100.0
Ealing General Partner Limited	Limited company	England and Wales	31/12/2015	100.0
Ealing Shopping Centre Limited Partnership	Limited partnership	England and Wales	31/12/2015	100.0
Gresham Street General Partner Limited	Limited company	England and Wales	31/12/2015	100.0
Gresham Street Limited Partnership	Limited partnership	England and Wales	31/12/2015	100.0
Legal & General Grenfell Limited	Limited company	England and Wales	31/12/2015	100.0
Legal & General Leisure Fund Trustee Limited	Limited company	England and Wales	31/12/2015	100.0
Legal & General Life Fund Limited Partnership	Limited partnership	England and Wales	31/12/2015	100.0
Legal & General Property Partners (Life Fund) Limited	Limited company	England and Wales	31/12/2015	100.0
Legal & General Property Partners (Life Fund) Nominee Limited	Limited company	England and Wales	31/12/2015	100.0
Legal & General Kingston upon Hull Limited	Limited company	England and Wales	31/12/2015	100.0
LGPL Cornwall Limited	Limited company	England and Wales	31/12/2015	100.0
Northampton General Partner Limited	Limited company	England and Wales	31/12/2015	100.0
Northampton Shopping Centre Limited Partnership	Limited partnership	England and Wales	31/12/2015	100.0
Old Cornwall Limited	Limited company	England and Wales	31/12/2015	100.0
Performance Retail Limited Partnership	Limited partnership	England and Wales	31/12/2015	100.0
Rackhams Birmingham Limited	Limited company	England and Wales	31/12/2015	100.0
Synergy Gracechurch Limited	Limited company	England and Wales	31/12/2015	100.0
L&G Multi-Asset Target Return Fund	Mixed asset unit trust	England and Wales	14/04/2015	100.0
L&G Sterling Real Income Growth Strategy	Mixed asset unit trust	England and Wales	31/12/2015	100.0
Legal & General Growth Trust	Equity unit trust	England and Wales	15/05/2015	90.5
L&G Mixed Investment 0-20% Fund	Mixed asset unit trust	England and Wales	31/07/2015	89.0
L&G Multi-Index Income 6 Fund	Mixed asset unit trust	England and Wales	15/06/2015	87.5
L&G Mixed Investment Income 0-35% Fund	Mixed asset unit trust	England and Wales	30/10/2015	85.0
L&G Mixed Investment Income 20-60% Fund	Mixed asset unit trust	England and Wales	30/10/2015	83.6
L&G Multi-Index Income 4 Fund	Mixed asset unit trust	England and Wales	15/06/2015	78.9
L&G Multi-Index Income 5 Fund	Mixed asset unit trust	England and Wales	15/06/2015	78.3
Legal & General European Trust	Equity unit trust	England and Wales	28/07/2015	71.6
Legal & General UK Special Situations Trust	Equity unit trust	England and Wales	14/09/2015	65.6
Legal & General High Income Trust	Debt security unit trust	England and Wales	05/09/2015	63.9
Legal & General UK Smaller Companies Trust	Equity unit trust	England and Wales	18/06/2015	63.7
Legal & General Emerging Markets Government Bond (US$) Index Fund	Debt security unit trust	England and Wales	10/11/2015	59.6
Legal & General UK Equity Income Fund	Equity unit trust	England and Wales	24/01/2015	57.9
Legal & General Global Emerging Market Index Fund	Equity unit trust	England and Wales	31/07/2015	56.3
L&G Mixed Investment 40-85% Fund	Mixed asset unit trust	England and Wales	30/09/2015	55.8
Legal & General European Index Trust	Equity unit trust	England and Wales	31/07/2015	53.6

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

46 Subsidiaries (continued)

(ii) Investment vehicles (continued)

Vehicle name	Vehicle type	Territory	Year end reporting date	% of equity shares held by the group
L&G Japan Index Trust	Equity unit trust	England and Wales	24/10/2015	52.5
L&G UK Alpha Trust	Equity unit trust	England and Wales	18/06/2015	50.9
L&G Global Equity Index Fund	Equity unit trust	England and Wales	15/01/2015	49.9
Legal & General UK Property Ungeared Fund Limited Partnership	Limited partnership	England and Wales	31/12/2015	49.6
L&G US Index Trust	Equity unit trust	England and Wales	05/12/2015	45.8
L&G Ethical Trust	Equity unit trust	England and Wales	12/12/2015	44.6
L&G Fixed Interest Trust	Debt security unit trust	England and Wales	05/09/2015	40.7
Legal & General Pacific Index Trust	Equity unit trust	England and Wales	25/03/2015	39.9
Legal & General Asian Income Trust	Equity unit trust	England and Wales	10/09/2015	38.3
L&G Dynamic Bond Trust	Debt security unit trust	England and Wales	05/09/2015	32.2
L&G Global Inflation Linked Bond Index Fund	Debt security unit trust	England and Wales	05/06/2015	23.2
The Leisure Fund Limited Partnership	Limited partnership	England and Wales	31/12/2015	22.8
L&G Mixed Investment 20-60% Fund	Mixed asset unit trust	England and Wales	31/07/2015	22.3
Sapphire Campus Management Company Limited	Limited company	England and Wales	31/12/2015	9.5
Lagoon 1[1]	Limited liability company	Ireland	31/12/2015	–
Lagoon 2[1]	Limited liability company	Ireland	31/12/2015	–
Lagoon 3[1]	Limited liability company	Ireland	31/12/2015	–
Lagoon 4[1]	Limited liability company	Ireland	31/12/2015	–
LGIM 2020 Fixed Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2020 Inflation Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2020 Real Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2024 Leveraged Index Linked Gilt Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2025 Fixed Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2025 Inflation Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2025 Real Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2030 Fixed Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2030 Inflation Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2030 Leveraged Index Linked Gilt	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2030 Real Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0

1. Lagoon Finance Limited is consolidated on the basis that the Group has the power to govern the financial and operating policies and has the rights to receive 100% of the economic benefits.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

Vehicle name	Vehicle type	Territory	Year end reporting date	% of equity shares held by the group
LGIM 2034 Leveraged Index Linked Gilt Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2035 Fixed Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2035 Inflation Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2035 Real Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2037 Leveraged Index Linked Gilt Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2038 Leveraged Gilt Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2040 Fixed Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2040 Inflation Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2040 Leveraged Index Linked Gilt Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2040 Real Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2042 Leveraged Gilt Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2042 Leveraged Index Linked Gilt Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2045 Fixed Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2045 Leveraged Gilt Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2045 Real Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2047 Leveraged Index Linked Gilt Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2049 Leveraged Gilt Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2050 Fixed Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2050 Inflation Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2050 Leveraged Index Linked Gilt Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2050 Real Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2055 Fixed Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2055 Leveraged Gilt Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

46 Subsidiaries (continued)
(ii) Investment vehicles (continued)

Vehicle name	Vehicle type	Territory	Year end reporting date	% of equity shares held by the group
LGIM 2055 Leveraged Index Linked Gilt Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2055 Real Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2060 Fixed Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2060 Inflation Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2060 Leveraged Gilt Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2060 Real Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2062 Leveraged Index Linked Gilt Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2068 Leveraged Gilt Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM 2068 Leveraged Index Linked Gilt Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Active Gilts All Stocks Fund AH	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Bespoke Active Credit Fund AM	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Euro 2030 Real Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Fixed Long Duration Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Fixed Short Duration Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund A	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund Ak	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund Al	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund AN	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund AO	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund AP	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund AS	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund B	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund BJ	Qualifying alternative investment fund	Ireland	31/12/2015	100.0

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

Vehicle name	Vehicle type	Territory	Year end reporting date	% of equity shares held by the group
LGIM Hedging – Fund C	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund D	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund DC	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund H	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund I	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund J	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund L	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund M	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund O	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund P	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund Q	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund R	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund V	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund W	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund WH	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund WS	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging – Fund WT	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging Fund AE	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging Fund AI	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Hedging Fund Z	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Real Long Duration Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
LGIM Real Short Duration Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

46 Subsidiaries (continued)

(ii) Investment vehicles (continued)

Vehicle name	Vehicle type	Territory	Year end reporting date	% of equity shares held by the group
LGIM Synthetic Leveraged Credit Fund	Qualifying alternative investment fund	Ireland	31/12/2015	100.0
Sterling Liquidity Fund	Open ended umbrella investment company	Ireland	31/12/2015	51.7
US Dollar Liquidity Fund	Open ended umbrella investment company	Ireland	31/12/2015	46.2
Canary Property Unit Trust[1]	Property unit trust	Jersey	31/12/2015	100.0
Cardiff Central One Property Unit Trust[2]	Property unit trust	Jersey	31/12/2015	100.0
Chineham Shopping Centre Unit Trust[3]	Property unit trust	Jersey	31/12/2015	100.0
Ealing Shopping Centre Unit Trust[1]	Property unit trust	Jersey	31/12/2015	100.0
Gracechurch Property Limited[1]	Limited company	Jersey	31/12/2015	100.0
Gresham Street Unit Trust[3]	Property unit trust	Jersey	31/12/2015	100.0
Legal & General City Offices Unit Trust[1]	Property unit trust	Jersey	31/12/2015	100.0
Northampton Shopping Centre Unit Trust[3]	Property unit trust	Jersey	31/12/2015	100.0
Performance Retail Unit Trust[3]	Property unit trust	Jersey	31/12/2015	100.0
Procession House One Unit Trust[4]	Property unit trust	Jersey	31/12/2015	100.0
Salford Property Unit Trust[2]	Property unit trust	Jersey	31/12/2015	100.0
Synergy Gracechurch Holdings Limited[1]	Limited company	Jersey	31/12/2015	100.0
Walthamstow Property Unit Trust[2]	Property unit trust	Jersey	31/12/2015	100.0
The Leisure Fund Unit Trust[5]	Property unit trust	Jersey	31/12/2015	22.8
One Piccadilly Gardens s.a r.l.[6]	Luxembourg s.a r.l.	Luxembourg	31/12/2015	100.0
L&G Buy & Maintain Credit Fund[7]	Société d'investissement à capital variable	Luxembourg	31/12/2015	100.0
L&G Euro High Alpha Corporate Bond Fund[7]	Société d'investissement à capital variable	Luxembourg	31/12/2015	100.0
L&G High Alpha Global Rates Fund[7]	Société d'investissement à capital variable	Luxembourg	31/12/2015	100.0
L&G LIBOR High Alpha Global Credit Fund[7]	Société d'investissement à capital variable	Luxembourg	31/12/2015	100.0
L&G LIBOR Plus Global Credit Fund[7]	Société d'investissement à capital variable	Luxembourg	31/12/2015	100.0
L&G Multi Strategy Credit Fund[7]	Société d'investissement à capital variable	Luxembourg	31/12/2015	100.0
L&G UK Core Plus Bond Fund[7]	Société d'investissement à capital variable	Luxembourg	31/12/2015	100.0
L&G Euro Corporate Bond Fund[7]	Société d'investissement à capital variable	Luxembourg	31/12/2015	28.3
Sauchiehall Trustee Limited[8]	Limited company	Scotland	31/12/2015	100.0

1. Registered office: Lime Grove House, Green Street, St Helier, Jersey JE1 2ST.
2. Registered office: Aztec Group House 11-15 Seaton Place St Helier, Jersey JE4 0QH.
3. Registered office: 47 Esplanade, St Helier, Jersey JE4 9WU.
4. Registered office: 44 Esplanade, St Helier, Jersey JE4 9WG.
5. Registered office: PO Box 1075, Elizabeth House, 9 Castle Street, St Helier, Jersey JE4 2QP.
6. Registered office: 68-70 Boulevard de la Petrusse, Luxembourg, 2320.
7. Registered office: 2-4, rue Eugene Ruppert, L-2453 Luxembourg, Grand-Duchy of Luxembourg, RCS Luxembourg: b180761.
8. Registered office: Eversheds LLP, 3-5 Melville Street, Edinburgh, EH3 7PE, United Kingdom.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

(iii) Subsidiaries with non-controlling interests greater than 5%

Summarised financial information for subsidiaries with non-controlling interest greater than 5% is shown below.

2015	Property partner-ships £m	Unit trusts £m	Total £m
Current assets	**24**	**40,882**	**40,906**
Non-current assets	**449**	**–**	**449**
Current liabilities	**17**	**14,392**	**14,409**
Non-current liabilities	**92**	**26,490**	**26,582**
Profit after tax	**24**	**–**	**24**

2014	Property partner-ships £m	Unit trusts £m	Total £m
Current assets	24	33,746	33,770
Non-current assets	489	1,749	2,238
Current liabilities	17	14,238	14,255
Non-current liabilities	92	21,257	21,349
Profit after tax	9	–	9

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

47 Associates and joint ventures

Associates are entities over which the group has significant influence but which it does not control. Consistent with IAS 28, 'Investments in associates', it is presumed that the group has significant influence where it has between 20% and 50% of the voting rights in the investee unless indicated otherwise. Joint ventures are entities where the group and other parties undertake an activity which is subject to joint control. The basis by which associates and joint ventures are consolidated in the group financial statements is outlined in the basis of preparation (Note 1).

The group has the following significant holdings classified as associates and joint ventures which have been included as financial investments, investments in associates or investments in joint ventures. The gross assets of these companies are in part funded by borrowings which are non recourse to the group.

Company name	Country of incorporation	Accounting treatment	Year end reporting date	% of equity shares held by the group
Bracknell Property Unit Trust[1]	**Jersey**	**FVTPL**	**31/03/2015**	**50.4**
Central St Giles Unit Trust[2]	**Jersey**	**FVTPL**	**31/12/2015**	**50.0**
Warrington Retail Unit Trust[3]	**Jersey**	**FVTPL**	**31/12/2015**	**50.0**
Peel Media Holdings Limited[4]	**England and Wales**	**Equity method**	**31/03/2015**	**50.0**
Meteor Industrial Partnership[5]	**England and Wales**	**FVTPL**	**31/12/2015**	**49.9**
CALA Group Limited[6]	**Scotland**	**Equity method**	**30/06/2015**	**46.5**
Arlington Business Parks Unit Trust[7]	**Jersey**	**FVTPL**	**31/12/2015**	**41.3**
Pemberton Asset Management Holdings Limited[8,11]	**Jersey**	**Equity method**	**31/12/2015**	**40.0**
English Cities Fund[9]	**England and Wales**	**FVTPL**	**31/12/2015**	**37.5**
IndiaFirst Life Insurance Company Limited[10]	**India**	**Equity method**	**31/03/2015**	**26.0**
NTR Wind Management Limited[11]	**Ireland**	**FVTPL**	**31/03/2015**	**18.0**

1. Registered office: 40 Esplanade, St Helier, Jersey.
2. Registered office: Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST.
3. Registered office: 47 Esplanade, St Helier, Jersey.
4. Registered office: Peel Dome, The Trafford Centre, Manchester, M17 8PL.
5. Registered office: One Coleman Street, London, EC2R 5AA.
6. Registered office: CALA House, 54 The Causeway, Staines-Upon-Thames, Surrey, TW18 3AX.
7. Registered office: 13 Castle Street, St Helier, Jersey JE4 5UT.
8. Registered office: Ogier House The Esplanade, St Helier, Jersey JE4 9WG.
9. Registered office: One Coleman Street, EC2R 5AA.
10. Registered office: Burton Court, Burton Hall Drive, Sandyford, Dublin 18, Ireland
11. Pemberton Asset Management Holdings Limited is classified as an associate on the basis that the group has 40% of the voting rights in the company giving significant influence over the governance of financial and operating policies of the company.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

(i) Associates

Summarised financial information for associates is shown below.

	Equity method	Classified as FVTPL		
2015	Associates £m	Private equity £m	Property partner-ships £m	Total £m
Current assets	**32**	**3**	**63**	**98**
Non-current assets	**535**	**–**	**633**	**1,168**
Current liabilities	**27**	**4**	**50**	**81**
Non-current liabilities	**489**	**1**	**225**	**715**
Revenue	**248**	**–**	**136**	**384**
Profit or loss from continuing operations	**(1)**	**–**	**120**	**119**
Total comprehensive income	**(1)**	**–**	**120**	**119**

	Equity method	Classified as FVTPL		
2014	Associates £m	Private equity £m	Property partner-ships £m	Total £m
Current assets	22	24	54	100
Non-current assets	459	125	1,038	622
Current liabilities	15	22	197	234
Non-current liabilities	429	127	218	774
Revenue	221	111	162	494
Profit or loss from continuing operations	–	(14)	93	79
Total comprehensive income	–	(14)	93	79

(ii) Joint ventures

Summarised financial information for joint ventures is shown below.

Joint ventures	2015 £m	2014 £m
Current assets	**784**	955
Non-current assets	**1,359**	748
Current liabilities	**214**	199
Non-current liabilities	**814**	628
Revenue	**548**	420
Profit or loss from continuing operations	**82**	33
Total comprehensive income	**82**	33
Cash and cash equivalents	**24**	696
Current financial liabilities (excluding trade and other payables/provisions)	**11**	2
Non-current financial liabilities (excluding trade and other payables/provisions)	**727**	561
Interest expense	**39**	17
Current tax charge	**11**	–

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

47 Associates and joint ventures (continued)

(iii) Other significant holdings

The group has the following other significant holdings which have been included as financial investments.

Company name	Country of incorporation	Territory	Year end reporting date	% of equity shares held by the group
Mithras Investment Trust	**England & Wales**	**UK**	**31/12/2015**	**33.5**
Dunedin Enterprise Investment Trust	**Scotland**	**UK**	**31/12/2015**	**23.2**
Bishopsgate Long Term Property Limited Partnership	**Jersey**	**Jersey**	**31/12/2015**	**25.0**
Bishopsgate Long Term Property Fund Unit Trust	**Jersey**	**Jersey**	**31/12/2015**	**25.0**
Bishopsgate Long Term Property Fund Nominees No 1 Ltd	**Jersey**	**Jersey**	**31/12/2015**	**25.0**
Bishopsgate Long Term Property Fund Nominees No 2 Ltd	**Jersey**	**Jersey**	**31/12/2015**	**25.0**
WWS Property Investment Company Limited	**Jersey**	**Jersey**	**31/12/2015**	**25.0**

48 Interests in structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominating factor in deciding who controls the entity, such as when voting rights might relate to administrative tasks only and the relevant activities are directed by means of contractual arrangement. The group has interests in investment vehicles which, depending upon their status, are classified as either consolidated or unconsolidated structured entities. These interests are detailed under sections (a) to (c) below.

All of the group's holdings in the above vehicles are subject to the terms and conditions of the respective investment vehicle's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investment vehicles. The investment manager makes investment decisions after extensive due diligence of the underlying investment vehicle, including consideration of its strategy and the overall quality of the underlying investment vehicle's manager.

All of the investment vehicles in the investment portfolio are managed by portfolio managers who are compensated by the respective investment vehicles for their services. Such compensation generally consists of an asset based fee and a performance related incentive fee, and is reflected in the valuation of the investment vehicles.

(a) Interests in consolidated structured entities

Where the group has control over an investment vehicle, it is determined it to be a consolidated structured entity. The group currently consolidates Collateralised Debt Obligations (CDOs) with a market value of £1,082m (2014: £1,120m) at 31 December 2015. Details of the support which the group has agreed to provide these entities, in addition to the triggers under which it could be invoked, are contained within Note 12(ii). The group has not, and has no intention, to provide financial or other support to any other structured entities which it consolidates.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

(b) Interests in consolidated structured entities

As part of its investment activities, the group also invests in unconsolidated structured entities. As at 31 December 2015, the group's total interest in such entities, reflected on the group's Consolidated Balance Sheet and classified as financial investments held at fair value through profit or loss, was £28,339m (2014: £28,259m). A summary of the group's holdings at 31 December 2015, with prior year comparatives, is provided below:

	2015 Financial investments £m	2014 Financial investments £m
Debt securities		
Analysed as:		
Asset Backed Securities	**7,038**	8,122
Securitisations and Debentures	**16,298**	12,329
CDOs	**220**	279
Investment funds		
Analysed as:		
Unit Trusts	**2,589**	3,950
Property Limited Partnerships	**–**	238
Exchange Traded Funds	**321**	147
Specialised investment vehicles		
Analysed as:		
OEICs	**1,873**	2,991
SICAVs	**–**	198
SPVs	**–**	5
Total	**28,339**	28,259

Where the group does not manage the above investments, its maximum exposure to loss to the interests presented above is the carrying amount of the group's investments. Given the group's limited exposure, further information about the overall size of these entities has not been provided. Where the group manages these investments, the maximum exposure is the underlying balance sheet value, together with future management fees – these are covered further under section (c). The below group does not sponsor any of the above entities. The group has not, and has no intention to, provide financial or other support to any other structured entities which it does not consolidate.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

48 Interests in structured entities (continued)

(c) Other interests in unconsolidated structured entities

Management fees received for investments that the group manages also represent interests in unconsolidated structured entities. The group always maintains an interest in those funds which it manages. The group's maximum exposure to loss with these investments equates to the underlying assets on the group Consolidated Balance Sheet, together with future management fees. The table below shows the assets under management of those structured entities which the group manages, together with investment management fees received from external parties. The group's holding in these entities is included within the amounts disclosed in section (b), above.

	2015		2014	
	AUM £m	Investment management fees £m	AUM £m	Investment management fees £m
Investment funds	**21,074**	**100**	15,906	111
Specialised Investment Vehicles				
Analysed as:				
OEICs	**710**	**2**	903	3
Property Limited Partnerships	**2,719**	**10**	2,066	7
Total	**24,503**	**112**	18,875	121

EUROPEAN EMBEDDED VALUE

Group embedded value – summary

	Covered business				
For the year ended 31 December 2015	UK business £m	Insurance overseas business £m	LGA £m	Non-covered business £m	Total £m
At 1 January 2015					
Value of in-force business (VIF)	6,118	147	518	–	6,783
Shareholder net worth (SNW)	3,519	325	209	139	4,192
Embedded value at 1 January 2015	**9,637**	**472**	**727**	**139**	**10,975**
Exchange rate movements	–	(31)	36	(6)	(1)
Operating profit/(loss) after tax for the year	1,046	11	(56)	92	1,093
Non-operating profit/(loss) after tax for the year	270	(35)	(18)	26	243
Profit/(loss) for the year	**1,316**	**(24)**	**(74)**	**118**	**1,336**
Intra-group distributions[1]	(692)	(201)	(54)	947	–
Dividend distributions to equity holders of the company	–	–	–	(701)	(701)
Transfer to non-covered business[2]	(25)	–	–	25	–
Other reserve movements including pension deficit[3]	56	–	(34)	(49)	(27)
Embedded value at 31 December 2015	**10,292**	**216**	**601**	**473**	**11,582**
Value of in-force business[4,5]	5,802	81	399	–	6,282
Shareholder net worth[6,7]	4,490	135	202	473	5,300
Embedded value per share (p)[8]					**195**

Additional value of LGIM[9]

Indicative valuation including LGIM	2015 p per share	2015 £bn
EEV as reported	195	11.6
LGIM VIF	26	1.6
Total including LGIM	**221**	**13.2**

Estimated LGIM discounted cash flow valuation	2015 p per share	2015 £bn
Look-through value of profits on covered business	5	0.3
Net asset value	14	0.8
Current value of LGIM in group embedded value	**19**	**1.1**
LGIM VIF	26	1.6
Alternative discounted value of LGIM future cash flows	**45**	**2.7**

1. UK intra-group distributions primarily reflect a £700m (2014: £675m) dividend from Society to group and a £20m (2014: £nil) dividend from LGRe to group, partially offset by dividends of £28m (2014: £29m) from LGN to Society. Dividends of £54m (2014: £46m) from LGA and £1m (2014: £2m) from LGF were paid to group. The Insurance overseas business intragroup distribution also includes the impact of the LGF disposal and other related impacts.
2. The transfer to non-covered business represents the IFRS profits arising in the year from the provision of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look-through basis.
3. The other reserve movements primarily reflect movement in the pension deficit, the effect of reinsurance transactions between UK and US covered business, and movements in the share options scheme and employee scheme treasury shares.
4. Value of in-force business is shown net of cost of capital, which consists of £497m (2014: £545m) from UK covered business, £8m (2014: £60m) from Insurance overseas business and £14m (2014: £11m) from LGA.
5. The time value of the options and guarantees deduction included in value of in-force business is £36m (2014: £43m).
6. Shareholder net worth of Insurance overseas business is made up of £94m (2014: £90m) of free surplus and £41m (2014: £235m) of required capital.
7. Shareholder net worth of LGA is made up of £145m (2014: £161m) of free surplus and £57m (2014: £48m) of required capital.
8. The number of shares in issue at 31 December 2015 was 5,948,788,480 (2014: 5,942,070,229).
9. Excludes workplace savings results, which are reflected in the UK covered business.

Further analysis of the UK covered business can be found in Note 2.

EUROPEAN EMBEDDED VALUE (CONTINUED)

Group embedded value – summary (continued)

For the year ended 31 December 2014	Covered business: UK business £m	Covered business: Insurance overseas business £m	Covered business: LGA £m	Non-covered business £m	Total £m
At 1 January 2014					
Value of in-force business (VIF)	4,693	197	699	–	5,589
Shareholder net worth (SNW)	3,249	315	234	199	3,997
Embedded value at 1 January 2014	7,942	512	933	199	9,586
Exchange rate movements	–	(30)	44	(16)	(2)
Operating profit/(loss) after tax for the year	1,264	31	(68)	107	1,334
Non-operating profit/(loss) for the year	709	(11)	(11)	(5)	682
Profit/(loss) for the year	1,973	20	(79)	102	2,016
Intra-group distributions[1]	(641)	(30)	(46)	717	–
Dividend distributions to equity holders of the company	–	–	–	(580)	(580)
Transfer to non-covered business[2]	(26)	–	–	26	–
Other reserve movements including pension deficit[3]	389	–	(125)	(309)	(45)
Embedded value at 31 December 2014	9,637	472	727	139	10,975
Value of in-force business[4,5]	6,118	147	518	–	6,783
Shareholder net worth[6,7]	3,519	325	209	139	4,192
Embedded value per share (p)[8]					185

Additional value of LGIM[9]

Indicative valuation including LGIM	2014 p per share	2014 £bn
EEV as reported	185	11.0
LGIM VIF	27	1.6
Total including LGIM	212	12.6

Estimated LGIM discounted cash flow valuation	2014 p per share	2014 £bn
Look-through value of profits on covered business	6	0.4
Net asset value	8	0.5
Current value of LGIM in group embedded value	14	0.9
LGIM VIF	27	1.6
Alternative discounted value of LGIM future cash flows	41	2.5

1. UK intra-group distributions primarily reflect a £675m dividend paid from Society to group, and dividends of €35m from LGN and £5m from Nationwide Life paid to Society. Dividends of $76m from LGA and €2m from LGF were paid to group.
2. The transfer to non-covered business represents the IFRS profits arising in the year from the provision of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look-through basis.
3. The other reserve movements primarily reflect the effect of reinsurance arrangement transactions between UK and US covered business, pension deficit movement, movement in the savings related share options scheme and an intragroup capital contribution.
4. Value of in-force business is shown net of cost of capital, which consists of £545m from UK covered business, £60m from Insurance overseas business and £11m from LGA.
5. The time value of the options and guarantees deduction included in value of in-force business is £43m.
6. Shareholder net worth of Insurance overseas business is made up of £90m of free surplus and £235m of required capital.
7. Shareholder net worth of LGA is made up of £161m of free surplus and £48m of required capital.
8. The number of shares in issue at 31 December 2014 was 5,942,070,229.
9. Excludes workplace savings results, which are reflected in the UK covered business.

Further analysis of the UK covered business can be found in Note 2.

EUROPEAN EMBEDDED VALUE (CONTINUED)

1 Methodology

Basis of preparation

The supplementary financial information has been prepared in accordance with the European Embedded Value (EEV) Principles issued in May 2004 by the European Insurance CFO Forum.

From 1 January 2016, the group is required to comply with the requirements established by the EU Solvency II Directive. The Solvency II reporting framework incorporates a best estimate of cash flows in relation to insurance assets and liabilities and consequently has replaced EEV reporting in the management information used internally to measure and monitor capital resources. Therefore, from 2016 the group will no longer be reporting EEV information.

In accordance with the October 2015 CFO Forum guidance on Solvency II, the group has not reflected Solvency II requirements within the EEV results. Allowing for Solvency II could have had a significant impact on the EEV results, the impact of which has not been quantified.

The supplementary financial information has been audited by PricewaterhouseCoopers LLP.

Covered business

The group uses EEV methodology to value individual and group life assurance, pensions and annuity business written in the UK, Europe and the US. The UK covered business also includes non-insured self invested personal pension (SIPP) business.

The managed pension funds business has been excluded from covered business and is reported on an IFRS basis.

All other businesses are accounted for on the IFRS basis adopted in the primary financial statements.

There is no distinction made between insurance and investment contracts in our covered business as there is under IFRS.

Description of methodology

The objective of EEV is to provide shareholders with realistic information on the financial position and current performance of the group.

The methodology requires assets of an insurance company, as reported in the primary financial statements, to be attributed between those supporting the covered business and the remainder. The method accounts for assets in the covered business on an EEV basis and the remainder of the group's assets on the IFRS basis adopted in the primary financial statements.

The EEV methodology recognises profit from the covered business as the total of:

- cash transfers during the relevant period from the covered business to the remainder of the group's assets; and
- the movement in the present value of future distributable profits to shareholders arising from the covered business over the relevant reporting period.

Embedded value

Shareholders' equity on the EEV basis comprises the embedded value of the covered business plus the shareholders' equity of other businesses, less the value included for purchased interests in long-term business.

The embedded value is the sum of the shareholder net worth (SNW) and the value of the in-force business (VIF). SNW is defined as those amounts, within covered business (both within the long-term fund and held outside the long-term fund but used to support long-term business), which are regarded either as required capital or which represent free surplus.

The VIF is the present value of future shareholder profits arising from the covered business, projected using best estimate assumptions, less an appropriate deduction for the cost of holding the required level of capital and the time value of financial options and guarantees (FOGs).

EUROPEAN EMBEDDED VALUE (CONTINUED)

1 Methodology (continued)

Service companies

All services relating to the UK covered business are charged on a cost recovery basis, with the exception of investment management services provided to Legal & General Assurance Society Limited (Society). Profits arising on the provision of these services are valued on a look-through basis.

As the EEV methodology incorporates the future capitalised cost of these internal investment management services, the equivalent IFRS profits have been removed from the investment management (LGIM) segment and are instead included in the results of the Insurance, Savings and LGR segments on an EEV basis.

The capitalised value of future profits emerging from internal investment management services are therefore included in the embedded value and new business contribution calculations for the Insurance, Savings and LGR segments. However, the historical profits which have emerged continue to be reported in the shareholders' equity of the LGIM segment on an IFRS basis. Since the look-through into service companies includes only future profits and losses, current intra-group profits or losses must be eliminated from the closing embedded value, and in order to reconcile the profits arising in the financial period within each segment with the net assets on the opening and closing balance sheet, a transfer of IFRS profits for the period from the UK SNW is deemed to occur.

New business

New business premiums reflect income arising from the sale of new contracts during the reporting period and any changes to existing contracts, which were not anticipated at the outset of the contract.

In-force business comprises previously written single premium, annual premium, recurrent single premium contracts and payments in relation to existing longevity insurance. The longevity insurance product comprises the exchange of a stream of fixed leg payments for a stream of floating payments, with the value of the income stream being the difference between the two legs. New business annual premiums have been excluded for longevity insurance due to the unpredictable deal flow from this type of business.

New business contribution arising from the new business premiums written during the reporting period has been calculated on the same economic and operating assumptions used in the embedded value at the end of the financial period. This has then been rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.

The present value of future new business premiums (PVNBP) has been calculated and expressed at the point of sale. 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 embedded 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.

The new business margin is defined as new business contribution at the end of the reporting period divided by the PVNBP. The premium volumes and projection assumptions used to calculate the PVNBP are the same as those used to calculate new business contribution.

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 groupwide expected impact of LGA directly-written business.

Projection assumptions

Cash flow projections are determined using best estimate assumptions for each component of cash flow and for each policy group. Future economic and investment return assumptions are based on conditions at the end of the financial period. Future investment returns are projected by one of two methods. The first method is based on an assumed investment return attributed to assets at their market value. The second, which is used by LGA, where the investments of that subsidiary are substantially all fixed interest, projects the cash flows from the current portfolio of assets and assumes an investment return on reinvestment of surplus cash flows. The assumed discount and inflation rates are consistent with the investment return assumptions.

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 the covered business, whether incurred in the covered business or elsewhere in the group, are allocated to that business. The expense assumptions used for the cash flow projections therefore include the full cost of servicing this business.

EUROPEAN EMBEDDED VALUE (CONTINUED)

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 known future changes.

Allowance for risk

Aggregate risks within the covered business are allowed for through the following principal mechanisms:

- setting required capital levels with reference to both the group's internal risk based capital models, and an assessment of the strength of regulatory reserves in the covered business;
- allowing explicitly for the time value of financial options and guarantees within the group's products; and
- setting risk discount rates by deriving a group level risk margin to be applied consistently to local risk free rates.

Required capital and free surplus

Regulatory capital for the UK covered businesses is provided by assets backing the with-profits business or by the SNW. The SNW comprises all shareholders' capital within Society, including those funds retained within the long-term fund (collectively Society shareholder capital).

Society shareholder capital is either required to cover the EU solvency margin or is free surplus as its distribution to shareholders is not restricted.

For UK with-profits business, the required capital is covered by the surplus within the with-profits part of the fund and no effect is attributed to shareholders except for the burn-through cost, which is described later. This treatment is consistent with the Principles and Practices of Financial Management for this part of the fund.

For UK non profit business, the required capital will be maintained at no less than the level of the EU minimum solvency requirement. This level, together with the margins for adverse deviation in the regulatory reserves, is, in aggregate, in excess of internal capital targets assessed in conjunction with the Individual Capital Assessment (ICA) and the with-profits support account.

The initial strains relating to new non profit business, together with the related EU solvency margin, are supported by releases from existing non profit business and the Society shareholder capital. As a consequence, the writing of new business defers the release of capital to free surplus. The cost of holding required capital is defined as the difference between the value of the required capital and the present value of future releases of that capital. For new business, the cost of capital is taken as the difference in the value of that capital assuming it was available for release immediately and the present value of the future releases of that capital. As the investment return, net of tax, on that capital is less than the risk discount rate, there is a resulting cost of capital which is reflected in the value of new business.

For LGA, the Company Action Level (CAL) of capital has been treated as required capital for modelling purposes. The CAL is the regulatory capital level at which the company would have to take prescribed action, such as submission of plans to the state insurance regulator, but would be able to continue operating on the existing basis. The CAL is currently twice the level of capital at which the regulator is permitted to take control of the business.

For LGN, required capital has been set at 104% of EU minimum solvency margin for all products without FOGs. For those products with FOGs, capital of between 104% and 563% of the EU minimum solvency margin has been used. These capital requirements have been scaled up by a factor of 1.042 at the total level to ensure the total requirement meets the 160% Solvency I from the capital policy for the EEV, for the NBVA no scaling is applied. The level of capital has been determined using risk based capital techniques.

The contribution from new business for our international businesses reflects an appropriate allowance for the cost of holding the required capital.

EUROPEAN EMBEDDED VALUE (CONTINUED)

1 Methodology (continued)

Financial options and guarantees

Under the EEV Principles an allowance for the time value of FOGs is required where a financial option exists which is exercisable at the discretion of the policyholder. These types of option principally arise within the with-profits part of the fund and their time value is recognised within the with-profits burn-through cost described below. Additional financial options for non profit business exist only for a small amount of deferred annuity business where guaranteed early retirement and cash commutation terms apply when the policyholders choose their actual retirement date.

Further financial guarantees exist for non profit business, in relation to index-linked annuities where capped or collared restrictions apply. Due to the nature of these restrictions and the manner in which they vary depending on the prevailing inflation conditions, they are also treated as FOGs and a time value cost is recognised accordingly.

The time value of FOGs has been calculated stochastically using a large number of real world economic scenarios derived from assumptions consistent with the deterministic EEV assumptions and allowing for appropriate management actions where applicable. The management action primarily relates to the setting of bonus rates. Future regular and terminal bonuses on participating business within the projections are set in a manner consistent with expected future returns available on assets deemed to back the policies within the stochastic scenarios.

In recognising the residual value of any projected surplus assets within the with-profits part of the fund in the deterministic projection, it is assumed that terminal bonuses are increased to exhaust all of the assets in the part of the fund over the future lifetime of the in-force with-profits policies. However, under stochastic modelling, there may be some extreme economic scenarios when the total projected assets within the with-profits part of the fund are insufficient to pay all projected policyholder claims and associated costs. The average additional shareholder cost arising from this shortfall has been included in the time value cost of FOGs and is referred to as the with-profits burn-through cost.

Economic scenarios have been used to assess the time value of the financial guarantees for non profit business by using the inflation rate generated in each scenario. The inflation rate used to project index-linked annuities will be constrained in certain real world scenarios, for example, where negative inflation occurs but the annuity payments do not reduce below pre-existing levels. The time value cost of FOGs allows for the projected average cost of these constrained payments for the index-linked annuities. It also allows for the small additional cost of the guaranteed early retirement and cash commutation terms for the minority of deferred annuity business where such guarantees have been written.

LGA FOGs relate to guaranteed minimum crediting rates and surrender values on a range of contracts, as well as impacts on no-lapse guarantees (NLG). The guaranteed surrender value of the contract is based on the accumulated value of the contract including accrued interest. The crediting rates are discretionary but related to the accounting income for the amortising bond portfolio. The majority of the guaranteed minimum crediting rates are between 3% and 4%. The assets backing these contracts are invested in US Dollar denominated fixed interest securities.

LGN separately provides for two types of guarantees: interest rate guarantees and maturity guarantees. Certain contracts provide an interest rate guarantee where there is a minimum crediting rate based on the higher of 1-year Euribor and the policy guarantee rate. This guarantee applies on a monthly basis. Certain other linked contracts provide a guaranteed minimum value at maturity where the maturity amount is the higher of the fund value and a guarantee amount. The fund values for both these contracts are invested in Euro denominated fixed interest securities.

EUROPEAN EMBEDDED VALUE (CONTINUED)

Risk free rate

The risk free rate is set to reflect both the pattern of the emerging profits under EEV and the relevant duration of the liabilities where backing assets reflect this assumption (e.g. equity returns). For the UK, it is set by reference to the gross redemption yield on the 15 year gilt index. For LGA, the risk free rate is the 10 year US Treasury effective yield, while the 10 year ECB AAA-rated Euro area central government bond par yield is used for LGN.

Risk discount rate

The risk discount rate (RDR) is a combination of the risk free rate and a risk margin, which reflects the residual risks inherent in the group's covered businesses, after taking account of prudential margins in the statutory provisions, the required capital and the specific allowance for FOGs.

The risk margin 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.

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. Forward-looking or adjusted betas make allowance for the observed tendency for betas to revert to 1 and therefore a weighted average of the historic beta and 1 tends to be a better estimate of the company's beta for the future period. We have computed the WACC using an arithmetical average of forward-looking betas against the FTSE 100 index.

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 rate of 18.5% (2014: 20.1%).

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.

EUROPEAN EMBEDDED VALUE (CONTINUED)

1 Methodology (continued)

Analysis of profit

Operating profit is identified at a level which reflects an assumed longer term level of investment return.

The contribution to operating profit in a period is attributed to four sources:

- new business;
- the management of in-force business;
- development costs; and
- return on shareholder net worth.

Further profit contributions arise from actual investment return differing from the assumed long-term investment return, and from the effect of economic assumption changes. These are shown below operating profit.

The contribution from new business represents the value recognised at the end of each period from new business written in that period, after allowing for the actual cost of acquiring the business and of establishing the required technical provisions and reserves and after making allowance for the cost of capital. New business contributions are calculated using closing assumptions.

The contribution from in-force business is calculated using opening assumptions and comprises:

- expected return – the discount earned from the value of business in-force at the start of the year;
- experience variances – the variance in the actual experience over the reporting period from that assumed in the value of business in-force as at the start of the year; and
- operating assumption changes – the effects of changes in future assumptions, other than changes in economic assumptions from those used in valuing the business at the start of the year. These changes are made prospectively from the end of the period.

Development costs relate to investment in strategic systems and development capability.

The contribution from shareholder net worth comprises the increase in embedded value based on assumptions at the start of the year in respect of the expected investment return on the Society shareholder capital.

Further profit contributions arise from investment return variances and the effect of economic assumption changes.

Economic variances represent:

- the effect of actual investment performance and changes to investment policy on SNW and VIF business from that assumed at the beginning of the period; and
- the effect of changes in economic variables on SNW and VIF business from that assumed at the beginning of the period, which are beyond the control of management, including associated changes to valuation bases to the extent that they are reflected in revised assumptions.

EUROPEAN EMBEDDED VALUE (CONTINUED)

2 UK covered business embedded value reconciliation

For the year ended 31 December 2015	Shareholder net worth Free surplus £m	 Required capital £m	 Total £m	Value of in-force £m	Total embedded value £m
At 1 January 2015	887	2,632	3,519	6,118	9,637
Operating profit/(loss) after tax:					
New business contribution[1]	(175)	214	39	316	355
Expected return on VIF	–	–	–	346	346
Expected transfer from VIF to SNW[2]	936	(182)	754	(754)	–
Expected return on SNW	76	131	207	–	207
Generation of embedded value	837	163	1,000	(92)	908
Experience variances	162	(272)	(110)	18	(92)
Operating assumption changes[3]	686	86	772	(521)	251
Development costs	(21)	–	(21)	–	(21)
Variances	827	(186)	641	(503)	138
Operating profit/(loss) after tax	1,664	(23)	1,641	(595)	1,046
Non-operating profit/(loss) after tax:					
Economic variances	62	(71)	(9)	184	175
Effect of tax rate changes and other taxation impacts[4]	–	–	–	95	95
Non-operating profit/(loss) after tax	62	(71)	(9)	279	270
Profit/(loss) for the year	1,726	(94)	1,632	(316)	1,316
Intra-group distributions[5]	(692)	–	(692)	–	(692)
Transfer to non-covered business[6]	(25)	–	(25)	–	(25)
Other reserve movements including pension deficit	56	–	56	–	56
Embedded value at 31 December 2015	**1,952**	**2,538**	**4,490**	**5,802**	**10,292**

1. The UK free surplus reduction of £175m to finance new business primarily reflects £214m additional required capital in relation to new business.
2. The increase in UK free surplus of £936m from the expected transfer from the in-force non profit business includes £754m of operational cash generation and a £182m reduction in required capital. The £1,117m operational cash generation from Insurance, Savings, LGR and LGIM per Note 2(ii) of the IFRS section also includes £28m of dividends from LGN, £1m dividend from LGF and £334m reflecting profit from non-covered business.
3. The release from Value of in-force to Shareholder net worth within Operating assumption changes is primarily driven by the extension of PS06/14 realistic reserving to unit linked business, to enable negative non-unit regulatory reserves for linked business.
4. This primarily reflects the implementation of the UK planned future reductions in the corporation tax rate to 18% on 1 April 2020.
5. Intra-group distributions primarily reflect a £700m dividend from Society to group and a £20m dividend from LGRe to group, partially offset by dividends of £28m from LGN to Society.
6. The transfer to non-covered business represents the IFRS profits arising in the year from the provision of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look-through basis.

The value of in-force business of £5,802m is comprised of £5,484m of non profit business and £318m of with-profits business.

EUROPEAN EMBEDDED VALUE (CONTINUED)

2 UK covered business embedded value reconciliation (continued)

For the year ended 31 December 2014	Shareholder net worth Free surplus £m	Shareholder net worth Required capital £m	Shareholder net worth Total £m	Value of in-force £m	Total embedded value £m
At 1 January 2014	1,107	2,142	3,249	4,693	7,942
Operating profit/(loss) after tax:					
New business contribution[1]	(340)	343	3	607	610
Intra-group transfer from with-profit to non profit fund	–	–	–	80	80
Expected return on VIF	–	–	–	317	317
Expected transfer from VIF to SNW[2]	901	(213)	688	(688)	–
Expected return on SNW	55	116	171	–	171
Generation of embedded value	616	246	862	316	1,178
Experience variances	175	(83)	92	(6)	86
Operating assumption changes	171	(109)	62	(36)	26
Development costs	(26)	–	(26)	–	(26)
Variances	320	(192)	128	(42)	86
Operating profit after tax	936	54	990	274	1,264
Non-operating profit/(loss) after tax:					
Economic variances	(359)	219	(140)	851	711
Effect of tax rate changes and other taxation impacts[3]	(12)	–	(12)	10	(2)
Non-operating profit/(loss) after tax	(371)	219	(152)	861	709
Profit for the year	565	273	838	1,135	1,973
Intra-group distributions[4]	(641)	–	(641)	–	(641)
Transfer to non-covered business[5]	(26)	–	(26)	–	(26)
Other reserve movements including pension deficit[6]	(118)	217	99	290	389
Embedded value at 31 December 2014	887	2,632	3,519	6,118	9,637

1. The UK free surplus reduction of £340m to finance new business reflects £343m additional required capital in relation to new business.
2. The increase in UK free surplus of £901m from the expected transfer from the in-force covered business includes £688m of operational cash generation and a £213m reduction in required capital. The £1,026m operational cash generation from Insurance, Savings, LGR and LGIM per Note 2(ii) of the IFRS section also includes £29m dividend from LGN, £2m dividend from LGF and £307m primarily reflecting profit from non-covered business.
3. Reflects the implementation of the UK planned future reductions in the corporation tax rate to 20% on 1 April 2015.
4. Intra-group distributions primarily reflect £675m dividends paid from Society to group and dividends of €35m from LGN and £5m from Nationwide to Society.
5. The transfer to non-covered business represents the IFRS profits arising in the year from the provision of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look-through basis.
6. The other reserve movements reflect the pension deficit movement, the effect of reinsurance transactions between UK and US covered business an intra-group capital contribution.

The value of in-force business of £6,118m is comprised of £5,778m of non profit business and £340m of with-profits business.

EUROPEAN EMBEDDED VALUE (CONTINUED)

3 Reconciliation of shareholder net worth

	UK covered business 2015 £m	Total 2015 £m	UK covered business 2014 £m	Total 2014 £m
SNW of long-term operations (IFRS basis)	4,897	5,931	4,693	5,889
Other assets/(liabilities) (IFRS basis)	–	473	–	139
Shareholders' equity on the IFRS basis	4,897	6,404	4,693	6,028
Purchased interest in long-term business	(38)	(39)	(46)	(49)
Deferred acquisition costs/deferred income liabilities	(294)	(1,435)	(201)	(1,255)
Deferred tax[1]	(117)	367	(16)	444
Other[2]	42	3	(911)	(976)
Shareholder net worth on the EEV basis	4,490	5,300	3,519	4,192

1. Deferred tax represents all tax which is expected to be paid under legislation in force at the balance sheet date.
2. Other primarily relates to the different treatment of annuities and the LGA Triple X securitisation between the EEV and IFRS basis, as well as profit transfer from the long-term fund to shareholder funds.

EUROPEAN EMBEDDED VALUE (CONTINUED)

4 Profit/(loss) for the year

For the year ended 31 December 2015	Note	Covered business UK business £m	Covered business Insurance overseas business £m	Covered business LGA £m	Non-covered business £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5	432	13	84	–	529
Contribution from in-force business:						
– expected return[1]		414	8	52	–	474
– experience variances[2]		(100)	(11)	6	–	(105)
– operating assumption changes[3, 4]		306	6	(238)	–	74
Development costs		(25)	–	–	–	(25)
Contribution from shareholder net worth[5]		192	1	9	–	202
Operating profit/(loss) on covered business		**1,219**	**17**	**(87)**	**–**	**1,149**
Business reported on an IFRS basis[6]		–	–	–	161	161
Total operating profit/(loss)		**1,219**	**17**	**(87)**	**161**	**1,310**
Economic variances[7]		245	7	(27)	(44)	181
Other variances[8]		–	(41)	–	–	(41)
Gains on non-controlling interests		–	–	–	19	19
Profit/(loss) before tax		**1,464**	**(17)**	**(114)**	**136**	**1,469**
Tax (expense)/credit on profit from ordinary activities		(243)	(7)	40	(18)	(228)
Effects of tax rate changes and other taxation impacts[9]		95	–	–	–	95
Profit/(loss) for the year		**1,316**	**(24)**	**(74)**	**118**	**1,336**
Operating profit on covered business before tax attributable to:						
LGR		463				
LGIM[10]		103				
LGC		192				
Insurance		311				
Savings		150				
Total		**1,219**				

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Earnings per share	
Based on profit attributable to equity holders of the company	22.25
Diluted earnings per share	
Based on profit attributable to equity holders of the company	22.10

1. The expected return on in-force for UK covered business is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the UK covered business was £6,118m in 2015 (2014: £4,693m). This is multiplied by the opening risk discount rate of 5.5% (2014: 6.8%) and the result grossed up at the notional attributed tax rate of 18% (2014: 20%) to give a return of £414m (2014: £397m). The same approach has been applied for Insurance overseas business.
2. UK covered business experience variances primarily reflect the impact from reduction of annuities in relation to reinsurance of bulk annuity transactions.
3. UK covered business operating assumption changes primarily reflect a change in mortality reserving assumptions in relation to unreported deaths of deferred annuitants; and the impact of release of prudence margin in the Sterling reserves, mainly in the Savings business; partially offset by enhancements to reinsurance modelling in our UK protection business, where recent contracts have been written on a risk premium basis (as opposed to level premium). The model change ensures that, for these treaties, sufficient prudence is being held in later years.
4. LGA operating assumption changes primarily reflect the impact of more conservative long-term assumptions on Post-Level Term mortality and shock lapse rates. This completes the assumption review exercise initiated in the US in 2014 after changes in industry-wide mortality tables.
5. Contribution from shareholder net worth reflects the investment returns on shareholder assets within covered businesses.
6. Non-covered business operating profit primarily reflects: LGIM business excluding workplace savings, general insurance, LGC and group non-covered business, which comprises group debt costs, investment projects and group expenses, partly offset by investment returns from non-covered shareholder assets.
7. The positive variance on UK covered business has resulted from a number of factors including favourable default experience, higher long-term investment return rate (mainly in LGR), and the impact of reducing gilt holdings.
8. Other variances primarily reflects the recognition of the loss arising from the disposal of LGF.
9. This primarily reflects the implementation of the UK planned future reductions in the corporation tax rate to 18% on 1 April 2020.
10. LGIM figures represent the workplace savings results. Other areas of LGIM are not included within covered business.

EUROPEAN EMBEDDED VALUE (CONTINUED)

For the year ended 31 December 2014	Note	Covered business UK business £m	 Insurance overseas business £m	 LGA £m	Non-covered business £m	Total £m
Business reported on an EEV basis:						
Contribution from new risks after cost of capital:						
– contribution from new business	5	753	7	90	–	850
– intra-group transfer from with-profit to non profit fund		100	–	–	–	100
Contribution from in-force business:						
– expected return[1]		397	27	66	–	490
– experience variances[2]		32	(11)	(23)	–	(2)
– operating assumption changes[3]		42	16	(241)	–	(183)
Development costs		(32)	–	–	–	(32)
Contribution from shareholder net worth		184	7	3	–	194
Operating profit/(loss) on covered business		1,476	46	(105)	–	1,417
Business reported on an IFRS basis[4]		–	–	–	164	164
Total operating profit/(loss)		1,476	46	(105)	164	1,581
Economic variances[5]		863	(18)	(17)	(38)	790
Gains on non-controlling interests		–	–	–	7	7
Profit/(loss) before tax		2,339	28	(122)	133	2,378
Tax (expense)/credit on profit from ordinary activities		(364)	(8)	43	(31)	(360)
Effects of tax rate changes and other taxation impacts[6]		(2)	–	–	–	(2)
Profit/(loss) for the year		1,973	20	(79)	102	2,016

Operating profit on covered business before tax attributable to:	
LGR	1,011
LGIM[7]	27
LGC	184
Insurance	232
Savings	22
Total	1,476

	p
Earnings per share	
Based on profit attributable to equity holders of the company	34.07
Diluted earnings per share	
Based on profit attributable to equity holders of the company	33.73

1. The expected return on in-force for UK covered business is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the UK covered business was £4,693m in 2014. This is adjusted for the effects of opening model changes of £(30)m to give an adjusted opening base VIF of £4,663m. This is then multiplied by the opening risk discount rate of 6.8% and the result grossed up at the notional attributed tax rate of 20% to give a return of £397m. The same approach has been applied for the Insurance overseas businesses.
2. UK covered business variance primarily reflects UK cost of capital unwind and favourable mortality experience for bulk annuities. LGA experience variance primarily relates to adverse mortality experience within term assurance and universal life products respectively.
3. UK covered business operating assumption change primarily reflects mortality assumption changes for non profit annuities. LGA operating assumption changes primarily incorporates an adjustment to our mortality assumptions to reflect the changes in industry-wide mortality tables (which were issued in the second half of 2014).
4. Non-covered business operating profit primarily reflect LGIM business excluding workplace savings, general insurance and LGC non-covered business.
5. The UK covered business positive variance has resulted from a number of factors including lower risk discount rate, favourable default experience and enhanced yield on annuity assets, offset by a lower risk free rate. Non-covered variance primarily reflects lower equity return from shareholder funds.
6. Other taxation impacts reflects the change in the treatment of deferred tax on in-force business to align with IFRS by removing the effect of discounting.
7. LGIM figures represent the workplace savings results, other areas of LGIM are not included in covered business.

EUROPEAN EMBEDDED VALUE (CONTINUED)

5 New business by product[1]

For the year ended 31 December 2015	Annual premiums £m	Present value of annual premiums £m	Capitalisation factor[2]	Single premiums £m	PVNBP £m	Contribution from new business[3] £m	Margin %
UK Insurance[4]	231	1,306	5.7	–	1,306	130	9.9
Overseas Insurance	40	313	7.8	384	697	13	1.9
Insurance	**271**	**1,619**	**6.0**	**384**	**2,003**	**143**	**7.1**
Savings	**54**	**170**	**3.1**	**1,507**	**1,677**	**1**	**0.1**
LGR[5]	**n/a**	**–**	**n/a**	**2,721**	**2,721**	**266**	**9.8**
LGIM[6]	**1,068**	**4,148**	**3.9**	**1,219**	**5,367**	**35**	**0.6**
LGA	**70**	**692**	**9.9**	**–**	**692**	**84**	**12.1**
Total new business	**1,463**	**6,629**	**4.5**	**5,831**	**12,460**	**529**	**4.2**
Cost of capital						49	
Contribution from new business before cost of capital						**578**	

1. Covered business only.
2. The capitalisation factor is the present value of annual premiums divided by the amount of annual premiums.
3. The contribution from new business is defined as the present value at the point of sale of assumed profits from new business written in the period and then rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.
4. The UK Insurance margin reflects the benefits of stronger commercial focus and disciplined expense control during 2015.
5. LGR for 2015 includes bulk annuities' single premiums and contribution from new business on a net of quota share reinsurance basis to provide a more representative margin figure.
6. LGIM figures represent the workplace savings results, other areas of LGIM are not included in covered business.

For the year ended 31 December 2014	Annual premiums £m	Present value of annual premiums £m	Capitalisation factor[2]	Single premiums £m	PVNBP £m	Contribution from new business[3] £m	Margin %
UK Insurance	230	1,336	5.8	–	1,336	112	8.4
Overseas Insurance	41	300	7.3	394	694	7	1.0
Insurance	271	1,636	6.0	394	2,030	119	5.9
Savings	63	171	2.7	1,678	1,849	9	0.5
LGR	n/a	–	n/a	6,578	6,578	614	9.3
LGIM[4]	591	2,277	3.9	1,060	3,337	18	0.5
LGA	91	907	10.0	–	907	90	9.9
Total new business	1,016	4,991	4.9	9,710	14,701	850	5.8
Cost of capital						108	
Contribution from new business before cost of capital						958	

1. Covered business only.
2. The capitalisation factor is the present value of annual premiums divided by the amount of annual premiums.
3. The contribution from new business is defined as the present value at the point of sale of assumed profits from new business written in the period and then rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.
4. LGIM figures represent the workplace savings results, other areas of LGIM are not included in covered business.

EUROPEAN EMBEDDED VALUE (CONTINUED)

6 Sensitivities

In accordance with the guidance issued by the European Insurance CFO Forum in October 2005, the table below shows the effect of alternative assumptions on the long-term embedded value and new business contribution.

Effect on embedded value as at 31 December 2015

	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
Insurance, Savings and LGR[1]	10,508	796	(709)	722	(444)	183
LGA	601	55	(45)	(19)	13	–
Total covered business	11,109	851	(754)	703	(431)	183

	As published £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse rate £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
Insurance, Savings and LGR[1]	10,508	(186)	116	95	(412)	65
LGA	601	–	13	(9)	n/a	209
Total covered business	11,109	(186)	129	86	(412)	274

Effect on new business contribution for the year

	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
Insurance, Savings and LGR[1]	445	67	(61)	50	(33)	21
LGA	84	6	(5)	2	(2)	–
Total covered business	529	73	(66)	52	(35)	21

	As published £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse rates £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
Insurance, Savings and LGR[1]	445	(7)	19	22	(37)	4
LGA	84	–	1	2	n/a	13
Total covered business	529	(7)	20	24	(37)	17

1. Includes LGC and workplace savings.

Opposite sensitivities are broadly symmetrical.

The above sensitivity analyses do not reflect management actions which could be taken to reduce the impacts. Sensitivity to changes in assumptions may not be linear, and as such, they should not be extrapolated to changes of a much larger order. A 2% higher risk discount rate would result in a £1,194m negative impact on UK embedded value and a £107m negative impact on UK new business contribution for the year.

EUROPEAN EMBEDDED VALUE (CONTINUED)

7 Assumptions

UK assumptions

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. Indicative yields on the portfolio, excluding annuities within LGR, but after allowance for long-term default risk, are shown below.

For LGR, separate returns are calculated for new and existing business. An indicative combined yield, after allowance for long-term default risk and the following additional assumptions, is also shown below. These additional assumptions are:

- Where cash balances and debt securities are held at the reporting date in excess of, or below strategic investment guidelines, then it is assumed that these cash balances or debt securities are immediately invested or disinvested at current yields.
- Where interest rate swaps are used to reduce risk, it is assumed that these swaps will be sold before expiry and the proceeds reinvested in corporate bonds with a redemption yield of 0.7% p.a. (0.7% p.a. at 31 December 2014) greater than the swap rate at that time (i.e. the long-term credit rate).
- Where reinvestment or disinvestment is necessary to rebalance the asset portfolio in line with projected outgo, this is also assumed to take place at the long-term credit rate above the swap rate at that time.

The returns on fixed and index-linked securities are calculated net of an allowance for default risk which takes account of the credit rating, outstanding term of the securities. The allowance for corporate securities expressed as a level rate deduction from the expected returns for annuities was 22bps at 31 December 2015 (21bps at 31 December 2014).

UK covered business

- Assets are valued at market value.
- Future bonus rates have been set at levels which would fully utilise the assets supporting the policyholders' portion of the with-profits business in accordance with established practice. The proportion of profits derived from with-profits business allocated to shareholders amounts to almost 10% throughout the projection.
- The value of in-force business reflects the cost, including administration expenses, of providing for benefit enhancement or compensation in relation to certain products.
- Other actuarial assumptions have been set at levels commensurate with recent operating experience, including those for mortality, morbidity, persistency and maintenance expenses (excluding the development costs referred to below). These are normally reviewed annually.

  An allowance is made for future mortality improvement. For new business, mortality assumptions may be modified to take certain scheme specific features into account.

- Development costs relate to investment in strategic systems and development capability that are charged to the covered business.

Overseas covered business

- Other actuarial assumptions have been set at levels commensurate with recent operating experience, including those for mortality, morbidity, persistency and maintenance expenses.

EUROPEAN EMBEDDED VALUE (CONTINUED)

Economic assumptions

	As at 2015 % p.a.	As at 2014 % p.a.
Risk margin	**3.1**	3.3
Risk free rate[1]		
UK	**2.4**	2.2
Europe	**0.8**	0.6
US	**2.3**	2.2
Risk discount rate (net of tax)		
UK	**5.5**	5.5
Europe	**3.9**	3.9
US	**5.4**	5.5
Reinvestment rate (US)	**5.1**	5.0
Other UK business assumptions		
Equity risk premium	**3.3**	3.3
Property risk premium	**2.0**	2.0
Investment return (excluding annuities in LGR)		
Fixed interest:		
Gilts and non gilts	**2.0 – 2.7**	1.7 – 2.4
Equities	**5.7**	5.5
Property	**4.4**	4.2
Long-term rate of return on non profit annuities in LGR	**4.2**	3.6
Inflation[2]		
Expenses/earnings	**3.8**	3.7
Indexation	**3.3**	3.2

1. The risk free rate is the gross redemption yield on the 15 year gilt index. The Europe risk free rate is the 10 year ECB AAA-rated Euro area central government bond par yield. The LGA risk free rate is the 10 year US Treasury effective yield.
2. The LGR inflation rate has been set with reference to a curve.

EUROPEAN EMBEDDED VALUE (CONTINUED)

7 Assumptions (continued)

Tax

- The profits on the covered business, except for the profits on the shareholder capital held outside the long-term fund, are calculated on an after tax basis and are grossed up by the notional attributed tax rate for presentation in the income statement. For the UK, the after tax basis assumes the annualised current rate of 20.25% and subsequent planned future reductions in corporation tax to 18% from 1 April 2020. The tax rate used for grossing up is the long-term corporate tax rate in the territory concerned, which for the UK is 18% (31 December 2014: 20%). The profits on the shareholder capital held outside the long-term fund are calculated before tax and therefore tax is calculated on an actual basis.

  US, Netherlands and France covered business profits are also grossed up using the long-term corporate tax rates of the respective territories i.e. the US is 35% (31 December 2014: 35%), France is 34.43% (31 December 2014: 34.43%) and the Netherlands is 25% (31 December 2014: 25%).

Stochastic calculations

- The time value of options and guarantees is calculated using economic and non-economic assumptions consistent with those used for the deterministic embedded value calculations.

  A single model has been used for UK and international business, with different economic assumptions for each territory reflecting the significant asset classes in each territory.

  Government nominal interest rates are generated using a LIBOR Market Model projecting full yield curves at annual intervals. The model provides a good fit to the initial yield curve.

  The total annual returns on equities and property are calculated as the return on 1 year bonds plus an excess return. The excess return is assumed to have a lognormal distribution. Corporate bonds are modelled separately by credit rating using stochastic credit spreads over the risk free rates, transition matrices and default recovery rates. The real yield curve model assumes that the real short rate follows a mean-reverting process subject to two normally distributed random shocks.

  The significant asset classes are:

  – UK with-profits business – equities, property and fixed rate bonds of various durations;

  – UK annuity business – fixed rate and index-linked bonds of various durations; and

  – International business – fixed rate bonds of various durations.

  The risk discount rate is scenario dependent within the stochastic projection. It is calculated by applying the deterministic risk margin to the risk free rate in each stochastic projection.

Sensitivity calculations

- A number of sensitivities have been produced on alternative assumption sets to reflect the sensitivity of the embedded value and the new business contribution to changes in key assumptions. Relevant details relating to each sensitivity are:

  – 1% variation in discount rate – a one percentage point increase/decrease in the risk margin has been assumed in each case (for example a 1% increase in the risk margin would result in a 4.1% risk margin).

  – 1% variation in interest rate environment – a one percentage point increased/decreased parallel shift in the risk free curve with consequential impacts on fixed asset market values, investment return assumptions, risk discount rate, including consequential changes to valuation bases.

  – 1% higher equity/property yields – a one percentage point increase in the assumed equity/property investment returns, excluding any consequential changes, for example, to risk discount rates or valuation bases, has been assumed in each case (for example a 1% increase in equity returns would increase assumed total equity returns from 3.3% to 4.3%).

  – 10% lower equity/property market values – an immediate 10% reduction in equity and property asset values.

  – 10% lower maintenance expenses, excluding any consequential changes, for example, to valuation expense bases or potentially reviewable policy fees (for example a 10% decrease on a base assumption of £10 per annum would result in a £9 per annum expense assumption).

  – 10% lower assumed persistency experience rates, excluding any consequential changes to valuation bases, incorporating a 10% decrease in lapse, surrender and premium cessation assumptions (for example a 10% decrease on a base assumption of 7% would result in a 6.3% lapse assumption).

  – 5% lower mortality and morbidity rates, excluding any consequential changes to valuation bases but including assumed product repricing action where appropriate (for example if base experienced mortality is 90% of a standard mortality table then, for this sensitivity, the assumption is set to 85.5% of the standard table).

  The sensitivities for covered business allow for any material changes to the cost of financial options and guarantees but do not allow for any changes to reserving bases or capital requirements within the sensitivity calculation, unless indicated otherwise above.

EUROPEAN EMBEDDED VALUE (CONTINUED)

Independent auditors' report to the directors of Legal & General Group Plc on the supplementary financial statements – European Embedded Value basis

Report on the supplementary financial statements

Our opinion

In our opinion, Legal & General Group Plc's supplementary financial statements – European Embedded Value basis (the supplementary financial statements) for the year ended 31 December 2015 have been properly prepared in all material respects in accordance with the European Embedded Value (EEV) basis set out in Note 1 – Methodology.

Emphasis of matter

Without modifying our opinion on the supplementary financial statements, we draw attention to the EEV basis set out in Note 1 – Methodology on page 215 which explains that, as permitted by the additional guidance issued in October 2015 by the European Insurance CFO Forum, the financial statements have been prepared making no allowance for the impact of Solvency II regulatory requirements.

What we have audited

Legal & General Group Plc's supplementary financial statements comprise:

- the Group Embedded Value Summary as at 31 December 2015; and
- the notes to the supplementary financial statements.

The financial reporting framework that has been applied in the preparation of the supplementary financial statements is the EEV basis as set out in Note 1 – Methodology. The supplementary financial statements should be read in conjunction with the group's financial statements.

In applying the EEV basis, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Responsibilities for the supplementary financial statements and the audit

Our responsibilities and those of the directors

The directors are responsible for the preparation of the supplementary financial statements on the EEV basis in accordance with the EEV basis set out in Note 1 – Methodology.

Our responsibility is to audit and express an opinion on the supplementary financial statements in accordance with applicable law and International Standards on Auditing (ISAs (UK & Ireland)). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the group's board of directors in conformity with the methodology and disclosure requirements contained in the document 'Supplementary Reporting for Long Term Insurance Business (the European Embedded Value Method)' issued by the CFO Forum, in accordance with our engagement letter dated 4 March 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the company, save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the supplementary financial statements sufficient to give reasonable assurance that the supplementary financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the supplementary financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the supplementary financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited supplementary financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCoopers LLP
Chartered Accountants
London
14 March 2016

COMPANY FINANCIAL STATEMENTS

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

Our opinion

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

- give a true and fair view of the state of the parent company's affairs as at 31 December 2015;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

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

- the Company Balance Sheet as at 31 December 2015;
- the Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 opinion

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the Corporate Governance Statement set out on pages 54 to 59 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- The information given in the Corporate Governance Statement set out on pages 54 to 59 with respect to the company's corporate governance code and practices and about its administrative, management and supervisory bodies complies with rules 7.2.2, 7.2.3 and 7.2.7 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the information referred to above in the Corporate Governance Statement. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)) we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

COMPANY FINANCIAL STATEMENTS (CONTINUED)

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 245, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report, Director's Report and Corporate Governance Statement, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the group financial statements of Legal & General Group Plc for the year ended 31 December 2015.

Andrew Kail (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
14 March 2016

(a) The maintenance and integrity of the Legal & General Group Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

COMPANY FINANCIAL STATEMENTS (CONTINUED)

Company Balance Sheet

As at 31 December 2015	Notes	2015 £m	2014 restated[1] £m
Non-current assets			
Investments in subsidiaries	7	**6,866**	6,180
Loans to subsidiaries	7	**764**	755
Current assets			
Receivables	8	**1,210**	2,028
Derivative assets	11	**–**	84
Other financial investments		**15**	22
Cash and cash equivalents		**3**	9
Total assets		**8,858**	9,078
Non-current liabilities			
Payables: amounts falling due after more than one year	9	**(3,140)**	(3,023)
Current liabilities			
Payables: amounts falling due within one year	10	**(127)**	(121)
Derivative liabilities	11	**(3)**	(13)
Total liabilities		**(3,270)**	(3,157)
Net assets		**5,588**	5,921
Equity			
Share capital	13	**149**	149
Share premium		**976**	969
Revaluation reserve	14	**2,459**	2,459
Capital redemption and other reserves		**85**	82
Retained earnings		**1,919**	2,262
Total equity		**5,588**	5,921

1. Details of the restatement can be found in Note 13.

The Notes on pages 236 to 241 form an integral part of these financial statements.

The financial statements on pages 234 to 241 were approved by the directors on 14 March 2016 and were signed on their behalf by:

Nigel Wilson
Group chief executive

Mark Gregory
Group chief financial officer

COMPANY FINANCIAL STATEMENTS (CONTINUED)

Company Statement of Changes in Equity

For the year ended 31 December 2015	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Share-based payment reserve £m	Revaluation reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2015	**149**	**969**	**17**	**(1)**	**66**	**2,459**	**2,262**	**5,921**
Profit for the financial year	–	–	–	–	–	–	**378**	**378**
Dividends	–	–	–	–	–	–	**(701)**	**(701)**
Value of employee services	–	–	–	–	**26**	–	–	**26**
Shares vested and transferred from share-based payment reserve	–	–	–	–	**(24)**	–	**(20)**	**(44)**
Options exercised under share option schemes	–	**7**	–	–	–	–	–	**7**
Additions to hedging reserve	–	–	–	**1**	–	–	–	**1**
As at 31 December 2015	**149**	**976**	**17**	–	**68**	**2,459**	**1,919**	**5,588**

For the year ended 31 December 2014	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Share-based payment reserve £m	Revaluation reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2014	148	959	17	(1)	63	2,459	2,000	5,645
Profit for the financial year	–	–	–	–	–	–	859	859
Dividends	–	–	–	–	–	–	(580)	(580)
Value of employee services	–	–	–	–	20	–	–	20
Shares vested and transferred from share-based payment reserve	–	–	–	–	(17)	–	(17)	(34)
Options exercised under share option schemes	1	10	–	–	–	–	–	11
As at 31 December 2014	149	969	17	(1)	66	2,459	2,262	5,921

COMPANY FINANCIAL STATEMENTS (CONTINUED)

1 Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial assets and financial liabilities measured at fair value through profit and loss, and in accordance with the Companies Act 2006. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

There were no material critical accounting estimates used or judgements made by management in the preparation of these financial statements.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- The requirement of paragraphs 6 and 21 of IFRS 1'First-time adoption of International Financial Reporting Standards' to present an opening Balance Sheet at the date of transition.
- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise price of share options, and how the fair value of goods or services received was determined).
- The requirement of IFRS 7 'Financial Instruments': Disclosures, equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.
- The requirement paragraphs 91 to 99 of IFRS 13 Fair Value Measurement, equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of paragraph 79(a)(iv) of IAS 1.
- The following paragraphs of IAS 1, 'Presentation of financial statements':

  (i)10(d) (statement of cash flows);
  (ii)10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements);
  (iii)16 (a statement of compliance with all IFRS);
  (iv)38A (requirement for minimum of two primary statements, including cash flow statements);
  (v)38B-D (additional comparative information);
  (vi)40A-D (requirements for a third statement of financial position);
  (vii)111 (cash flow statement information); and
  (viii)134-136 (capital management disclosures).
- IAS 7 'Statement of cash flows'.
- Paragraphs 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

The company's financial statements have been prepared in compliance with Section 394 and 396 of the Companies Act 2006 adopting the exemption of omitting the income statement conferred by Section 408 of that Act.

The company's financial statements have been prepared on a going concern basis.

Investment income

Investment income includes dividends and interest. Dividends receivable from group companies are recognised in the period in which the dividends are declared and approved at the general meeting or paid. Interest income is recognised using the effective interest method.

Distributions

Dividend distribution to the company's shareholders is recognised as a liability in the period in which the dividends are authorised and are no longer at the discretion of the company.

COMPANY FINANCIAL STATEMENTS (CONTINUED)

Interest expense
Interest expense reflects the underlying cost of borrowing, based on the effective interest method and includes payments and receipts made under derivative instruments which are amortised over the interest period to which they relate.

Investment in subsidiary undertakings
Investments in subsidiaries are held at cost less accumulated impairment losses.

Loans and receivables
Loans and receivables are initially recognised at fair value and subsequently held at amortised cost using the effective interest method.

Derivative financial instruments
The company's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The company uses derivatives such as foreign exchange forward contracts and interest rate swap contracts to hedge these exposures.

Changes in the fair value of any derivative instruments are recognised immediately in the income statement.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs. Borrowings classified as liabilities are subsequently stated at amortised cost. The difference between the net proceeds and the redemption value is recognised in the income statement over the borrowing period using the effective interest method.

Deferred tax
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future periods has been entered into by the subsidiary.

Foreign currencies
Transactions denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities expressed in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Non-monetary items are maintained at historic rates. Exchange gains or losses are recognised in the income statement.

Pension costs
The company participates in the group defined benefit schemes, which are recognised on the Balance Sheet of Legal & General Resources Limited. The company's cost of participation has been treated as that of a defined contribution schemes for reporting purposes. In addition to these schemes the company also contributes to defined contribution schemes. The company charges the costs of its pension schemes against profit as incurred. Any difference between the cumulative amounts charged against profits and contribution amounts paid is included as a provision or prepayment in the company's Balance Sheet.

The assets of the defined benefit schemes and the defined contribution schemes are held in separate trustee administered funds, which have been subject to regular valuation every three years and updated by formal reviews at reporting dates by qualified actuaries.

Share-based payments
The company operates a number of share-based payment plans on behalf of its subsidiaries. The fair value of the equity instruments granted is spread over the vesting period of the instrument and treated as a capital contribution to the respective subsidiary. The total capital contribution is determined by reference to the fair value of the awards, excluding the impact of any non-market vesting conditions. The capital contribution to the subsidiaries is accounted for as an increase in the investment in the parent company's financial statements.

At each balance sheet date, the company revises its estimate of the number of equity instruments which are expected to become exercisable. It recognises the impact of the revision of original estimate, if any, in the cost of the investment in the subsidiary and a corresponding adjustment is made to equity over the remaining vesting period. On vesting or exercise, the difference between the accumulated capital contribution and the actual cost to the company is transferred to retained earnings. Where new shares are issued, the proceeds received are credited to share capital and share premium. Any capital contribution is subsequently recharged to the respective subsidiary as incurred and the corresponding cost of investment is reduced.

COMPANY FINANCIAL STATEMENTS (CONTINUED)

2 Dividends

	Per share 2015 p	Total 2015 £m	Per share 2014 p	Total 2014 £m
Ordinary share dividends paid in the year				
– Prior year final dividend	**8.35**	**496**	6.90	408
– Current year interim dividend	**3.45**	**205**	2.90	172
	11.80	**701**	9.80	580
Ordinary share dividend proposed[1]	**9.95**	**592**	8.35	496

1. The dividend proposed has not been included as a liability in the balance sheet.

3 Directors' emoluments and other employee information

Full disclosures of Legal & General Group Plc directors' emoluments are contained within those parts of the Directors' Report on Remuneration which are described as having been audited. At 31 December 2015 there were no remuneration payments outstanding with directors of the company (2014: £nil). The company has nil other employees (2014: nil).

4 Pensions

There were £nil contributions prepaid or outstanding at 31 December 2015 (2014: £nil) in respect of these schemes, and there were £nil current service costs incurred in respect of these schemes for year ended 31 December 2015 (2014: £nil). The company had £nil liability for retirement benefits at 31 December 2015 (2014: £nil).

Defined contribution plans

The company operates the following defined contribution pension schemes in the UK:

- Legal & General Group Personal Pension Plan (UK).
- Legal & General Staff Stakeholder Pension Scheme (UK).

Defined benefit plans

The company operates the following defined benefit pension schemes in the UK:

- Legal & General Group UK Pension and Assurance Fund (the Fund). The Fund was closed to new members from January 1995; last full actuarial valuation as at 31 December 2012.
- Legal & General Group UK Senior Pension Scheme (the Scheme). The Scheme was, with a few exceptions (principally transfers from the Fund), closed to new members from August 2000 and finally closed to new members from April 2007; last full actuarial valuation as at 31 December 2012.

In the UK, the Fund and the Scheme are group defined benefit schemes. The sponsoring employer is Legal & General Resources Limited and a deficit in respect of these schemes for the year ended 31 December 2015 of £308m (2014: £394m) is recognised on that company's balance sheet.

5 Share-based payments

Legal & General Group Plc grants share-based payments to employees within the Legal & General Group. The group recognises an expense for these payments measured indirectly by reference to the fair value of the equity instruments granted. The expense is recognised over the vesting period as the services are received. The relevant company is recharged its share of this expense with reference to the benefits it receives from the employees. The full disclosures required by IFRS 2 are provided in the group's consolidated financial statements.

The total expense recharged to the company in relation to share-based payments was £nil (2014: £nil).

6 Auditors' remuneration

Remuneration receivable by the company's auditors for the audit of the company's financial statements is not presented. The group's consolidated IFRS financial statements disclose the aggregate remuneration receivable by the company's auditor for the audit of the group's annual financial statements, which include the company's financial statements.

The disclosure of fees payable to the auditor and its associates for other (non-audit) services has not been made because the group's consolidated financial statements are required to disclose such fees on a consolidated basis.

COMPANY FINANCIAL STATEMENTS (CONTINUED)

7 Non-current assets

	Shares in group companies 2015 £m	Loans to group companies 2015 £m	Total 2015 £m	Shares in group companies 2014 £m	Loans to group companies 2014 £m	Total 2014 £m
At 1 January	**6,180**	**755**	**6,935**	5,749	744	6,493
Additions[1]	**686**	**9**	**695**	431	11	442
At 31 December	**6,866**	**764**	**7,630**	6,180	755	6,935

1. Additions represent capital injections into group undertakings.

Full disclosure of the company's investments in subsidiary undertakings is contained in Note 46 of the group's consolidated financial statements.

8 Receivables

	2015 £m	2014 £m
Amounts owed by group undertakings	**1,140**	1,949
Corporation tax	**51**	61
Deferred tax	**16**	14
Other debtors	**3**	4
	1,210	2,028

Amounts owed by group undertakings are repayable at the request of either party and include an £916m (2014: £424m) interest bearing balance with a current interest rate of LIBOR-12.5 bps.

9 Payables: amounts falling due after more than one year

	Note	2015 £m	2014 £m
Subordinated borrowings	12	**2,519**	2,408
Amounts owed to group undertakings		**621**	615
		3,140	3,023

Amounts owed to group undertakings falling due after more than one year are unsecured and include £601m (2014: £601m) of interest bearing balances with current interest rates between 5.71% and 6.12% (2014: 5.71% and 6.12%).

10 Payables: amounts falling due within one year

	Note	2015 £m	2014 £m
Amounts owed to group undertakings		**84**	76
Accrued interest on subordinated borrowings	12	**32**	36
Other payables		**11**	9
		127	121

Amounts owed to group undertakings falling due within one year are interest free and repayable at the request of either party.

11 Derivative assets and liabilities

	Contract/ notional amount 2015 £m	Fair values		Contract/ notional amount 2014 £m	Fair values	
		Assets 2015 £m	Liabilities 2015 £m		Assets 2014 £m	Liabilities 2014 £m
Interest rate contracts – held for trading	**230**	**–**	**2**	1,095	17	13
Forward foreign exchange contracts – net investment hedges	**78**	**–**	**1**	589	1	–
Forward foreign exchange contracts – held for trading	**–**	**–**	**–**	465	66	–
Derivative assets and liabilities		**–**	**3**		84	13

The descriptions of each type of derivative are given in Note 13 of the group's consolidated financial statements.

COMPANY FINANCIAL STATEMENTS (CONTINUED)

12 Borrowings

Analysis by nature	Carrying amount 2015[1] £m	Coupon rate 2015 %	Fair value 2015[1] £m	Carrying amount 2014[1] £m	Coupon rate 2014 %	Fair value 2014[1] £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities (Tier 1)	**637**	**6.39**	**631**	658	6.39	642
5.875% Sterling undated subordinated notes (Tier 2)	**413**	**5.88**	**426**	416	5.88	431
4.0% Euro subordinated notes 2025 (Tier 2)	**–**	**–**	**–**	472	4.00	482
5.375% Sterling subordinated notes 2025 (Tier 2)	**601**	**5.38**	**611**	–	–	–
10% Sterling subordinated notes 2041 (Tier 2)	**310**	**10.00**	**398**	310	10.00	424
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**5.50**	**570**	588	5.50	666
Total borrowings	**2,550**		**2,636**	2,444		2,645

1. Includes accrued interest on subordinated borrowings of £32m (2014: £36m).

As at 31 December 2015, the company had in place a £1.00bn syndicated committed revolving credit facility provided by a number of its key relationship banks maturing in December 2020. This facility replaced the syndicated facility totalling £1.00bn, of which £0.04bn was due to mature in October 2017 and £0.96bn was due to mature in 2018. No drawings were made under either facility during 2015.

6.385% Sterling perpetual capital securities
In 2007, Legal & General Group Plc issued £600m of 6.385% Sterling perpetual capital securities. These securities are callable at par on 2 May 2017 and every three months thereafter. If not called, the coupon from 2 May 2017 will be reset to three month LIBOR plus 1.93% pa. For Solvency I purposes these securities are treated as tier 1 capital and for Solvency II purposes these securities are treated as tier 1 own funds.

5.875% Sterling undated subordinated notes
In 2004, Legal & General Group Plc issued £400m of 5.875% Sterling undated subordinated notes. These notes are callable at par on 1 April 2019 and every five years thereafter. If not called, the coupon from 1 April 2019 will be reset to the prevailing five year benchmark gilt yield plus 2.33% pa. These notes are treated as lower tier 2 capital for Solvency I purposes and tier 2 own funds for Solvency II purposes.

4.0% Euro subordinated notes 2025
In 2005, Legal & General Group Plc issued €600m of 4.0% Euro dated subordinated notes. The proceeds were swapped into Sterling. On 8 June 2015, the group redeemed these notes at par. Prior to redemption, these notes were treated as lower tier 2 capital for Solvency I purposes and tier 2 own funds for Solvency II purposes.

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

10% Sterling subordinated notes 2041
In 2009, Legal & General Group Plc issued £300m of 10% dated subordinated notes. The notes are callable at par on 23 July 2021 and every five years thereafter. If not called, the coupon from 23 July 2021 will be reset to the prevailing five year benchmark gilt yield plus 9.325% pa. These notes mature on 23 July 2041. They are treated as lower tier 2 capital for Solvency I purposes and 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 lower tier 2 capital for Solvency I purposes and tier 2 own funds for Solvency II purposes.

COMPANY FINANCIAL STATEMENTS (CONTINUED)

13 Called up share capital

Issued share capital, fully paid	Number of shares 2015	Called up share capital 2015 £m	Number of shares 2014	Called up share capital 2015 £m
As at 1 January	**5,942,070,229**	**149**	5,917,066,636	148
Options exercised under share option schemes				
Savings related share option scheme	**6,718,251**	**–**	25,003,593	1
As at 31 December	**5,948,788,480**	**149**	5,942,070,229	149

Options over the ordinary share capital of the company are disclosed in Note 39 of the group's consolidated financial statements.

14 First time adoption of FRS 101

This is the first year that the company has presented its results under FRS 101. The last financial statements under UK GAAP were for the year ended 31 December 2014, with the date of the transition being 1 January 2014. This entity is included in the consolidated financial statements of Legal & General Group Plc.

(a) Reconciliation of Equity as at 1 January 2014

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Share-based payment reserve £m	Revaluation reserve £m	Profit and loss account £m	Total equity £m
As reported under UK GAAP	148	959	17	(1)	51	2,459	2,000	5,633
Deferred tax on share-based payments	–	–	–	–	12	–	–	12
As reported under FRS 101	148	959	17	(1)	63	2,459	2,000	5,645

(b) Reconciliation of Equity as at 31 December 2014

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Share-based payment reserve £m	Revaluation reserve £m	Profit and loss account £m	Total equity £m
As reported under UK GAAP	149	969	17	(1)	62	2,889	2,262	6,347
Revaluation of investment in subsidiaries[1]	–	–	–	–	–	(430)	–	(430)
Deferred tax on share-based payments	–	–	–	–	4	–	–	4
As reported under FRS 101	149	969	17	(1)	66	2,459	2,262	5,921

1. The investment in subsidiaries has previously been valued at the net asset value of the subsidiaries. On transition to FRS 101 the investments in subsidiaries are valued at cost. The carrying value of the investment in subsidiaries at 1 January 2014 is deemed to be equivalent to cost for FRS 101. The revaluation gain previously recognised in 2014 is therefore removed in FRS 101 and this adjustment has been taken through the revaluation reserve.

(c) Reconciliation of Total Comprehensive Income for the period ending 31 December 2014

	£m
As reported under UK GAAP	1,289
Revaluation of investment in subsidiaries	(430)
As reported under FRS 101	859

Directors' report

The Directors' report required under the Companies Act 2006 comprises this Directors' report, and certain other disclosures in the Strategic Report including:

- An outline of important events that have occurred during the year (pages 34 to 41)
- An indication of likely future developments (pages 13 to 30)

Articles of Association

The company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. At the company's AGM to be held on 26 May 2016, a resolution will be put to shareholders proposing amendments to the existing Articles of Association.

Conflicts of interest

In accordance with the Companies Act 2006, the Board has adopted a policy and procedure for the disclosure and authorisation (if appropriate) of conflicts of interest, and these have been followed during 2015.

Powers of directors

The directors may exercise all powers of the company subject to applicable legislation and regulation and the company's Articles of Association.

Share capital

As at 31 December 2015, the company's issued share capital comprised 5,948,788,480 ordinary shares each with a nominal value of 2.5pence. Details of the ordinary share capital can be found in Note 39 to the Group Consolidated Financial Statements.

At the 2015 AGM, the company was granted authority by shareholders to purchase up to 594,243,900 ordinary shares, being 10% of the issued share capital of the company as at 27 March 2015. In the year to 31 December 2015, no shares were purchased by the company. This authority will expire at this year's AGM. As such, a special resolution is proposed in the Notice of AGM seeking shareholder approval to renew this authority.

At the 2015 AGM, the directors were given the power to allot shares up to an amount of £49,520,325, being 33% of the issued share capital of the company as at 27 March 2015. This authority will also expire at this year's AGM. As such, an ordinary resolution is proposed in the Notice of AGM seeking shareholder approval to renew this authority.

A further resolution is proposed, as set out in the Notice of AGM, that will, if approved by shareholders, authorise the directors to issue shares up to the equivalent of 10% of the company's issued share capital as at 29 March 2016 for cash without offering the shares first to existing shareholders in proportion to their holdings.

Detailed explanatory notes to these resolutions are set out in the Notice of AGM.

Other than the above, the directors have no current intention of issuing further share capital and no issue will be made which would effectively alter control of the company without prior approval of shareholders in a general meeting.

Interests in voting rights

As at 1 March 2016, the company had been advised of the following significant direct and indirect interests in the issued share capital of the company:

	Number of ordinary shares of 2.5p	% of capital*	Total interest in issued share capital
Schroders Plc	296,651,093	5.0	Indirect
The Capital Group Companies, Inc.	353,497,431	5.9	Indirect
Invesco Limited	297,097,017	5.0	Indirect

*Using the voting rights figure announced to the London Stock Exchange on 1 March 2016 of 5,948,915,341

Dividend

The company may, by ordinary resolution in a general meeting, declare dividends in accordance with the respective rights of the members, but no dividend can exceed the amount recommended by the Board. The directors propose a final dividend for the year ended 31 December 2015 of 9.95pence per ordinary share which, together with the interim dividend of 3.45pence per ordinary share paid to shareholders on 17 September 2015, will make a total dividend for the year of 13.40pence (2014: 11.25pence). Subject to shareholder approval at the AGM, the final dividend will be paid on 9 June 2016 to shareholders on the share register on 29 April 2016 provided that the Board of directors may cancel payment of the dividend at any time prior to payment, if it considers it necessary to do so for regulatory capital purposes.

Related party transactions

Details of related party transactions are set out in Note 42 to the Group Consolidated Financial Statements.

Rights and obligations attaching to shares

The rights and obligations relating to the company's ordinary shares are set out in the Articles of Association. A copy of the Articles of Association can be requested from the company secretary at the company's registered office.

Holders of ordinary shares are entitled to attend, speak and vote at general meetings. In a vote on a show of hands, every member present in person or every proxy present, who has been duly appointed by a member, will have one vote and on a poll every member present in person or by proxy shall have one vote for every ordinary share held. These rights are subject to any special terms as to voting upon which any shares may be issued or may at the relevant time be held and to any other provisions of the company's Articles of Association. Under the Companies Act 2006 and the Articles of Association, directors have the power to suspend voting rights and, in certain circumstances, the right to receive dividends in respect of shares where the holder of those shares fails to comply with a notice issued under section 793 of the Companies Act 2006.

The Board can decline to register a transfer of any share which is not a fully paid share. In addition, registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules and where the number of joint holders exceeds four. The Board may also refuse to register the transfer of a certificated share unless:

(a) The instrument of transfer is duly stamped and is left at the company's registered office or such other place as the Board may from time to time determine accompanied by the certificate for the share to which it relates and such evidence as the Board may reasonably require to show the right of the transfer or to make the transfer;

(b) The instrument of transfer is in respect of only one class of share; and

(c) The number of joint holders does not exceed four.

Subject to the provisions of the Companies Act 2006, all or any of the rights attaching to an existing class of shares may be varied from time to time either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class (excluding any treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares.

Shares acquired through the employee share schemes rank equally with all other ordinary shares in issue. Barclays Wealth Trustees (Guernsey) Limited, as trustee of the Legal & General Employees' Share Ownership Trust, holds 0.3% of the issued share capital of the company as at 8 March 2016 in trust for the benefit of the executive directors, senior executives and employees of the group. This includes shares held as nominee on behalf of Legal & General Share Scheme Trustees Limited, as trustee of the Legal & General Employee Share Trust, which is in the process of being wound up. The voting rights in relation to these shares are exercised by the trustee. The trustee may vote or abstain from voting, or accept or reject any offer relating to shares, in any way it sees fit, without incurring any liability and without being required to give reasons for its decision. Under the rules of the Legal & General Group Employee Share Plan (Plan), eligible employees are entitled to acquire shares in the company. Plan shares are held in trust for participants by Capita IRG Trustees Limited, which holds 0.35% of the issued share capital of the company as at 8 March 2016. Voting rights are exercised by the trustees on receipt of the participants' instructions. If a participant does not submit an instruction to the trustees, no vote is registered. In addition, the trustees do not vote on any unawarded shares held under the Plan as surplus assets. The company is not aware of any agreements between shareholders which may result in restrictions on the transfer of securities and/or voting rights.

Change of control

There are no agreements between the company and its directors or employees for compensation providing for loss of office or employment (whether through resignation, purported redundancy or otherwise) in the event of a takeover bid, except for those relating to normal notice periods. The rules of the company's share plans contain provisions under which options and awards to participants, including executive directors, may vest on a takeover or change of control of the company or transfer of undertakings.

The company has a committed £1 billion bank syndicated credit facility which is terminable if revised terms cannot be agreed with the syndicate of banks in a 30-day period following a change of control. As at 8 March 2016, the company has no borrowings under this facility.

There are no change of control conditions in the terms of any of the company's outstanding debt securities. The terms of the company's agreements with its banking counter parties, under which derivative transactions are undertaken, include the provision for termination of transactions upon takeover/merger if the resulting merged entity has a credit rating materially weaker than the company. There are no other committed banking arrangements either drawn or undrawn that incorporate any change of control conditions.

Use of financial instruments

Information on the group's risk management process is set out on pages 43 to 47. More details on risk management and the financial instruments used are set out in Notes 16 to 18 of the Group Consolidated Financial Statements.

Indemnities

The company has agreed to indemnify, to the extent permitted by law, each of the directors against any liability incurred by a director in respect of acts or omissions arising in the course of their office. Qualifying pension scheme indemnities (as defined in section 235 of the Companies Act 2006) have been granted, to the extent permitted by law, to certain trustees of the company's pension schemes. The indemnities were in force throughout 2015 and remain so. Copies of the deeds of indemnity are available for inspection at the company's registered office and will also be available at the AGM.

Political donations

No political donations were made during 2015.

Forward-looking statements

The Directors' report is prepared for the members of the company and should not be relied upon by any other party or for any other purpose. Where the Directors' report includes forward-looking statements, these are made by the directors in good faith based on the information available to them at the time of their approval of this report. Such statements should be treated with caution due to the inherent uncertainties underlying such forward-looking statements.

Insurance

The company has arranged appropriate directors' and officers' liability insurance for directors. This is reviewed annually.

Greenhouse gas disclosures (GHG)

Global GHG Emissions Data

tCO_2e Emissions from	Jan – Dec 2013	Jan – Dec 2014	Jan – Dec 2015
Scope 1 & 2 (electricity and gas) (based on the scope of Legal & General's UK CRC Energy Efficiency Scheme disclosed emissions, Overseas property emissions)	12,979.11	12,240.77	12,196.10
Scope 2 (electricity sourced from a renewable tariff)	20,813.68	21,227.49	38,218.73
Scope 3 – Business travel (includes road, rail & air travel for LGAS, France, Netherlands and USA)	4,558.13	4567.40	3,746.77
Total CO_2 (scope 1,2,3) (based on the scope of Legal & General's UK CRC Energy Efficiency Scheme disclosed emissions, Overseas property emissions and reported travel emissions)	38,350.92	38,035.66	54,161.60
Intensity ratio: $kgCO_2e$ Emissions per policy	3.78	4.09	5.78
Fugitive Emissions	571.24	768.73	877.60

Please note that the increase in overall CO_2e is a direct result of phase 2 of CRC scheme which has resulted in the inclusion of an additional 5 investment funds, on top of our original 4 investment funds.
Please refer to our CSR report for further breakdown and analysis of emissions.

Methodology

We have reported on the emission sources required under the Companies Act 2006 Strategic Report and Director's Report Regulations 2013.

We have used the GHG reporting protocol for calculating our GHG emissions for 2013 and applied the emission factors from UK Government's GHG Conversion Factors for Company Reporting 2015.

Disability

Our policies support the employment, promotion and career development of disabled persons, as well as supporting employees who become disabled during the course of their employment. We make reasonable adjustments, as required under the Equality Act 2010, for disabled employees, including seeking redeployment in the event that reasonable adjustments are not possible. We offer appropriate training, including training in relation to equality, and will make adjustments to this training where required.

Independent auditors

The company's auditors have expressed their willingness to continue in office and the Audit Committee has recommended their reappointment to the Board. Resolutions to reappoint PricewaterhouseCoopers LLP as auditor to the company and to authorise the directors to determine their remuneration are proposed for the forthcoming AGM.

Directors' interests

The Directors' Report on Remuneration on pages 68 to 89 provides details of the interests of each director, including details of current incentive schemes and long term incentive schemes, the interests of directors in the share capital of the company and details of their share interests, as at 11 March 2016.

Going concern statement

After making enquiries, the directors have a reasonable expectation that the company, and the group, have adequate resources to continue their operations for a period of at least 12 months from the date of the approval of the financial statements.

Annual general meeting

The company's AGM will be held at 11am on Thursday, 26 May 2016 at The Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Accounts, including the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosures Framework', and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards, comprising FRS 101 'Reduced Disclosures Framework', have been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Board of directors section confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- the strategic report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces.

In accordance with section 418 of the Companies Act 2006, each of the directors who held office at the date this report was approved confirms that:

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(b) he/she has taken all the steps that he/she ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The Directors' Report and Strategic Report were approved by the Board, and signed on their behalf.

By order of the Board

G J Timms
Company secretary

Shareholder information

Annual general meeting

The 2016 Annual General Meeting (AGM) will be held on Thursday, 26 May 2016 at 11am at The Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ. The AGM provides Legal & General with the opportunity to meet its shareholders. The Board regards the AGM as an important opportunity to communicate directly with private investors.

Dividend information

Dividend per share

This year the directors are recommending the payment of a final dividend of 9.95pence per share. If you add this to your interim dividend of 3.45pence per share, the total dividend recommended for 2015 will be 13.40pence per share (2014: 11.25pence per share). The key dates for the payment of dividends are set out in the important dates section on the next page.

Communications

Internet

Information about the company, including details of the current share price, is available on the website, www.legalandgeneralgroup.com

Investor relations

Private investors should contact the registrar with any queries.

Institutional investors can contact the investor relations team by email: investor.relations@group.landg.com

Financial reports

The company's financial reports are available on the website. The annual report and accounts are sent to those shareholders who have elected to receive paper copies. Alternatively, shareholders may elect to receive notification by email by registering on www.landgshareportal.com If you receive more than one copy of our communications, it could be because you have more than one record on the share register. To avoid duplicate mailings, please contact the registrar, who can arrange for your accounts to be amalgamated.

Registrar

Capita Asset Services is our registrar and they offer many services to make managing your shareholding easier and more efficient.

Share portal

The Share Portal is a secure online site where you can manage your shareholding quickly and easily. You can:

- View your holding and get an indicative valuation
- Change your address
- Arrange to have dividends paid into your bank account
- Request to receive shareholder communications by email rather than post
- View your dividend payment history
- Make dividend payment choices
- Buy and sell shares and access a wealth of stock market news and information
- Register your proxy voting instruction
- Download a stock transfer form

To register for the Share Portal just visit www.landgshareportal.com. All you need is your investor code, which can be found on your share certificate or dividend confirmation.

Customer support centre

Alternatively, you can contact Capita's Customer Support Centre which is available to answer any queries you have in relation to your shareholding:

By phone – 0371 402 3341*

By email – landgshares@capita.co.uk

By post – Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

Sign up to electronic communications

Help us to save paper and get your shareholder information quickly and securely by signing up to receive your shareholder communications by email.

Registering for electronic communications is very straightforward. Just visit www.landgshareportal.com. All you need is your investor code, which can be found on your share certificate or dividend confirmation.

Corporate sponsored nominee

The corporate sponsored nominee allows you to hold shares in Legal & General without the need for a share certificate and enables you to benefit from shorter market settlement periods. Individual shareholders hold their Legal & General shares in a nominee holding registered in the name of Capita IRG Trustees (Nominees) Limited. To join or obtain further information contact the registrar. They will send you a booklet, outlining the terms and conditions under which your shares will be held.

Dividend payment options

Re-invest your dividends

Capita's Dividend Re-investment Plan offers a convenient way for shareholders to build up their shareholding by using dividend money to purchase additional shares. The plan is provided by Capita Asset Services, a trading name of Capita IRG Trustees Limited which is authorised and regulated by the Financial Conduct Authority.

For more information and an application pack please call 0371 664 0381*. Alternatively you can email shares@capita.co.uk or log on to www.landgshareportal.com

It is important to remember that the value of shares and income from them can fall as well as rise and you may not recover the amount of money you invest. Past performance should not be seen as indicative of future performance. This arrangement should be considered as part of a diversified portfolio.

Arrange to have your dividends paid direct into your bank account

This means that:

- Your dividend reaches your bank account on the payment date
- It is more secure – cheques can sometimes get lost in the post
- You don't have the inconvenience of depositing a cheque
- Helps reduce cheque fraud

If you have a UK bank account you can sign up for this service on the Share Portal (by clicking on 'your dividend options' and following the on screen instructions) or by contacting the Customer Support Centre.

Choose to receive your next dividend in your local currency

If you live outside the UK, Capita has partnered with Deutsche Bank to provide you with a service that will convert your sterling dividends into your local currency at a competitive rate. You can choose to receive payment directly into your local bank account, or alternatively, you can be sent a currency draft.

You can sign up for this service on the Share Portal (by clicking on 'your dividend options' and following the on-screen instructions) or by contacting the Customer Support Centre.

For further information contact Capita

By phone – UK – 0871 664 0385. Calls cost 12pence per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 9am–5:30pm, Monday to Friday, excluding public holidays in England and Wales.

By email: ips@capita.co.uk

Buy and sell shares

A simple and competitively priced service to buy and sell shares is provided by Capita Asset Services. There is no need to pre-register and there are no complicated application forms to fill in and by visiting www.capitadeal.com you can also access a wealth of stock market news and information free of charge.

IMPORTANT DATES:	
28 April 2016	Ex-dividend date (final dividend)
20 May 2016	Last day for DRIP elections
26 May 2016	Annual General Meeting
9 June 2016	Payment of final dividend for 2015 (to members registered on 29 April 2016)
9 August 2016	Half year results 2016
18 August 2016	Ex-dividend date (interim dividend)
22 September 2016	Payment of interim dividend for 2016 (to members registered on 19 August 2016)

For further information on this service, or to buy and sell shares visit www.capitadeal.com or call 0371 664 0445*. Lines are open 8am–4.30pm, Monday to Friday.

This is not a recommendation to buy and sell shares and this service may not be suitable for all shareholders. The price of shares can go down as well as up and you are not guaranteed to get back the amount you originally invested. Terms, conditions and risks apply.

Capita Asset Services is a trading name of Capita IRG Trustees Limited which is authorised and regulated by the Financial Conduct Authority. This service is only available to private shareholders resident in the European Economic Area, the Channel Islands or the Isle of Man.

*Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 9am–5:30pm, Monday to Friday, excluding public holidays in England and Wales.

Share fraud warning

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register at www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at www.fca.org.uk/scams.
- Consider that if you buy or sell shares from an unauthorised firm, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

General information

Capital gains tax: for the purpose of calculating UK capital gains tax, the market value on 31 March 1982 of each share was 7.996p, after adjusting for the 1986 capitalisation issue and the 1996 and 1999 sub-divisions, but not reflecting any rights taken up under the 2002 rights issue.

Close company provisions: The company is not a close company within the terms of the Corporation Tax Act 2010.

Registered office: One Coleman Street, London EC2R 5AA. Registered in England and Wales, No. 01417162.

Shareholder offer line: for details of shareholder offers on Legal & General products call 0800 107 6830.

Glossary

Ad valorem fees

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

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.

Annual premium equivalent (APE)

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

Annuity

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

Assets under administration (AUA)

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

Assets under management (AUM)

The total amount of money investors have trusted to our fund managers to invest across our investment products i.e. these are funds which are managed by our fund managers on behalf of investors.

Credit rating

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

Defined benefit pension scheme (DB scheme)

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

Defined contribution pension scheme (DC scheme)

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

Derivatives

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

Direct investments

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

Dividend cover

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

Earnings per share (EPS)

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

Economic capital surplus and coverage

Economic capital is the capital that an insurer holds internally as a result of its own assessment of risk. It differs from regulatory capital, which is determined by regulators. It represents an estimate of the amount of economic losses an insurer could withstand and still remain solvent with a target level of confidence over a specified time horizon. Economic capital surplus represents group available economic capital less the group economic capital requirement, pre-accrual for proposed dividend. Economic capital coverage is calculated as the group available economic capital divided by the group economic capital requirement.

Employee engagement index

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

European embedded value (EEV)

The Embedded Value (EV) of a life insurance company is the value to equity shareholders of the net assets and expected future profits of the company on existing business. The European Embedded Value (EEV) is a variation of EV which allows for a more formalised method of choosing the parameters and performing the calculations to enable greater transparency and accountability. The Group is reporting EEV for the last time for year end 2015.

European embedded value operating profit (EEV operating profit)

Legal & General provides supplementary financial statements prepared on the European Embedded Value (EEV) basis for long-term insurance contracts. Operating profit on the EEV basis reports the change in embedded value in a period, but excludes fluctuations from assumed longer-term investment return.

European embedded value per share (EEV per share)

EEV per share is used to measure value creation over time. It is the group's EEV including LGIM, divided by the closing number of shares in issue at the balance sheet date.

Full year dividend

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

Generally accepted accounting principles (GAAP)

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

Gross written premiums (GWP)

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

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'.

Insurance groups directive (IGD) surplus and coverage

The IGD surplus is a regulatory measure which calculates surplus capital within the group in accordance with the EU Insurance Groups Directive and ended on 31 December 2015 and was thus still in force at the balance sheet date. IGD surplus is defined as group regulatory capital less the group regulatory capital requirement, after accrual for proposed dividends. Surplus capital held within Society's Long Term Fund cannot be included in the IGD definition of capital employed. IGD coverage is calculated as the group regulatory capital divided by the group regulatory capital requirement.

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.

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.

Key performance indicators (KPIs)

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

LGA

Legal & General America.

LGAS

Legal & General Assurance Society.

LGC

Legal & General Capital.

LGIM

Legal & General Investment Management.

LGR

Legal & General Retirement.

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 have to make any monthly payments and continue to own and live in their house.

Longevity

Risk associated with increasing life expectancy trends among policyholders and pensioners.

Mortality rate

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

Net cash generation

Net cash generation is defined as operational cash generation plus new business surplus.

New business surplus/(strain)

The net impact of writing new business on the regulatory position, including the cost/benefit of acquiring new business and the setting up of regulatory reserves.

Open architecture

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

Operating profit

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

Operational cash generation

Operational cash generation is the expected release from in-force business for the UK non-profit LGAS and LGR businesses, the shareholder's share of bonuses on with-profits business, the post-tax operating profit on other UK businesses, including an expected investment return on LGC invested assets, and dividends remitted from our international businesses.

Overlay assets

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

Pension risk transfer (PRT)

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

Platform

Online services used by intermediaries and consumers to view and administer their investment portfolios. Platforms usually provide facilities for buying and selling investments (including, in the UK products such as Individual Savings Accounts (ISAs), Self-Invested Personal Pensions (SIPPs) and life insurance) and for viewing an individual's entire portfolio to assess asset allocation and risk exposure.

Present value of new business premiums (PVNBP)

The industry measure used to determine the value of new business. It is calculated as 100% of single premiums plus the expected present value of new regular premiums.

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.

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.

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 EU. 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. Changes to capital requirements will be developed through our internal model for setting the Solvency Capital Requirement (SCR).

Solvency II surplus and coverage

Solvency II surplus represents group available Solvency II capital less the group solvency capital requirement, pre-accrual for proposed dividend. Solvency II coverage is calculated as the group available Solvency II capital divided by the group solvency capital requirement.

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.

Value in force (VIF)

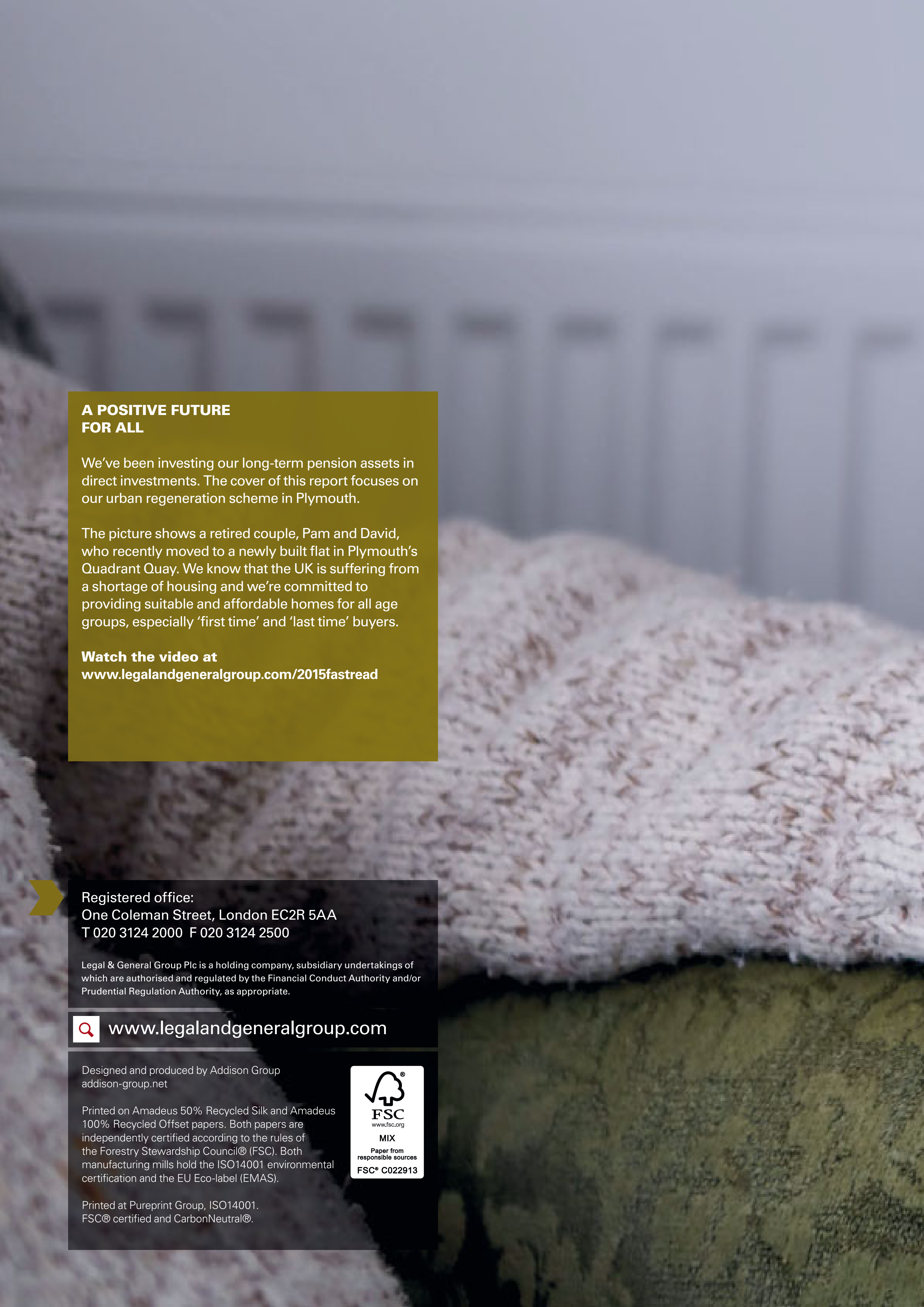
The value of in-force business is the present value of expected future shareholder profits less the present value cost of holding capital required to support the in-force business.

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.



A POSITIVE FUTURE FOR ALL

We've been investing our long-term pension assets in direct investments. The cover of this report focuses on our urban regeneration scheme in Plymouth.

The picture shows a retired couple, Pam and David, who recently moved to a newly built flat in Plymouth's Quadrant Quay. We know that the UK is suffering from a shortage of housing and we're committed to providing suitable and affordable homes for all age groups, especially 'first time' and 'last time' buyers.

Watch the video at
www.legalandgeneralgroup.com/2015fastread

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