Delivering inclusive capitalism
Sharing success with investors, customers and society

LEGAL & GENERAL GROUP PLC | ANNUAL REPORT AND ACCOUNTS 2017

Legal & General

A leading global asset manager and the UK's largest provider of individual life insurance products

Our pensions expertise is shown by our market leadership in managing pension scheme risk in the UK and our growing presence in the US.

Our business is built on understanding people and their changing needs throughout life. We aim to see things before others do and create far-sighted approaches to better manage our assets and meet our customers' needs.

FINDING WHAT YOU NEED ONLINE

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

legalandgeneralgroup.com/investors/reporting-centre

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

legalandgeneralgroup.com/2017fastread

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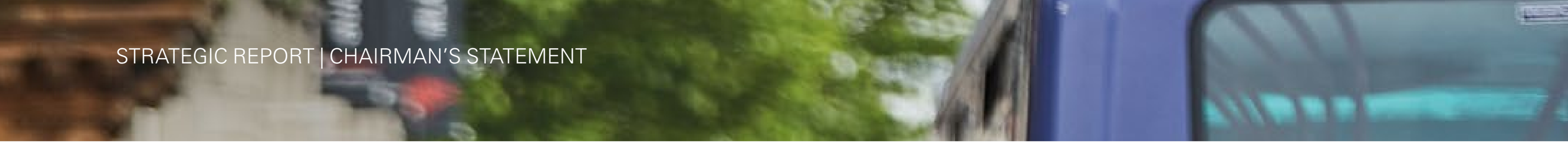


Helping customers, shareholders and society

SIR JOHN KINGMAN
Chairman

Our purpose, behaviours and principles guide everything we do. Details of this framework can be found on pages 2 and 3.

Financial stability and growth in a rapidly changing world

It is a great privilege to report to you at the end of my first full year as your Chairman. This was a period of further achievement and considerable financial success for the group, building growth in our key asset businesses. I'm delighted to be able to report to you once again that shareholders are benefiting from this success, with a total return for investors over five years to the end of 2017 of 142%. In 2017 the share price increased by 10% over the year. The group's strategy continues to be very successful. As I know from my own visits to many parts of the business, our commitment to being economically and socially useful is fully embedded in the company's purpose and values. Our businesses have formidable further potential. The Board has worked closely with Nigel Wilson, your CEO and the executive in our strategic development, building continued growth for our business, its shareholders, customers and employees.

Profit growth continues

Operating profit increased by 32% to £2.1 billion and IFRS profit after tax by 50% to £1.9 billion, with earnings per share of 31.9p (2016: 21.2p).

The Board has again considered carefully the best medium-term trajectory of dividend growth, taking into account both excellent continuing financial performance, and the importance to our shareholders of a rate of dividend growth which is sustainable in a wide range of potential economic scenarios. Accordingly, the Board is recommending a full year dividend of 15.35p for 2017, 7% higher than 2016.

Development of the Board

In last year's annual report, I reported on a period of considerable change on the Board. I should like to thank Mark Gregory and Richard Meddings who left the Board in 2017 – and Rudy Markham, who stood in as Acting Chairman before my arrival in 2016. In March 2017, Jeff Davies joined as our new CFO; like our two other new Board members who joined in 2017, Kerrigan Procter and Toby Strauss, he brings a wealth of deep experience and knowledge in financial services.

In addition, Henrietta Baldock has been appointed as the Non-Executive Chair of our principal operating subsidiary, Legal & General Assurance Society from 6 March 2018.

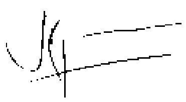
Building a world-class management team

In 2017 I have met management teams and employees across our businesses, around the UK and internationally. We have a world-class, and increasingly diverse team. I am continually hugely impressed by the hard work, professionalism and specialist knowledge of all of our employees who make Legal & General the exceptional group it is today.

A confident future

Our strategy has benefited from the opportunities offered by long-term growth drivers. The group's financial resilience makes it well placed, whatever the political and economic environment, to continue to take advantage of the many investment opportunities available.

I am looking forward to our AGM in May and hope to see as many of you as possible there.



Sir John Kingman
Chairman

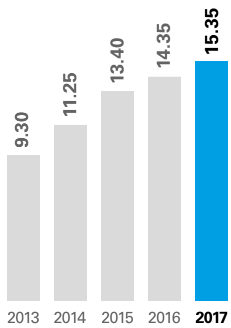
Annual General Meeting 2018
12pm on 17 May 2018, at the Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ

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

The Board has adopted a progressive dividend policy, reflecting the group's expected medium-term underlying business growth, including 'Net Release from Operations' and 'Operating Profit'.

Full year dividend

Five year progress (pence)



11.05p

Final dividend to be paid on 7 June 2018

Our culture

Our purpose is to improve the lives of our customers, build a better society for the long term and create value for our shareholders. This shapes every aspect of how we do business.

Our Behaviours

Straightforward

How we communicate
Building trust by doing what we say and saying what we mean. We are fair and transparent, open to feedback and always seek to communicate in a fair and genuine way.

Collaborative

How we work together
Working together constructively; seeking out originality in ideas and valuing the diversity in our teams. We engage our networks and stakeholders to shape our ideas and manage the impact of our decisions.

Purposeful

How we deliver
Balancing performance with principles to do what's right for the business and our customers. We work with pace and energy, always taking ownership and demonstrating excellent execution.

IMPROVING UNDERSTANDING OF MENTAL HEALTH ISSUES
Our 'Not a red card campaign' has been hugely successful in raising the subject of mental health, aiming to change perceptions.

"Hopefully through this campaign and others, we can break down those barriers and encourage more people to be open about mental health issues."

Nigel Owens, Rugby Union referee

Our business principles

Customer led

We develop solutions to build financial resilience and meet our customers' present and future financial goals.

Our customers are at the heart of everything we do. We develop solutions to build financial resilience and meet their present and future financial goals. We strive to achieve great value, excellent service and responsiveness; being easy to deal with and communicate with.

Examples

Clear, warm communications
Communicating with customers in a way that is clear, fair and not misleading is at the heart of our business. We seek to avoid jargon and technical language.

Creating the right products
Our product life-cycle management sets out the standards we require, and the approach we follow when designing, launching and managing products.

Critical friends
We use a number of charity sector professionals, known as 'critical friends', who help us review our existing products and services offered to customers. This helps us improve our service, processes and innovate new products.

Economically and socially useful

We aim to ensure our products, services and investments show both economic and social value.

Our long-term financial sustainability is for the benefit of our customers, employees, shareholders, suppliers and society at large.

Examples

Financial security
We aim to embed being responsible in everything we do throughout our business. At the heart of our business is giving customers financial security throughout life with investments, insurance and retirement products.

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

Real assets
We create direct investments which generate better investment returns for our long-term money and help build cities, homes, jobs and communities.

Fair and transparent

We want to treat all the stakeholders in our business with integrity and openness.

We treat our customers, employees, investors, suppliers and regulators with integrity and openness. It should be easy to understand our intentions, provide us with feedback, challenge us and work with us. There is openness and transparency in how we make decisions and manage risks.

Examples

Speaking out
We have launched a new 'speak up' initiative, part of our cultural commitment to listening and acting on feedback from employees.

Working with NGOs
Last year, 20 areas of our business worked with over 350 NGOs and experts to look at our policies and make sure we were fit for purpose.

Inclusive

We value inclusiveness and embrace difference to engage our people and empower them to deliver excellent customer outcomes and better business results.

We recognise and reward success, investing in the development and wellbeing of our employees. We strive to be a vibrant business that values inclusiveness and embraces difference, where our people are engaged and empowered to deliver outstanding business results.

Examples

50/50 by 2020
This initiative is designed to encourage gender diversity and remove the barriers to women progressing throughout the company.

Helping vulnerable customers
Our insight into the needs of vulnerable customers helps us create products and investments which help people through difficult times. We liaise with charities and social enterprise experts to help guide us on how we can improve.

90 secs
Approximate time for SmartQuote to produce a household insurance quote

98.3%
Percentage of life insurance claims paid out in 2017

350
Number of NGOs reviewing our policy areas to make sure that we are fit for purpose

50%
There were equal numbers of male and female employees hired and promoted at the most senior level in 2017

At a glance

We have three broad business areas

Investing and Annuities

Legal & General Retirement (LGR)
'LGR Institutional' provides pensions derisking solutions for defined benefit pension schemes. 'LGR Retail' helps customers manage their finances in retirement and has a growing lifetime mortgage business.

£58.2bn
assets
(2016: £54.4bn)

Legal & General Capital (LGC)
Aims to increase the risk adjusted returns on the group's shareholder assets. Focuses on housing, urban regeneration, clean energy and SME financing.

£1.5bn
assets managed in direct investments. Over the whole group, £14.4 billion has been invested.
(2016: LGC £1.1bn)

Investment Management

Legal & General Investment Management (LGIM)
Provides investment management for pension schemes and institutional clients, manages auto-enrolled pension schemes and retail investments.

£983bn
assets under management
(2016: £894bn)

Insurance

Legal & General Insurance (LGI)
Provides life insurance products for UK and US customers. Our UK group protection business provides insurance cover for employees.

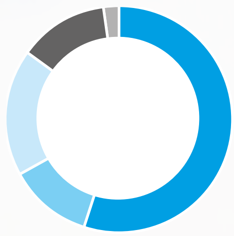
£2.5bn
gross written premiums
(2016: £2.4bn)

General Insurance
Provides household insurance and other personal insurances such as pet, travel and lifestyle cover.

£369m
gross written premiums
(2016: £326m)

Operating profit from divisions*

£2,055m



Investing and Annuities
- 55% LGR
- 12% LGC

Investment Management
- 18% LGIM

Insurance
- 13% LGI
- 2% General Insurance

These percentages exclude discontinued operations.

* 2017 operating profit of £2,055 million includes £2,366 million from divisions, less £311m from group level investments projects, interest and expenses.

Mature Savings
The three broad business areas reflect our continuing operations. As announced in December 2017, our Mature Savings business is being sold to Swiss Re and the sale is planned to complete in 2019. Mature Savings sold traditional life and pensions savings products and had £30.4 billion assets under management.

We predominantly operate in the UK and the US, with some smaller businesses in Asia.

Group performance

Group key performance indicators (KPIs) used to measure performance and our financial position.

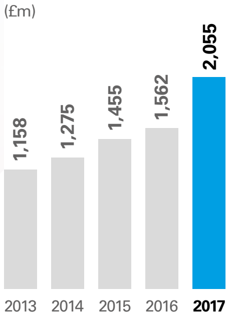
The majority are used as performance measures for the purpose of determining variable elements of management remuneration. These are grouped into four categories:

1. Profit
2. Cash generation
3. Shareholder value creation
4. Strategic priorities and non-financial goals

1. Profit

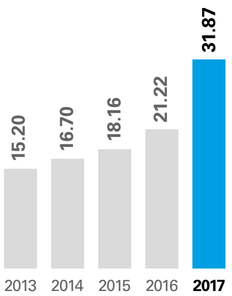
Operating profit*

(£m)



Earnings per share

(pence)



Earnings per share excluding mortality release and one-off US tax is 23.10 pence*

Profit before tax attributable to equity holders*

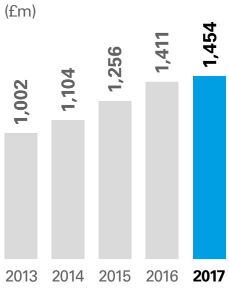
£2,090m

(2016: £1,582m)

2. Cash generation

Net release from operations*

(£m)



3. Shareholder value creation

Total shareholder return (TSR)*

29%

(2016: 29%)

Over the three-year periods ended 31 December 2016 and 31 December 2017

4. Strategic priorities and non-financial goals

Worldwide employee engagement index

77%

(2016: 76%)

Comprises the UK, US and India

Solvency II capital surplus*

£6.9bn

(2016: £5.7bn)

Figures are pre-accrual of proposed final dividend. See page 185 for more details. As at 31 December 2017

Solvency II capital coverage ratio (shareholder basis)*

189%

(2016: 171%)

Shareholder basis as at 31 December 2017

Other KPIs used to assess performance and financial position

Return on equity

25.6%

(2016: 18.8%)

Full year dividend

15.35p

(2016: 14.35p)

Standard & Poor's financial strength

AA-

(2016: AA-)

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

* These are 'Alternative Performance Measures' – see glossary for details

NIGEL WILSON
Group Chief Executive Officer

WATCH THE VIDEO
legalandgeneralgroup.com/media-centre/videos

> We are exceptionally well placed to invest in urban infrastructure, creating jobs and providing housing for young and old alike. We're ready and willing to invest more patient capital in start-ups and scale-ups."
>
> **Nigel Wilson**
> Group CEO, Legal & General

Nigel became Group Chief Executive Officer in June 2012 and has led the company, delivering over five years of successful growth. He believes Legal & General is extremely well placed to take advantage from further growth.

Q Nigel, the group has had another great year. What do you think are the highlights?

A Profit before tax increased by 32% to £2.1 billion, with a return on equity of 25.6%. We delivered some excellent performances in our three biggest businesses, with less strong results in our two insurance businesses. Legal & General Retirement had total sales of £6.4 billion, with great successes not only in the UK and US institutional pension risk transfer markets, but also in individual annuities and lifetime mortgages.

2017 saw total net inflows of £40 billion and international net inflows of £33 billion, giving LGIM total assets of £983 billion. Legal & General Capital's investment programme in housing, urban regeneration, clean energy and scale-ups made superb progress.

Q Why are you so optimistic about the UK's financial prospects?

A I've always said that the UK is a great place to operate as a business. Potential investment opportunities are simply outstanding. London will always be a leading global centre for financial services, we have skilled workforces and world-leading universities and research institutions. Cities like Manchester, Leeds, Cardiff and Newcastle can also become world class with the right investment. We are exceptionally well placed to invest in urban infrastructure, which will create jobs and provide housing for young and old alike. We're ready and willing to invest more patient capital in start-ups and scale-ups.

Q So what does this mean for future growth prospects?

A Our successful growth over the last five years has resulted from having a simple but effective strategy. This strategy is executed well by our three core business areas: investing and annuities, investment management and insurance. I am convinced that our six long-term global growth drivers will continue to stimulate future growth. Our 'ageing demographics' growth driver has made us a market leader in pensions de-risking, auto-enrolled pensions and lifetime mortgages. 'Welfare reform' has inspired us to create success through helping people build personal financial resilience, both in insurance and retirement planning products. The Board is aware of risks to the UK economy as Brexit takes place, but we remain confident that our growth strategy can enable us be a winner.

Q You're investing capital in rebuilding Britain's infrastructure. Why is this so important?

A We have now put £14.4 billion in direct investments, such as urban regeneration, housing, clean energy and SME finance. Building new homes has been a priority for me, because lack of supply has driven up house prices and contributed to generational unfairness and inequality.

This gives us an opportunity to create long-term assets. We are involved in build to sell and build to rent, with major new schemes announced in Birmingham, Leeds, Salford, Crowthorne, Wokingham, Bristol and Bath. Job creation is also vital and in 2017 we also announced new projects to regenerate Britain such as our science parks in Newcastle and Oxford, our first UK offshore wind investment and our investments in UK rail infrastructure.

Q Are you still planning to expand your US and international operations?

A Our global growth drivers, especially ageing populations, are having a big effect on US pensions schemes too, where there are still $3.7 trillion of DB scheme liabilities and where we have written over $1.6 billion of risk transfer business since 2015. There were record inflows of £33 billion in 2017 into LGIM's international business, where we saw total AUM increase by 28.5% to £228 billion.

We have established LGIM's regional office in Tokyo to complement our capabilities in Hong Kong, and LGIM's recently-announced entry into the European ETF market will provide access to one of the fastest growing segments in asset management.

Q Are you seeing progress in transforming your digital operations?

A In 2017 we made huge progress in improving our digital capabilities. We have embedded digital processes in every one of our businesses. LGIM Connect, a digital client portal for institutional clients which is hosted in the cloud, is now used by more than 2,500 of our clients, consultants and administrators.

Our GI business has launched its innovative 'SmartQuote', where only five questions need to be answered online. Our lifetime mortgage business goes from strength to strength, using online-only applications through our fully responsive website.

Q Finally, how are you ensuring that you have the right people to make it all happen?

A I'm hugely proud of our commitment to build a diverse workforce, where our '50/50 for 2020' target means that we want 50% of our senior management positions to be filled by women. In 2017 we recruited or promoted five women into the most senior management positions. This included Laura Mason, who is now CEO of our biggest and most successful business, LGR Institutional and our new Group HR Director, Emma Hardaker-Jones. At the same time positive action means that management positions are filled by talented and committed people, regardless of their gender, disability, ethnicity, age or sexual orientation.

SLATE YARD, SALFORD
In June 2017, the first residents moved into Salford's build to rent development.

Drivers of strategy

Our long-term strategy is driven by six global growth drivers

Growth drivers

Ageing demographics

Ageing populations mean that pension savings need to last longer, affecting individuals and companies alike. Companies have seen an increasing need to restructure their pension schemes to meet rising costs.

£455bn

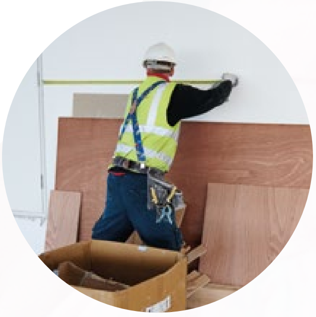
Projected UK DC pension scheme assets in 2030
(Source: Pensions Policy Institute)

Globalisation of asset markets

According to PwC, global assets exceed $80 trillion. Like many other UK asset managers we need to step up to take advantage of the potential of expanding global markets in North America, Asia Pacific and the Middle East.

$47.4tn

AUM held by North American asset management companies
(Source: Willis Towers Watson: 2016)



Creating real assets

There's an urgent need to invest in infrastructure and urban regeneration. Many UK cities outside London need investment to match global competitors. At the same time the UK continues to experience a serious housing shortage.

52%

Reduction in house building completions in the 40 years between 1976–77 to 2016–17
(Source: DCLG Table 209)

Welfare reform

Many families that rely on state benefits partially or completely, struggle to survive financially following death, disability or long-term sickness. People need help to save more for retirement and to build financial independence.

73%

UK adults who have no life insurance cover
(Source: Mintel, June 2017)

Growth drivers

Technological innovation

Consumers increasingly expect digital ways to organise their finances. In the low-cost world, technological solutions can mean the difference between success and failure.

56%

Consumers who say that the quality of a general insurer's online service affects their choice of provider (Source: Mintel, December 2017)

Today's capital

In recent years, equity and investment capital have been in short supply. The UK needs investment in modern, digital start-up businesses to create jobs and stimulate economic growth. This can also help improve UK productivity.

1.8%

Change in UK productivity (output per hour) Q3 2007 to Q3 2017 (Source: ONS)

EXTERNAL INFLUENCES ON OUR BUSINESS

Brexit
Our customer base is very largely in the UK, US and Asia, which reduces our exposure to any negative trading effects of Brexit; however, we are establishing businesses in Dublin to support LGIM's European institutional investment clients.

Geopolitical environment
2017 saw a number of shifts in the political landscape, both globally and in the UK. We believe our strategy based upon global growth drivers is relevant across the political spectrum and will remain resilient to geopolitical events. However, we will continue to monitor events closely.

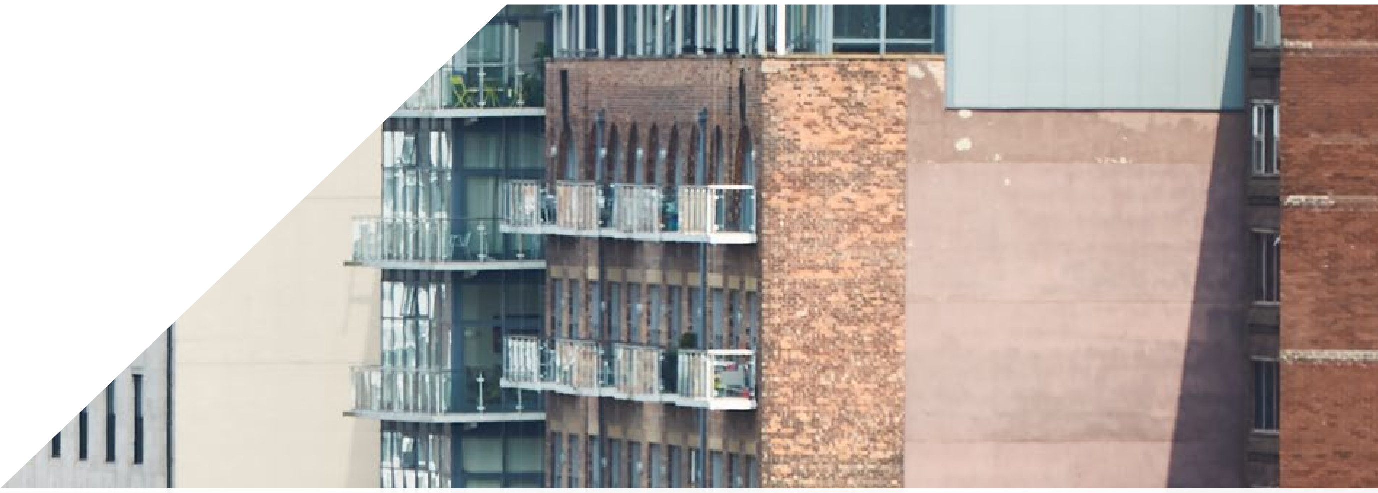
Economic outlook
The global economic outlook is looking increasingly positive, with central banks beginning to unwind stimuli and tighten monetary policies. The speed of rate normalisation has become a focus of financial markets. We are cognisant of risks associated with equity and credit market volatility and our investment strategy is to hold a combination of traded and direct investments.

Our strategy

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

Our strategic aims

Our strategic aims		
Achieve global leadership in pensions de-risking	Continue to build a world-class international asset management business	Use long-term capital to become the UK leader in direct investments
Growth driver		
AGEING DEMOGRAPHICS	GLOBALISATION OF ASSET MARKETS	CREATING REAL ASSETS
Our solutions		
We can help DB pension scheme trustees take action at every stage through the de-risking journey to reduce pension liabilities and ensure that members' pensions are paid on time and in full.	Global assets exceed $80 trillion. We're successful in the UK and the US, but we have just around a 1.2% share globally so we're leveraging our skills internationally, not just in the US, but also in Asia, the Middle East and other parts of the world.	We seek to invest part of the group's £58.2 billion pension annuity assets in higher performing risk-adjusted asset classes. Direct investments can offer better and more predictable returns to shareholders and can create economic benefits for the UK.
Progress		
• LGR new business of £6.4 billion • 15 US de-risking transactions • £1 billion in lifetime mortgage advances • Won seven best equity release/lifetime mortgage awards • Liability driven investments market share of 42%, £463bn assets	• International AUM of £228 billion, up 28.5% • US assets of $189 billion • Winning US mandates. Net flows: $17.0 billion • LGIM Japan registration approved • Working with global partners for build to rent and SME finance	• £14.4 billion of groupwide direct investments were made • £1 billion build to rent housing pipeline, new sites in Bath, Leeds and Brighton • New later living partnership launched • Crowthorne scheme, 1,000 new homes planned • UK infrastructure schemes in Stratford, Newcastle and London Gateway



Our strategic aims

Help people achieve financial security affordably through insurance and workplace pensions

Achieve market leadership in digital provision of insurance and retail investments

Build economic growth and earnings by investing in Britain's future

Growth driver

WELFARE REFORMS

TECHNOLOGICAL INNOVATION

TODAY'S CAPITAL

Our solutions

Individuals are able to build their own retirement funds to supplement state pensions through our auto-enrolment schemes. In addition, our success in providing company and individual insurance cover helps people have greater financial independence by safeguarding their family's financial future.

We want to be a market leader in offering consumers digital access to life insurance, general insurance and personal investments. At the same time we need to give our customers an excellence in service delivery at a low cost, achieved through efficient digital operating models.

We are committed to using our long-term capital to invest in the UK economy, creating jobs, long-term infrastructure, better housing and available capital to fund start-up businesses, whilst giving a better risk-adjusted return for shareholders.

Progress

- UK market leaders for retail protection, market share of around 24%
- Largest UK manager of DC assets, with £68.2bn assets, up 19%
- 2.7 million UK DC customers in over 13,000 schemes

- Launched 'SmartQuote' and 'SmartClaim' for home insurance
- 19% of retail protection premiums were direct and 38% of GI sales were direct
- Newly created Fintech business areas
- Over 1.5m 'My account' customers
- Led a £40m investment funding round for Salary Finance employer platform

- Investing in two new Pemberton funds
- Our investment in Pemberton saw a 46% AUM growth
- Committed investment to five Venture Capital funds in UK and Europe
- £776m revenue through CALA Homes joint venture

What we do

We have three broad business areas which provide solutions for our customers.

Business areas

	Investing and Annuities	Investment Management	Insurance
	We provide reliable and secure pension income for individuals and members of corporate pension schemes. We use some of our long-term funds from pensions and other products to invest in infrastructure, homes and small businesses.	We provide institutional and personal investment management services, managing the investments of many of the UK's biggest corporate pension schemes.	We help people safeguard their families' financial futures through providing insurance covering life, critical illness, and disability, long-term sickness, buildings, possessions, pet and travel.
Business segments	Legal & General Retirement (LGR) Legal & General Capital (LGC)	Legal & General Investment Management (LGIM)	Legal & General Insurance (LGI) General Insurance (GI)
Client types **Institutional clients**	**Legal & General Retirement (LGRI)** Working with companies, pension fund trustees and their advisers to provide risk transfer solutions, with a UK market share of around 30%. Launched PRT business in the US in 2015, now has assets of over $1.5bn. **Legal & General Capital (LGC)** Builds relationships directly with partners and LGIM to develop direct investments and increase the risk-adjusted returns on shareholder assets.	LGIM has for a long time been the UK's leading investment manager for DB plans, establishing an expertise in liability driven investments (LDI) and equity index funds. We have a 42% share of the LDI market. We have continued to broaden our range significantly and have strong capabilities in active fixed income, multi-asset and real asset investments. We have now established a leading position in US LDI and are building our presence in Asia, the Middle East and across Europe.	
Corporate workplace		We offer a leading workplace proposition, combining administration and investment services as well as offering investment only. We are No 1 in the UK for managing DC assets, with £68.2bn AUM at 31 December 2017.	**Legal & General Insurance (LGI)** Top four player in UK Group Protection market, with 16% market share.
Retail clients	**Legal & General Retirement (LGRR)** LGRR deals directly with customers and through advisers and partners. Top three in UK individual annuities, with 14% market share in first three quarters of 2017. No 1 in UK lifetime mortgages, with 33% market share.	We were ranked third in the UK for retail net flows over the first nine months of 2017 with net flows of £3bn, distributed mostly by financial advisers. We also offer our products online and by phone. We announced the acquisition of an Exchange Traded Fund (ETF) provider in 2017.	**Legal & General Insurance (LGI)** No 1 in UK retail protection, with 24% market share. Top 10 provider of US term life insurance. UK's largest mortgage club, distributing housing loans to consumers. **General Insurance (GI)** No 7 in UK household insurance.
Geographic	In the UK we're based in London, Hove, Solihull, Bracknell and Sherburn, North Yorkshire. Our US risk transfer business is located in Stamford, Connecticut. We also have a Bermuda office.	Our main UK office is based in the City of London. Our US investment management business is located in Chicago. We also have international offices in Hong Kong and Tokyo.	Our main UK offices are based in Birmingham, Hove, Cardiff and Barnsley. Our US office is based in Frederick, Maryland.

Investing and Annuities

#1

in lifetime mortgages

#2

in UK pensions risk transfer

Investment Management

#1

UK liability driven investments (LDI)

#1

manager of UK
defined contribution assets

Top 3

UK retail funds net flows

#1

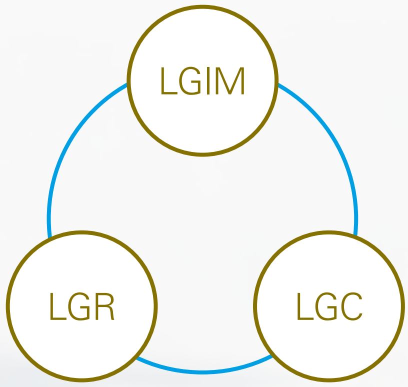
manager of UK
defined benefit assets

Insurance

#1

UK individual life insurance provider

Our distinct way of working



Our three asset businesses, LGIM, LGR and LGC work very closely together. Collaboration is vital to source and manage long-term direct investments which enable us to deliver improved risk-adjusted investment returns for shareholders.

LGC invests in early stage assets, some of which can be used to back annuity liabilities for LGR.

LGIM and LGR work together in the pension de-risking journey, where many pension schemes that make use of LGIM's 'liability driven investments' proposition, eventually transition into a full buyout through LGR.

LGIM work with LGR Retail not only as customers move from workplace pensions into annuities but also to provide other integrated post-retirement products such as retail investments and lifetime mortgages.

Our products

We offer a range of products and services built on our understanding of people and their changing needs throughout life

We aim to see things before others do and create far-sighted approaches to better manage our assets and meet our customers' needs.

We provide protection for our customers' homes, families and even their pets. Helping people achieve financial security also extends to saving for pensions and managing investments and retirement income.

1.5m

People registered for 'My Accounts' to keep track of their products. See: www.landg.com

Investing and Annuities

Legal & General Retirement, Institutional

UK and US Pension Risk Transfer: unlocking solutions for defined benefit pension scheme trustees and sponsoring employers to manage risk and improve benefit security for members.

Legal & General Retirement, Retail

Individual annuities: plans that enable individuals to turn their pension savings into a guaranteed income, either lifelong or fixed term.

Lifetime mortgages: allows people to release some of the equity that is tied up in their home to fund a better retirement lifestyle.

Retirement solutions: our future strategic vision is to help people enhance the total quality of their lives in retirement.

Legal & General Capital

LGC invests shareholder funds in direct investments for shareholder return, to provide long-term assets to back annuities and to create assets for LGIM.

Urban regeneration: transforming our towns and cities with new housing, offices, retail and leisure developments, roads and related infrastructure to create vibrant living environments for the 21st century.

Housing: we're committed to investing in new homes for all ages, social groups and housing tenures. These include build to rent and build to buy and range from first homes to later living communities.

SME Finance: providing alternative debt and equity financing solutions for small and medium sized enterprises (SMEs).

Clean Energy: helping to increase supply and drive down the costs of energy through investments in long-term clean energy generating assets, such as solar, onshore wind farms, and complementary technology.

ASSOCIATED RISKS

Investing and Annuities
Taking on the responsibility for pension scheme liabilities and providing income in retirement exposes us to the risk that people may live longer than anticipated, or that we experience default in investments backing our obligations. As well as pricing for longevity, we use reinsurance to manage selected risks, with LGIM's credit and property experts assessing and managing default risks. Our investments through LGC are inherently exposed to the risk that they don't perform as anticipated, and we seek to closely manage real estate and housing market risks, including development costs and changes in property values.

Investment Management
The investment risks implicit in LGIM's funds are borne directly by its institutional and retail customers, with LGIM's fee income being linked to the value of funds held under management. Significant falls in the value of investment markets or fund outflows, resulting in a material reduction in the overall value of funds under management, may adversely impact fee revenues; although our diversified product portfolio and broad client base act to diversify risks. We are also exposed to the operational risk in the execution of client mandates and set a control environment to minimise potential error.

Insurance
Providing protection products means we have to make assumptions about our customers' mortality, how healthy they will be, how long they will continue with the policy, and events that could give a higher rate of household claims than we would normally expect. We price and underwrite our products to take account of these risks, and use reinsurance to manage significant exposures.

SALE OF MATURE SAVINGS

In December 2017 we announced the sale of the Mature Savings business to Swiss Re for £650 million, with the proceeds being received by the group in January 2018.

Swiss Re's ReAssure division manages closed and non-core in-force portfolios, focusing on delivering excellent service and outcomes to policyholders.

We are confident that dedication to customer service will deliver positive results for around one million existing Legal & General customers.

Our future growth in savings product areas will be through LGIM's workplace pension business which now has 2.7 million customers, in our retail savings business and through our personal investing unit which offers ISAs and unit trusts directly to customers.

The transaction is expected to increase the group's Solvency II ratio by around 2%.

Investment Management

Legal & General Investment Management

LGIM has a broad and diversified business. Investment capabilities include principally:

- **Solutions:** including liability driven investment (LDI) strategies and multi asset.
- **Global fixed income:** with strong active capabilities in the UK and the US.
- **Index:** including passive equities, factor based investing and more recently exchange traded funds.
- **Real assets:** including real estate and private credit.

LGIM clients include:

- **Institutional clients:** mainly defined benefit and other pension funds, sovereigns and companies in the UK, US, Asia, Europe and the Middle East.
- **Corporate Employers:** via defined contribution mandates and UK workplace savings business.
- **Individual retail clients:** through intermediaries in the UK and Europe and through the direct personal investing business in the UK.
- **Internal clients:** principally LGR, LGC, and the Mature Savings business.

Insurance

Legal & General Insurance

- **Individual Protection:** life insurance for a fixed term or whole of life, critical illness cover and income protection, safeguarding the financial health of people's loved ones in the event of death or illness. In the UK and the US.
- **Group Protection:** life, critical illness cover and long-term sickness cover for employees provided by employers.
- **Legal & General Mortgage Club:** the UK's leading mortgage wholesaler.
- **Legal & General Surveying Services:** the leading home surveying business in the UK.
- **Fintech:** LGI operates the group's strategic investments in emerging insurance technology companies and digital developments, including 'theidol.com', a comparison technology supplier and 'Salary Finance' a financial wellbeing platform.

General Insurance

- **Home Insurance:** to cover a homeowner's home and belongings. Also for landlords.
- **Pet Insurance:** to help people meet vet bills.

IN A NUTSHELL

We provide secure pension income for individuals and for members of corporate pension schemes. In order to create stable, very long-term income streams to back our pension obligations, we invest both in companies and in direct investments such as infrastructure and in this way increase risk-adjusted returns for shareholders.

Investing and annuities

Giving people a great quality of life in retirement and building a better economy

Putting assets from pensions to good use

Our total annuity assets have now reached £58.2 billion. This money comes from people's retirement savings, either from a defined benefit corporate pension scheme, where we have assumed the responsibility for paying the pension income or from individual people's pension pots, saved through defined contribution schemes.

We invest part of LGR's annuity funds and LGC's £7.3 billion portfolio directly into the economy. These investments help us match our liabilities and enable us to invest the money from people's pension savings in a way that has a meaningful and positive impacts across the economy and society.

Our programme of direct investments; covers infrastructure, housing, clean energy, urban regeneration and SME finance. We support small businesses and start-ups with debt and equity.

Direct investments enable substantial long-term funds from our pensions and insurance businesses to be put to use to help bridge investment gaps in these areas. These investments deliver attractive risk-adjusted returns for investors.

Up to the end of 2017 we had put a total of £14.4 billion in direct investments across the group. We also sold assets to the value of £1.2 billion. Our share of the gross proceeds from these transactions was £698 million.

TATTENHALL

See our video about Tattenhall:

legalandgeneralgroup.com/media-centre/videos

CARDIFF REGENERATION

Phase 1 of our regeneration project was completed in 2016. We now have over one million square feet under construction.

Helping people have great retirements

Legal & General Retirement (LGR) have two businesses which not only work closely together, but also work across the group to create synergies with Legal & General Capital (LGC) and Legal & General Investment Management (LGIM).

Our pensions risk transfer business, LGR Institutional, works with trustees of DB schemes and their sponsoring companies to ensure that the pension promises that were made to these companies' past and current employees are met. Through a pension buyout we assume responsibility for a pension scheme's obligations and by doing so, enable the trustees of the scheme to fully settle their liabilities and the sponsoring company to remove the pensions obligations from its books.

Our individual retirement business, LGR Retail, has both a retirement lending and a retirement income business. Our lending business enables retired people to release some of the equity in their homes to enhance their finances and the quality of their life, through taking out loans which are repayable on death or moving into long-term care.

Our retirement income business enables people to buy annuities at the time they retire, giving them a lifetime of guaranteed, secure income.

Pension risk transfer

Achievements in 2017

In 2017, we completed £3.4 billion of UK pension buy-in and buyout transactions. The bulk annuity market remained especially buoyant in 2017. Lane, Clark & Peacock reported in January 2018, that market volumes were set to exceed £10 billion for the fourth year in a row. Against this backdrop, we maintained our historical market share of around 30%.

The biggest overall market transaction in 2017 was the £1.2 billion buy-in of the Pearson Pension Plan, which is for one of our long-standing clients, through LGIM. The buy-in covered around 2,400 members and the transaction was split evenly between Legal & General and another insurer, our share being £585 million.

Other bulk annuity transactions were with the trustees of the £3 billion Merchant Navy Officers Pension Fund and with the trustees of the £2 billion Plumbing & Mechanical Services (UK) Industry Pension Scheme.

Our competitive advantages in pensions risk transfer

The key to success in this market is relationship building. We are a diverse financial services group with LGIM, LGC and LGR working together in the UK and internationally to help trustees, sponsoring companies and their advisers make informed decisions and achieve the best outcomes for themselves and for the members of their schemes. Our scale, financial strength, transactional experience and expertise enable us to offer pension schemes attractive propositions.

PEARSON PENSION PLAN

In late 2017, we concluded a £585 million pension buy-in with the Trustee of The Pearson Pension Plan, covering around 2,400 pensioners.

The Pearson Pension Plan is a long-standing client of LGIM who have worked with the Trustee to reduce risk and get to the exciting point where a significant amount of risk could be transferred to an insurance company. The buy-in utilised an innovative 'umbrella' structure that allows for further transactions to be completed quickly.

In 2017, we wrote £3.4 billion in buyout and buy-in business in the UK, of which £1.4 billion was with clients of LGIM.

International de-risking

In 2017 our US pensions de-risking team based in Stamford, Connecticut wrote over $700 million in bulk annuity transactions from US DB pension schemes seeking to reduce their liabilities. Further details are available on pages 28 and 29.

The US represents a massive market opportunity, with $3.7 trillion in DB liabilities, but only 4% transferred to insurers to date.

> "The pension risk transfer market goes from strength to strength. 2018 is shaping up to be another busy year. We are well positioned to continue to lead and achieve success in this growing and exciting market."

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

Retail retirement – giving people better retirements

People before and after retirement can benefit from propositions which cover all aspects of retirement:

- helping people achieve financial resilience to safeguard their independence
- providing help so that people's health and wellbeing are protected, enabling them to maintain their freedom
- creating living environments that support safety and security
- helping people have access help and advice to support the decisions and plans they make
- supporting people to make valued contributions to family, friends and society so that they remain engaged in their communities.

Individual annuities

2017 saw our individual annuity sales rise again after the decline seen in 2014–2015 following the Cameron government's pension freedoms. We believe that annuities can often be an important product when people choose how to receive retirement income. In 2017 we had sales of £671 million, the highest volume since 2014, representing a 78% increase on 2016. Our success was driven by our high quality customer service and our strength in pricing, underwriting, marketing and distribution.

Lifetime mortgages

Our lifetime mortgage product was launched in 2015 and in 2017 we became the UK market leader by sales volumes, with a 33% market share. We made over £1 billion in loans to people who wanted to use the equity in their homes to boost their retirement resources, pay off existing debt or simply to generate a cash sum for themselves or their family to use.

Our market leadership is illustrated by the fact that we won seven 'best lifetime mortgage provider' industry awards from media organisations such as 'Personal Finance', 'Investment Week' and 'Your Mortgage'. We believe that the reasons for our success are the quality of our products, our market-leading digital application processes and our strong distribution partnerships. In 2017 we secured a five-year partnership agreement with The Co-operative Bank to offer our lifetime mortgages as an option for the bank's interest-only customers who are approaching retirement.

Lifetime mortgages are excellent assets to use to match annuity liabilities because of their long-term nature and links to longevity.

LIFETIME MORTGAGE CASE STUDY

Nigel and Jenny have lived in their beautiful cottage for nearly 20 years. They had an interest-only mortgage, but as the end of the loan term approached, they still had a substantial amount of the mortgage to repay.

It looked like they would have to sell their family home to repay the outstanding mortgage, which would have meant relocating and downsizing to a smaller home. It was something that caused sleepless nights and worry for them both.

But then they found out about lifetime mortgages. They sought advice from a lifetime mortgage adviser, and discussed it with their family before deciding that taking out a Legal & General Lifetime Mortgage would provide them with an alternative solution to their problem.

Their Legal & General Lifetime Mortgage has enabled them to repay their outstanding interest only mortgage completely and allowed them to continue living in the home and location that they love, surrounded by friends and family.

In Jenny's words: "Since we have the lifetime mortgage we feel relaxed. We are not worried anymore, we feel safe."

Future strategy

Our future strategy for Legal & General Retirement Retail is to consider how we diversify our customer propositions to new markets and consumer segments. An example is that people often use lifetime mortgages for debt repayment. We want to help people expand the use of lifetime mortgages to finance sheltered housing and to use for inter-generational loans, where younger family members desperately need housing finance.

Direct investments

Providing investments to back annuities and capital

Direct investments and lifetime mortgages can provide us with very long-term, stable assets which we use to back our annuity book and shareholder capital. We are able to obtain better returns to benefit shareholders, than is usually available with traded assets in fixed-rate investments.

Being economically and socially responsible

The results of direct investments are economically and socially positive, as they enable a flow of capital investment to the wider UK economy. They promote city growth and the development of regional hubs in cities such as Manchester, Salford, Leeds, Birmingham, Newcastle, Cardiff and Bristol.

Building new homes

The UK still has a chronic need to deliver more housing at scale. Housing shortage remains one of the biggest threats to the future of the UK's economy, as well as creating inter-generational inequality. We have a multi-tenure strategy to speed up housing delivery and significantly reduce completion timescales. In addition, we are aiming to revolutionise construction methods and create additional housing capacity through our modular factory in North Yorkshire. Progress on the production of finished homes has been slower than expected.

Our housing investments are designed not only to address the supply-side shortage, but also are aimed to be inclusive, increasing the availability of affordable housing, for both social housing and the private rented sector.

Our £1 billion build to rent housing pipeline

June 2017 was an important milestone as the first residents moved into our new build to rent (BTR) development in Salford. Our BTR sites can offer higher quality accommodation with lower living costs, with significantly reduced energy bills, no agency fees, and access to a number of services such as wifi and the gym. In 2017 we announced new BTR schemes in Leeds, Bath, Bristol and Birmingham.

The Birmingham scheme, announced in October 2017, represented the sixth UK city with our new rental offering, bringing the total pipeline of BTR units to more than 1,700.

INSPIRED VILLAGES

Our Tattenhall development marked our entry into the retirement housing sector.

Inspired Villages Group develops later living accommodation, creating safe, secure, social and comfortable village environments. This can be an outstanding lifestyle choice for people whose existing homes no longer suit their needs.

We now have invested in a total of seven village schemes, located in Warwickshire, West Sussex, Devon, Cheshire, Hampshire and Kent. Our vision is to create vibrant villages on the edge of and within the UK's towns and cities, building where people want to live, close to family, friends and facilities.

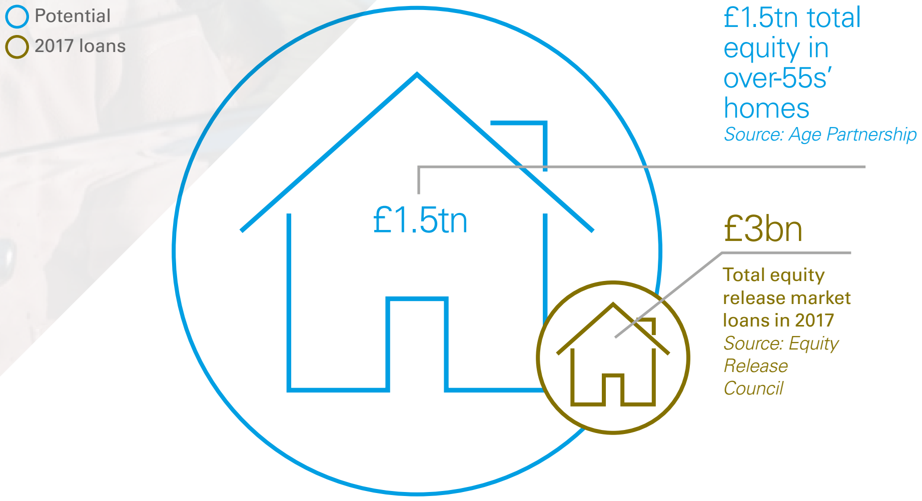
legalandgeneralgroup.com/media-centre/videos

80,000

Homes we are involved in delivering in the next five to 10 years.

Regenerating cities

It's important that the UK's wealth is shared across the country. We have a number of developments in cities which we are bringing forward in close partnership with the public sector across the UK. Projects include the Newcastle Science Central development, where we have become long-term investment partners with Newcastle City Council and Newcastle University. This is set to create more than 4,000 jobs, 500,000 square feet of office and research space, and 450 new homes.



UNDERSTANDING THE RISKS

Over the years we have amassed considerable expertise in our retirement businesses in assessing and pricing for the risk of longevity and through LGIM we have extensive knowledge of selecting and managing the assets that back our promises. As we grow our direct investment portfolio, combining the property market expertise of LGIM Real Assets with our credit assessment capability, enables us to assess each transaction and its alignment with our risk appetite.

> "With Legal & General's investment in Inspired Villages we will create communities across the whole of the UK where people want to live."

James Bunce
CEO, Inspired Villages

£14.4bn

Invested in UK direct investments across the group since 2015

Investing in later life living

By investing in Inspired Villages Group in August 2017, a later-living housing provider, we aim to 'accelerate the evolution' of this sector. This is the most under-supplied area of the housing market. Our own 'Last Time Buyers' report revealed that there are 3.3 million elderly homeowners looking to move to a smaller property in the UK. In November, we invested in Renaissance Villages, a second later-living business. By integrating this business into Inspired Villages, the development portfolio will increase to around 1,000 homes. Our aim is to address the social and economic issues linked to the UK's ageing population, reducing health and care costs to the elderly through prevention and avoidance.

Renewing Britain's rail infrastructure

Our ambition is not only to provide high-quality housing but improve the quality of people's lives by helping to upgrade infrastructure. 2017 saw a number of important investments in the UK's rail network. In September, a £120 million debt scheme helped accelerate the purchase of High Speed 1 (HS1) by the Equitix, HICL and Infrared consortium, connecting London to the Channel Tunnel. We have now also completed four rolling stock deals, for more than £550 million, helping to finance a fleet of 665 Bombardier Aventra trains for Abellio East Anglia, helping to increase train frequency and reduce passengers' journey times. We have also financed the supply of more than 400 vehicles to be manufactured by Bombardier and CAF for use on the West Midlands Railway.

Clean energy

Technological advances and innovation can deliver clean, affordable and reliable heat, power and transportation, optimising the use of wind and solar power. Improvements in the energy efficiency of our buildings and local generation can reduce reliance on large expensive power stations.

In November 2017 we announced a £300 million debt investment scheme to facilitate a £2 billion purchase of 50% of 'Walney Extension'. This will be the world's largest offshore wind farm providing enough power for more than 590,000 homes and is a great asset for backing annuity payments.

Small business finance

By November 2017 our Venture Capital and SME investment programme, including our innovative 'SE-Assist' product for social enterprises, had made investments in more than 100 UK based companies, and is on track to double that number during 2018.

Early stage companies which have benefited from Legal & General's Venture Capital funding now have a combined Enterprise Value of over £10 billion. Prime areas of focus have included technology, analytics, life sciences and digital healthcare. In addition, we provide debt finance to SMEs by investing in the £1.9 billion plus Pemberton investment platform.

IN A NUTSHELL
LGIM is one of Europe's largest asset managers, with offices located in the US, Hong Kong and Japan. Our wide range of strategies help clients manage their investment objectives – we offer risk management solutions for DB pension schemes, we're a leading provider of DC solutions and we have an established retail business.

Investment management

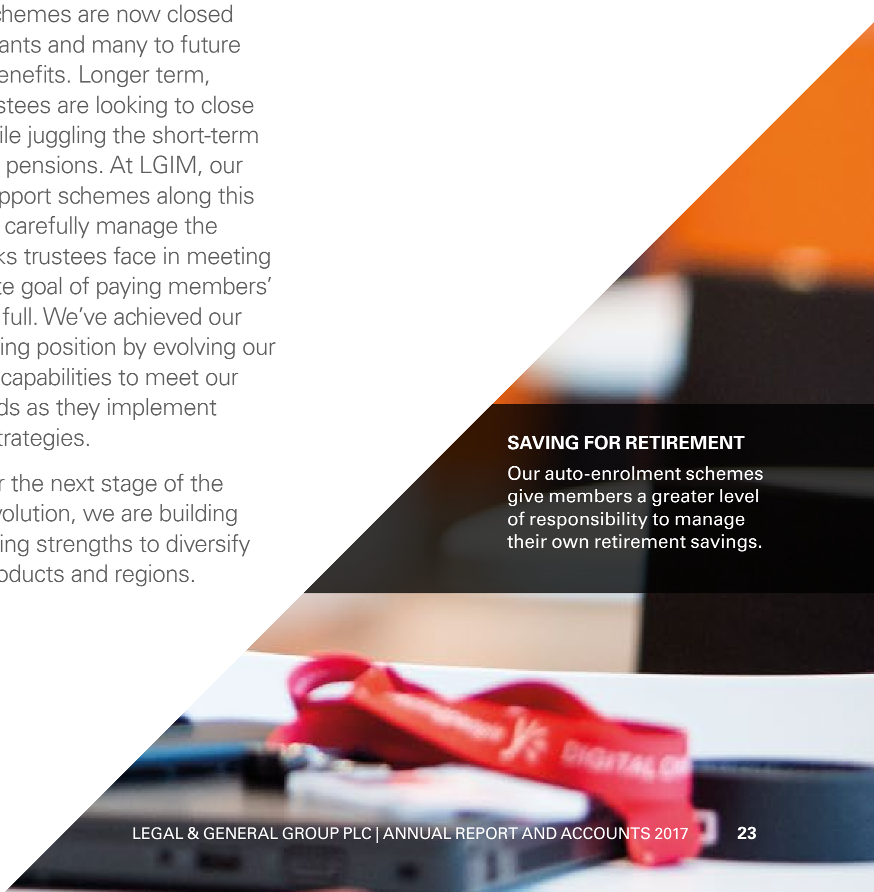
Going for growth and paying pensions: investing with purpose

We stand to benefit from long-term trends despite a changing pensions and investments landscape
The pension industry has undergone changes that have posed challenges for asset managers. Successful businesses have had to adapt, diversify and focus on meeting their clients' long-term investment goals.

The responsibility for retirement saving is shifting from employers to individuals, and Legal & General Investment Management (LGIM) is repositioning its business for that change. Against this complex backdrop we remain focused on providing first-class service to our important defined benefit (DB) pension scheme clients while expanding in the fast-growing defined contribution (DC), retail, consumer and international markets as trends evolve.

Most DB schemes are now closed to new entrants and many to future accrual of benefits. Longer term, scheme trustees are looking to close deficits, while juggling the short-term need to pay pensions. At LGIM, our role is to support schemes along this journey and carefully manage the different risks trustees face in meeting their ultimate goal of paying members' pensions in full. We've achieved our market leading position by evolving our investment capabilities to meet our clients' needs as they implement de-risking strategies.

As we enter the next stage of the pensions evolution, we are building on our existing strengths to diversify into new products and regions.



SAVING FOR RETIREMENT
Our auto-enrolment schemes give members a greater level of responsibility to manage their own retirement savings.

Supporting clients on their defined contribution (DC) pensions journey

In the past ten years we have evolved from a predominately DB-focused asset manager to become the largest manager of DC assets in the UK.

Our total DC assets have increased from £57.1 billion in 2016 to £68.2 billion in 2017. Within that, assets in our workplace 'bundled' business, which provides both investment and administrative services to corporate schemes, has seen strong growth, with assets increasing from £20.8 billion to £27.7 billion. We now also manage the pensions of 2.7 million customers through our workplace pension platform. In the past year we have taken on two significant new schemes, Royal Bank of Scotland and Guardian Media Group, adding a combined £1.4 billion assets to the business. Our Pathway Funds were also launched on LGIM's Workplace Savings platform, helping members to build their retirement income and meet their goals.

Meanwhile, our Master Trust, a multi-employer pension scheme, is now the largest in the market. It has assets of £4.7 billion and around 700,000 members. Employers are increasingly choosing master trusts as they offer a full outsourcing solution, including independent governance.

Our commitment to investment excellence, first-class administration and innovative ways of helping pension schemes engage with their members is increasingly recognised in the industry. Last year, we won the DC Innovation of the Year award at the Professional Pensions Awards for our Future World Fund (see case study on page 25).

> "Our greatest competitive advantage is our culture. We listen to customers and really focus on delivering useful products, consistent performance and exceptional service. This has allowed us to be at the forefront of product trends and a wide range of corporate governance topics."
>
> **Mark Zinkula**
> LGIM CEO

CASE STUDIES:

1. CREATING STRATEGIC PARTNERSHIPS WITH DB SCHEMES

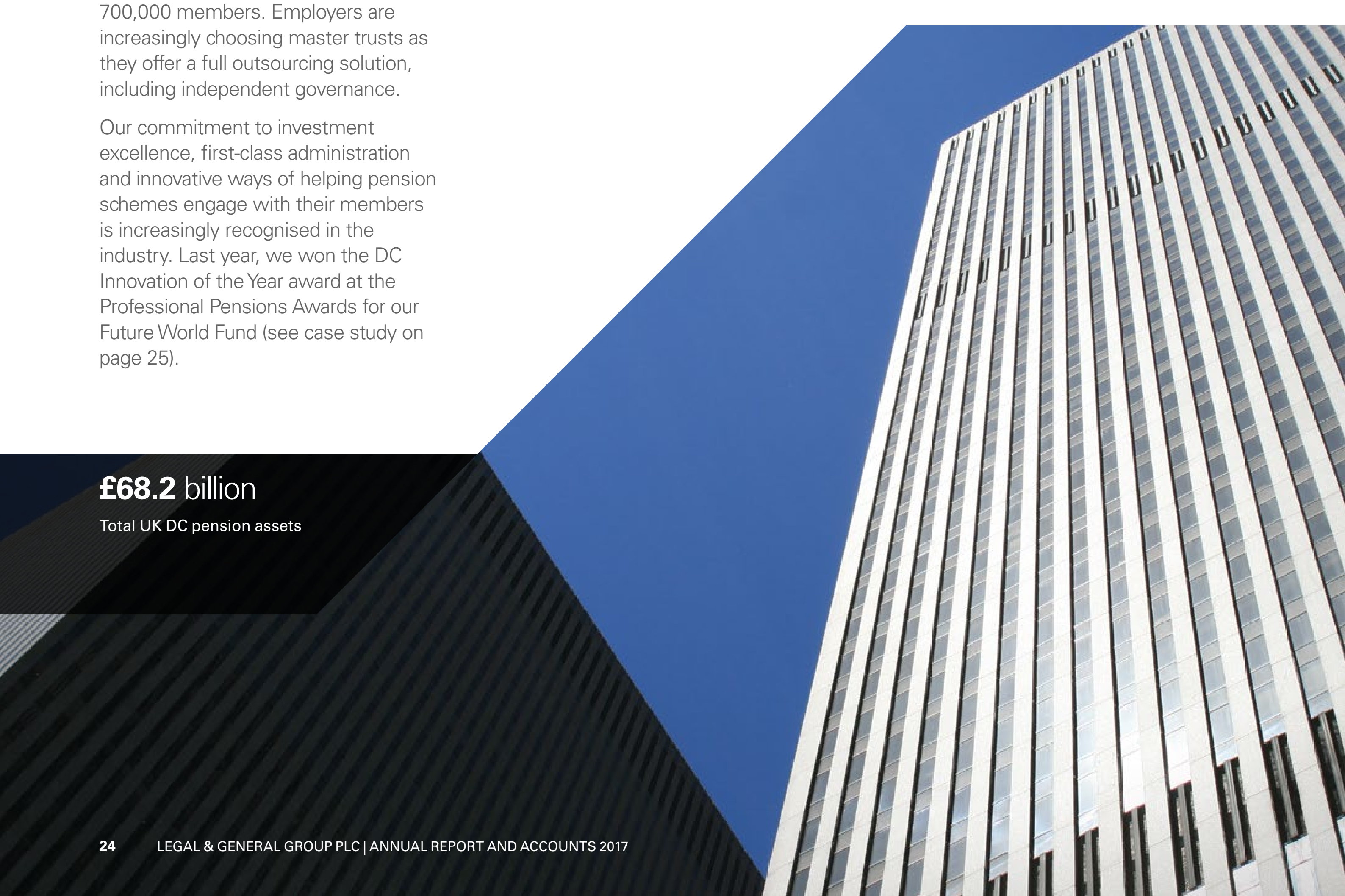
Two years ago, we entered into a strategic partnership with the National Grid UK Pension Scheme on its journey towards full funding.

The partnership model has enabled open dialogue with the client, and greater idea generation, improving the scheme's long-term outlook. This has helped the scheme to balance three, competing long-term requirements: paying pensions, generating return and reducing risk. Working alongside the scheme's in-house investment team and their other key advisers we used our latest strategic thinking and market leading analytics to help the scheme achieve long term success, while factoring in a wide range of risks such as covenant, longevity and investment risk. The results of this partnership can be seen from the increased funding level, improving cash flow and risk dynamics, and a well-diversified portfolio of assets.

2. GOING FURTHER FOR OUR DC BUNDLED CLIENTS

RBS selected LGIM as the bundled service provider for the bank's UK DC Pension scheme.

We worked closely with RBS's pension trustees to deliver a bespoke investment range and an efficient administration service for their 50,000 scheme members. Members received their first personalised video benefit statements this year and feedback on the scheme has been positive. We're already starting to see an impact on savings levels with an increase in engagement as a result of our innovative approach to communication.



£68.2 billion

Total UK DC pension assets

Offering financial advisers and wealth managers a full suite of investment solutions

LGIM's Retail business, which provides investment solutions to financial advisers and wealth managers, has experienced rapid growth, building on the breadth of our investment capabilities and our commitment to our clients. We were top three in UK net retail sales last year (Pridham report).

Our Retail team's partnerships with intermediaries resulted in strong net flows, particularly in multi-asset, property and index products. LGIM was the best-selling fund manager within the Investment Association Property sector for the second consecutive year.

We are also developing our distribution capabilities in Europe, while expanding our reach internationally, including Latin America.

3. OUR FUTURE WORLD APPROACH

In November 2016, we launched our Future World Fund.

The Fund responds to the long-term challenges facing pension funds, including climate change risks. This year, we made the fund available to a broader range of clients in the independent financial adviser (IFA) and wealth market when we launched a unit trust structure. The fund uses an index-based strategy and also incorporates a climate 'tilt', giving investors greater exposure to companies that generate green revenues and that are more likely to benefit from the transition to a low-carbon economy. The tilt also reduces exposure to companies with worse than average carbon emissions and fossil fuel assets. As a firm we are committed to ensuring the companies in which we invest deliver long-term sustainable value to our clients.

LGIM's acquisition of the Canvas European exchange traded fund (ETF) platform was announced in November and includes 20 products licensed for distribution in 14 countries. With 25 years' expertise in passive investing at our core, our expertise will be both extended and strengthened by this new product range.

Engaging the nation

The UK personal investment market is undergoing significant change, as financial responsibility shifts from institutions to the individual. Digitalisation is also enabling a simpler, more direct online experience for customers. We have been developing our personal investment proposition along with a campaign to engage the nation to save and invest more. LGIM will build on its relationships with existing customers and look to encourage the under-invested majority of British adults to take their first steps towards more secure financial futures. With government policy leading to the weakening of financial safety nets, it's important that we offer products and services that give savers the opportunity to take more control.

Increasing our international presence

Our international business continues to expand rapidly. International AUM has reached £228bn and we had strong net inflows across all regions.

In the US, LGIMA is now a leading US pension solutions provider, with an established fixed income and LDI track record and a strong reputation in index strategies. We expect the demand for pension risk transfer deals to increase rapidly in the US. We are also developing our distribution strategy in the US DC market, where we are already seeing demand for a range of retirement income solutions.

We continue to invest for growth in the Asia Pacific region. From our Hong Kong subsidiary we service clients in China, Hong Kong, Korea, Singapore and Taiwan for passive, active fixed income and multi-asset mandates, which now total over $2 billion AUM. In the past year we have also established a full trading and fund management function in Hong Kong to provide

round-the-clock trading of Asia Pacific equities. We also opened a new office in Tokyo and secured our first Australian client.

4. REWRITING THE RULES OF ENGAGEMENT: SPONSORING THE WORK OF BORING MONEY

LGIM sponsored Boring Money's 'Planet Investment' exhibition, a reinterpretation of financial communications intended to 'disrupt' the status quo. We contributed to a series of installations that explored new methods of communicating savings-related information to individual investors, with the aim of making financial information, products and the overall market easily understood. Our new personal investing platform will aim to incorporate this approach into its communications and the overall proposition.

UNDERSTANDING THE RISKS

We continue to invest in our system capabilities, business processes and people to ensure that as we grow our business 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. Alongside ensuring robust internal controls so that funds are managed in line with client mandates, delivering fund performance and being responsive to client needs are key to attracting new funds under management and minimising fund outflow risks.

Insurance

A digital and data enabled insurer

MANAGING THE RISKS

Our exposure to mortality and morbidity risk, the risk of premature death or serious illness of our policyholders, mostly arises in our UK Workplace Protection and US Term Insurance businesses, where the risks we're exposed to are epidemic and poor underwriting. We seek to reinsure our catastrophe risks and closely manage our underwriting processes to minimise the risk of error. Our UK Retail Protection business is extensively reinsured, such that we retain low levels of exposure to mortality and morbidity risks. In our household insurance business we are exposed to the risk that weather events cause flooding, freezing or wind storm damage. We manage our exposure by maintaining a geographic spread of business and reinsurance for more extreme events.

We have been providing life insurance for our customers since 1836 and are the UK's largest provider of individual life cover, with annual premiums of £1.2 billion and a new business market share of around 24%. In 2017 our US business wrote £973 million in premiums, making us a top 10 provider in the US term life market.

We also offer a focused range of UK general insurance products, primarily in the housing market, with newer products such as pet and travel insurance. Our housing related activities also extend to our mortgage club, which strives to offer competitive mortgage deals to homebuyers and our surveying business which provides services for homebuyers and people who are seeking to take out lifetime mortgages (see page 19).

UK Retail Protection

Our UK Retail Protection business aims to help people achieve financial peace of mind affordably, through life insurance products such as term insurance, whole of life insurance critical illness cover and income protection insurance.

With more than five million customers, our success and market leadership is due to our multi-distribution channel strategy, our scale, experience in underwriting and dedication to delivering digital solutions to improve customer experience. We continue to improve our product range, expand our distribution partnerships and invest in technology to deliver better customer service.

General Insurance

In 2017 we remained a leading online provider of household insurance cover. Thirty eight percent of our premiums are now written direct to customers, with 96% of new customers in this channel coming through online transactions. We are No 2 by market share in price comparison websites for home insurance.

"We aim to use data and new technology to play a major role in shaping the future of the insurance industry to make life easier, simpler and safer for our customers."

Cheryl Agius
CEO, General Insurance

SMART QUOTE: BECOMING THE UK'S LEADING DATA DRIVEN, DIGITALLY ENABLED INSURER

First UK general insurer to launch SmartQuote where internal and external data is used to provide an enhanced customer-centric experience.

- Winners of InsurTech Awards for SmartQuote team.
- SmartQuote has a strong e-user rating in the direct market with NPS 50% net promoter score and an 81% customer ease score.

In 2017 we purchased pet insurer 'Buddies' in order to grow our share of the pet market, through accelerating our access to breeders and the vet network. We have seen pet business grow by over 60% and are now No 1 for pet conversion on moneysupermarket.com.

We also launched the first phase of our SmartClaim programme in November, beginning a journey to reduce claims settlement times from days to minutes, ensuring we are a leader in end-to-end digital insurance. Our SmartClaims innovation uses advanced data and technology capability to streamline the claims journey, enabling claims to be settled quickly and at lower cost, thereby improving customer outcomes and internal processes, whilst also reducing fraudulent claims

UK Group Protection

We're firmly committed to the workplace health and wellbeing market, investing in our business and improving the employee and employer experience through digital developments.

We're developing additional products and services that help treat mental wellbeing in the same way as physical wellbeing in the workplace.

US Retail Protection

Our US business has built success through relationships with broker agents, giving us a strong market share in the broker 'Term Life' market and a customer base of 1.3 million policies.

We are using technology to digitally transform the business, which will enable us to widen our distribution reach and grow the customer base, targeting a much wider range of people than through our current business model. In the last year we have launched new products and have started to distribute life insurance direct to customers.

UK mortgage club and surveying business

Our mortgage club has relationships with 76 different lenders helping our distribution partners find appropriate mortgages for their customers. In 2017 our mortgage club facilitated £65 billion of core mortgages, and we were involved in one in five of all UK mortgage transactions. We also help customers through our surveying business where in 2017 we arranged more than 500,000 valuations.

USING DIGITAL APPLICATIONS TO GROW OUR BUSINESSES

The insurance division set up a new team in 2017 to focus on fintech. With its large customer and client base both in the home and the workplace, spanning savings, protection and pensions, we are well placed to pursue a strategy of acquisitions and scale-ups to drive new revenue streams and innovations.

The idol.com

Our wholly owned business, 'The idol.com' (Investment Discounts Online) contributes widely to the development of digital services within the group and acts as an incubator of new digital comparison brands as well as a supplier of technology to the UK aggregation market.

SmartQuote

In August 2017 we launched our market leading household product SmartQuote which uses big data and technology removing the need to answer the lengthy questions typically seen in the market. A guaranteed quote can be produced by answering five questions in about 90 seconds. We were the first to lead the market with such a solution. We generated significant interest amongst potential partners leading to securing one deal with several others at advanced stages of discussion. Since the launch of SmartQuote our core direct take up has increased by over 50%.

Salary Finance

In 2017 we invested in a 40% stake in Salary Finance, which specialises in helping customers save money through loans and financial wellbeing at work. Salary Finance has added 250,000 employees since we made our investment in September. In January 2018, Yorkshire Building Society became an additional provider, adding savings solutions to the Salary Finance platform.

This investment illustrates the value that we add as a digital innovator, with a mission to provide cheaper alternatives to short-term lending, helping people progress from debt to saving through leading edge technology. Further 'bolt-on' and 'scale-up' investments are likely.

Expanding our US reach

Offering an increasing range of products and services in the US

Our rapidly growing investment management, life insurance and pension risk transfer businesses are all preparing for further expansion in the US after an impressive year.

Following on from the growth seen in 2017, we want to build on the expertise that has already made us a top 20 global asset manager. The US is a key market for Legal & General and we are well positioned for further growth.

The United States is the largest consumer market on earth with a GDP of $18 trillion and 325 million people, with free trade agreements with 20 other countries.

The key to driving further growth is to continue to diversify and utilise our skills and experience into areas which are expanding rapidly.

Legal & General Insurance America based in Frederick, Maryland

2017 was a pivotal year for Legal & General Insurance America (LGIA) as we moved to implement our digital strategy and growth plans. Our commitment to brokerage distribution continues to grow and is the dominant driver of our market share in the term life insurance space. With more than $53 billion in new coverage issued in 2017, LGA is ranked in the top ten of US life insurers and ended 2017 with in excess of $703 billion of coverage in force with more than 1.2 million US customers.

LGIA's digital transformation and expansion is evident in the significant milestones achieved in the past year, including the launch of:

- a new direct-to-consumer distribution channel and a new guaranteed whole life insurance product designed to help consumers between the ages of 50 and 80 cover the cost of funeral expenses
- a new customer marketing strategy designed to offer additional products and services to existing policyholders via direct marketing such as a new accidental death policy
- new digital customer service tools made possible by partnerships where customers can now receive bill notifications, and issue payments from their mobile wallet, or receive a bill reminder and issue payments via text on their smartphones.

Legal & General Retirement America based in Stamford, Connecticut

We have brought an innovative and customised solution to the US pension de-risking market. Our longevity science and mortality teams have built up considerable expertise in modelling risk. A key innovation we have brought to the US is our post-code longevity model which was developed based on US data. We believe this enables us

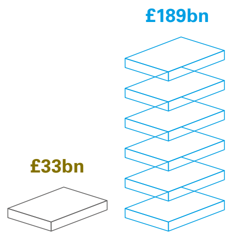
> "Our vision is to embrace technology tools that can streamline the business for the consumer, as well as provide potential cost savings for our insurance business."

Bernie Hickman
Chief Executive Officer, Insurance

$47.4tn

Total North American assets under management held by all companies

LGIMA US assets under management



IN A NUTSHELL

Our expansion into the US market has continued to grow positively as we look to replicate the same unique business model that has made us market leaders across all businesses in the UK. All three US businesses are becoming self-sufficient as each are able to support each other financially and administratively – ever increasing their presence across the market.

to more effectively price longevity risk, providing us a competitive advantage. Our success is also aided by our ability to provide a customised approach with advanced service delivery capabilities. We seek to provide innovative solutions that meet the demands of the market.

In 2017 we wrote 15 pensions de-risking deals totalling $719 million. This represented a 59% increase in sales from the 2016 premium total. In just over three years, we have written 22 deals totalling $1.6 billion.

Legal & General Investment Management America based in Chicago, Illinois

Our US investment management business was founded in 2006 and started to market our active fixed income and LDI capabilities to US DB schemes in 2009. Today, we are a leading US pension solutions provider with an established active fixed income track record, and more recently hold a strong reputation in index strategies. We have $189 billion assets under management as of 31 December 2017, a $42 billion increase from 2016. Our US based business now accounts for 14% of our AUM and our ambition is to increase this percentage substantially.

Infrastructure projects

Late in 2016 we celebrated our first US infrastructure deal to develop the University of California (see image above). We are planning further US infrastructure projects.

UNDERSTANDING THE RISKS

The international markets we have entered are those in which we have a proven track record in the UK, but there will always be some differences. As we continue to internationalise our businesses, we are alert to the risks presented from differing legislative and regulatory environments, and cultural values. Alongside leveraging the significant knowledge of managing the risks that we have built up over the years, we recruit local expertise to ensure we're cognisant of these risk factors.

Acting responsibly

Our purpose is improving the lives of our customers, building a better society for the long term and creating value for our shareholders

IN A NUTSHELL

We believe that successful companies are those that understand the importance of behaving responsibly for the good of society and acting in the interests of their customers.

Key areas we focus on for corporate and social responsibility

Running our business to a higher standard

Strengthening our corporate governance and sustainability policies, reviewing our business principles and ensuring our people embrace diversity and inclusion.

Creating new investments for the future economy

Taking action to make our investment activities more sustainable and embrace Environmental, Social and Governance (ESG) factors. This applies to our own direct investments, pension scheme investment funds and social investments through mechanisms such as Social Stock exchanges and community share schemes.

Making society more resilient

Ensuring our products and services are available to the widest range of social groups and that we support customers who become vulnerable.

Transition to a low carbon economy

Running our own business in an environmentally sustainable way, creating products and services that support a low carbon future, influencing the companies we invest in to act in an environmentally resilient manner and ensuring that our direct investments support the aim to limit climate change.

INVESTING IN GREEN ENERGY

One of our four key focus areas for corporate and social responsibility is to support the transition to a low carbon economy. We do this by trying to influence the companies we invest in to prioritise environmental sustainability. We also invest in green energy and low carbon housing.

legalandgeneralgroup.com/CSR

Measuring our commitment to society

Core belief	Measure	2017	2016	2015
Creating new investments for the future economy	Cumulative total direct investments in areas such as UK infrastructure, housing, SME finance and green energy	£14.4bn	£10.0bn	£7.2bn
Running our business to a higher standard	Total global tax contribution	£1,234m	£1,151m	£947m
Running our business to a higher standard	Female representation on board	30%	27%	27%
Transition to a low carbon economy	Engagement with companies as part of Climate Impact pledge (new initiative).	108	n/a	n/a
Transition to a low carbon economy	Total CO_2 emissions	44,796 tonnes	50,381 tonnes	54,162 tonnes
Making society more resilient	Contributions into UK non-profit organisations	£2.9m	£3.0m	£2.6m
	Contributions into US non-profit organisations	$1.1m	$0.8m	$0.8m

"Encouraging greater diversity at all levels of the business is important for our future success. We are taking action to ensure we have a more inclusive and diverse workforce, and actively engage with the companies in which we invest to do the same."

Mark Zinkula, Executive Director and CEO, Legal & General Investment Management

How we help our local communities

We work in the community to support four distinct areas of focus: our employees, volunteering, education and social enterprises.

Employees

We encourage our employees to support charities personal to them through our sponsorship and time matching programme and 'give as you earn scheme'. Sir John Kingman, Chairman, hosts the 'Community Awards' each year, recognising the amazing achievements of our employees.

Volunteering

Employees are given time off during working hours to support volunteering activities, showing our commitment to encourage employees to get involved. As a reward for volunteering outside of work we offer time matching. They convert their volunteering time to cash for their charity or community group.

Financial education

In 2017 we delivered 48 days' worth of financial education to more than 6,200 children and more than 379 teachers. We use our financial knowledge to help young people understand the financial requirements that people face during their lives and the decisions that they may have to make.

Social investment

Our award winning SE Assist fund has provided interest-free loans to 27 social enterprises in Sussex and Wales.

How we are making our business more inclusive

Our vision for diversity and inclusion

We are committed to increasing the diversity of our workforce and are working to build an inclusive culture that encourages all our people to build successful careers appropriate to their skills and talents.

We strive to be a vibrant business that values inclusion and embraces difference, where our employees are engaged and empowered to deliver business results – because we believe better business decisions come from a diverse set of views.

To achieve these goals we work with leading diversity campaigns such as the 30% Club, of which our CEO and Chairman are members, the Diversity Project which aims to bring more diversity into the investment management industry and the Hampton Alexander Review which has a 33% target for women at Executive Committee level and their direct reports.

Our ambitious 50/50 by 2020 initiative started in 2014 and continues to push hard on gender diversity, ensuring our Board is diverse and working hard to remove the barriers to women's progression throughout the company. To help us achieve these goals we signed the Women in Finance Charter in 2016 with a target to increase the proportion of women in management roles from 35% to 40% in 2017.

Our key successes have been at the most senior level where the gender balance of new starters was 50/50 in 2017 and, because of our strong pipeline of female leadership successors, 43% of our divisional MDs are now women.

We continue to regularly monitor our progress on diversity and inclusion; however, these initiatives will take time to show results and our progress towards achieving our Women in Finance target has been impacted by changes to our business that have disproportionately affected women. In 2018 we are renewing our focus on our attraction and hiring practices to address those gaps.

"It was so refreshing to join. It's the first firm I've worked at where staff diversity is more than an empty gesture. Driven right from the top, there is genuine recognition that this makes for a better place to work, and ultimately a better business outcome."

Pretty Sagoo
Head of Strategic Pension Risk Transfer

What specific steps are we taking to address gender balance?
We are committed to continuing our work to create a more diverse and gender-balanced organisation which will in turn help us reduce our gender pay gap. We are approaching this in a number of ways:

Changing the way we recruit
- We aim to have balanced shortlists, and at least one woman on every shortlist for all of our roles.
- We use diverse interview panels, to ensure a fair and inclusive interview process.
- We demand more from our recruitment suppliers and engage them in our gender diversity plans.
- We provide unconscious bias and interview skills training for our interviewers.

Raising awareness with debate and dialogue
- We have visible and active Board support.
- We champion the achievements of our female role models.
- We communicate our progress and engage our people through internal social media discussions, and on our intranet.
- We hold internal events with leaders and business sponsors.
- We facilitate regular networking events for men and women to foster debate and create momentum for change.

Creating a gender diverse talent pipeline
- We have career sponsorship and mentoring programmes for senior women and our pipeline talent.
- We are striving to attract untapped talent returning to the workplace after a career break by launching our career returners initiative.
- We ensure that we have gender balance when recruiting early career talent through apprenticeships, graduate and Investment 2020 programmes.

Creating a flexible, agile and supportive environment
- Wherever possible, we are creating an agile work environment by providing the technology to enable people, and the support and training to facilitate more flexible and empowering working practices.
- We have a programme of workshops and support for working parents and carers including new parent coaching.

Other activities and achievements

We also think beyond gender. Our diversity and inclusion activities focus on the following three areas:

1. Culture: Inclusion is one of our business principles and this means creating the right culture for inclusion to flourish. In September/October 2017 colleagues around our business took part in a variety of activities to celebrate inclusion month, which aimed to raise awareness of the diversity in our business, to encourage open conversations and to respond to the feedback from employees who told us they wanted more opportunities to celebrate our differences.

2. Communication: In 2017 as well as continuing our series of 50/50 by 2020 network events in partnership with Deloitte and XL Catlin we also launched our L&GBT Network and held focus groups to better understand the career journeys of our employees from ethnic minority backgrounds. We partner with organisations such as Stonewall, Vercida and Employers Network for Equality and Inclusion who help us to introduce best practice initiatives and benchmark our progress.

3. Insight: In 2017 we introduced culture assessments for each business and we have established action plans to increase ethnic minority and LGBT representation in our business.

Employee engagement

More than 6,350 people in our UK, US and Asian businesses took part in the 'What Matters' Employee Survey. We saw our highest ever response rate of 91%.

The worldwide 'Employee Engagement Index' increased slightly from 76% in 2016 to 77% in 2017. This moderate increase in score reflects how our culture is maturing through adoption of our behaviours and enablement through an agile or flexible working environment. All this is underpinned by continued strong leadership scores around the organisation. A focus on employee voice will continue in the next year as we continue on our digital journey, influencing mindsets and behaviours, whilst encouraging a healthy work-life balance.

Employee wellbeing

Our goal is for our employees to be emotionally, mentally and physically fit, resilient to change and performing at their best. We achieve this by working to deliver a proactive, integrated and consistent plan of activities to support our commitment to our employees' physical and mental health and wellbeing at work. In May 2017 we launched 'Talking About Mental Health – It's Not A Red Card Offence' – a new campaign using the power of sport to help lift the mental health taboo and encourage more conversations in the workplace about mental health.

We have trained more than 60 employees to become Mental Health First Aiders supporting colleagues across our locations. We continue to work closely with Time to Change and City Mental Health Alliance to drive good mental health practices in the workplace.

Learning and development

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

Making a positive difference to our gender pay gap

The Gender Pay Gap Regulations were introduced in 2016 with the intention of bringing additional transparency to the pay arrangements in large organisations. The gender pay gap measures the difference in average pay of men and women, regardless of their seniority. Our gap results from having more men than women in senior, more highly paid roles.

Being fair and transparent is an important part of our business. We recognise and reward success and are committed to ensuring that those rewards and recognition are fair for everyone. We acknowledge we have a gender pay gap and we are focused on the actions we need to take to close it.

Gender Pay Gap

		Mean	Median
Legal & General UK group 6,243 employees	Hourly Pay	30.5%	31.6%
	Bonus	65.6%	51.8%

These percentages show the differences between pay and bonuses for men and women.

Our complete Gender Pay Gap report will appear on our website www.legalandgeneralgroup.com/media-centre/reports.

Active engagement in 2017

Activity	2017
Meetings held	370
Companies met	224
Meetings discussing environmental and social issues	57%
Companies based outside the UK	50%
UK companies voted against (at least one resolution)	36%
UK board directors voted against	178

Top five themes discussed in our company meetings

01

Board composition, for example, diversity, board refreshment, quality and skills

02

Remuneration

03

Climate change

04

Nomination and succession

05

Company disclosure

Gender diversity achievements in 2017

50%

of hires and promotions at the most senior level were women in 2017

2%

increase in the proportion of women at the senior level

44%

of our senior succession pool are women

58%

of our leadership successors are women

Focus on corporate governance – active ownership

As one of the largest asset managers in the world, we want all the companies we invest in to do as well as they can. This is why we are active owners, using our size and influence to bring about real, positive change to companies, by raising the standards across entire markets and sectors.

Good governance helps protect our clients' investments. From the appointment of executives to mergers and acquisitions, we challenge company boards to show they are delivering value for shareholders. We work to make sure investor rights are protected, to encourage companies and other investors to uphold codes of practice and improve their culture. In 2017, the corporate governance team held 370 meetings, with board composition, executive pay and climate change being the top three areas of focus.

If we see insufficient progress, we will use our shareholder power to vote against companies or their board of directors. In 2017, globally we opposed more than 1,000 pay packages as well as more than 2,800 director appointments. Our scale means that our voice is heard, which is why we do not remain silent on the issues that matter. We minimise abstentions worldwide, so our clients can be sure that we are working and engaging on their behalf.

Our commitment to environmental sustainability

We encourage public policies, investment practices and corporate behaviour that address long-term risks associated with the impact of climate change.

LGIM are signatories to the Task Force on Climate-related Financial Disclosures.

Our strategy inspires us to build a better society for the long term and part of that is understanding and responding to the risks and opportunities that climate change presents. We have a long-standing commitment to minimise our environmental impacts and have reported on our progress in our CSR and annual reports for many years. This year we have undertaken considerable work in this area:

- We're working with Carbon Clear to set 'Science Based Targets' to bring our businesses in line with a 2°C world
- Trucost and the WWF have assisted us in understanding how much carbon is held in our balance sheet
- We have strengthened our customer offering in low carbon investment through our Future World Fund
- As part of our Climate Impact Pledge, we have committed to engage with 84 of the world's largest companies which hold the key to the low carbon transition. In 2017, we held 108 company meetings focused on climate change
- We have invested in renewables:
  - NTR onshore wind farm capacity of 120MW
  - 'Upside Energy', a demand-side response business able to optimise power storage and consumption for consumers using its cloud-based technology
- We retained Green Stars for all of our 11 eligible Real asset investment funds as well as four European leader awards under GRESB (The Global ESG Benchmark for Real Assets)

Taskforce on Climate related Financial Disclosures

As a signatory to the Taskforce on Climate related Financial Disclosures we are fully committed to disclosing our approach to the risks and opportunities presented by climate change. Our approach to each of the four disclosure areas is outlined in the table.

Full disclosure about our climate related impact, in accordance with the Task Force recommendations in our Climate Change supplement – available online in Q3 2018.

A full breakdown of our environmental data will be provided in our CSR report.

TCFD Recommendations	Disclosure Overview
Governance	Overall responsibility for climate change and environmental performance is held by our Group CEO Nigel Wilson. The GCRE Committee (chaired by our CEO) is supported by our Group Environment Committee (GEC). The GEC review the group's climate and environmental risk. Our Assets and Liabilities Committee also carry out a review.
Strategy	We have made public our approach to managing risks and opportunities through LGIM's Climate Pledge and the Carbon Disclosure Project. This ranges from weather pattern impacts in our insurance business to the opportunities to create new products to assist transition to a low carbon economy. To support our strategy we are committed to modelling climate scenarios including a 2°C scenario and are working with Carbon Clear to set science-based targets. We create products and services that support a low carbon future and ensure that our direct investments support the aim to limit climate change.
Risk management	We have a formal framework for risk management policies in place, which sets out approaches to managing different types of risks and defines the minimal control standard over the short, medium and long-term. These can be broken down into four key areas where we capture information as a business and use it to influence our strategy and policies: We have set long-term targets on our own energy usage. By 2020 we want to 'reduce carbon emission per policy by 20% based on 2013 baseline'. The natural resources used within our commercial property portfolio. We set reduction targets and monitor through our managing agents Our own balance sheet investments. For example, we are committed as a long-term investor in UK renewables and have a target to increase investments into UK energy infrastructure with our own money and that of our customers that support the transition to a low carbon economy over the next three years. Our influence as an investor in publicly listed companies, specifically on environmental issues and transition to a low carbon economy.
Metrics and Targets	Our mandatory carbon and headline data is included on page 233 of this report. Measuring our commitment to society outlines our key carbon emission reduction targets and performance.

Gender diversity

	Female	Male
Board Directors	3	7
Executive Committee	4	11
Managers	999	1,713
All employees	3,701	3,928

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.

Anti-bribery and corruption

We're firmly committed to maintaining the highest standards of business ethics, honesty, openness and accountability. As part of this culture, the offer or acceptance of bribes is unacceptable behaviour for Legal & General and its employees. The following principles apply to the whole of the group worldwide:

- we will not sanction corrupt behaviour under any circumstances
- we will not engage in bribery in any of our activities
- we will not tolerate the acceptance of bribes in any of our business activities
- we restrict the giving and receiving of gifts.

Modern slavery

We aim to ensure that Legal & General Group Plc and its supply chains are slavery-free in accordance with the provisions of the UK Modern Slavery Act. We already incorporate and report on a yearly basis our commitment to the UN Global Compact.

Tax matters

GRACE STEVENS
Chief Tax Officer

In 2017 our total tax contribution was

£1,234m

of which 94% arose in our UK businesses and 6% in our overseas businesses

Total tax contribution

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

Total taxes paid

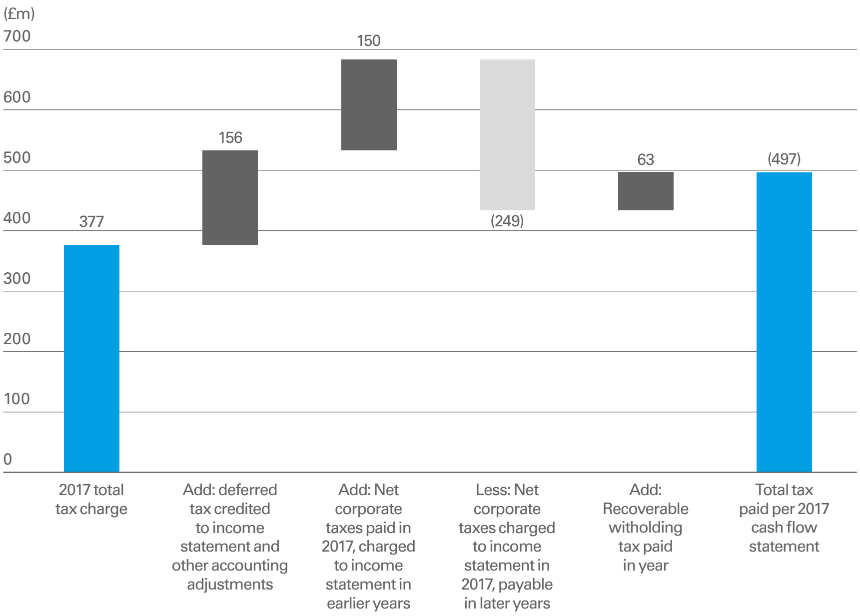
- UK profit taxes paid: £288m
- Withholding taxes suffered in the UK: £192m
- UK property and other taxes paid: £75m
- UK irrecoverable VAT and premium taxes: £54m
- UK payroll taxes paid: £46m
- Overseas profit taxes paid: £17m
- Other overseas taxes paid: £24m

Total taxes collected

- UK PAYE deducted from policyholders: £349m
- UK property and other taxes collected: £23m
- UK VAT and premium tax collected: £5m
- UK payroll taxes collected: £127m
- Overseas taxes collected: £34m

Reconciliation of total tax charge to tax paid

The group's total tax charge disclosed in this annual report can be reconciled to the total income taxes paid by the group as follows:



Acting responsibly

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

We aim for our tax affairs to be sustainable in the long term, well governed, fair and transparent. Our tax strategy and supplementary material outlines how we manage our tax affairs, and what we will and won't do (published online in our reporting centre). Our tax strategy applies to all of our group businesses and shapes our approach to tax in our role as a significant investor in other companies.

The tax affairs of large businesses continue to attract a great deal of attention. We aim to help our stakeholders understand our tax affairs by providing straightforward information and explanations in addition to those required by legislation and regulation. We continue to support the publication of meaningful tax information for investors, customers, and tax authorities, including appropriate country-by-country information, and are pleased to include analysis of our international tax footprint in our 2017 Corporate Social Responsibility report.

2017 review of tax

The group's effective tax rate for the year of 9% is driven by the recent reduction in the US federal income tax rate from 35% to 21%. This resulted in a one-off benefit of £246m on the revaluation of our deferred US tax liabilities, which arise mainly due to the differences between accounting and taxation of insurance reserves.

In addition to US tax reform, there has been a significant amount of change in the tax landscape recently, with numerous consultations being issued this year in the UK, as well as OECD and EU initiatives.

This dynamic tax environment gives us the opportunity to participate in the broader tax discussion and, where appropriate, contribute to the development of UK and international tax policy, thereby ensuring that the interests of all our stakeholders are heard.

JEFF DAVIES
Group Chief Financial Officer

WATCH THE VIDEO
legalandgeneralgroup.com/media-centre/videos

Jeff Davies became Group Chief Financial Officer in March 2017 and has already helped deliver a successful year of financial performance. Jeff talks about what has driven our performance in 2017 and explains why he believes that the Group's future prospects should continue to be positive for investors.

Q You've had another strong set of results in terms of profit and cash generation. What does this mean for the medium-term outlook?

A We are delighted by our 2017 results where profit after tax increased by 50% to £1.9 billion, our earnings per share increased to 31.9 pence a share and return on equity rose to 25.6%. This was another very strong year, demonstrating our robust growth and income characteristics.

Over the last five years we achieved average annual earnings growth of over 10%, and this level of performance has continued in 2017. Excluding the impact of mortality releases in the year, operating profit from our continuing operations increased by 12%.

We have strategically aligned our businesses to a number of key growth drivers, resulting in robust pipelines and strong market positions meaning we remain confident about the medium-term outlook for the business as we aim to achieve our 10% annual earnings growth ambition over the next few years.

Q What were the reasons for this year's mortality release? What can investors expect going forward in terms of future similar releases?

A The release of some of our mortality reserves this year reflects the prudent way that we have set our assumptions in the past. In recent years we have seen a slowing in the improvement in longevity of the older population. It's important to understand that overall people are still living longer, but just not quite as long as we allowed for. While maintaining our cautious stance we now believe that we should start to recognise this slowdown in improvement.

We think about longevity assumptions in two parts: the rates of mortality our customers are experiencing today ('base' mortality) and, secondly, how mortality will improve in future. These assumptions feed into our projection of the number of deaths in our reserving models.

At the half-year we released £126 million by altering the base mortality assumptions to recognise the higher number of deaths than expected. At the full year, following the completion of our necessary studies, we have released a further £206 million by reducing the allowance for future improvements in the medium term.

How mortality will develop in future is uncertain and a number of theories have been put forward to explain the change in mortality of the older population, from access to care, to lifestyle and austerity. The reality is complex, and we continue to analyse this as part of our extensive research into mortality ensuring any actions we take are prudent.

Q Which key performance indicators (KPIs) particularly stood out when looking at the group's performance?

A We are a growth business that is committed to achieving the best returns for our shareholders. As such, we are focused on IFRS earnings as well as Solvency II (SII) surplus generation. Management pays keen attention to margins on new and existing business as well as cost discipline across the group. Cash generation is also important and it's worth noting that £1.6 billion was paid to group from our operating divisions in respect of this year's financial performance. Although this includes additional subsidiary dividends arising from mortality releases in the year, it clearly demonstrates the group is generating good levels of cash to support our growing external dividend and re-invest in the business.

Q Does the strong Solvency II surplus generation mean that you're well placed in terms of future capital usage?

A During the year our net surplus generation was £1.2 billion, resulting in a £6.9 billion SII surplus and headline SII coverage ratio of 189%. Our SII model is highly capital efficient demonstrated by less than £100 million of capital strain required to support writing new business, including £4.6 billion of annuities. All of this means that we can continue investing in good growth opportunities in all of our businesses whilst maintaining the group's balance sheet strength.

"We are confident about the medium-term outlook for the business, where over the last five years we have demonstrated our robust growth and income characteristics."

Jeff Davies
Group CFO, Legal & General

£**1.9**bn

IFRS Profit after tax increased 50% from £1.3bn in 2016

189%

The headline Solvency II ratio has increased by 18 percentage points from 2016

Q How is technology impacting operations?

A We are embracing technology across our operations to improve speed to market, customer service and manage costs. For example, over 80% of our customers in our UK retail protection business get an immediate online point of sale decision, with no human intervention in the process. The success of 'SmartQuote' in general insurance has helped increase direct premiums by 14% year on year. Additionally, many administrative processes can be handled efficiently by programmed algorithms sometimes referred to as 'robots', whilst big data provides many advantages in product pricing, design and administration. This allows us to improve the scale and efficiency of our operations.

Q How do your main business divisions work together to build benefits for the group?

A We are fortunate that our collaborative culture provides significant synergies across all of our divisions. Here are three examples:

Firstly our three asset businesses work very closely together. LGIM works with LGC and LGR to source and manage the direct investments which are important to deliver attractive investment returns. LGC is able to invest in earlier stage investments and can create or unlock more debt-like investment opportunities for LGR, whilst LGIM's UK pension franchise delivers leads for LGR's pension risk transfer business and operates as the asset manager across the entire group.

Secondly, providing people with comfortable incomes in retirement is a key strategic focus for the group, and LGIM and LGR Retail are working together to provide holistic solutions to customers across investment products, annuities and lifetime mortgages.

Finally, our retail businesses across LGR Retail, LGIM, LGI, and General Insurance all work closely together to support My Account which is our online portal, where customers can find all their Legal & General products in one place and take advantage of some other potential product offerings. We now have 1.5 million customers signed up to My Account.

UK INFRASTRUCTURE
LGC, LGIM and LGR work together on direct investments, benefiting investors, customers and society.

Strong investment and trading activity

LGR new business

£6.4bn

(2016: £8.5bn)

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. Longevity insurance represents the notional size of longevity insurance transactions, based on the present value of the fixed leg cash flows discounted at the LIBOR curve.

	2017 £m	2016 £m
Back book acquisitions	**–**	2,945
Pension risk transfer	**3,948**	3,685
Individual annuities	**671**	378
Lifetime mortgage advances	**1,004**	620
Longevity insurance	**800**	900
Total LGR new business	**6,423**	**8,528**

LGIM total AUM

£983bn

(2016: £894bn)

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

	2017 £bn	2016 £bn
Index	**341**	320
Active fixed income	**149**	135
Solutions	**463**	412
Real assets	**23**	19
Active equities	**7**	8
Total LGIM AUM[1]	**983**	**894**

1. See glossary on page 237 for definitions.

Gross written premiums on insurance business (GWP)

£3.3bn

(2016: £3.1bn)

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

	2017 £m	2016 £m
UK Retail Protection	**1,232**	1,179
UK Group Protection	**326**	333
General Insurance	**369**	326
Netherlands Protection	**14**	52
US Protection	**973**	897
Longevity Insurance	**361**	321
Total GWP on insurance business	**3,275**	**3,108**

Direct investments

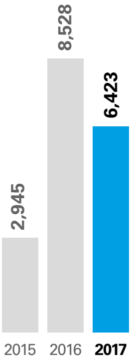
£14.4bn

(2016: £10.0bn)

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.

	2017 £bn	2016 £bn
Legal & General Capital	**1.5**	1.1
Legal & General Retirement	**12.2**	8.1
Legal & General America	**0.7**	0.8
Total direct investments	**14.4**	**10.0**

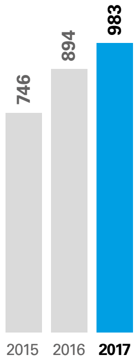
LGR total new business
(£m)



Legal & General Retirement (LGR)
Strong new business sales across our Retail and Institutional businesses

In 2017, LGR continued to experience strong growth. Institutional annuities sales were £3.9 billion across the UK and US, including £3.4 billion of UK pension risk transfer deals and 15 US deals written in 2017, totalling $713 million, bringing the total US sales since 2015 to $1.6 billion. The lifetime mortgage business has grown rapidly with sales of £1.0 billion (2016: £620 million). Individual annuity sales almost doubled at £671 million (2016: £378 million). In addition, LGR wrote a £800 million longevity insurance transaction in June 2017 and fully reinsured the longevity risk at the same time.

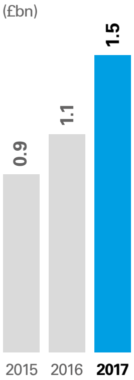
LGIM total AUM
(£bn)



Legal & General Investment Management (LGIM)
Another year of strong performance

LGIM AUM once again grew strongly, increasing by 10% to £983 billion (2016: £894 billion) driven by strong net flows and positive market movements. Total external net inflows increased to £43.5 billion compared with 2016 (£29.2 billion). International AUM continued to perform well, increasing to £228 billion with net inflows of £33 billion and all regions producing positive flows.

LGC direct investments
(£bn)



Legal & General Capital (LGC)
Continued growth in core sectors

LGC's direct investments have increased by 34% to £1.5 billion. Significant investment has been made across all sectors in both new and existing projects. Within Housing, LGC has continued the development of the Legal and General Communities and Modular businesses while investing in the Senior Living sector, which now includes six partially developed sites. In infrastructure, the Lexicon opened at Bracknell in September, transforming the town centre, with progress at other sites including Thorpe Park, Leeds and Science Central, Newcastle. In SME Finance, Pemberton successfully closed two new funds and we progressed investment in the Venture Capital sector, with total capital invested or committed of £80 million.

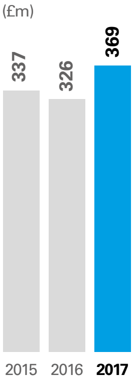
LGI GWP*
(£m)

Legal & General Insurance (LGI)
UK Retail protection maintains its market-leading position

We remain the largest provider of retail protection in the UK and a top 10 player in the US term life market. Legal & General Insurance GWP* grew by 5%, driven by growth in the UK retail protection business and US term life plus favourable foreign exchange translation.

* UK and US protection only.

General Insurance GWP
(£m)



General Insurance
Success through partnerships and direct

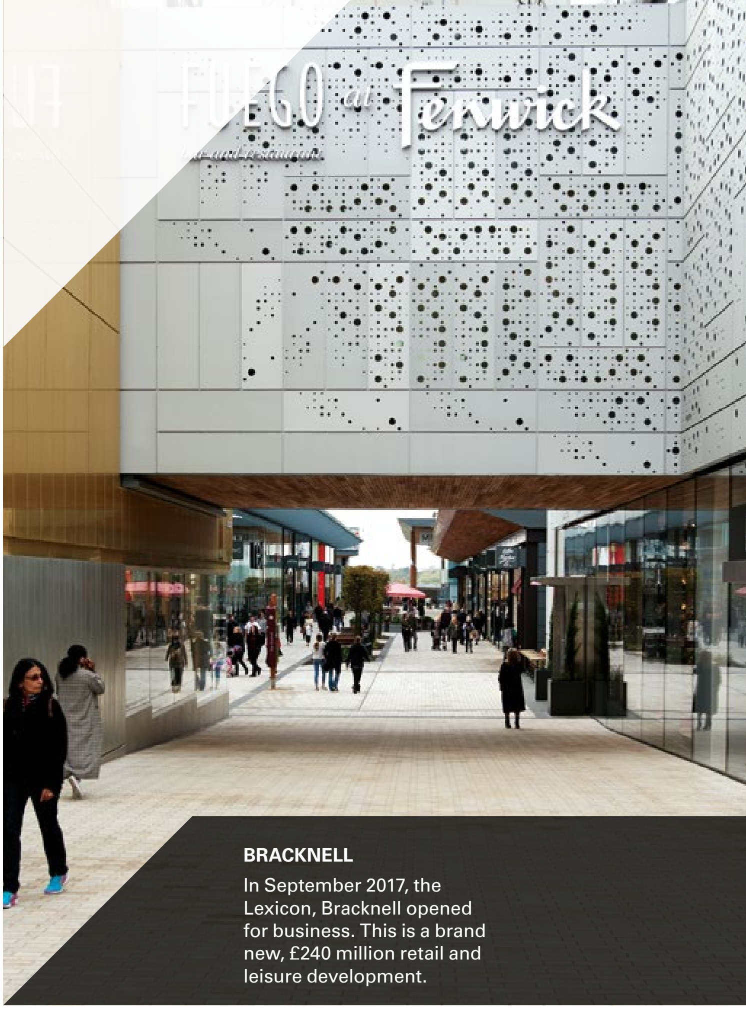
General Insurance GWP has increased by 13% compared with 2016 to £369 million, reflecting the business arising from distribution deals won in previous years as well as continued growth in Direct. During 2017, we continued our previous success in winning a number of additional partnership agreements. The launch of our market-leading SmartQuote product provides the foundation for further growth in 2018 and beyond. We have also maintained our significant position in sales through price comparison websites.

Sustainable returns

Release from operations
The expected release of IFRS surplus from in-force business for the UK non-profit Insurance and Savings and LGR businesses, the shareholder's share of bonuses on with-profit business, the post-tax operating profit on other UK businesses, including the medium-term expected investment return on LGC invested assets, and dividends remitted from LGA. 2016 included dividends remitted from Legal & General Netherlands, which was disposed of in April 2017.

New business surplus
The net impact of writing new business on the IFRS position, including the benefit/cost of acquiring new business and the setting up of reserves.

Net release from operations
Net release from operations is defined as release from operations plus new business surplus.



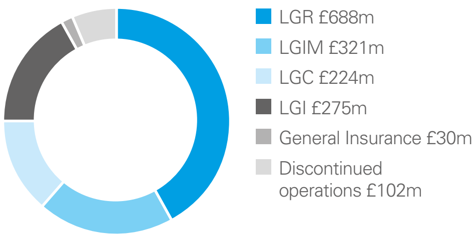
BRACKNELL
In September 2017, the Lexicon, Bracknell opened for business. This is a brand new, £240 million retail and leisure development.

Net release from operations

£1,454m

(2016: £1,411m)

Businesses net release from operations (£m)

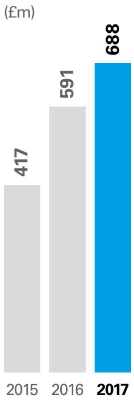


KPI purpose: Net release from operations supports the ability of the group to pay dividends to shareholders

	Release from operations 2017 £m	New business surplus 2017 £m	Net release from operations 2017 £m	Release from operations 2016 £m	New business surplus 2016 £m	Net release from operations 2016 £m
Legal & General Retirement (LGR)	**508**	**180**	**688**	432	159	591
Legal & General Investment Management (LGIM)	**342**	**(21)**	**321**	308	(22)	286
Legal & General Capital (LGC)	**224**	**–**	**224**	214	–	214
Legal & General Insurance (LGI)	**273**	**2**	**275**	248	23	271
General Insurance	**30**	**–**	**30**	42	–	42
From continuing operations	**1,377**	**161**	**1,538**	1,244	160	1,404
From discontinued operations	**107**	**(5)**	**102**	174	(5)	169
From divisions	**1,484**	**156**	**1,640**	**1,418**	**155**	**1,573**
Group investment projects, interest and expenses	**(186)**	**–**	**(186)**	(162)	–	(162)
Total	**1,298**	**156**	**1,454**	**1,256**	**155**	**1,411**

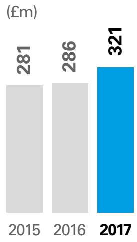
FINANCIAL INFORMATION
Detailed information on net release from operations can be found in the Financial Accounts.

Businesses net release from operations (£m)



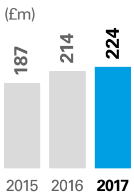
Legal & General Retirement (LGR)

Net release from operations has increased by 16% to £688 million reflecting the increased scale of the business and strong new business surplus of £180 million, driven by a very successful year of sourcing attractively priced assets, including over £1 billion of lifetime mortgages.



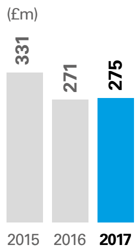
Legal & General Investment Management (LGIM)

LGIM net release from operations increased by 12% to £321 million (2016: £286 million). Revenues grew by 10%, driven by strong net flows and a positive market performance. The business maintained its cost income ratio at around 50%, reflecting cost growth driven by continued investment in its growth strategy and by increased regulatory costs.



Legal & General Capital (LGC)

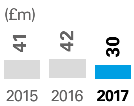
Net release from operations for LGC represents the operating profit of the business net of tax. The total balance of LGC assets, excluding treasury, has grown from £4.9 billion in 2016 to £5.3 billion in 2017. The Direct Investments portfolio increased by 28% to £1.5 billion (2016: £1.1 billion). The portfolio delivered a solid performance with a net portfolio return of 8.1% (2016: 9.0%).



Legal & General Insurance (LGI)

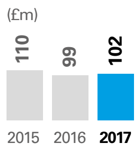
Insurance* net release from operations has increased by 1%, driven by an increase in dividends from the US, partially offset by a reduction in the cash profile of the UK retail protection business as well as a reduction to new business surplus driven primarily by the competitive market environment. Dividends remitted from our US businesses increased by £17 million compared with 2016 and also benefited from favourable foreign exchange translation.

* Excludes Legal & General Netherlands which was sold in April 2017.



General Insurance

Net release from operations for General Insurance represents the post-tax operating profit of the business. A 29% decline is therefore in line with the decline in operating profit, further details of which can be found on page 45.



Savings

Savings* net release from operations has increased by 3% driven by favourable market movements, which are partly offset by the run-off of the mature non profit and with-profit businesses. New business strain of £5 million was in line with 2016. The sale of the Mature Savings business was announced on 6 December 2017.

* Excludes the Digital Savings business, which was sold on 1 January 2017.

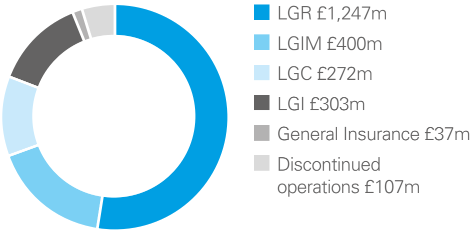
A growth story

Operating profit

£2,055m

(2016: £1,562m)

Businesses operating profit*



* 2017 operating profit of £2,055 million includes £2,366 million from divisions, less £311m from group level investments projects, interest and expenses.

Operating profit

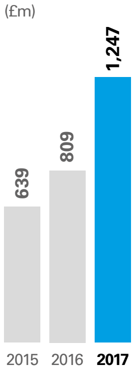
Operating profit measures the pre-tax profit excluding the impact of investment volatility, economic assumption changes and exceptional items. Operating profit, therefore, reflects longer-term economic assumptions and changes in insurance risks such as mortality and longevity for the group's insurance businesses and shareholder funds. This doesn't apply to US protection 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

2017	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other[1] £m	Operating profit/(loss) after tax £m	Tax expense/ (credit) £m	Operating profit/(loss) before tax £m
Legal & General Retirement (LGR)	**688**	**72**	**274**	**3**	**1,037**	**210**	**1,247**
Legal & General Investment Management (LGIM)	**321**	**(4)**	**(1)**	**2**	**318**	**82**	**400**
Legal & General Capital (LGC)	**224**	**–**	**–**	**–**	**224**	**48**	**272**
Legal & General Insurance (LGI)	**275**	**(50)**	**48**	**(51)**	**222**	**81**	**303**
General Insurance	**30**	**–**	**–**	**–**	**30**	**7**	**37**
From continuing operations	**1,538**	**18**	**321**	**(46)**	**1,831**	**428**	**2,259**
From discontinued operations	**102**	**(1)**	**3**	**(18)**	**86**	**21**	**107**
From divisions	**1,640**	**17**	**324**	**(64)**	**1,917**	**449**	**2,366**
Group debt costs	**(154)**	**–**	**–**	**–**	**(154)**	**(37)**	**(191)**
Group investment projects and expenses	**(32)**	**–**	**–**	**(64)**	**(96)**	**(24)**	**(120)**
Total	**1,454**	**17**	**324**	**(128)**	**1,667**	**388**	**2,055**
2016							
Legal & General Retirement (LGR)	591	34	40	6	671	138	809
Legal & General Investment Management (LGIM)	286	(1)	–	–	285	81	366
Legal & General Capital (LGC)	214	–	–	–	214	43	257
Legal & General Insurance (LGI)	271	(11)	5	(50)	215	88	303
General Insurance	42	–	–	–	42	10	52
From continuing operations	1,404	22	45	(44)	1,427	360	1,787
From discontinued operations	169	4	8	(90)	91	24	115
From divisions	1,573	26	53	(134)	1,518	384	1,902
Group debt costs	(138)	–	–	–	(138)	(34)	(172)
Group investment projects and expenses	(24)	–	–	(112)	(136)	(32)	(168)
Total	**1,411**	**26**	**53**	**(246)**	**1,244**	**318**	**1,562**

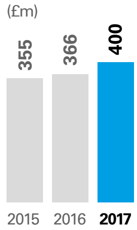
1. Investment gains and losses, profits and losses retained by international subsidiaries, certain restructuring costs and other.

Businesses operating profit (£m)



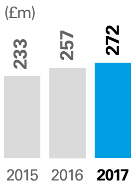
Legal & General Retirement (LGR)

LGR operating profit has increased by 54% to £1,247 million reflecting growth in the back-book, strong new business performance, strong direct investment acquisition, and updates to our base longevity assumptions and forward looking longevity improvement assumptions in light of recent experience. Operating Profit from LGR Institutional business increased by 39% whilst Operating Profit from LGR Retail increased by 117%.



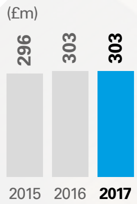
Legal & General Investment Management (LGIM)

LGIM Operating Profit increased by 9% driven by 10% growth in AUM due to favourable market movements and positive net flows as LGIM has continued to expand and diversify its business across channels, regions and product lines. Workplace Savings delivered a break-even result (2016: loss of £(6) million) demonstrating increasing efficiencies as the platform continues to grow.



Legal & General Capital (LGC)

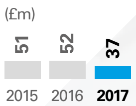
Operating profit for LGC is calculated on an actual PBT basis for its trading businesses or based on medium-term investment return assumptions for its asset investments. LGC operating profit has grown by 6%, primarily driven by a change in the mix of assets within the traded assets portfolio. Operating profit from direct investments is 2% higher than 2016, while PBT increased from £94m to £102m.



Legal & General Insurance (LGI)

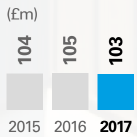
Insurance* operating profit is flat year-on-year at £303 million. The turnaround of our Group Protection business has contributed favourably to operating profit, but has been offset by a lower release from operations and some adverse persistency experience on our UK retail protection business. In addition, the US business benefited from favourable foreign exchange translation following depreciation of sterling against the US dollar.

* Excluding Legal & General Netherlands which was sold in April 2017.



General Insurance

General Insurance operating profit has decreased by 29% driven by higher attritional claims in the first quarter of the year, primarily escape of water, and a lower benefit from reserving movements. Higher claims were partly offset by an increase in new business volumes. Action taken to mitigate the impact of higher attritional claims led to improved performance in the second half of the year, with H2 profit in line with the equivalent period last year.



Savings

Savings* operating profit has decreased by 2% driven by the decline in the maturing book of business, partly offset by favourable market movements. The sale of the Mature Savings business was announced on 6 December 2017.

* Excluding the 2016 operating loss of the digital savings business, which was sold on 1 January 2017.

Disciplined investment of capital

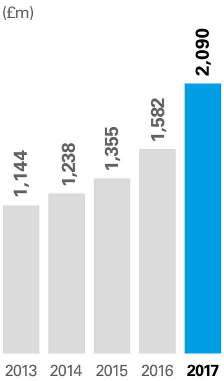
Profit before tax (PBT) attributable to equity holders*

£2,090m

(2016: £1,582m)

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

Profit before tax attributable to equity holders is up 32% on 2016 driven by updates to base longevity assumptions and forward looking longevity improvement assumptions in LGR, which together resulted in a £332 million (pre-tax) one-off release of mortality reserves in the year. In addition, LGIM operating profit grew strongly from favourable market movements and strong net flows, and we did not see a repeat of the adverse impacts of a decline in government bond yields in 2016, which are used in the calculation of reserves for the Protection business. Despite strong market returns in the year, profits from LGC's traded investment portfolio declined due to the non-repeat of FX gains on US dollar assets in the prior year.



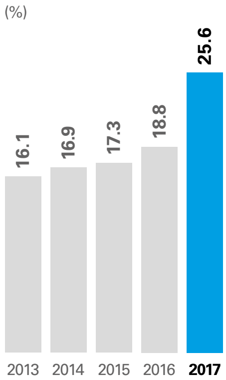
Return on equity (ROE)

25.6%

(2016:18.8%)

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

The group continues to demonstrate careful use of capital across all divisions, with return on equity increasing by 6.8 percentage points to 25.6%. The increase is primarily driven by an increase in group profit after tax from £1,265 million in 2016 to £1,902 million in 2017, which includes updates to base longevity assumptions and forward looking longevity improvement assumptions in LGR, as well as a one-off tax benefit resulting from changes to the US tax regime.



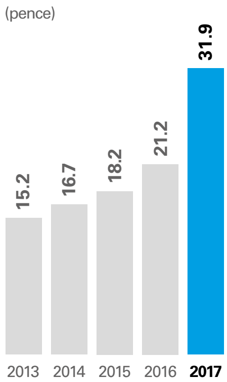
Earnings per share (EPS)

31.9p

(2016: 21.2p)

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

EPS increased by 50% (10.7 pence), driven by a 50% increase in the group profit after tax (up from £1,265 million in 2016 to £1,902 million in 2017). Excluding the impact of one-off mortality reserve releases and a one-off tax benefit resulting from changes to the US tax regime, the EPS was 23.1 pence.



FINANCIAL INFORMATION
Refer to glossary for definitions.

* These are 'Alternative Performance Measures'. See Glossary on pages 237 to 240 for details.

Full year dividend

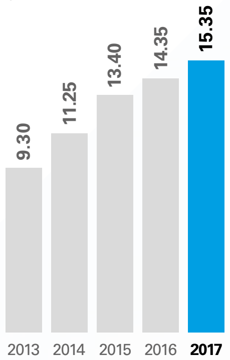
15.35p

(2016: 14.35p)

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

In line with our progressive dividend policy reflecting the group's expected medium-term underlying business growth, including net release from operations and operating earnings, the Board has recommended an increase of 7% in the full year to 15.35 pence (2016: 14.35 pence). The cost of the full year dividend is £914million (2016: £616 million). Our 2017 full year dividend was covered by Net Release from Operations 1.59 times and by dividends remitted from subsidiaries 1.73 times.

(pence)



Total shareholder return (TSR)

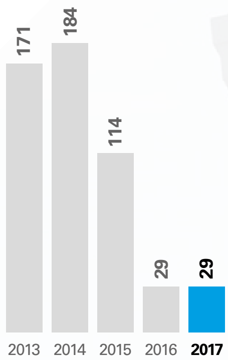
29%

(2016: 29%)

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

We delivered a TSR of 29% over a three-year period (as at 29 December 2017).

(%)



Solvency II surplus and coverage (shareholder basis)*

£6.9bn

(2016: £5.7bn)

189%

(2016: 171%)

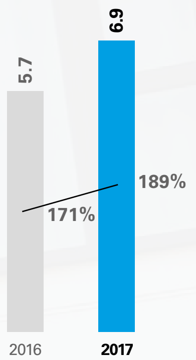
* Represents Solvency II surplus and coverage on a 'shareholder view' basis. See page 192 for more details.

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

The group's capital position remains strong with a £6.9 billion Solvency II surplus (2016: £5.7 billion) and a 189% coverage ratio (2016: 171%) on a 'shareholder view' basis.

When stated on a pro-forma basis the group's coverage ratio is 181%* (2016: 165%).

(£bn)



* This includes the SCR attributable to our with profit fund of £0.6 billion and final salary pension schemes of £0.2 billion, in both the group's Own Funds and the SCR.

Managing risk

SIMON GADD
Group Chief Risk Officer

Overview

Understanding the risks that we may be exposed to and deploying strategies to ensure residual exposures remain within acceptable parameters is an integral part of our business.

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

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

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

"We seek to deeply embed strong risk management in each of our businesses."

Simon Gadd
Group Chief Risk Officer, Legal & General

Risk appetite	The group's overall attitude to risk and the ranges and limits of acceptable risk taking
Risk taking authorities	The formal cascade of our risk appetite to managers, empowering them to make decisions within clearly defined parameters
Risk policies	Our strategies for managing the risks in the environments in which we operate, so as to ensure residual risk exposures are only those within appetite
Risk identification and assessment	Tools that help managers identify and evaluate the risks to which we may be exposed so that they can be managed in line with our policies
Risk management information	How we report and review ongoing and emerging risks, and assess actual risk positions relative to the risk targets and limits that we set
Risk oversight	Review and challenge, by the Group and divisional Chief Risk Officer teams, of how we identify and manage risk.
Risk committees	Group level committees oversee the management of risks and challenge how the risk framework is working. The role of the Group Risk Committee is set out at page 76.
Culture and Reward	Performance measures that focus on the delivery of effective risk management, business and customer strategy, and culture

FINDING WHAT YOU NEED ONLINE

Detailed information can be found in our risk management supplement.

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

Our risk landscape

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

- Longevity, mortality, morbidity and household insurance risks that are transferred to us by the customers of our pension risk transfer and annuities, protection and general insurance businesses. The period that customers continue their policies is also important for profitability.
- Investment and counterparty 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.

Where we directly engage in house building activities, we are also exposed to risks associated with the management of construction projects.

Risk appetite

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

Strategy We manage a diversified portfolio in which we accept risk in the normal course of business and aim to deliver sustainable returns on risk-based capital in excess of cost of capital. Minimum return on capital 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 risk-based capital to be deployed over the planning cycle.

Capital We aim to maintain an appropriate buffer of capital resources over the minimum regulatory capital requirements. Minimum capital coverage ratios.

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

Customer We treat our customers with integrity and act in a manner that protects or enhances the group franchise. Customer and reputation risk dashboard.

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

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

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

Further information on our appetite for specific risks and our approach to managing them can be found in the 'Risk management supplement': www.legalandgeneralgroup.com/investors/reporting-centre.

Our risk management framework

We operate a three lines of defence risk governance model.

- Our first line of defence is our operating businesses, which are responsible for risk taking within the parameters of our risk appetite and accountable for managing risks in line with risk policies.

  The skills to assess and price for risk form part of our first line business management activity. For example, in our pension risk transfer and annuities businesses we have a deep understanding of longevity risk and the science of life expectancy. LGIM as one of the world's largest asset managers, has extensive business expertise in managing credit risk; and within our Insurance business, as the UK's largest provider of individual life cover, we have extensive knowledge of mortality and morbidity risks.
- Our second line of defence is our risk oversight function under the direction of our Group Chief Risk Officer. The team of 150 risk professionals provides our businesses with expert advice and guidance on risk and capital management, alongside ensuring risk taking remains within acceptable parameters.
- The third line of defence is our Group Internal Audit function, which provides independent assurance on the effectiveness of business risk management and the overall operation of our risk framework.

Rewarding the right behaviours

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

In 2017, the objectives of the directors also included a specific risk management component within the overall annual variable bonus scheme. The criteria, if successfully delivered, contribute positively to the group's overall risk position, focusing on the more significant risk exposures for the group, and reward the right behaviours in managing risk exposures.

Our largest risk exposures are credit and longevity

Managing credit risk

Our exposure to credit risk largely arises in our portfolio of corporate bonds held to back the liabilities of our pension risk transfer and annuities business.

We are also exposed to credit risk where we provide long-term funding within our direct investment portfolio, with the risk of default by a borrower, although we seek to protect our interests by taking security over underlying assets.

As an investor for the long term, assessing and managing credit risk is a core competency within our investment businesses. To manage our exposure to default risks, we set a range of tolerances to diversify our portfolios using:

- issuer limits to minimise the impacts to us from single name failure events.
- sector and country limits to control the effects of an adverse shock to a particular business sector, or an event impacting a specific country.
- portfolio level Weighted Average Risk Factors designed to target an overall level of resilience to global cyclical downgrades and defaults.

We use both internal and external credit rating data to set these limits. Our internal credit rating methodology is consistent with the public rating agencies methodologies, and used by our credit risk analysts to propose ratings to our independent internal Credit Rating Committee. Our second line risk team closely monitors the methodologies and performance of our internal ratings, and commissions external credit assessments to validate our internal view.

For direct investments, as part of our underwriting decision, we also evaluate the quality of the security that we will take under the transaction.

We seek to continuously track a wide range of risk factors that could adversely impact credit markets, and we undertake scenario analysis across our portfolio to test its robustness to potential events.

Managing longevity risk

In our pension risk transfer and annuities businesses, we are exposed to longevity risk, the risk that those we insure live longer than we assume in our product pricing.

Over the years we have built significant expertise in understanding and pricing for longevity risks. Our intellectual property covers a wide range of disciplines including actuarial, medical, public health, statistical analysis and modelling. We also work with the Longevity Science Advisory Panel and University College of London, enabling us to access the most advanced data, techniques and knowledge to understand and inform our longevity risk management strategies.

Our diversified business model, offering a range of corporate pension risk transfer products, as well as individual annuities, acts to mitigate concentrations of risks in business sectors and cohorts of lives, and our expansion into the US PRT market further adds to the diversification characteristics of the lives we have insured.

Under Solvency II, the risk margin requirements mean that longevity can be unattractive to add new risk to our balance sheet, and for new UK PRT business we work closely with a number of strongly rated reinsurers to transfer certain longevity risks from our balance sheet. Currently, however, we retain US longevity risk as it diversifies well against US mortality risk and back book UK longevity risk.

Future trends in mortality are generally slow to emerge due to the pace of medical and health development, and, whilst we're living longer, we have seen a slowing in the rate of this improvement compared to our assumptions. But we remain vigilant to emerging trends and, alongside continuous investigation into causes of death, we consider a wide range of scenarios when assessing our capital requirements including significant advances in medical science.

Planning for uncertainty

Risk outlook

An assessment of principal risks and uncertainties, along with the associated trends and outlooks and the steps we take in mitigation, is on pages 52 and 53. A more detailed review of the group's inherent risk exposures and high level control processes are set out in Notes 8 and 16 to 18 of the financial statements.

Political events look set to continue to dominate the risk outlook, with potential for shocks to financial markets as they seek to evaluate the impacts for global trade and growth. Brexit negotiations may also present new risks that are idiosyncratic to the UK. Central bank responses to changing economic indicators and the reactions of financial markets will also be a key area to watch. Cyber crime also continues to be a risk for the financial services sector as a whole, and the regulatory change agenda is set to continue. In particular, the General Data Protection Regulation (GDPR) which will bring regulation of data privacy up to date, comes into operation in May 2018.

Own Risk and Solvency Assessment (ORSA)

Our ORSA process is an ongoing analysis of the group's risk profile and the sufficiency of capital resources to sustain our business strategy over the plan horizon. The process, which covers the whole group, considers how the risks to which we are exposed may evolve over the planning cycle; the impacts of a range of more extreme stresses and scenarios on those risks; and the consequential impacts on the group's solvency position. The ORSA process is integrated into our business risk and capital management activities and aligned with the strategic planning process to inform forward looking decision making. As such, it is a key business management tool for the group.

Capital management

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

Group Board viability statement

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

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

This assessment covers a three-year timeframe which is underpinned by the detailed business plan for 2018–2020 which includes all of the group's key metrics across performance, capital, solvency and liquidity. The directors have no reason to believe that the group will not be viable over a longer period. Given the inherent uncertainty which increases as longer timeframes are considered, the directors consider three years to be an appropriate timeframe to report on with a reasonable degree of confidence.

The business plan, which is underpinned by the group's strategy and reflects the principal risks detailed on pages 52 and 53 respectively, is built from the ground up on a divisional basis. The directors use the plan to assess the prospects of the group through the strategic planning process. The strategic planning process includes an annual review of the ongoing plan with full Board participation as part of the Group Board strategy day. Part of the Board's role is to consider whether the plan continues to be reflective of changes in macroeconomic trends. The latest annual review process was approved in January 2018 resulting in the business plan for 2018–2022.

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

- growth in the international asset management/insurance businesses
- growth in the investment in real assets/direct investments
- continued optimisation of capital strategies for Solvency II
- formal transfer of Mature Savings business to Swiss Re, expected to be completed in 2019

The Board receives regular updates from the business units and risk committee in the normal course of business to perform ongoing monitoring of performance across all metrics and to consider changes in macroeconomic trends or strategy. Whilst the business plan represents the Board's best estimate of the group's future prospects, stress and scenario testing is carried out on the plan as part of the group's ORSA, considering the potential impact of aspects of the principal risks facing the business. These stresses included a severe global shock, based on the Bank of England 'Annually Cyclical Scenario', but assuming widespread credit downgrades, and removing two elements of the scenario which would (if included) benefit Legal & General, that is a sharp increase in interest rates and the depreciation of sterling against the US dollar. The results of these stresses showed that the group would be able to withstand the impact, over the forecast period, by making adjustments in its operating activity in the normal course of business.

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

Principal risks and uncertainties

The directors confirm that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks are set out below including details of how they have been managed or mitigated. Further details of the group's inherent risk exposures are set out at notes 8 and 16 to 18 of the financial statements.

Risks and uncertainties	Trend and outlook	Mitigation
Reserves and our assessment of capital requirements may require revision as a result of changes in experience, regulation or legislation The writing of long-term insurance business requires the setting of assumptions for long-term trends in factors such as mortality, lapse rates, valuation interest rates, expenses and credit defaults. Actual experience may require recalibration of these assumptions, impacting profitability. Management estimates are also required in the derivation of Solvency II capital metrics. These include modelling simplifications to reflect that it is not possible to perfectly model the external environment, with adjustment necessitated where new data emerges. Forced changes in reserves can also arise from regulatory or legislative intervention impacting capital requirements and profitability.	We regularly appraise the assumptions underpinning the business we write. We remain, however, inherently exposed to certain extreme events, that could require us to adjust our reserves. For example, in our pensions risk transfer and annuities business, while trend data suggests the rate of longevity improvement may be slowing, a dramatic advance in medical science beyond that anticipated may lead to an unexpected change in life expectancy, requiring adjustment to reserves. In our protection businesses, a widespread increase in mortality/morbidity may also require us to re-evaluate reserves. We are also exposed to lapse risks if our US term policies are not continued in line with our renewal assumptions.	We undertake significant analysis of the variables associated with writing long-term insurance business to ensure that a suitable premium is charged for the risks we take on, and that reserves continue to remain appropriate for factors including mortality, lapse rates, valuation interest rates, expenses and credit defaults. In seeking a comprehensive understanding of longevity science we aim to anticipate long-term trends in mortality. We continue to evolve and develop our underwriting capabilities for our protection business. Our selective use of reinsurance also acts to reduce the impacts of significant variations in life expectancy and mortality. The sensitivities of our business to selected scenarios are set out on page 160.
Investment market performance and conditions in the broader economy may adversely impact earnings, profitability or surplus capital The performance and liquidity of investment markets, interest rate movements and inflation impact the value of investments we hold in shareholders' funds and those to meet the obligations from insurance business, with the movement in certain investments directly impacting profitability. Interest rate movements and inflation can also change the value of our obligations. We use a range of techniques to manage mismatches between assets and liabilities. However, loss can still arise from adverse markets. Interest rate expectations leading to falls in the risk free yield curve can also create a greater degree of inherent volatility to be managed in the Solvency II balance sheet, than the underlying economic position would dictate, potentially impacting capital requirements and surplus capital. In addition, significant falls in investment values can reduce fee income to our investment management business.	Whilst the global economic outlook remains positive, we continue to monitor a range of risk factors that could trigger a reappraisal of asset values or influence a change in broader central bank monetary policies. In particular, after a period of strong growth in equity markets, 2018 has seen a return to volatility as financial markets have responded to potential changes in interest rate policies. In the UK, a lengthy period of negotiation and an uncertain Brexit outcome has potential to create asset price volatility for specific sectors, as well as a slowing in the broader UK economy in which we operate. There also remain a range of geopolitical events that could cause shocks to global financial markets, and in stressed conditions a market correction may be significantly exaggerated from continued illiquidity in bond markets.	Although we cannot fully eliminate the downside impacts from these and other risk factors on our earnings, profitability or surplus capital, as part of our strategic planning activity we seek to model our business plans across a range of economic scenarios to ensure they will be resilient. Our ORSA process plays an integral part in this process ensuring a clear link between capital sufficiency and the nature of risks to which we may be exposed, and confirming that exposures are within our risk appetite. As set out within the Strategic Report on pages 1 to 53, we have sought to ensure focus upon those market segments that we expect to be resilient in projected conditions. We cannot, however, completely eliminate risk. Sensitivities to interest rates, exposure to worldwide equity markets and currencies are set out on page 160, page 143 and pages 147 to 150, respectively.
In dealing with issuers of debt and other types of counterparty the group is exposed to the risk of financial loss Systemic corporate sector failures, or a major sovereign debt event, could, in extreme scenarios, trigger defaults impacting the value of our bond portfolios. Under Solvency II, a widespread widening of credit spreads and downgrades can also result in a reduction in our Solvency II balance sheet surplus, despite already setting aside significant capital for credit risk. We are also exposed to default risks in dealing with banking, money market and reinsurance counterparties, as well as settlement, custody and other bespoke business services. A default by a counterparty could expose us to both financial loss and operational disruption of business processes. Default risk also arises where we undertake property lending, with exposure to loss if an accrued debt exceeds the value of security taken.	Factors that could lead to a widespread default of the issuers of investment grade debt are currently considered to be more remote risks; however, we are closely monitoring a number of factors that may lead to a widening of credit spreads including the outlook for interest rates; and the potential economic impacts of an unfavourable Brexit outcome for specific industrial and service sectors. The outlook for aspects of the UK property market are also less certain, with recent housing data, whilst mixed, being indicative of slowing confidence, although prime commercial property remains in high demand. Whilst considered to be more extreme risk scenarios in the current environment, factors that could increase the level of default risk, if they were to occur, include a material deterioration in global economic conditions; a renewed banking crisis; and default on debt linked to emerging markets.	We actively manage our exposure to default risks within our bond portfolios, setting selection criteria and exposure limits, and using the capabilities of LGIM's global credit team to ensure the risks are effectively controlled, and if appropriate trade out to improve credit quality. Within our property lending businesses, our loan criteria take account of both the default risk of the borrower and the potential for adverse movements in the value of secured property. We seek to closely manage risks to our Solvency II balance sheet through monitoring factors that could give rise to a heightened level of default risk. However, we can never completely eliminate default risks or their impacts to our Solvency II balance sheet, although we seek to hold a strong balance sheet that we believe to be prudent for a range of adverse scenarios. Details of our credit portfolios are on pages 147 to 150.

Risks and uncertainties	Trend and outlook	Mitigation
Changes in regulation or legislation may have a detrimental effect on our strategy Legislation and government fiscal policy influence our product design, the period of retention of products and required reserves for future liabilities. Regulation defines the overall framework for the design, marketing, taxation and distribution of our products; and the prudential capital that we hold. Significant changes in legislation or regulation may increase our cost base, reduce our future revenues and impact profitability or require us to hold more capital. The prominence of the risk increases where change is implemented without prior engagement with the sector. The nature of long-term business can also result in some changes in regulation, and the re-interpretation of regulation over time, having a retrospective effect on in-force books of business, impacting future cash generation.	The financial services sector continues to see significant regulatory driven change, both from the EU and from within the UK. We are progressing our responses to EU driven financial services regulation including UCITS V, the IDD and PRIIPS, as well as actions to meet the requirements of the EU GDPR which comes into force in May 2018. As a predominantly UK and US focused business, the loss of EU passporting rights has limited direct impact; however, we are establishing businesses in Dublin to support our European investment clients. We are also monitoring potential implications on market infrastructure and contract continuity risks. Within the UK the FCA published its final report on the Asset Management Market Study in June 2017 and continues with its thematic review activities across the sector to ensure the fair treatment of customers. The tax landscape continues to be subject to change, most recently on US tax reform in 2017 and the potential impact on the tax regime from the changing UK political environment.	We are supportive of regulation in the markets in which we operate where it ensures trust and confidence and can be a positive force on business. We seek to actively participate with government and regulatory bodies in the UK and Europe to assist in the evaluation of change so as to develop outcomes that meet the needs of all stakeholders. Internally, we evaluate change as part of our formal risk assessment processes, with material matters being considered at the Group Risk Committee and the Group Board. Our internal control framework seeks to ensure ongoing compliance with relevant legislation and regulation. We cannot, however, completely eliminate the risks that controls may fail or that historic accepted practices may be reappraised by regulators, resulting in sanction against the group.
New entrants may disrupt the landscape of the markets in which we operate As has been seen in other business sectors, it is possible that alternative digitally enabled providers of financial services products emerge with lower cost business models or innovative service propositions and capital structures disrupting the current competitive landscape.	There is already strong competition in all our markets, and although we have had considerable past success at building scale to offer low cost products, we recognise that markets remain attractive to new entrants. We are also cognisant of the potential for entry by scale overseas competitors who may have lower return on capital requirements and be unconstrained by Solvency II.	We're building our digital businesses. Alongside 1.5 million customers now using My Account to manage their investments online; our SmartQuote app for household insurance; and the use of technology to transform our insurance product distribution reach in the US; we are investing in Fintech businesses to remain at the forefront of innovation in the markets we operate in.
A material failure in our business processes or IT security may result in unanticipated financial loss or reputation damage We have constructed our framework of internal controls to minimise the risk of unanticipated financial loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage. We are also inherently exposed to the risk that third parties may seek to disrupt our online business operations, steal customer data or perpetrate acts of fraud using digital media.	Our plans for growth and the digitalisation of our businesses, together with the regulatory change agenda, inherently increase the profile of operational risks across our businesses. As we develop our housing businesses we are also exposed to property construction and safety risks. We continue to invest in our system capabilities and business processes to 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 50. We recognise, however, that residual risk will always remain and have designed our risk governance framework to ensure that when adverse events occur we can deploy appropriate responses.

Governance

Contents

LATER LIFE LIVING

In 2017 we entered the retirement housing market through our acquisition and partnership with Inspired Villages Group.

Our development in Tattenhall, Cheshire enables residents to continue to live independently, yet maintain that real sense of community. More importantly, it gives peace of mind and allows individuals to make life as they want it.

It is a well-known fact that we are chronically underprepared for our ageing demographic – we are living longer, our health needs are becoming more complex, and simple things such as a GP visit are becoming harder to obtain.

We are creating vibrant villages on the edge of and within the UK's towns and cities, looking to build where people want to live, close to family, friends and facilities.

WATCH THE VIDEO
legalandgeneralgroup.com/media-centre/videos

Board of directors

Committee membership key

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

Sir John Kingman
Chairman
Appointed October 2016

C N

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

John is non-executive Chair of UK Research and Innovation and is a World Fellow of Yale University. He is also a member of the Prime Minister's Council for Science and Technology.

External appointments:
- Royal Opera House Covent Garden Foundation (Trustee)
- National Gallery (Trustee)
- Rothschild (Senior Adviser)

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

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

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

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

Jeff Davies
Chief Financial Officer
Appointed March 2017

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

Mark Zinkula
Chief Executive Officer, LGIM
Appointed September 2012

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

External appointments:
- The Investment Association (Board member)
- The Financial Reporting Council Limited (Director)

Kerrigan Procter
Chief Executive Officer, LGC
Appointed March 2017

Skills and experience:
Kerrigan was appointed to the Board on 9 March 2017. He recently moved to become CEO of LGC. He was CEO of the LGR business division from 2013 until 2017. He was previously head of solutions at LGIM from 2006 to 2012 where he was responsible for Liability Driven Investment and fund solutions for defined benefit and defined contribution pension schemes across Europe and the US. Prior to joining the Group, he worked at RBS in the financial markets division where he held several roles. Kerrigan started his career in 1994 with EY Corporate Finance before moving to Mercer. He is a Fellow of the Institute of Actuaries and has a PhD in number theory from King's College, London.

Julia Wilson

Senior independent Non-Executive Director

Appointed November 2011; Senior Independent Director from May 2016

A C N Ri

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

External appointments:
- 3i Group plc (Director)

Carolyn Bradley

Independent Non-Executive Director

Appointed December 2014

N R

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

External appointments:
- Marston's PLC (Non-Executive Director)
- The Mentoring Foundation (Non-Executive Director)
- Cancer Research UK (Trustee)
- Majid Al Futtaim Retail LLC (Non-Executive Director)
- Cambridge Judge Business School Advisory Board (Member)
- The Invicta Film Partnership No. 6 LLP (Member)

Philip Broadley

Independent Non-Executive Director

Appointed July 2016

A C N R Ri

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

External appointments:
- AstraZeneca PLC (Non-Executive Director)
- Eastbourne College (Chairman)
- London Library (Treasurer)

Other Board members during the year were:

Rudy Markham retired from the Board on 25 May

Richard Meddings retired from the Board on 25 May

Mark Gregory retired from the Board on 9 March

Lesley Knox

Independent Non-Executive Director

Appointed June 2016

A N R Ri

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

External appointments:
- Centrica plc (Non-Executive Director and Chair of the Remuneration Committee)
- Thomas Cook Group plc (Non-Executive Director)
- Grosvenor Group (Chair)
- Design Dundee Limited (Director)
- NGS Trading Company Limited (Director)

Toby Strauss

Independent Non-Executive Director

Appointed January 2017

A C N Ri

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

External appointments:
- Macmillan Cancer Support (Trustee)
- Toric Limited (Director)
- Pacific Life Re Limited (Director)

Geoffrey Timms

Group General Counsel and Company Secretary

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

Executive Committee

Executive Directors

Nigel Wilson
Group Chief Executive Director
See Board of Directors page 56.

Jeff Davies
Chief Financial Officer
See Board of Directors page 56.

Mark Zinkula
Chief Executive Officer, Legal & General Investment Management
See Board of Directors page 56.

Kerrigan Procter
Chief Executive Officer, Legal & General Capital
See Board of Directors page 56.

Other business unit Chief Executive Officers (CEOs)

Cheryl Agius
Chief Executive Officer, General Insurance

Cheryl is the Chief Executive Officer of General Insurance. Cheryl was previously Head of UK Strategic Retirement Pension Risk Transfer where she was responsible for large Pension Risk Transfer transactions and solutions for defined benefit pension schemes and back book transactions. Prior to this UK role, Cheryl set up our US Retirement business, securing our first landmark transaction for $430m in 2015. Cheryl joined Legal & General in 2011 having previously worked for over 20 years in the retirement and insurance industry. Cheryl is a Fellow of the Institute of Actuaries.

Bernie Hickman
Chief Executive Officer, Legal & General Insurance

Bernie is the Chief Executive Officer of Legal & General Insurance. Bernie joined Legal & General in 1998 from Commercial Union (now Aviva). Between 2005 and 2010 he was the Managing Director of Retail Protection. Bernie became Chief Executive Officer of Legal & General Home Finance and MD of Individual Retirement in 2014, where he launched its digital platform for lifetime mortgages achieving a 25% market share within the first year. He has also held the positions within the group of Group Financial Controller, Investor Relations Director and Solvency II Managing Director.

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

Chris is the Chief Executive Officer of Legal & General's Retail Retirement business. Chris was previously the Chief Financial Officer of Legal & General's Retirement Division where he was responsible for driving the financial results of the business. Prior to this he was the Finance Director of the group's UK Savings and Protection business. Chris is a qualified actuary, and has had a 28-year career in the UK and international financial services markets. He joined Legal & General in 2009.

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

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

Jackie Noakes
Chief Executive Officer, Mature Savings

Jackie is responsible for Legal & General's Mature Savings business in the UK. Jackie joined Legal & General in 2007 and has led a variety of shared services across the business including IT, Group Procurement, Financial Reporting and Facilities Management. Prior to joining Legal & General, Jackie held senior IT roles at American Express and worked for various financial services companies, including Bank of Ireland, Firemans Fund, Blue Cross & Blue Shield and Royal & Sun Alliance, living and working in Ireland, Sweden, Australia and America.

Additional Executive Committee members

Simon Gadd
Group Chief Risk Officer

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

John Godfrey
Group Corporate Affairs Director

John has worked in the City for over 30 years, providing advice on corporate affairs and communications to US, European and Japanese financial institutions. He joined Legal & General as Group Communications Director in 2006, becoming Corporate Affairs Director following the global financial crisis. Since then, his responsibilities have variously included communications, public affairs and policy, corporate social responsibility and brand. In 2016 he left Legal & General to work in government as head of the Prime Minister's Downing Street Policy Unit, returning to the company in September 2017.

Emma Hardaker-Jones
Group HR Director

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

Stephen Licence
Group Chief Internal Auditor

Stephen is the Group Chief Internal Auditor. Stephen joined Legal & General in 2014 having previously been Emerging Markets Chief Internal Auditor at RSA Insurance where he was responsible for the Internal Audit activity in the group's businesses across Latin America, Asia, Middle East and Eastern Europe. His 20 years' Internal Audit experience has included Life, General and Healthcare insurance in both Legal & General and Lloyd's of London markets. He was also previously an audit consultant at the London Stock Exchange Group. Stephen is a Chartered Member of the Institute of Internal Auditors.

Paul Miller
Group Strategy and M&A Director

Paul is Group Strategy and M&A Director. Paul joined Legal & General in June 2017 from Goldman Sachs International where he was Head of European Insurance within the Investment Banking Division.
As an investment banker for nearly 20 years, Paul advised companies and financial investors on strategy and mergers and acquisitions in life insurance, property and casualty insurance and asset management. Whilst based in the UK he worked with clients across EMEA (Europe, Middle East and Africa), North America, and Asia.

Geoffrey Timms
Group General Counsel & Company Secretary

See Board of Directors page 57.

The role of the Executive Committee

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

Letter from the Chairman

SIR JOHN KINGMAN
Chairman

I am delighted to present this year's Corporate Governance report. As Chairman, it is my role to ensure the highest standards of governance are promoted by the Board and that these standards cascade through the group. Corporate governance underpins how we conduct our business every day, our culture and our behaviour. As we have seen over recent years, governance best practice continues to evolve and 2017 has been no exception, with the recent FRC Corporate Governance Code Consultation published at the end of the year. The new Code is expected to be published in early summer 2018 and will apply to accounting periods beginning on or after 1 January 2019. As has been our approach in previous years, we will endeavour to apply and report on the updated principles of the new Code as soon as possible and once they become available. Keeping abreast of governance developments is of utmost importance as we continue to strive to remain at the forefront of best practice and consistent with the standards that our investors require. This includes LGIM, one of the largest investors in the UK. I am pleased to report that we have complied with all principles of the 2016 Corporate Governance Code throughout the year ended 31 December 2017.

Our approach to governance

The Board is responsible for leading the company and overseeing the governance of the group. The Board sets the tone for the group's culture, values and ethical behaviours and we keep the interests of the group's shareholders, customers, staff and wider stakeholders at the heart of our decision-making.

Our governance framework means we have a robust decision-making process and a clear framework within which decisions can be made. This is achieved through our delegated authority framework, which ensures that decisions are taken by the right people at the right level and that there is clear accountability up to the Board. In an ever-changing environment, it is important for us to ensure that our governance framework evolves with us, and we need to ensure that this framework meets the needs of the whole business and supports the ongoing delivery of our strategy.

Talent

This year has included particular focus on talent and how we harness and encourage the best talent in the company. Board mentoring of the talent pool, enhanced Board engagement with management below the Executive, succession planning and further development of our inclusivity and diversity programme, have all been discussed.

In Partnership with Subsidiary Boards

We recently announced the appointment of Henrietta Baldock as the non-executive Chair of our principal operating subsidiary, Legal & General Assurance Society (LGAS). Henrietta will take up the position of LGAS Chair on 6 March 2018 and brings extensive knowledge of the financial services and insurance sector through her 25 years' experience.

Shareholder engagement

Our shareholders play an extremely important role in supporting the company and the investor community continues to be a strong and influential force in shaping corporate governance. We place great value on open and constructive two-way dialogue with shareholders and I have met a range of our shareholders over the year; continual engagement provides them with an opportunity to share particular areas of interest and to raise any concerns. The AGM also provides a valuable opportunity for all our shareholders to hear more about how we have performed during the year and to meet our Board in person. I look forward to sharing with you the successes of the company during 2017 and would encourage as many shareholders as possible to attend the AGM on 17 May 2018.

Sir John Kingman
Chairman

> "Keeping abreast of governance developments is of utmost importance as we continue to strive to remain at the forefront of best practice."

Sir John Kingman
Chairman

Governance report

The UK Corporate Governance Code – committed to the highest standards

The principles of the UK Corporate Governance Code as published in 2016 (the 'Code') are the standards against which we measured ourselves during the year. The information on the following pages demonstrates how we apply the principles of the Code in practice. The information required under Disclosure Guidance and Transparency Rule 7.2.6 can be found in the Directors' report on pages 231 to 234. Each year, the Board reviews the group's corporate governance framework and compliance with the Code and the table on pages 66 and 67 sets out at a high level how we have complied with each of the principles.

Governance is integral to both our Board environment and organisational culture and is a key ingredient in the success of our business. Our governance framework and policies support good decision-making thereby contributing to the success of the business over the long term. 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 is closely monitoring the consultation currently being undertaken by the Financial Reporting Council and the proposals for amendment to the Code.

The new Code is expected to be published in early summer 2018 and will apply to accounting periods beginning on or after 1 January 2019. As has been the group's previous approach, the company will endeavour to apply and report on the updated principles of the new Code as soon as possible once they become available.

The Board

Several changes to the Board have taken place over the course of the year. Jeff Davies took up his appointment as Group Chief Financial Officer on 9 March 2017. Kerrigan Procter, now Chief Executive Officer of LGC was appointed to the Board also with effect from 9 March 2017. Their biographies are detailed on pages 56 to 57 and show the strength and depth of executive skills and experience they have brought to the Board. Additionally, Julia Wilson took up her position as Senior Independent Director on 26 May 2017. Mark Gregory stepped down from the Board on 9 March 2017 and both Rudy Markham and Richard Meddings stepped down from the Board on 25 May 2017. The Board continues to focus on maintaining 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 delivery of the group's strategy within the environment in which the group operates.

How the Board operates

The Board is led by the Chairman, Sir John Kingman. The day-to-day management of the group is led by Nigel Wilson, the Group Chief Executive. The non-executive directors play a key role in contributing to the delivery of strong organisational governance and their role is not limited to the boardroom. Examples of some of the other activities they have undertaken during the course of the year are set out on page 63.

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

How the Board spent its time in 2017

The Board met formally nine times during 2017 and Board sub-committees were constituted on a number of occasions in order to deal with matters arising in the ordinary course of business outside of the formal schedule of meetings. The Board held one two-day and one half-day strategy events during the year. A table of individual Board member attendance at the formal Board and Committee meetings is provided on page 67.

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

- an update from the Group Chief Executive, the Group Chief Financial Officer and each of the key business division heads on business performance and key business initiatives
- discussions on strategic proposals, acquisitions, material transactions and group matters
- Board legal and governance matters

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

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 2017 budget. This included a review of the divisional strategic objectives, initiatives and KPIs. • The Board held a half-day strategy event to discuss the group's housing strategy. • The Board held a two-day strategy event at the Chicago office to discuss progress against the group's strategic plan, the strategic direction and optionality for each of the business divisions, the risks and future opportunities for the group with a particular focus on US strategic considerations. • At each Board meeting, the Board considered corporate and material transactions to ensure that proposed transactions are aligned with the group's strategy. The Board has early sight of pipeline initiatives. • The Board assesses the range of ongoing corporate and commercial transactions to provide Board members with full opportunity to debate and feed back to the management team.
Solvency II	• The Board considered and approved Internal Model Major Change applications.
Governance	• An externally facilitated Board evaluation took place in Q4 2017 and the Board considered the findings at the January 2018 meeting. Detailed recommendations arising from the evaluation were developed and were subsequently approved by the Board. • The Board is regularly updated by the Group General Counsel and Company Secretary on legal matters, emerging regulation and governance changes.
Stakeholders	• During the year, the Board regularly considered the group's relationship with various stakeholder groups. It discussed shareholder matters, employee engagement, customers, and the group's impact collectively on, and relationship with, wider society. • At the Board's May meeting, the company's brokers attended to present on shareholder engagement. • The Board met regularly through the year with its key regulators, the Prudential Regulation Authority and Financial Conduct Authority.

Strategy away days

Strategy remained a key focus for the Board throughout the course of the year. It held two separate strategy events outside the formal Board meeting schedule in 2017 – a half-day event in May and a two-day event in October. These events provided the Board with an opportunity to reflect on the progress the group's strategy is making against the backdrop of the macro trends identified as the drivers of strategy, and also allow Board members to debate, scrutinise and review performance against the strategic plan. The Board also focuses on the future and the next phase of the company's strategy. The agendas for the strategy events included debate and discussion on strategic options involving the heads of each of the group's key business divisions: Legal & General Investment Management, Legal & General Retirement, Legal & General Capital and Legal & General Insurance.

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

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

During the year, the development activities undertaken included:

- one-to-one briefing sessions for non-executive directors with key members of the senior management team
- deep dives into our businesses and director site visits to business operations including: LGIM's US operations in Chicago, LGC's Housing division in Bracknell, L&G Homes Factory in Leeds and LGC developments in Manchester including the Salford regeneration and MediaCityUK

2017 Board and Committee evaluations

Each year, the Board considers the most appropriate method for conducting a review of the Board and its committees' performance. In deciding if an internal or external review is appropriate, the Board reflects on when it last completed an external review, what changes have occurred to the composition of the Board during the course of the year and any other factors that may have had an impact on the group's strategy during the year. As the last external review was undertaken in 2015, the Board was not required under the Code to undertake such a review during the year; however, following a number of changes to the composition of the Board in the previous 18 months, the Board determined that it would be appropriate to carry out an external independent review this year.

This review was facilitated by Oliver Ziehn of Lintstock who was engaged to undertake the review based on 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

The review included a review of the Chairman and individual directors' performance.

The review concluded that under the leadership of the new Chairman current Board dynamics represented a real strength of the company, with members bringing more relevant input and challenge. A summary of recommendations from the review is set out opposite, together with an update on the progress made against the recommendations from the 2016 review.

Recommendations from 2017

Evolve the medium-term succession plans for non-executive and executive directors and senior management in line with the group's strategic objectives.

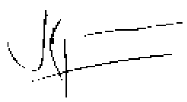
Against the backdrop of the UK Stewardship Code, assess how the group engages with existing and potential shareholders.

Assess how the Board's consideration of the view and requirements of employees can be enhanced.

Continue to maintain the group's focus on culture, including ensuring that the group's culture and core values are maintained as the group grows.

Assess the group's brand and the strength and opportunities of the brand.

Recommendations from 2016 review	Progress against 2016 recommendations
Following the further strengthening of insurance experience on the Board during 2016, Board succession planning priorities will now focus on asset management and international expertise.	When considering the Board succession plan throughout the year the Nominations Committee has continued to focus on asset management and international expertise. There were a number of changes in the Board membership that occurred in 2016. There have been no further changes to the Group Board since Toby Strauss' appointment in January 2017. Asset management and international expertise remain a focus for future appointments.
Continue to evolve the group's subsidiary governance framework to reflect the group's strategic focus, including enhanced opportunities for the Group Board to interact with the subsidiary boards and committees and their independent directors.	Henrietta Baldock was appointed as non-executive Chair of our principal operating subsidiary Legal & General Assurance Society, effective 6 March 2018. Henrietta brings with her extensive knowledge of the financial services and insurance sector through her 25 years' experience in investment banking. Henrietta joins the two existing independent non-executive directors, further enhancing the strength of this board. During the Board's visit to Chicago, the Board met the independent non-executive directors of the LGIM US business.
Build on the success of the talent development programme and 50/50 by 2020 initiative and enhance Board engagement with the organisation's top talent through business 'deep dives', 'talent' dinners and regular events hosted by the Chairman.	Numerous events were held throughout the year. The Board took part in a lunch reception with LGIM US employees in Chicago in October and the Chairman hosted his annual Chairman's Community Awards at which all Board members attended. Several Group Board dinners were also held throughout the year at which various executives and next levels of management from within the Legal & General businesses were invited to present and engage with the Group Board members. The Group Board visited the L&G Homes office in Bracknell in December and visited the Crowthorne development where they met with the staff of L&G Homes. The visit included a walking tour of the Bracknell Town Centre redevelopment which was led by the LGC team.
Review the director training and induction programme with a view to enhancing in line with best practice.	Directors attended a training event in March around Solvency II and all Group Board members attended various strategy events throughout the year providing directors with further insight into business operations. Work continues on further enhancing the director training and induction programme.



Sir John Kingman
Chairman

Committed to the highest standards

Compliance with the 2016 UK Corporate Governance Code. For the year ended 31 December 2017, 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 held nine formal meetings throughout the year, with additional ad hoc meetings held in line with business needs. A number of sub-committee meetings took place 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 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. There is a formal schedule of matters reserved for the Board which sets out the structure under which the Board manages its responsibilities, providing guidance on how it discharges its authority and manages the Board's activities.

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. Sir John Kingman, the Chairman, is responsible for leading the Board while Nigel Wilson, Group Chief Executive, is responsible for the day-to-day management of the company within the strategy set by the Board.

A3 The Chairman

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

A4 Non-executive directors

The Chairman encourages an open and constructive dialogue in the boardroom and actively invites the views of all Board members. The Chairman is available to the non-executive directors and the non-executive directors regularly meet in the absence of the executive directors. In addition, the Chairman and Senior Independent Director are both available to shareholders should they have any concerns they wish to raise.

B. Effectiveness

B1 The composition of the Board

The Nominations Committee is responsible for reviewing the composition of the Board and, in making recommendations for appointments to the Board, the Committee considers the balance of skills, experience and knowledge needed in order to enhance the Board and support the company in the execution of its strategy. Details of the work undertaken by the Nominations Committee are set out on pages 68 and 69.

B2 Appointments to the Board

The Nominations Committee is responsible for leading the process of appointing new directors to the Board. The Committee is committed to ensuring that all appointments are made on merit having evaluated the capabilities of all potential candidates against the requirements of the Board, with due regard for the benefits of all types of diversity, including gender. Further details of the appointments undertaken during the year can be found on page 62 and a summary of the Board's policy on diversity can be found on page 69.

B3 Commitment

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

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. Over the course of the year directors have attended one-to-one briefing sessions with members of the senior management team as well as more formal Board training sessions. Further details of the development sessions which have taken place during the year are set out on page 64.

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

Following the changes to Board membership in 2017, the Board decided that an externally facilitated evaluation would be most appropriate and this review was undertaken by Oliver Ziehn of Lintstock. Sir John Kingman's performance was appraised as part of this review. Details of the evaluation and an update on the recommendations from the 2016 internal evaluation are set out on pages 64 to 65.

B7 Re-election

All directors were subject to shareholder election or re-election at the 2017 AGM, with the exception of those directors who were retiring at the conclusion of the meeting. All directors will be subject to shareholder re-election at the 2018 AGM.

Board and Committee meetings attendance during 2017[1]

Director	Appointment date	Board (9)	Audit Committee (7)	Nominations Committee (1)	Remuneration Committee (6)	Group Risk Committee (6)
Sir John Kingman[2]	24 October 2016	9		1		
J Wilson	9 November 2011	8	7	1		5
N D Wilson	1 September 2009	9				
J Davies[3]	9 March 2017	7				
M Zinkula	18 September 2012	9				
C Bradley	8 December 2014	9		1	6	
P Broadley	8 July 2016	9	7	1	3	6
L Knox	1 June 2016	8	7	1	6	6
K Procter[3]	9 March 2017	7				
T Strauss[4]	1 January 2017	9	7	1		6
R Markham[5]	4 October 2006	3			2	3
R Meddings[5]	8 December 2014	3	4		2	3
M Gregory[6]	28 January 2009	2				

1. Attendance at meetings in accordance with the formal schedule of meetings. 2. Attends all Audit, Remuneration and Group Risk Committee meetings as an invitee.
3. Appointed 9 March 2017. 4. Appointed 1 January 2017. 5. Retired with effect 25 May 2017. 6. Retired with effect 9 March 2017.

C. Accountability

C1 Financial and business reporting
The Strategic Report, located on pages 1 to 53, sets out the performance of the company, the business model, strategy, and the risks and uncertainties relating to the company's future prospects. The directors consider the annual report and account, taken as a whole, is fair, balanced and understandable.

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 52 and 53. Page 51 sets out how the directors have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate (the 'Group Board 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 70 to 77.

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 system and annual review of the risk management framework, and the work undertaken by the external and internal auditors. The Committee also supports the Board's consideration of the company's viability statement and its ability to operate as a going concern. The Company maintains a policy in respect of the provision of non-audit services by the external auditor. The Audit Committee Chair provides regular updates to the Board on key matters discussed by the Committee. The Audit Committee's terms of reference are reviewed annually and are available on the website: legalandgeneralgroup.com.

D. Remuneration

D1 The level and components of remuneration
The company aims to reward employees fairly and its remuneration policy is designed to promote the long-term success of the company whilst aligning the interests of both the directors and shareholders. Shareholders adopted the remuneration policy and approved the remuneration report at the 2017 AGM. The Directors' remuneration policy is set out on pages 83 to 91.

D2 Procedure
The Remuneration Committee is responsible for setting the remuneration for all executive directors. Details of the composition and the work of the Remuneration Committee are set out in the Directors' Remuneration Report on pages 78 to 107.

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 aims to meet the major institutional investors at least once per year and is available to meet other investors on request. The Chairman shares feedback from these meetings with the wider Board. A capital markets event for investors was held in June 2017.

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

SIR JOHN KINGMAN
Chairman

The composition of the Committee

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

Members:
Sir John Kingman (Chair)
Julia Wilson
Carolyn Bradley
Philip Broadley
Lesley Knox
Richard Meddings until 25 May 2017
Rudy Markham until 25 May 2017
Toby Strauss

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

The 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 to support the Board's role in development and oversight of the group's strategy. As part of this, the Committee reviews the structure, size and composition of the Board to ensure the Board is made up of the right people with the necessary skills and experience whilst striving to achieve a Board composition that promotes diversity of thought and approach.

The Committee's key responsibilities are:

- regularly reassessing the structure, size and composition of the Board and recommending any suggested changes to the Board.
- reviewing the criteria for identifying and nominating candidates based on the specification for a prospective appointment including the required skills and capabilities.
- considering succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the company, ensuring the continued ability of the company to compete effectively in the market place, and what skills and expertise will be needed by the Board in future.
- reviewing the time commitment required from non-executive directors and assessing the non-executive directors' other significant commitments to ensure that they continue to be able to 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: legalandgeneralgroup.com/investors/corporate-governance.html.

How the Committee spent its time in 2017

Following the changes to the composition of the Board during 2016, including the appointment of the new Chairman and new Group Chief Financial Officer, the Committee's activities in 2017 have focused on overseeing the induction of recently joined Board members and assessing changes to committee composition arising from the changes to the Board's composition.

This year the Committee has particularly focused on succession planning for the executive and senior management. This has included testing that plans are in place for key senior business roles and ensuring that there are development plans in place to nurture the talent in the next level of management below this to further strengthen internal succession.

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

Our approach to diversity

Our approach to diversity at Board level is set out in our Board Diversity Policy, which is reviewed annually. We continue to recruit based on merit while remaining committed to diversity in the widest sense, including in relation to gender, ethnicity, religious belief, sexual orientation and disability, when seeking to fill vacant Board positions and for the company more generally.

We have maintained the diversity on our Board, which comprises 30% females and 70% males. Our Executive Committee comprises 27% females and 73% males. The Board continues to support Lord Davies' and Hampton-Alexander voluntary targets, namely for a third of all Board members in FTSE 350 companies and FTSE 100 companies to be women by 2020. More information can be found on pages 32 to 35. The chart opposite demonstrates the Board's current position.

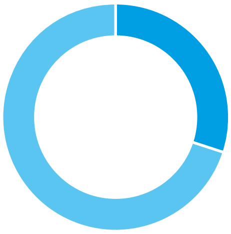
The Board continues to support the delivery of the talent and leadership programmes within the wider organisation which seek to address gender imbalance by removing barriers that prevent women from realising their potential.

Board members actively participate in discussions relating to talent and leadership and a number of Board members act as mentors to individual employees who have been identified as future leaders. The Board 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 2020.

We will publish our Gender Pay Gap data, which will appear online at www.legalandgeneralgroup.com/media-centre/reports. A summary is available on page 34 of this report.

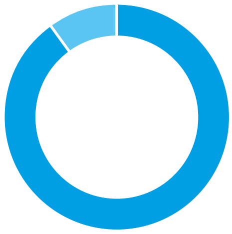
Diversity

Gender



The Board now comprises:
- Females 30%
- Males 70%

Sector experience



Board members come from the following backgrounds:
- Financial Services 90%
- Customer and Retail 10%

Tenure (years)

The length of tenure of the non-executives varies:
- Over six years 10%
- Between three and six years 30%
- Between one and three years 60%

The Committee only engages executive search firms that are signatories to the Voluntary Code of Conduct for Executive Search Firms, which promotes gender diversity and best practice for corporate board searches. The company has worked with JCA Group, Odgers, Russell Reynolds and Korn Ferry which are all signatories to this Code and have no other connection to the company.

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

Audit Committee report

PHILIP BROADLEY
Chair of the Audit Committee

> The Committee's remit covers accounting and financial reporting, internal controls and the external audit. A particular focus during the year was our review of the estimates for future improvement of an annuitant's life expectancy."

The composition of the Committee

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

Members:
Philip Broadley (Chair)
Lesley Knox
Richard Meddings until 25 May 2017
Toby Strauss
Julia Wilson

Other regular attendees at Committee meetings include the following:

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

Letter from the Chair

Dear Shareholder

I am pleased to present the Audit Committee (Committee) report for the year ended 31 December 2017. The report explains the work of the Committee during the year.

The report meets the disclosure requirements set out in the 2016 UK Corporate Governance Code (the 'Code'). The significant accounting issues considered by the Committee are set out on page 72.

The Code requires that the Committee must operate effectively and efficiently and that its members have a balance of skills and experience to deliver its responsibilities. Members of the Committee have varied experience including as executives in the financial services and other sectors, as non-executive directors in other sectors and as board members responsible for financial reporting. The Board consider that I meet the requirements of the Code in having recent and relevant financial experience, as other members of the Committee have too.

Three members of the Committee are also members of the Group Risk Committee, and two members of the Committee are also members of the Remuneration Committee, ensuring the appropriate identification and management of any issues that are relevant to both committees.

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

During 2017, the Committee met seven times in accordance with its annual plan. The Committee's terms of reference are reviewed on an annual basis and the current terms of reference, reviewed in December 2017, are available on our website. The Committee's time over the course of the year was spent principally in consideration of:

- half-year and year-end financial reporting
- asset valuations and actuarial reserving matters
- monitoring and reviewing internal controls
- Solvency II matters
- the effectiveness and work of both the internal and external audit functions
- tax strategy

I set out in my report last year the results of the tender for the future provision of external audit services. KPMG LLP has been shadowing this year's audit by PwC for 2017 and has completed a review of PwC's working papers from the 2016 full year results as well as the 2017 interim results and, in due course, will review the 2017 papers in anticipation of its appointment by shareholders to serve as the group's external auditor in 2018.

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

Philip Broadley
Chair of the Audit Committee

Accounting and financial reporting

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

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

In assessing whether the annual report was fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy, the Committee evaluated whether:

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

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

The Committee, having completed its review, recommended to the Board that, when taken as a whole, the 2017 annual report is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy. The Committee, together with the Group Risk Committee, reviewed the key assumptions and methodologies of the risk-based capital model as well as related Solvency II disclosures and the proposed disclosures pertaining to the group's economic capital disclosure position.

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

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

Internal control

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

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

The Committee has completed its review of the effectiveness of the group's system of internal control policies and procedures, during the year and up to the date this report was approved, in accordance with the requirements of the Guidance on Risk Management, Internal Control and related Financial and Business Reporting published by the FRC. During this review, the Committee did not identify any weaknesses which were determined to be significant to the preparation of the financial statements. The Committee also noted that while the location of significant numbers of the finance teams relocated to our offices in London, Cardiff and Hove, there were no significant changes to the control environment noted in the current year, significant to the preparation of the financial statements. Where areas for improvement were identified, processes are in place to ensure that the necessary actions are taken and progress is monitored by the Committee.

The Committee monitored and reviewed the scope, extent and effectiveness of the activity of the group Internal Audit department. In particular, the Committee evaluates the alignment of the Internal Audit Plan with the group's key risks and strategy.

Internal Audit is an agenda item at each Committee meeting and the Group Chief Internal Auditor updates the Committee on audit activities, progress of the audit plans, the results of any unsatisfactory audits and the action plans to address these areas. In 2017, 106 audits were completed in line with the Internal Audit Plan approved by the Committee.

The Internal Audit function acts in accordance with the Global Institute of Internal Auditors' International standards. In the year, the Committee engaged Ernst & Young LLP to perform an independent review of the effectiveness of the group's internal audit department. The outcomes were reported to the Committee which concluded that progress had been achieved with the strengthening of the leadership team and that the function was meeting its key objectives. The recommendations from the review will be implemented to evolve and strengthen the function's effectiveness.

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

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

The external auditor

The Committee has the primary responsibility for overseeing the relationship with, and performance of the external auditor. This includes making recommendations for their appointment, re-appointment or their removal. In addition, 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 Chair and members at all times
- delivery of an efficient audit and the ability to meet objectives within the agreed timeframes
- the quality of its audit findings, management's response and stakeholder feedback

The Committee receives regular reports from the external auditor on audit findings and significant accounting issues. In 2017, the Committee continued to focus on the external auditor's assurance work on Solvency II.

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

The Committee reviewed the quality of the external audit throughout the year and considered the performance of PwC, taking into account the Committee's own assessment and feedback.

The Committee concluded that there had been appropriate focus and challenge by PwC on primary areas of the audit and had applied robust challenge throughout the audit.

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

- tax advice and compliance
- management or decision-making
- book-keeping and preparing accounting records or statements
- design or implementation of internal controls
- valuation
- legal, internal audit or human resources
- those linked to financing capital structure or allocation or investment strategy
- promoting, dealing in or underwriting share issues
- payroll services

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 audit firm rotation. The company confirms that it has complied with the provisions of the CMA's Order for the financial year under review.

As advised last year, PwC has been the group's external auditor for a number of years. The audit was last tendered in full in 2006 with a partial re-tender process in 2009. During 2016, the Committee undertook a full tender process in respect of external audit services in compliance with legislation and FRC guidance on best practice, in particular ensuring independence in respect of potential audit firms.

The existing external audit firm, PwC, was not invited to re-tender. We approached a range of firms including the 'big four' (other than the incumbent) and mid-tier firms to express their interest. Interested firms were subsequently requested to complete a detailed Request For Proposal (RFP). Following this, a full tender process of firms shortlisted based on the responses to the RFP was undertaken. During the tender process, each firm was given access to members of the group's senior management and a data room. The tendering firms were judged against objective criteria determined in advance of the process, together with the findings and conclusions of published inspection reports on the audit firms. Whilst the Committee appreciated the quality of the proposals presented by all the tendering firms, it considered that the submission and team from KPMG LLP (KPMG) best met the predefined criteria it had set.

As reported in the 2016 annual report and subject to shareholder approval, KPMG will be appointed as the Company's auditor with effect from the audit for the financial year ending 31 December 2018 at the 2018 AGM. To ensure a smooth transition from PwC, KPMG is shadowing PwC on the audit for the financial year ending 31 December 2017 and will then take responsibility for the audit in 2018.

In 2017, the group spent £2.2 million on non-audit services provided by PwC. It spent a further £0.8 million on audit-related services required by legislation, which is excluded from any calculation of the ratio of non-audit to audit fees in accordance with the UK FRC Ethical Standard for Auditors (June 2016). Further details can be found in note 34 to the consolidated financial statements. The non-audit fee represents 35% of the total audit fee for 2017.

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

	2017	2016	2015
Audit	**6.1**	5.7	4.9
Audit-related required by legislation	**0.8**	1.0	1.1
Other audit-related	**1.0**	1.0	1.6
Other assurance	**0.4**	0.4	0.4
Non-assurance	**0.8**	1.1	1.3
Total	**9.1**	**9.2**	**9.3**

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

Our policy is to approach other firms for significant non-audit work unless the audit firm offers a materially better combination of value, quality and timeliness compared with the non-audit firm whilst not impairing the audit firm's integrity, objectivity and independence. In these circumstances, the group's policy requires that all services with an anticipated cost in excess of a specified amount are subject to a full competitive tender involving at least one other alternative party in addition to the external auditor. If the external auditor is selected following the tender process, the Committee is responsible for approving the external auditors' fees on the engagement. The Committee has pre-approved the engagement of the auditor for non-prohibited services where the anticipated cost is trivial, but authority is still required from the Group Chief Financial Officer to approve any such engagement. The external auditor is required to report regularly to the Committee on the nature and fees relating to non-audit services provided under this authority.

The Committee supports the five-year rotation of audit engagement partners to maintain the objectivity of the group external audit. The current audit partner commenced his engagement in 2013. PwC will end their tenure as external auditor at the 2018 AGM.

The Committee remains satisfied that PwC continued to be independent. In addition, PwC annually reports on whether and why it deems itself to be independent.

Update on auditor transition progress

Since May 2017, the Committee has received a report from KPMG at each meeting describing its preparatory work during the transition period.

Group Risk Committee report

TOBY STRAUSS
Chair of the Group Risk Committee

The composition of the Committee

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

Members:
Toby Strauss Chair
Philip Broadley
Lesley Knox
Rudy Markham until 25 May 2017
Julia Wilson

Other attendees at Committee meetings include: the Group Chairman; Group Chief Executive; Group Chief Financial Officer; Group Chief Risk Officer; Group Chief Internal Auditor; and representatives of the external auditor, PricewaterhouseCoopers LLP.

The role of the Committee is to assist the Board in the oversight of the risks to which the group may be exposed and to provide the Board with strategic advice in relation to current and potential future risk exposures. This includes reviewing the group's risk profile and appetite for risk, and assessing the effectiveness of the group's risk management framework. The group's approach to the management of risk is set out in more detail on pages 48 to 53.

Committee activities during 2017

The work of the Committee is supported by the Group Chief Risk Officer and Group Company Secretary who assist the Committee Chairman in planning the Committee's work and ensuring that the Committee receives accurate and timely information. The Committee met six times during 2017.

Group Chief Risk Officer's report

Each meeting, the Committee receives a formal report from the Group Chief Risk Officer. This report brings to the Committee's attention key factors in the operating environment of the group's businesses and an assessment of the potential risks that may emerge. The review includes analysis of risks arising from the macroeconomic outlook and conditions in financial markets, together with geopolitical, legislative and regulatory change risks that may impact the group's businesses, and risks associated with the implementation of the group's business strategy.

The Group Chief Risk Officer's report is supplemented with management information on risk appetite, comparing actual positions relative to the group's risk appetite statement; and quantitative analysis of the group's exposures to financial and operational risks, including risk-based capital requirements in relation to the core risks implicit in the group's businesses.

Group Conduct Risk Director's report

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

Focused business and risk reviews

Time is allocated at each Committee meeting to carry out focused 'deep dive' reviews of a particular risk area. The purpose of these reviews is to enable Committee members to examine the risk profile of the core business lines and to consider the robustness of the frameworks in place to manage the key risk exposures. Committee members are invited to participate in setting the agenda for these deep dive reviews, considering both the current operating environment and emerging risk factors. The adjacent page gives examples of some of the key reviews that took place during 2017 and the areas of focus by the Committee.

- Pricing reviews: assessments of the frameworks in our protection, pension risk transfer and lifetime mortgage business that ensure pricing reflects the risks implicit in products whilst providing value for money to our customers.
- Brexit Contingency Planning: maintaining oversight of activities within LGIM to mitigate the possible loss of EU passporting rights, and more broadly the resilience of investment strategies to market shocks.
- Reinsurance counterparties: the approach to counterparty selection, the setting of exposure limits and the monitoring of actual positions relative to key tolerances.
- General Data Protection Regulation (GDPR): ahead of GDPR implementation in May 2018, assessing areas of change for the group's businesses. A further readiness assessment will be undertaken in 2018.
- Mortality and morbidity: consideration of the relative mortality and morbidity experience for our UK and US protection businesses and developments in our approach to underwriting these risks.
- Financial crime: an assessment of the group's profile of fraud, money laundering and bribery/corruption risks and the proportionality of the control environment.
- Liquidity risk: the effectiveness of liquidity management processes for stressed and extreme market scenarios frameworks.
- LGIM risk management: an annual review of LGIM's operational risk management framework and global operating model.

The Committee has also taken an active role in the development of the group's recovery and resolution plans, which are being put in place in line with the UK regulatory requirements relating to systemically important insurers.

Risk appetite

In July, as in previous years, the Committee undertook a detailed review of the operation of the group's risk appetite framework and the key measures and tolerances used to determine acceptable risk taking, recommending a number of refinements to the Board. In December, the Committee considered the risk profile of the group's strategic plan and its alignment with the group's overall risk appetite.

In addition to this aggregate view of acceptable risk taking, the Committee also considers, as part of the group's overall transaction approval process, the appetite for specific risks associated with transactions, particularly where the transaction is material in the quantum of risks being assumed or where aspects of the transaction may present risks that are relatively new to the group. In this context during 2017, the Committee evaluated the risk profile and appetite for the larger pension risk transfer deals undertaken as well as transactions utilising risk syndication techniques. The Committee is also responsible for recommending to the Board risk appetite levels for particular business lines.

Risk-based capital model

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

- key assumptions, methodologies and areas of expert judgement used within the model
- activities undertaken to independently validate the outputs of the model
- ongoing development of the model to ensure that it reflects the business lines and risk profile of the group
- processes to ensure that changes applied in the model are undertaken in a controlled manner, and in line with model development plans

Own risk and solvency assessment (ORSA)

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

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

A formal ORSA report is subject to annual review by the Committee prior to formal approval of the Group Board.

Risk governance

Sound frameworks of risk management and internal control are essential in the management of risks. During the year, the Committee has received updates on the continued development of the risk governance framework.

Risk-based remuneration

The Committee advises the Remuneration Committee on risk matters to be considered in reviewing bonus pools.

Directors' report on remuneration – introduction

LESLEY KNOX
Chair of the Remuneration Committee

Our remuneration report is organised into the following sections

The directors' remuneration policy was subject to a binding vote at the 2017 AGM, and will apply for three years from the 2017 AGM.

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

Letter from the Chairman

Dear Shareholder

On behalf of the Board, I am pleased to present the Remuneration Committee's report on remuneration for 2017. Our current remuneration policy was approved by shareholders at the 2017 AGM and I would like to take this opportunity to thank you, our shareholders, for the strong support received.

Review of our remuneration policy

As we communicated to shareholders last year, during the course of 2017 the Committee took a fresh look at the group's approach to executive remuneration (including all senior management within the group).

As part of that review, the Committee sought views internally from the new Chairman and other Board members, reflected on feedback that had been received from shareholders over the previous years on our current approach to remuneration and on the changing external environment and stakeholders' evolving views on remuneration.

The Committee considered a number of possible alternatives, ranging from retaining the current approach, which is very much in line with UK plc market practice, to moving to a restricted stock style plan or the potential use of a single incentive plan. Whilst the alternatives were debated at length, the Committee concluded that the current structure approved by shareholders at the 2017 AGM continues to be appropriate to drive sustainable delivery of the group's short and long-term ambitions, in alignment with our strategy, subject to two modifications:

1. To extend the holding period applied to PSP awards such that the entirety of any award must be held for two years following the end of the performance period (rather than the current phased approach); and
2. To remove the current Earnings Per Share (EPS)/ Dividend Per Share (DPS) matrix that previously accounted for 50% of the performance measures used for the PSP and replace it with a measure based on EPS growth, while retaining the current TSR performance measure for the remaining 50% and continuing to assess overall performance against key Solvency II performance indicators.

During the course of late 2017 and early 2018, the Committee consulted with the group's largest shareholders on the above changes. Shareholders that were consulted with were supportive of the proposed changes. The proposed changes are within the bounds of the Remuneration Policy approved by shareholders at the 2017 AGM, and as such we will not present a revised policy for approval at the 2018 AGM.

Further details of our rationale for these proposed changes are provided in the 'At a glance' section of the Directors' remuneration report on page 80.

Board changes and changes to the Committee

As set out earlier in the report, in November 2017 the Board announced the appointment, with effect from January 2018, of Kerrigan Procter as CEO of Legal & General Capital, which will enable the group to further enhance the synergies across the Legal & General's principal balance sheet businesses. Whilst Kerrigan's role has evolved, the Committee considered that his overall remuneration arrangements remained appropriate and as such no changes are proposed, other than the annual review of remuneration in line with wider employees, as set out below.

During the year, there were also changes to the membership of the Remuneration Committee, with Rudy Markham and Richard Meddings both stepping down from the Board in

May 2017, while Philip Broadley (Chair of the Audit Committee) was appointed to the Remuneration Committee at the same time. I would like to place on record the Committee's gratitude to both Rudy and Richard for their invaluable contributions to the deliberations of the Remuneration Committee, and welcome Philip to the Committee.

Finally, our Group HR Director, Elaine MacLean, retired in January 2018 and was replaced by Emma Hardaker-Jones who prior to joining, held roles at PA Consulting, as Global Head of HR on the Board and at BP, as Global Head of Talent and Resourcing. I wanted to thank Elaine for the counsel she has provided to the Committee during her time as Group HR Director, during which there has been a significant evolution of the approach to both executive and all employee reward within the group, and I would like to welcome Emma, with whom we look forward to working over the coming years.

Link between pay and performance for 2017

In line with the financial results reported by the Group elsewhere in the report (pages 40 to 47), Legal & General has continued to deliver strong performance during 2017, with particular highlights including an increase in operating profit of 32% and continued growth in earnings per share, up by 50%.

In this context, the Committee determined the following out-turns for incentive awards during the year.

Annual variable pay (AVP)

Pages 94 to 96 detail the targets and outcomes relating to 2017 as well as remuneration received relating to the year.

The results of the group in the year reflect the significant impact of mortality assumption changes and changes in US corporate tax which were not factored into the original targets. The Committee therefore discussed whether AVP out-turns were truly reflective of the performance of the group in the round, acknowledging that the impact of assumption changes is, to some extent, outside the control of management.

The committee was of the view that it would not be appropriate to include the full impact of these assumption changes or the one off impact of US corporate tax rate changes. However, the underlying performance was sufficiently strong for the group financial performance targets to be met in any event. Further details on overall out-turns for each executive, taking into account performance against divisional and/or strategic measures, can be found within the remuneration report.

Going forward, the Committee will monitor and consider further its approach to factoring in the impact of longevity releases on incentive out-turns to ensure that the approach aligns out-turns with executive performance and the group's risk appetite, whilst at the same time reflects the overall experience of investors. Further details will be provided to investors as appropriate within the 2018 Directors' remuneration report.

Performance Share Plan (PSP)

The performance period for the PSP granted in 2015 ended on 31 December 2017. Based on the group's performance over the past three years, including the strong earnings (24%) and dividend (10.9%) average annual growth of the company over the performance period and the total shareholder return relative to the FTSE 100, these awards will vest at 59.9% of the maximum.

Base salary increases in 2018 and the link to the wider work force

In determining base salary increases for executive directors for 2018, the Committee was mindful of the wider approach to the year-end review for employees within the group. The average base salary increase for all UK employees was 3.7%; however, it was agreed that this spend would be focused on more junior employees and as such base salary increases for senior managers within the group (including the executive directors) were limited to 2%, whilst the average salary increase for other employees was 3.8%.

This is part of the Company's ongoing commitment to ensure that remuneration for all employees is fair, market competitive, recognises performance and promotes the culture and values of the group.

Details of the salaries for the executive directors for 2018 are set out in our 'How will the remuneration policy be implemented in 2018?' section on page 81, which also details how the wider remuneration policy will be implemented in 2018.

Wider issues regarding remuneration

As a Committee, we have aimed to reflect the desire from investors for increased transparency, not only directly in relation to our policy for executive remuneration, but also in relation to remuneration across the wider workforce. As with the 2016 report, we have therefore considered it appropriate to voluntarily include information on the ratio of the CEO's pay to the wider population, and we will continue to consider this ratio when making future remuneration decisions.

Diversity in the workforce also continues to be a priority for the Committee as we look to build on the work done since we signed the Women in Finance Charter in 2016. Further details on gender diversity across the group and our gender pay gap are provided on pages 32 to 35.

Looking forward

The Committee is mindful of the wider debate on executive remuneration within society and of the role that Legal & General plays in this regard, not only as a major investor through Legal & General Investment Management but also as a Company that looks to maintain the highest standards of corporate governance.

During the coming year, the Committee will therefore continue to monitor developments in remuneration and how this is reflected in our remuneration policy for directors.

I hope that you find this report a clear account of the Committee's decisions and how they have been implemented.

Lesley Knox

Lesley Knox
Chair of the Remuneration Committee

At a glance

How do the performance measures used for incentive arrangements align with the group's KPIs?
The Committee considers it important that the performance measures used for the purpose of the incentive arrangements for management are directly aligned to the group's KPIs. The following table therefore sets out how the performance measures used for the purpose of the AVP and PSP are directly linked to our KPIs.

Overarching drivers of the business	Group KPIs	Key measure in the remuneration of executives
Profit	• Operating profit • Earnings per share • Profit before tax	• Operating profit – up to 25% of 2018 AVP awards • Adjusted EPS – up to 12.5% of 2018 AVP awards • EPS growth – 50% of 2018 PSP awards
Cash generation	• Net release from operations	• Net release from operations – up to 20% of 2018 AVP awards
Shareholder value creation	• Total shareholder return	• Relative TSR – 50% of 2018 PSP awards
Strategic priorities and non-financial goals	• Worldwide employee engagement index • Diversity agenda • Risk profile • Divisional objectives • Customer experience	• Divisional and personal strategic objectives make up significant proportions of the AVP scorecards for all executive directors • Performance against Solvency II objectives considered when determining vesting for the PSP awards

How will the remuneration policy be implemented in 2018?

The tables below set out a high level summary of our Directors' Remuneration Policy (the 'Policy'), as well as how that policy will be implemented in 2018. The policy was approved by shareholders at our 2017 Annual General Meeting. Details of the approved Remuneration Policy can be found on pages 83 to 91.

Time horizons of our remuneration structure

	2018	2019	2020	2021	2022	Comment
Fixed pay						
AVP						50% paid in cash at the end of 2018 50% deferred into Legal & General shares – released following the end of 2021
PSP						100% of awards subject to a two-year holding period – released following the end of 2022

Paid during 2018 | Performance period | Holding period

Overview of policy / Implementation for 2018

Fixed pay

Overview of policy:
- Consists of base salary, benefits and pension contribution.
- Salaries normally reviewed annually effective from 1 March.

Implementation for 2018:

	Salary	Salary increase	Pension – cash allowance	Benefits
Nigel Wilson	£927,000	2.0%	15% of salary	Provided in line with approved policy
Jeff Davies	£510,000	2.0%	13.8% of salary	
Mark Zinkula	£638,000	2.0%	15% of salary	
Kerrigan Procter	£484,500	2.0%	15% of salary	

AVP

Overview of policy:

Performance measures are weighted as follows:

	Group financial	Divisional performance	Strategic personal objectives
Nigel Wilson	70%	–	30%
Jeff Davies	70%	–	30%
Mark Zinkula	35%	35%	30%
Kerrigan Procter	35%	35%	30%

- Performance measured over one financial year.
- 50% paid in cash, 50% deferred into Legal & General shares for three years.
- Clawback and malus provisions apply.

Implementation for 2018:
- Maximum opportunities (no change from 2017):
  - Nigel Wilson – 150% of salary
  - Jeff Davies – 150% of salary
  - Mark Zinkula – 175% of salary
  - Kerrigan Procter – 175% of salary
- 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.

PSP

Overview of policy:
- Three-year performance period, with shares held for a further two years following the date of vesting.
- Performance will be measured based on a combination of total shareholder return (50% of award) and financial measures (50% of award).
- 15% of the award vests for threshold performance.
- Maximum award of 300% of salary.
- Clawback and malus provisions apply.

Implementation for 2018:
- All executive directors will have a maximum award opportunity of 250% of salary (no change from 2017).
- For awards made in 2018, performance will be measured against:
  - EPS growth (50% of award). Threshold vesting requires growth of 5% p.a., with maximum vesting requiring growth of 14% p.a.
  - Relative TSR against the FTSE 100 (25% of award) and a bespoke group of insurance companies (25% of award).* Threshold vesting at median TSR performance. Maximum vesting occurs for upper quintile TSR performance against the respective peer groups.
  - Vesting of awards subject to an assessment of performance against Solvency II objectives.

* Bespoke TSR peer group comprises of the following companies: Aegon, Ageas, Allianz, Ameriprise Financial, Assicurazioni Generali, Aviva, AXA, CNP Assurances, Gjensidige Forsikring, Hannover Ruck., ING Groep, Lincoln National, Mapfre, Metlife, Muenchener Ruck., Phoenix Group, Principal Financial, Prudential, Prudential Financial, Sampo 'A', Standard Life Aberdeen, Swiss Re, Talanx Aktgsf. and Zurich Insurance Group.

Shareholdings against guidelines

	Actual share ownership as % of 2017 base salary: vested shares	Guidelines on share ownership as a % of base salary	Guideline met
Nigel Wilson	1,244%	300%	Yes
Jeff Davies	0%	200%	No
Mark Zinkula	452%	200%	Yes
Kerrigan Procter	65%	200%	No

How were the executives remunerated for 2017?

Our performance

Financial measures used for Annual Variable Pay (AVP)

The group performance measures below accounted for 35%–70% of AVP performance assessment for our Executive Directors for their 2017 AVP award. The remaining measures are set out on pages 94 and 95.

Performance measures	2017	Target	Maximum	% of target achieved	% of maximum achieved	Further information
Net release from operations	£1,454m	£1,426m	£1,466m	102.0%	99.2%	p42
Operating profit[1]	£1,889m	£1,774m	£1,844m	106.5%	102.4%	p44
Adjusted EPS[1]	25.4p	24.0p	25.0p	105.9%	101.6%	p46
Adjusted ROE[1]	23.9%	20.1%	20.8%	118.9%	114.9%	p46

Performance measure	2017	Threshold	% of threshold achieved	Further information
Solvency II surplus emerging[2]	£1,686m	£872m	193.3%	p47

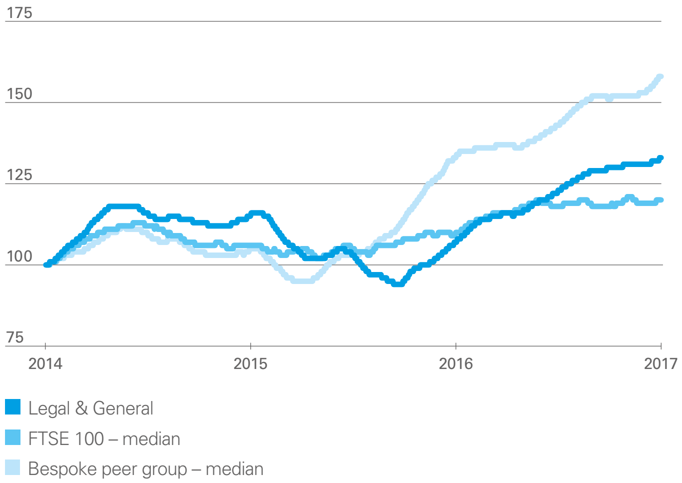
1. Amounts adjusted downwards to remove the impact of the US corporate tax rate change and a percentage of the mortality assumption changes.
2. Total surplus amount before dividends and debt raising.

Vesting of 2015 Performance Share Plan awards

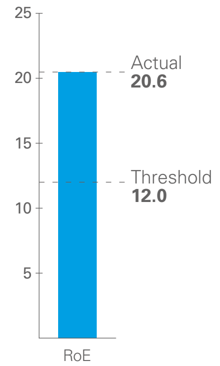
Vesting of 50% of the 2015 performance share plan awards (PSP) was determined by reference to TSR of the FTSE 100 (25%) and the bespoke comparator group (25%) over a three-year performance period.

The vesting of the other 50% of the awards was determined based on a combination of EPS and DPS growth, and subject to a RoE underpin. Further details of the targets are provided on page 97. Based on the level of performance achieved the 2015 PSP award vested at 59.9% in March 2018.

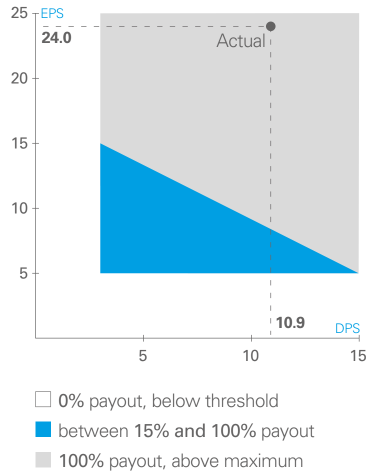
TSR performance as at 31 December 2017



Step 1: Achieved RoE underpin (% p.a. 2015–17)



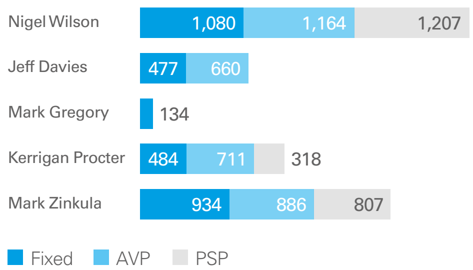
Step 2: EPS & DPS growth (% p.a. 2015–17)



How much our executive directors earned in 2017

	Fixed	AVP	3-year performance ended 31 December 2017 PSP – value at year end
Nigel Wilson	1,079,981	1,163,520	1,207,211
Jeff Davies – *appointed 9 March 2017*	476,558	660,000	–
Mark Gregory – *retired as CFO on 9 March 2017*	134,321	–	–
Kerrigan Procter – *appointed 9 March 2017*	483,579	710,719	318,367
Mark Zinkula	934,015	886,065	807,145

The fixed element for Mark Zinkula includes an international allowance relating to the US aspect of his role. Jeff Davies was appointed as CFO on 9 March 2017. Mark Gregory stood down from the Board on this date, but continued to be employed until 31 August 2017. As communicated in the 2016 report, Mark was treated as a 'good leaver' for the purpose of outstanding awards. Further details can be found on page 100 of the report.



Directors’ remuneration policy

Key:

Planned implementation for 2018
Content contained within a blue tinted box indicates that all the information in the panel is planned for implementation for 2018.

The following sections sets out relevant extracts of our directors’ remuneration policy (the ‘policy’) which was approved by shareholders by way of a binding vote at the 2017 AGM on 17 May 2017. As set out in the Chairman’s letter on page 78, although no changes have been made to the policy. There are some changes in relation to the how the policy will be implemented going forward. For ease of reference, we have highlighted these areas within the policy.

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

Proposed changes for 2018: Base salary
No change in approach

Remuneration element	2017 policy
Benefits	
Purpose and link to strategy	Benefits are provided to executive directors to attract and retain the best talent for the business and to ensure that the total package is competitive in the market.
Operation	The Committee's policy is to provide executive directors with a market competitive level of benefits, taking into consideration benefits offered to other senior employees in the UK, the individual's circumstances and market practice at similar companies. Benefits provided to executive directors are normally in line with benefits provided to other senior employees in the UK. Benefits currently provided to executive directors include: car allowance, private medical insurance, life assurance, Group Income Protection, and insured death in service arrangements. These are all in line with our general policy for other UK employees. In line with other Legal & General employees, executive directors can choose to acquire Legal & General products, and are eligible to participate in the company's voluntary benefits which they fund themselves, sometimes through salary sacrifice. They are eligible to participate in the UK all-employee share plans on the same terms as other employees. The two current all-employee share plans are: • the savings-related share option scheme (SAYE) • the all-employee share incentive plan Where an executive (new or current) is required to relocate, or perform duties outside their home country in order to fulfil their duties, in line with our mobility policy and practice, additional benefits may be provided, for example: home country benefits such as healthcare and additional support in relocating such as assistance for housing, school fees, travel home, relocation costs and tax advice.
Opportunity	In line with other UK employees, there is no maximum level for the benefits as this is dependent on the individual's circumstances and the cost to the company. The maximum opportunity for participation in the current all-employee share plans is in line with other employees and takes into account the prevailing HMRC rules. Relocation/international assignment benefits – the level of such benefits would be set taking into account the circumstances of the individual and typical market practice.
Performance	There are no performance conditions.

Proposed changes for 2018: Benefits

Benefits – No change in approach. The approach to benefit provision for executive directors is the same as that operated for senior managers in the rest of the UK organisation.

Remuneration element	2017 policy
Pension	
Purpose and link to strategy	The policy aims to provide competitive post-retirement benefits and therefore recognise sustained contribution.
Operation	Pension contributions are set at an appropriate level to attract and retain high performing people. In line with other employees in the UK, executive directors currently participate in either a defined contribution pension plan, a defined benefit pension plan or receive a cash allowance in lieu of pension, or have some combination thereof. The defined benefit pension plan was closed to new joiners in 2001. From 2009, increases in pensionable salary for the defined benefit pension plan for remaining active members have been limited to a maximum of 2.5% each year and in 2015 the scheme was closed to future accruals. For executive directors who took enhanced protection in 2006, a cash allowance was provided in lieu which may be reviewed or amended by the employer. Non-UK national executives may be permitted to participate in home-country pension plans where relevant. Base salary is the only element of pensionable remuneration. At the discretion of the Committee, executive directors may elect to sacrifice all or part of their cash AVP into pension.
Opportunity	New executive directors receive 15% of base salary into the defined contribution pension plan (they contribute 5%). This contribution level for executive directors is the same as that operated for senior managers in the rest of the UK organisation in the defined contribution pension plan. As for other employees, there is a cash alternative. Mark Zinkula may also contribute part of any cash allowance into a US 401k pension plan. Mark is also a member of a cash balance plan in the US.
Performance	There are no performance conditions.

Proposed changes for 2018: Pensions

Pensions – No change in approach. The contribution level for executive directors is the same as that operated for senior managers in the rest of the UK organisation.

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

Proposed changes for 2018: AVP
No change in approach.

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

Proposed changes for 2018: PSP
Maximum opportunity: no changes.

Time horizons: In line with shareholder expectations and evolving market practice in this area, we are proposing to **extend the holding period** that currently applies to awards under the PSP, such that the whole award must be held for a further two years following the date of vesting.

Performance measures: In line with shareholder feedback and our continued focus on alignment with the commercial strategy:

- The EPS/DPS matrix will no longer be used as a performance condition.
- Instead, EPS performance alone will make up 50% of the award. After considering a number of alternatives, the Committee believes that EPS continues to be an appropriate and effective driver of the delivery of the commercial strategy.
- **Relative TSR performance will continue to make up the other 50%** of the award. In its review, the Committee considered the appropriateness of the current bespoke comparator group. Overall, the Committee considered the current group to be a fair representation of the key comparators of the group as a whole. Only the following changes are proposed:
  – Following the merger, Standard Life Aberdeen (which has been reclassified a diversified financials group) will remain a constituent of the bespoke comparator group going forward (in place of legacy Standard Life)
  – Given the differing nature of their operations, St James's Place and Old Mutual will be removed from the bespoke comparator group.
- Vesting of PSP awards will be subject to an assessment of performance against Solvency II objectives.

Recruitment remuneration

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

Proposed changes for 2018: Recruitment remuneration
No change in approach.

Service contracts and termination and payments for loss of office

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

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

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

Service contracts and termination and payments for loss of office (continued)

Treatment of outstanding incentive award (continued)	PSP awards In the event that a participant is a 'good leaver' any outstanding unvested PSP award will normally (unless the Committee determines otherwise) be pro-rated by reference to the proportion of the performance period that has elapsed on cessation and will vest based on performance to the end of the performance period. Awards will usually be released at the normal time. Where it considers it appropriate, for example in the case of terminal illness, the Committee reserves the right to accelerate any payment due. 'Good leaver' circumstances are leaving due to death, disability, ill health or injury, redundancy, retirement with company agreement, the individual's employing company/business ceasing to be part of the group or any other reason at the discretion of the Committee. For all other leavers, outstanding unvested awards lapse. Awards will generally vest early on a takeover of the company, merger or other corporate reorganisation. Alternatively, participants may be allowed or required to exchange their awards for new awards. Where an award vests early in these circumstances, the Committee will determine the level of vesting, having regard to the extent to which the performance condition has been satisfied to the date of vesting (subject to downwards discretion based on underlying performance) and (unless the Committee determines otherwise) to the fact that the award is vesting early. If there is a demerger, delisting or special dividend or other transaction which may affect the share price, the Committee may allow awards to vest on the same basis as for a takeover.
Other information	The Committee reserves the right to make any other payments in connection with a Director's cessation of office/employment where the payments are made in good faith in the discharge of an existing legal obligation (or by way of damages for breach of such obligation) or by way of settlement of any claim arising in connection with the cessation of the director's office/employment, or for any fees for outplacement assistance and/or Director's legal and/or professional advice fees in connection with his cessation of office/employment.

Proposed changes for 2018: Service contracts and termination and payments for loss of office
No change in approach.

Non-executive directors (NEDs)

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

Approach to fees	Operation	Other items
Fees for the Chairman and NEDs are set at an appropriate level to reflect: • the time commitment required to fulfil the role • the responsibilities and duties of the positions; and • typical practice in the FTSE 100 and amongst other financial institutions. Fees for non-executive directors are reviewed at regular intervals by the executive directors. Fees for the Chairman are reviewed at regular intervals by the Remuneration Committee. No one is involved in the discussion of their own fee. Fees are subject to the aggregate limit in the company's Articles of Association. Any changes in this limit would be subject to shareholder approval.	Our NED fees policy is to pay: • a base fee for membership of the Board • a committee attendance fee if the non-executive sits on two or more Board committees (currently not including the Nominations Committee); and • additional committee chairmanship and SID fees to reflect the additional responsibilities and time commitments of the role. The Chairman receives an inclusive fee for the role. Additional fees for membership of a Committee or chairmanship or membership of subsidiary boards or other fixed fees (such as for a particular project) may be introduced if justified by time or commitment.	The Chairman and NEDs are not eligible to participate in any benefit plans or the AVP or the PSP. Expenses incurred in carrying out NED duties (and any associated tax liability) may be reimbursed or paid for directly by the company. Additional benefits may be provided if the Board feels this is justified such as tax advice if recruited from overseas, work permits or similar. NEDs are expected to hold the equivalent of one year's base fee in Legal & General shares to be retained until the end of office. NEDs generally have a proportion of their fees (normally 50%) paid in Legal & General shares until this level is reached. Once this level is reached, they may take all their fee in cash.

Proposed changes for 2018: NEDs
No change in fees.

Annual report on remuneration

Key:

Audited

Audited information
Content contained within a gold box highlighted with an 'Audited' tab indicates that all the information in the panel is audited.

Planned implementation for 2018
Content contained within a blue tinted box indicates that all the information in the panel is planned for implementation for 2018.

'Single figure' of remuneration – Executive Directors

The following table shows a single total figure of remuneration for each executive director in respect of qualifying services for the 2017 financial year, together with a comparative figure for 2016.

Single figure

Audited

Executive Director	Salary £'000	Benefits £'000	Annual variable pay (AVP) £'000	New PSP (grants made since 2014)[2] £'000	Old PSP LTIP (grants made prior to 2014) £'000	Pension £'000	Total remuneration £'000
2017							
Nigel Wilson	**905**	**39**	**1,164**	**1,207**	**–**	**136**	**3,451**
Jeff Davies – *appointed 9 March 2017*	**406**	**17**	**660**	**–**	**–**	**54**	**1,137**
Mark Gregory – *retired as CFO 9 March 2017*	**111**	**4**	**–**	**–**	**–**	**20**	**134**
Kerrigan Procter – *appointed 9 March 2017*	**386**	**54**	**711**	**318**	**–**	**44**	**1,513**
Mark Zinkula[1]	**623**	**212**	**886**	**807**	**–**	**99**	**2,627**
2016							
Nigel Wilson	882	59	1,167	1,446[2]	1,731	132	5,417
Mark Gregory	588	51	821	988[2]	1,064	79	3,590
Mark Zinkula[1]	604	285	832	988[2]	1,064	97	3,870

1. 15% of Mark Zinkula's salary and AVP are paid to him in the US. At the time of his appointment as CEO LGIM a US dollar to GB sterling exchange rate of £1 = $1.60 was agreed. In 2017, Mark received $149,448 in salary in the US. The rate will be kept under review during 2018.
2. The 2014 PSP figures reported in the 2016 single figure now reflect the actual vesting price of the shares, which vested on 9 March 2017, at £2.503 per share. The values previously included in the 2016 report based on a three-month average share price to 31 December 2017 were £1,316k (Nigel Wilson) and £899k (Mark Gregory and Mark Zinkula).

Historically our performance share plan (PSP) had a three-year performance period which was aligned to grant date and generally ran to April or May. In 2016 we changed the performance period used to determine vesting of the PSPs to align the end of the performance measurement period with our financial year-end date. As a result of this change, our 2016 single figure table contained two PSPs, one relating to the three-year performance period ending May 2016, and another relating to the new three-year performance period ending December 2016.

Components of the single figure

Salary

Audited

Name	Annual base salary as at 1 January 2017	Annual base salary effective 1 March 2017	Total base salary paid in 2017	Annual base salary effective 1 March 2018	% Increase
Nigel Wilson	886,000	909,000	**905,167**	927,000	2.0
Jeff Davies	–	500,000	**405,914**	510,000	2.0
Mark Zinkula	610,000	625,500	**622,884**	638,000	2.0
Kerrigan Procter	–	475,000	**385,618**	484,500	2.0

Base salary increases are in line with the average salary increases for senior management and lower than average salary increases across the group.

Benefits

Benefits include the elements shown in the table below.

Audited

Executive Director	Car and PMI £'000	Dividends £'000	Discount SAYE and matching shares £'000	International allowance £'000	Total benefits £'000
2017					
Nigel Wilson	**20**	**18**	**1**	**–**	**39**
Jeff Davies	**16**	**–**	**1**	**–**	**17**
Mark Gregory	**4**	**–**	**–**	**–**	**4**
Kerrigan Procter	**16**	**37**	**1**	**–**	**54**
Mark Zinkula	**30**	**14**	**–**	**168**	**212**
2016					
Nigel Wilson	20	38	1	–	59
Mark Gregory	20	30	1	–	51
Mark Zinkula	30	29	–	226	285

The matching shares and dividends relate to the all-employee share purchase plan. No dividends are payable on outstanding share bonus plan (SBP) or PSP awards. The SAYE discount is calculated based on the value of the discount on SAYE share options exercised in the year. No directors exercised SAYE options during the year.

The international allowance for Mark Zinkula includes allowances for schooling, flights and associated tax advice resulting from his relocation to the UK. The allowance has previously also included an allowance for housing which ceased in January 2017.

Benefits for 2018

Benefits for 2018 to be in line with policy.

Pension

Nigel Wilson, Mark Gregory and Kerrigan Procter received a cash allowance of 15% of base salary. Mark Zinkula received 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. Jeff Davies received a cash allowance of 13.8% of salary. All cash allowances are subject to normal payroll deductions of income tax and National Insurance.

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

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Executive Director	Cash in lieu £'000	Defined benefit £'000	Defined contribution £'000	Other/overseas Pension £'000	Total pension £'000
2017					
Nigel Wilson	**136**	**–**	**–**	**–**	**136**
Jeff Davies	**54**	**–**	**–**	**–**	**54**
Mark Gregory	**17**	**3**	**–**	**–**	**20**
Kerrigan Procter	**44**	**–**	**–**	**–**	**44**
Mark Zinkula	**93**	**–**	**–**	**6**	**99**
2016					
Nigel Wilson	132	–	–	–	132
Mark Gregory	88	(9)	–	–	79
Mark Zinkula	91	–	–	6	97

Pension for 2018

Nigel Wilson and Kerrigan Procter receive a cash allowance of 15% of base salary, Mark Zinkula receives a cash contribution of 15% of salary in lieu of joining the UK pension plan and Jeff Davies receives a cash allowance of 13.8% of salary.

Further pension information

Audited

Executive Director	Age at 31 December 2017	Accrued DB pension at 31 December 2017 £'000	Normal retirement age	Additional value of pension on early retirement
Nigel Wilson	61	–	65	–
Jeff Davies	46	–	65	–
Mark Gregory	54	42	60 in DB plan and 65 in DC plan	–
Kerrigan Procter	48	–	65	–
Mark Zinkula	50	–	65	–

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2017 annual variable pay (AVP) awards

This reflects the total AVP awards to be paid in 2018 based on performance for the year ended 31 December 2017. 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 2017 were measured against a basket of metrics and objectives. For Nigel Wilson and Jeff Davies, they were weighted between group financial objectives (70%) and other strategic personal objectives (30%). For Mark Zinkula and Kerrigan Procter they were weighted between group financial objectives (35%), divisional objectives (35%) and other strategic personal objectives (30%).

For 2017, AVP payouts as a percentage of the maximum were: Nigel Wilson 85%, Jeff Davies 90%, Mark Zinkula 81% and Kerrigan Procter 86%. The tables below illustrate performance against each of the measures.

Group financial – achievement

	Weightings (as % of total AVP opportunity)								
Performance measures	Nigel Wilson	Jeff Davies	Mark Zinkula	Kerrigan Procter	Threshold	Target	Maximum	Actual	Payout % of maximum
Net release from operations	20.00%	20.00%	10.00%	10.00%	£1,411m	£1,426m	£1,466m	**£1,454m**	85%
Operating profit	25.00%	25.00%	12.50%	12.50%	£1,562m	£1,774m	£1,844m	**£1,889m**	100%
Adjusted EPS	12.50%	12.50%	6.25%	6.25%	22.2p	24.0p	25.0p	**25.4p**	100%
Adjusted ROE	12.50%	12.50%	6.25%	6.25%	18.6%	20.1%	20.8%	**23.9%**	100%

Performance measure		Threshold	Actual	% of threshold achieved
Solvency II surplus emerging	Underpin	£872m	**£1,686m**	193.3%

Based on the above results, the group element of AVP pays out at 96% of maximum. As set out in the Remuneration Committee Chair's statement accompanying the report, in determining payouts the Committee considered the impact of mortality assumption changes on operating profit and EPS and the one-off impact of the changes in US corporate tax on EPS, given that these are outside the control of management.

The committee was of the view that it would not be appropriate to include the full impact of these items, in calculating the AVP out-turn. However, the underlying performance of the group was sufficiently strong that the impacted group financial performance targets were met in any event.

Audited

Divisional performance – achievement

Divisional objectives represented a maximum 35% of the total AVP opportunity for Mark Zinkula and Kerrigan Procter. For the LGIM division Mark has four key measures – LGIM operating profit, cost income ratio, the annualised revenue for our LGIM international business and flagship fund performance. For the Legal & General Retirement division, Kerrigan has six key measures – net release from operations, operating profit, PBT, Direct Investment IFRS profit, Solvency II new business value and distributable surplus paid. Divisional and personal strategic objectives are considered by the Board to be commercially sensitive. The actual targets are not formally disclosed in the annual report and will not be disclosed in this year or in a future report as they relate to subsidiaries of the group. Performance commentary is given in the table below.

Executive Director	Divisional measures	Key achievements in the year	Payout (% of maximum)
Mark Zinkula	LGIM Key measures include LGIM Operating Profit, cost income ratio, net revenues non-UK and flagship fund performance	Key highlights for 2017 include: • Continued growth in operating profit up to £400m, whilst maintaining a cost: income ratio of around 50% • Growth in DC pensions business with third highest net UK sales in 2017 • Expansion of our international business with AUM reaching £228 billion	26%
Kerrigan Procter	Key measures include net release from operations, operating profit, PBT, profit from direct investments, new business value and distributable surplus	Key highlights for 2017 include: • Growth in operating profit of 54%, up to £1,247 million • Completion of £3.4 billion buy-in and buyout transactions for UK pensions and over $700 million of bulk annuity transactions for US DB schemes • Continued growth of the lifetime mortgage business, becoming the UK market leader by sales volume in 2017	32%

Strategic personal performance – achievement

Personal objectives represented a maximum 30% of total AVP opportunity. A performance commentary is given in the table below.

Executive Director	Overview	Key achievements in the year	Payout (% of maximum)
Nigel Wilson	For 2017, Nigel's objectives focused on key activities to implement the business strategy and drive growth across all of the group's businesses through product and technology development, international growth in key markets and investments in real assets	• Strong outcomes for the business in terms of financial performance • The strengthening of the executive team with a number of new key leaders appointed to accelerate the growth of the business • Delivery of diversified growth across all parts of the Legal & General portfolio • Investment in international growth	18%
Jeff Davies	Jeff's objectives focused on optimisation of capital usage, working with businesses to identify appropriate M&A opportunities, implementation of new systems, implementation of the diversity strategy and ensuring effective risk management	• Effective capital usage through the improvement of internal modelling allowing greater clarity for decision making • Strengthened team and processes within the Finance team including a focus on ensuring diversity among the senior finance team • Further enhanced reporting and disclosures with positive feedback received from key stakeholders including investors, analysts and regulators	21%
Mark Zinkula	Mark's objectives focused on the development of the defined contribution and defined benefit businesses, growth of the retail business, international growth of the LGIM business, implementation of the diversity strategy and ensuring effective risk management	• Strong inflows into active and pooled LDI funds, with revenue ahead of plan • Increasing market share in the DC business with a growth in total DC assets to £68.2 billion • Improvement in net flows in our retail business • Continued growth of LGIM's business internationally, including significant net flows in Europe, Asia Pacific and the Gulf region • Extensive support of the LGR business and LGC business	21%
Kerrigan Procter	Kerrigan's objectives focused on international growth, improvement in balance sheet management and development of Legal & General Re, implementation of the diversity strategy and ensuring effective risk management	• Significant progress on international growth, particularly in the US market with a 59% increase in sales from the 2016 premium total • Continued growth across all areas of the LGR business whilst maintaining effective management of the balance sheet and risk profile of the business • Investment in people and infrastructure to deliver continued excellence and efficiency across LGR.	21%

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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.

Deferral policy

In line with our policy, 50% of all 2017 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	£581,760	£581,760	£1,163,520
Jeff Davies	£330,000	£330,000	£660,000
Kerrigan Procter	£355,359	£355,359	£710,718
Mark Zinkula	£443,033	£443,033	£886,066

For 2016, AVP payouts as a percentage of the maximum were: Nigel Wilson 88% and Mark Zinkula 78%. For the previous CFO, Mark Gregory, the payout was 93%.

Outstanding share bonus plan (SBP) awards

The table below shows the shares held under the SBP and those that were awarded or vested during 2017. The shares awarded in 2017 relate to deferred AVP in relation to the 2016 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 2017	Awards granted in 2017	Grant price £	Face value at grant price £	Awards vested in 2017	Awards outstanding at 31 December 2017
Nigel Wilson	578,648	233,894	2.4950	583,566	154,749	657,793
Jeff Davies	–	–	–	–	–	–
Kerrigan Procter	260,526	120,201	2.4950	299,901	85,106	295,621
Mark Zinkula	458,784	166,682	2.4950	415,872	136,186	489,280

Annual variable pay potential (AVP) 2018

In line with our policy, for 2018 the target and maximum AVP opportunities for our executive directors will be:

	Target opportunity (% of salary)	Maximum opportunity (% of salary)
Nigel Wilson	75%	150%
Jeff Davies	75%	150%
Kerrigan Procter	87.5%	175%
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 percentage weightings will be the same as in 2017. Actual targets have not been disclosed due to commercial sensitivity. Group financial targets will be disclosed in the 2018 annual report. Divisional and strategic personal performance targets are considered confidential and will not be disclosed in any future report.

Details of how the 2015 PSP award vested

The 2015 PSP award vested at 59.9% in March 2018 based on a combination of TSR (50%) and financial performance (50%) over the three-year performance period ended 31 December 2017.

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

The results are shown below:

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Grant date	Performance period	Comparator group	Legal & General's TSR	Comparator group median rank	Comparator group 80th percentile TSR performance	Legal & General's notional rank	% of award vesting against comparator group	Percentage of element vesting
14 April 2015	1 Jan 2015 to 31 December 2017	FTSE 100	32.8%	47.5/94	19/94	39.2	39.7%	9.9%
		Bespoke comparator group		13.5/26	6/26	20.4	0%	

Performance condition	Performance targets	Actual performance	Percentage of element vesting
EPS growth (% p.a.)	subject to performance matrix	24.0%	50%
DPS growth (% p.a.)	subject to performance matrix	10.9%	
ROE underpin (% p.a.)	12% p.a. underpin	20.6%	

The figures reported for the 2015 PSP, with a performance period ended 31 December 2017, reflects the market value of the awards that will vest in March 2018. The share price at the date of vesting was not known at the end of the financial year and as such the value included in the 'single figure' of remuneration is based on the number of shares that will vest multiplied by the average share price over the quarter ended 31 December 2017 (£2.668).

Executive Director	Shares granted in 2015	Shares vesting in March 2018	Estimated value of shares on vesting (£)
Nigel Wilson	755,074	452,478	1,207,211
Mark Gregory[1]	504,846	268,853	717,300
Jeff Davies	–	–	–
Kerrigan Procter	199,129	119,328	318,367
Mark Zinkula	504,846	302,528	807,145

1. Mark Gregory retired as CFO on 9 March 2017, and was employed until 31 August 2017. He has been treated as a 'good leaver' and his award has been pro-rated accordingly. Please refer to 'Payments to Mark Gregory (payments for loss of office and to past directors)' on page 100 for more information.

Financial performance condition (50% of the 2015 award)

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

Dividends per share growth (% p.a.)

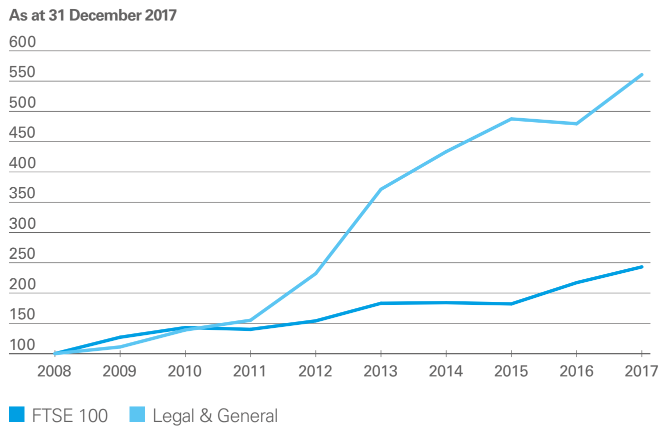
Earnings per share growth (% p.a.)		<5	5	6	7	8	9	10	11	12	13	14
	<5	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	5	**0**	**15**	**25**	**35**	**45**	**55**	**65**	**75**	**85**	**95**	**100**
	6	**0**	**25**	**35**	**45**	**55**	**65**	**75**	**85**	**95**	**100**	
	7	**0**	**35**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

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

Other remuneration information

Total shareholder return (TSR)

The chart shows the value, as at 31 December 2017, 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
2017	Nigel Wilson	3,451	85.33%	59.9%
2016	Nigel Wilson	5,417[1]	87.82%	76.6%
2015	Nigel Wilson	5,497[2]	86.25%	100%
2014	Nigel Wilson	4,213	90.67%	100%
2013	Nigel Wilson	4,072	93.10%	100%
2012	Nigel Wilson – *appointed CEO 30 June 2012* Tim Breedon – *retired 30 June 2012*	898 3,280	96.00% 84.80%	0% – note 3 100% – note 4
2011	Tim Breedon	2,325	79.58%	16.6%
2010	Tim Breedon	1,526	89.98%	0%
2009	Tim Breedon	1,999	80.00%	0%

1. Restated from 2016 report to reflect the actual value of the 2014 PSP at vesting.
2. Restated from the 2015 report to include the value of the PSP award vesting in August 2015.
3. The 2009 PSP vested in full in 2012. However, no PSP is shown in the figure for Nigel Wilson as, while he received the PSP, it vested during the time he was CFO.
4. The 2009 PSP vested in full in 2012. The PSP figure that vested for Tim Breedon is shown in his figure as it vested during the time he was Group Chief Executive.

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Scheme interests awarded during the financial year

The following table sets out details of awards made under the 2014 PSP in 2017.

	Type of award	Basis of award (% of salary and face value)[1]	% of award vesting for threshold performance	% of award vesting for maximum performance	Performance/ holding period
Nigel Wilson	Nil-cost options	250% of salary £2,272,500[1]	15%	100%	1 January 2017 to 31 December 2019. Awards are also subject to a holding period, such that awards are released in equal tranches in years 3, 4 and 5 from the grant date.
Jeff Davies	Nil-cost options	250% of salary £1,250,000[1]	15%	100%	
Mark Zinkula	Nil-cost options	250% of salary £1,563,750[1]	15%	100%	
Kerrigan Procter	Nil-cost options	250% of salary £1,187,500[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 £2.482.

Awards were also made during the year under the share bonus plan (SBP) in respect of performance for 2016, in line with our policy 50% of all 2016 AVP awards were deferred into shares for three years, subject to malus and clawback provisions. The amounts deferred in respect of the 2017 bonus were also made in line with the above deferral policy.

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Performance conditions for PSP awards granted in 2017

Financial performance condition (50% of the 2017 award)

Fifty percent of the award will vest based on the same financial performance conditions that applied to the 2015 PSP awards as set out on page 97.

TSR performance condition (50% of the 2017 award)

Twenty five percent 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.

Performance Share Plan (PSP) 2018

For 2018, Nigel Wilson, Jeff Davies, Mark Zinkula and Kerrigan Procter will each be granted an award over nil-cost options with a face value of 250% of base salary.

As indicated previously, for the 2018 award, the following performance measures will be used:

- relative TSR performance against the FTSE 100 (25% of award) and a bespoke group of insurance companies (25% of award)
- EPS growth (50% of award)

Vesting of awards will be subject to an assessment of performance against Solvency II objectives.

Having considered the business plan over the coming three years and market expectations of performance and given the level of stretch within the TSR performance conditions, the Committee considered it appropriate to continue to set threshold vesting (15% of the award) at median TSR performance and maximum vesting at the upper quintile TSR performance.

For the EPS growth measure the Committee considered it appropriate for vesting to be based on performance as set out in the table below:

EPS growth p.a.	Proportion of Shares Vesting
<5%	0%
5%	15%
14%	100%
Between 5% and 14%	Straight line basis between 15% and 100%

Audited

Information in relation to other outstanding awards

Performance share plan (PSP) 2016

For information, other outstanding PSP awards are shown below.

	% of base salary	Face value £'000	Share price at award £	Max no. of shares
Grant date 21 April 2016				
Nigel Wilson	250%	2,215	2.4224	914,382
Mark Gregory	0%	–	–	–
Mark Zinkula	250%	1,525	2.4224	629,540
Kerrigan Procter	200%	750	2.4224	309,610

Payments to Mark Gregory

As set out in the 2016 Annual Report and Accounts, Mark Gregory stood down from the Board once Jeff Davies took on the CFO role on 9 March 2017. To ensure an orderly handover, Mark remained employed until 31 August 2017 and continued to receive salary, benefit and pension at his current level until that date. No PSP award was made to Mark in 2016 and no incentive awards (annual variable pay or PSP awards) were made to Mark in respect of 2017. No payments were made to Mark as a past director.

Mark was treated as a 'good leaver' on termination and, in line with the approved policy, his outstanding SBP awards vested or will vest at the normal time as set out in the table below. His 2015 PSP award was pro-rated for service from the start of the performance period to cessation and vested based on the performance to the end of the performance period. Mark was granted 504,846 shares under the 2015 PSP. After pro-rating for service (to the date of cessation) the maximum number of shares available to vest was 448,650. As indicated on page 97 the 2015 PSP vested at 59.9% based on performance to the end of the performance period. These shares will be released at the normal time. Mark has no further outstanding PSP awards.

Bonus year	Grant Date	Vesting Date	Awards	Grant price
2013	15/04/2014	15/04/2017	101,528	£2.1150
2014	14/04/2015	14/04/2018	126,966	£2.8587
2015	21/04/2016	21/04/2019	148,835	£2.4310
2016	18/04/2017	18/04/2020	164,621	£2.4950

Statement of directors' shareholding and share interests

Total shareholding of executive directors

						Shares sold or acquired during the period 1 January 2018 and 28 February 2018	
	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	Own outright/ vested shares	Subject to deferral/ holding period
Nigel Wilson	Shares	4,123,493	657,793	4,781,286	–	–	–
	ESP	12,555	3,102	15,657	–	92	52
	Options	–	385,256	385,256	2,584,900	–	–
Mark Gregory	Shares	2,702,035	440,422	3,142,457	–	–	–
	ESP	–	–	–	–	–	–
	Options	–	263,102	263,102	448,650	–	–
Jeff Davies	Shares	–	–	–	–	–	–
	ESP	433	251	684	–	92	52
	Options	–	1,791	1,791	503,544	–	–
Mark Zinkula	Shares	1,033,749	489,280	1,523,029	–	–	–
	ESP	–	–	–	–	–	–
	Options	–	263,102	263,102	1,764,320	–	–
Kerrigan Procter	Shares	94,961	295,621	390,582	–	–	–
	ESP	18,128	1,000	19,128	–	92	52
	Options	245,180	84,782	329,962	987,106	–	–

Audited

Shareholding guidelines – Executive Directors

The Group Chief Executive is expected to build a shareholding of 300% of base salary and the other executive directors 200% of base salary. The table below shows shareholding levels as at 31 December 2017.

	Actual share ownership as % of 2017 base salary: vested shares[1]	Guidelines on share ownership as a % of base salary	Guideline met	Shares owned at 1 January 2017	Shares owned at 31 December 2017	Shares sold or acquired during the period 1 January 2018 and 28 February 2018
Nigel Wilson	1,244%	300%	Yes	3,949,227	4,136,048	144
Jeff Davies – *appointed 9 March 2017*	0%	200%	No	–	433	144
Mark Zinkula	452%	200%	Yes	894,312	1,033,749	–
Kerrigan Procter – *appointed 9 March 2017*	65%	200%	No	66,715	113,089	144

1. Closing share price as at 30 December 2017: £2.733.

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 2017

The following table shows all share options exercised by the executive directors during 2017.

Executive Director	Date of grant	Shares exercised	Exercise date	Share price at date of exercise £	Gain £
Nigel Wilson	11/06/2014	192,628	14/03/2017	2.464	474,635
Nigel Wilson	15/04/2014	14,184	17/04/2017	2.516	5,688
Mark Zinkula	11/06/2014	131,551	09/03/2017	2.503	329,272

Non-executive directors' remuneration – 2017

Non-executive directors' fees

No changes have been made to non-executive director fees in 2017. The table below sets out the current fees.

The current limit for fees paid to non-executive directors is £1,500,000 p.a.

Annual fees	Current fee (£)
Chairman	450,000
Base fee	75,000
Additional fees:	
Senior Independent Director	30,000
Committee Chairmanship fees (Audit, Remuneration and Group Risk Committees)	30,000
Attendance fee payable if the non-executive sits on two or more Board committees	10,000

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The table below shows the actual fees paid to our non-executive directors in 2017 and 2016.

Non-executive director		Fees for 2017	Benefits for 2017	Total remuneration for 2017	Fees for 2016	Benefits for 2016	Total remuneration for 2016
Sir John Kingman	Chairman N CG	**450,000**	**–**	**450,000**	69,074	–	69,074
Carolyn Bradley	N R	**75,000**	**98**	**75,098**	67,500	171	67,671
Philip Broadley	A CG N R Ri	**115,000**	**481**	**115,481**	52,917	–	52,917
Lesley Knox	A N R Ri	**115,000**	**953**	**115,953**	56,023[1]	–	56,023
Julia Wilson	A CG N Ri	**115,000**	**170**	**115,170**	117,955	1,155	119,109
Toby Strauss	A CG N Ri – *appointed 1 January 2017*	**115,000**	**249**	**115,249**	–	–	–
Previous NEDs							
Rudy Markham	N R Ri – *stepped down 25 May 2017*	**35,417**	**–**	**35,417**	176,667[1]	–	176,667
Richard Meddings	A N R Ri – *stepped down 25 May 2017*	**47,917**	**127**	**48,044**	107,500	56	107,556

1. The 2016 fees for Lesley Knox and Rudy Markham have been updated to reflect the payment in arrears, in March 2017, of fees to these directors.

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

Shareholding requirements – non-executive directors

NEDs are required to build up a shareholding equivalent to one times base fee. The table below shows their shareholding as at 2 January 2018, taking into account share purchases in relation to December 2017 fees, purchased on 2 January 2018.

Name	Shareholding as at 2 January 2018	Holding as a % of base fee	Met criteria of 1 x base fee	Shares purchased from 3 January 2018 to 28 February 2018
Sir John Kingman	117,933	72%	On Target	3,784
Carolyn Bradley	23,893	87%	On-Target	1,271
Philip Broadley	43,135	157%	Yes	–
Lesley Knox	77,600	283%	Yes	–
Toby Strauss – *appointed 1 January 2017*	8,980	33%	On Target	1,848
Julia Wilson	51,823	189%	Yes	–

Non-executive directors' terms of employment

Non-executive director	Current letter of appointment start date	Current letter of appointment end date
Sir John Kingman	24 October 2016	24 October 2021
Julia Wilson	09 December 2014	09 December 2017
Carolyn Bradley	08 December 2014	08 December 2017
Philip Broadley	08 July 2016	08 July 2019
Lesley Knox	01 June 2016	01 June 2019
Toby Strauss	01 January 2017	01 January 2020

The standard term for non-executive directors is three years and all non-executive directors are subject to annual re-election.

Remuneration for employees below Board

General remuneration policy

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

We define core remuneration as base 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 As a member of the Living Wage Foundation salaries are also set with reference to the Foundations UK and London living wage levels. For 2018, the average base salary increase was 3.7%; however, it was agreed that this spend would be focused on more junior employees within the group and as such base salary increases for senior managers within the group (including the executive directors) were limited to 2%.
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 around 60 employees during 2018. 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.
Employee share plans	All employees are given the opportunity to participate in a Save as You Earn (SAYE) plan and an Employee Share Purchase plan. These are both HMRC approved plans which offer all employees the opportunity to share in the success of the business.

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.

Gender pay reporting

The group has published its first gender pay report. Further details can be found on page 34 of the report.

Pay ratios

The tables below show the ratio of the chief executive's remuneration with the median remuneration for all employees.

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

- base salary
- total remuneration as reported in the single figure

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

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

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

Pay ratios – CEO versus all UK employees

	2017	2016
Base salary	**27**	28
Total remuneration – single figure	**86**	98

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

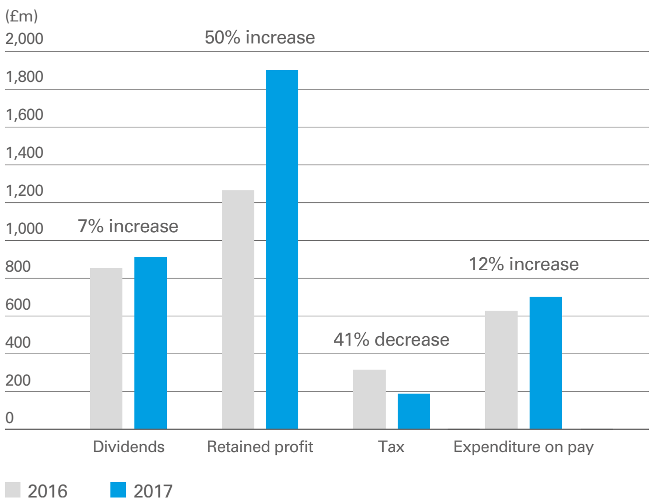
2017 over 2016

	Change to base salary %	Change to benefits %	Change in AVP %
Group Chief Executive	2.7%	-33.9%	-0.3%
Comparator group	3.4%	3.4%	10.0%

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 opposite shows the relative importance of spend on pay compared to shareholder dividends and profit for the year. Retained profit has been shown because it is a KPI of the business. No share buybacks were made in 2016 or 2017.



Remuneration Committee

The table below shows the members and attendees of the Remuneration Committee during 2017.

Committee members, attendees and advice

Meetings in 2017

During 2017, the Committee met six times and in addition had ongoing dialogue via email and telephone discussion. An outline of the Committee undertakings during 2017 are shown in the table below.

Members: during 2017 the Remuneration Committee was made up of the following NEDs:

Name	Number of Remuneration Committee meetings attended during 2017
Lesley Knox – *appointed Chair on October 2016*	6/6
Rudy Markham – *stepped down on 25 May 2017*	2/2
Richard Meddings – *stepped down on 25 May 2017*	2/2
Carolyn Bradley	6/6
Philip Broadley – *appointed on 1 May 2017*	3/3

Committee undertakings

Quarter	Governance	Performance	Review/implementation of remuneration policy	Regulatory
First	• Review of report on the activities of the Group Reward Steering Committee	• Reviewed findings CRO report • Approved 2016/17 annual pay review awards and executive pay awards • Approved vesting of the 2014 PSP and LGIM LTIP awards	• Reviewed the 2017 AVP measures and targets for the executive team • Approved 2017 long-term incentive awards	
Third	• Reviewed annual general meeting season and shareholder voting	• Financial update and indicative annual variable pay update for executive teams	• Review of findings and proposals for executive remuneration policy	• Review of all employee remuneration policy • Review of code staff and UCITS V and AIFMD code staff lists
Fourth	• Review and approval of committee terms of reference	• Review of base pay and variable pay budget proposals for the 2017/18 pay review • Consideration of incentive out-turns in respect of 2017	• Approval of approach to executive remuneration going forward • Review of shareholder feedback	• Approved remuneration policy statements for PRA and FCA • Review of full code staff list

At the invitation of the Remuneration Committee, the Group Chairman attends Committee meetings. Where appropriate, the Group Chief Executive, Nigel Wilson; and the Group HR Director; Head of Executive Compensation; Director of Group Finance; and Group Chief Risk Officer also attend meetings. No person is present during any discussion relating to his or her own remuneration.

At the invitation of the Remuneration Committee, a representative from Deloitte LLP also attends Committee meetings. During 2017, Deloitte principally advised the Committee on external developments affecting remuneration as well as specific matters raised by the Remuneration Committee. Deloitte were appointed by the Committee. The Committee reflects on the quality of advice provided and whether it properly addresses the issues under consideration as part of its normal deliberations. The Committee is satisfied that the advice received from Deloitte LLP engagement team is objective and independent. Deloitte are signatories to the remuneration consultants' group code of conduct in relation to executive remuneration consulting in the UK. The total fees paid to Deloitte in relation to Remuneration Committee work during 2017 were £136,800 (excluding VAT). While fee estimates are required for bespoke pieces of work, fees are generally charged based on time with hourly rates in line with the level of expertise and seniority of the adviser concerned. During the year, Deloitte also provided the company with international tax advice, other consulting services and financial advisory services.

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

The Committee particularly focuses on:

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

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

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.

Since the implementation of a new Solvency II remuneration policy in 2016, the scope of the CRO report has been extended to consider whether there are any risk considerations which may warrant adjustments to the overall level of corporate annual variable pay awards.

Engagement with shareholders

The Committee seeks to maintain an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance and any changes to the company's executive pay arrangements. During the course of 2017, the Committee undertook a detailed review of the policy to ensure it remains appropriate for the company.

As set out in the letter from the Remuneration Committee Chair, during the course of 2017 the Committee undertook a detailed review of the policy to ensure it remains appropriate to the company. The result of the review was that the policy was considered appropriate to drive group performance; however, two changes were considered appropriate: firstly to extend the time horizons of long-term incentive awards and secondly to replace the previous EPS/DPS matrix which determined 50% of PSP awards with a sole measure of EPS.

During the course of late 2017 and early 2018, the Committee consulted with the group's largest shareholders on the above changes.

Statement of voting at the annual general meeting (AGM) 2017

The table below shows the voting outcomes on the Directors' Remuneration Policy and the Directors' Remuneration Report at the last AGM in May 2017.

Item	For	Against	Abstain Number
Remuneration policy	91.23%	8.77%	–
	3,851,461,140	370,032,785	15,093,723
2016 remuneration report	93.17%	6.83%	–
	3,938,843,201	288,951,561	8,784,882

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 10 years for executive schemes and all its plans will operate within the 10% of issued capital in 10 years limit for all schemes.

As at 31 December 2017, the company had 4.93% of share capital available under the 5% in 10 years limit and 9.72% of share capital under the 10% in 10 years limit.

As at 31 December 2017, 21,515,157 shares were held by the Employee Benefit Trust to hedge outstanding awards of 40,660,725 shares for the PSP and SBP.

Other information relating to directors' remuneration

External appointments

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

External appointments held in 2016 are shown below:

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

Financial statements

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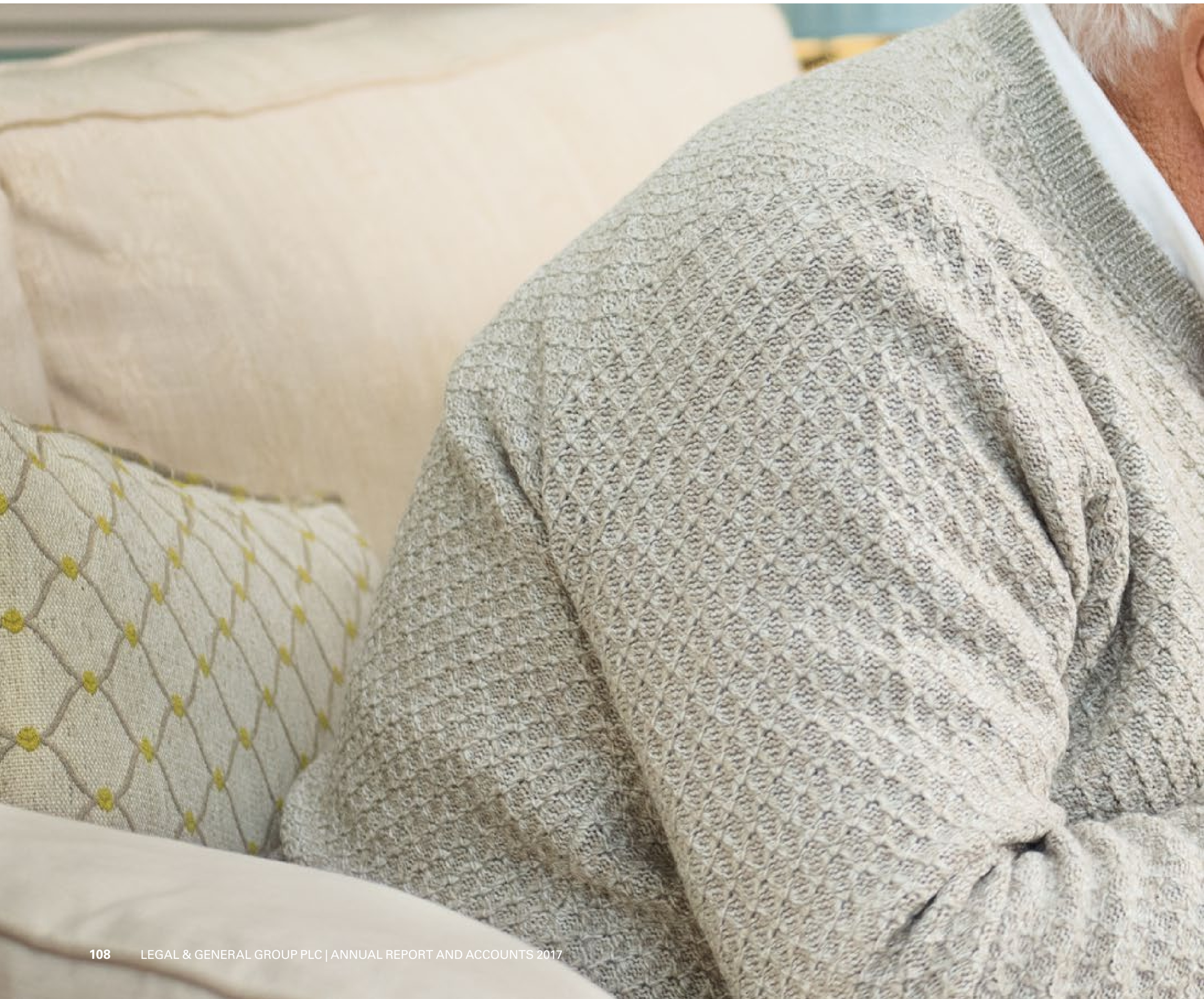

BUILDING DIGITAL SOLUTIONS

With our large customer and client base, both in home and the workplace, we are well placed to pursue digital strategies to drive new revenue streams and innovations.

In 2017 we set up a new fintech team and launched a number of incentives. SmartQuote, a mobile friendly tool which allows users to obtain a household insurance quote in just 90 seconds, is revolutionary in the home insurance market – encouraging customers to use smart devices to obtain insurance quotes in seconds. We have also invested 40% in Salary Finance, who specialise in providing cheaper alternatives to short-term lending through leading edge technology.

WATCH THE VIDEO

legalandgeneralgroup.com/media-centre/videos

Consolidated financial statements

The group consolidated financial statements are divided into three sections:

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

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

Report on the audit of the financial statements

Opinion

In our opinion:

- Legal & General Group Plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2017 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the group and parent company balance sheets as at 31 December 2017, the group income statement and statement of comprehensive income, the group cash flow statement, and the group and parent company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

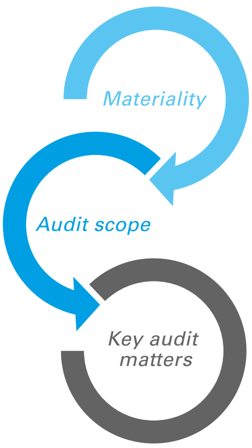
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in Note 34 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview



- Overall group materiality: £102.75 million (2016: £70 million), based on 5% of operating profit before tax.
- Overall company materiality: £27.75 million (2016: £27.75 million), based on 1% of total assets, capped at £27.75 million, to reflect its allocation of materiality for the purpose of the group audit.

- 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"), Legal & General Insurance ("LGI"), General Insurance ("GI") and the former Savings segment which is now classified as discontinued operations.

- Valuation of non-participating insurance contract liabilities (Retirement) – Valuation interest rate.
- Valuation of non-participating insurance contract liabilities (Retirement) – Longevity assumptions.
- Valuation of complex investments.

The scope of our audit

As part of designing our audit, we determined materiality and assessed 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.

We gained an understanding of the legal and regulatory framework applicable to the group and the industries in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise

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

Report on the audit of the financial statements (continued)

Our audit approach (continued)

The scope of our audit (continued)

to a material misstatement in the group and company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, the Prudential Regulation Authority's regulations, the Pensions Regulator legislation, the UK tax legislation and equivalent local laws and regulations applicable to significant component teams. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, enquiries of management, review of significant components auditors' work and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation of non-participating insurance contract liabilities – Retirement Refer to the Audit Committee Report and Note 1 to the financial statements for the directors' disclosures of the basis of preparation and use of estimates and Notes 19, 20 and 21 for related accounting policies and further information on judgements and estimates.	
We focused on this area because the provision for the settlement of future claims for retirement products is significant in size and its estimation involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can materially impact the valuation of these liabilities. Key assumption areas are: • Valuation interest rate – the discount rate derived from the yield on the assets backing the annuity liabilities used in calculating the present value of annuity and benefit payments. The discount rate also includes an explicit allowance for future credit default and reinvestment risk on the asset portfolio; and • Longevity – how long the policyholders receiving annuity payments are expected to live and how that might change over time. Our audit effort covered these key assumptions. We focused a greater amount of effort where either of the assumptions changed in the period or where we considered, based on the annual analysis of longevity and credit default, that the assumptions or methodology needed to be reconsidered.	
Valuation interest rate The financial results of the group can be very sensitive to changes in the valuation interest rate and the assumed credit default allowance. The discount rate is derived from the yield on the assets backing the annuity liability 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 error** – the data provided by LGIM is incorrect. The risk regarding data input error is specific to asset data outside of the Asset Risk Control 'ARC' process. **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. This is a continued area of focus as Management invest in a wider range of asset classes. **Model changes leading to calculation error** – changes to the actuarial process or model to calculate the Valuation Interest Rate are not appropriate. Management needs to continue to assess whether the methodology remains appropriate.	We understood and tested the group's processes and controls to ensure the completeness and accuracy of the data used in determining the valuation interest rate. We tested the completeness and accuracy of the investment data by agreeing it to independent data sources, such as third party custodians' reports and to independent pricing sources. We assessed the appropriateness of the credit default allowance in light of changing market conditions and other information available. On a sample basis we tested the credit ratings used to estimate the long term default allowance back to independent third party credit rating sources. We tested any changes to the actuarial process or model underlying the calculation of the interest rate. Based on the work undertaken, we found the valuation interest rate used to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Valuation of non-participating insurance contract liabilities (Retirement) – Longevity assumptions The large volume of annuity business, combined with the subjectivity in setting an annuitant mortality basis will have a material impact on the valuation of the liabilities. Annuity liabilities are sensitive to the choice of mortality assumptions. The longevity assumption has two main components: **Mortality base assumption** – this part of the assumption is mainly driven by internal experience analysis, but judgement is also required. For example, in setting the prudential margins for IFRS reporting, or in setting the assumption for new business over the year to reflect any changes in the mix of business due to external factors. **Rate of mortality improvements** – this part of the assumption is more subjective given the lack of data and the uncertainty over how life expectancy will change going forward. Management will continue to assess the impact of new data set releases from the Continuous Mortality Improvement ('CMI') Bureau, which are used to model future mortality improvements.	We audited the longevity assumptions in the context of the experience analysis performed and benchmarked Management's views regarding the relevance of market indicators to the specific attributes of Legal and General Assurance Society Limited's portfolio. 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 agreed data back to underlying policyholder data. We examined any adjustments made to the internal experience analysis to reflect Management's judgement. We understood Management's approach to adopting updated CMI tables and models in setting methodology. We benchmarked the annuitant mortality basis against industry data, taking into account emerging trends Having performed our work, we found the assumptions used in the models to be appropriate. We found that the methodologies and models used are in line with industry standards, whilst reflecting the nature of the group's retirement business.

Valuation of complex 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:

- Lifetime Mortgages;
- Commercial Loans; and
- Private Credit

Valuation of complex investments On the basis of materiality, investments continue to be an area of focus, particularly in those instances where changes in assumptions could result in material changes to investment valuation, or market inputs are not readily observable. In 2017 we focused on the valuation of investments in connection with Lifetime Mortgages, Commercial Loans and Private Credit, i.e. those investments characterised by both observable and unobservable inputs which increase the complexity of valuation.	We have obtained all agreements for Commercial loans and Private Credit. We have used internal ratings to calculate indicative values by credit grade/credit curve across the population. We have identified those falling outside expected values. Where there are significant variations or outliers we have undertaken an assessment of the reasons for such variations or outliers in the context of the performance materiality threshold and revalued certain more complex assets on a target test basis. We reviewed the methodology adopted by Markit and understood and validated the appropriateness of the methodology adopted. We have also assessed the appropriateness of the key input assumptions including referencing them to external sources where relevant. We have reviewed the methodology used to value Lifetime Mortgages against IAS 39. We have also reviewed the appropriateness of the assumptions used to value the assets in light of market conditions and other available information. We have checked that the methodology has been correctly implemented in the Lifetime Mortgages valuation model. We have tested the input of assumptions and data into the valuation model. We have tested the accuracy of the data on which the valuation is based back to policyholder documentation. We did not identify any material exceptions in our testing.

We determined that there were no key audit matters applicable to the company to communicate in our report.

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

Report on the audit of the financial statements (continued)

Our audit approach (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 structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

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 five reportable segments: LGR, LGIM, LGC, LGI and GI. Based on the outputs of our risk assessment, along with our understanding of the L&G structure, we performed full scope audits of components which, using our professional judgement, we considered significant within the following segments: LGR, LGIM, LGI and GI. Additionally, we performed work over the former Savings segment which is now classified as discontinued operations. Where work was performed by auditors of the components, we determined the level of involvement we needed as the group audit team to have in the audit work at those components to be able to conclude whether sufficient audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. The group audit team kept in regular communication with component audit teams through on-site visits, regular phone calls, discussions and written instructions, where appropriate.

We tailored the scope of the company audit to ensure that we performed sufficient work to enable us to give an opinion on the company financial statements.

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 in aggregate on the financial statements as a whole.

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

	Group financial statements	Company financial statements
Overall materiality	£102.75 million (2016: £70 million).	£27.75 million (2016: £27.75 million).
How we determined it	5% of operating profit before tax.	1% of total assets, capped at £27.75 million, to reflect its allocation of materiality for the purpose of the group audit
Rationale for benchmark applied	The engagement team concluded that £102.75 million is the most appropriate figure when setting an overall materiality on the 2017 engagement. This represents 5% of 2017 operating profit. The engagement team believes that operating profit is the most suitable metric to use as a benchmark – operating profit represents the pre-tax result using a smoothed longer term investment return. Any variance between actual and smoothed investment return is reported below the line. This variance can fluctuate year on year and from segment to segment. This reason coupled with the fact that operating profit is a key metric for Legal & General and is used by analysts to assess profitability leads the engagement team to consider that operating profit is a more suitable benchmark for calculating materiality than IFRS profit before tax.	Given the principal activities of the company and the presentation of only the balance sheet and related notes in the group accounts we have concluded that it is appropriate to apply a balance sheet related benchmark in determining the appropriate level of materiality.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £13 million – £80 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £5.1 million (group audit) (2016: £3.5 million) and £1.35 million (company audit) (2016: £1.35 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 62 to 67) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 62 to 67) with respect to the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the company. (CA06)

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

Report on the audit of the financial statements (continued)

Reporting on other information (continued)

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

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 52 of the Annual Report 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 disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 51 of the Annual Report 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 to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and 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 UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 231 that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on pages 70–75 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company 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.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors prior to 31 December 1980 (which is as far back as records can be obtained) to audit the financial statements of the group. The period of total uninterrupted engagement is at least 38 years, covering, as a minimum, the years ended 31 December 1980 to 31 December 2017.

Andrew Kail (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 March 2018

- 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.
- 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 2017	Notes	2017 £m	2016 £m
Income			
Gross written premiums		**7,932**	10,252
Outward reinsurance premiums		**(1,858)**	(1,568)
Net change in provision for unearned premiums		**(23)**	4
Net premiums earned		**6,051**	8,688
Fees from fund management and investment contracts		**771**	851
Investment return	32	**33,457**	63,742
Operational income	3	**212**	188
Total income	31	**40,491**	73,469
Expenses			
Claims and change in insurance liabilities		**8,326**	16,908
Reinsurance recoveries		**(1,776)**	(2,740)
Net claims and change in insurance liabilities		**6,550**	14,168
Change in provisions for investment contract liabilities	22	**29,848**	55,579
Acquisition costs		**734**	739
Finance costs	24	**212**	191
Other expenses	3	**1,086**	1,275
Total expenses		**38,430**	71,952
Profit before tax		**2,061**	1,517
Tax expense attributable to policyholder returns	33	**(70)**	(52)
Profit before tax attributable to equity holders		**1,991**	1,465
Total tax expense	33	**(239)**	(343)
Tax expense attributable to policyholder returns	33	**70**	52
Tax expense attributable to equity holders	33	**(169)**	(291)
Profit after tax from continuing operations		**1,822**	1,174
Profit after tax from discontinued operations[1]		**80**	91
Profit for the year	31	**1,902**	1,265
Attributable to:			
Non-controlling interests		**11**	7
Equity holders of the company		**1,891**	1,258
Dividend distributions to equity holders of the company during the year	4	**872**	830
Dividend distributions to equity holders of the company proposed after the year end	4	**658**	616
		p	p
Total earnings per share[2]	5	**31.87**	21.22
Total diluted earnings per share[2]	5	**31.73**	21.13
Earnings per share derived from continuing operations[3]	5	**30.52**	19.68
Diluted earnings per share derived from continuing operations[3]	5	**30.38**	19.59

1. Detailed disclosure of discontinued operations and held for sale balances is included in Note 30.
2. All total earnings per share calculations are based on profit attributable to equity holders of the company.
3. All earnings per share derived from continuing operations calculations are based on profit from continuing operations attributable to equity holders of the company.

Primary statements and performance (continued)

Consolidated Statement of Comprehensive Income

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

Primary statements and performance (continued)

Consolidated Balance Sheet

As at 31 December 2017	Notes	2017 £m	2016[1] £m
Assets			
Goodwill		**11**	11
Purchased interest in long term businesses and other intangible assets	10	**138**	155
Deferred acquisition costs	11	**1,507**	2,105
Investment in associates and joint ventures		**252**	283
Property, plant and equipment		**59**	76
Investment property	12	**7,110**	8,150
Financial investments	12	**443,162**	430,435
Reinsurers' share of contract liabilities		**5,703**	5,593
Deferred tax assets	33	**7**	5
Current tax assets		**342**	297
Other assets	15	**6,083**	3,131
Assets of operations classified as held for sale	30	**22,584**	2,265
Cash and cash equivalents		**18,919**	15,348
Total assets		**505,877**	467,854
Equity			
Share capital	37	**149**	149
Share premium	37	**988**	981
Employee scheme treasury shares		**(40)**	(30)
Capital redemption and other reserves		**168**	212
Retained earnings		**6,578**	5,633
Attributable to owners of the parent		**7,843**	6,945
Non-controlling interests	38	**76**	338
Total equity		**7,919**	7,283
Liabilities			
Participating insurance contracts		**–**	5,794
Participating investment contracts		**–**	5,271
Unallocated divisible surplus		**–**	661
Value of in-force non-participating contracts	23	**–**	(206)
Participating contract liabilities		**–**	11,520
Non-participating insurance contracts		**62,318**	60,779
Non-participating investment contracts		**315,651**	321,177
Non-participating contract liabilities		**377,969**	381,956
Core borrowings	24	**3,459**	3,071
Operational borrowings	24	**538**	430
Provisions	25	**1,335**	1,328
UK deferred tax liabilities	33	**13**	291
Overseas deferred tax liabilities	33	**337**	522
Current tax liabilities		**223**	117
Payables and other financial liabilities	26	**52,246**	37,347
Other liabilities		**563**	594
Net asset value attributable to unit holders		**27,317**	21,573
Liabilities of operations classified as held for sale	30	**33,958**	1,822
Total liabilities		**497,958**	460,571
Total equity and liabilities		**505,877**	467,854

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

Primary statements and performance (continued)

The notes on pages 124 to 221 form an integral part of these financial statements.

The financial statements on pages 118 to 221 were approved by the board of directors on 6 March 2018 and were signed on their behalf by:

Sir John Kingman
Chairman

Nigel Wilson
Group Chief Executive

Stuart Jeffrey Davies
Group Chief Financial Officer

Primary statements and performance (continued)

Consolidated Statement of Changes in Equity

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

1. Capital redemption and other reserves include Share-based payments £69m, Foreign exchange £69m, Capital redemption £17m, Available-for-sale reserves £22m and Hedging reserves £(9)m.

For the year ended 31 December 2016	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves[1] £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
As at 1 January 2016	149	976	(30)	89	5,220	6,404	289	6,693
Profit for the year	–	–	–	–	1,258	1,258	7	1,265
Exchange differences on translation of overseas operations	–	–	–	190	–	190	–	190
Movement in cross-currency hedge	–	–	–	–	–	–	–	–
Actuarial losses on defined benefit pension schemes	–	–	–	–	(76)	(76)	–	(76)
Net change in financial investments designated as available-for-sale	–	–	–	(3)	–	(3)	–	(3)
Total comprehensive income for the year	–	–	–	187	1,182	1,369	7	1,376
Options exercised under share option schemes: – Savings related share option scheme	–	5	–	–	–	5	–	5
Shares purchased	–	–	(10)	–	–	(10)	–	(10)
Shares vested	–	–	10	(33)	–	(23)	–	(23)
Employee scheme treasury shares: – Value of employee services	–	–	–	24	–	24	–	24
Share scheme transfers to retained earnings	–	–	–	–	6	6	–	6
Dividends	–	–	–	–	(830)	(830)	–	(830)
Movement in third party interests	–	–	–	–	–	–	42	42
Currency translation differences	–	–	–	(55)	55	–	–	–
As at 31 December 2016	149	981	(30)	212	5,633	6,945	338	7,283

1. Capital redemption and other reserves include Share-based payments £60m, Foreign exchange £135m, Capital redemption £17m, Available-for-sale reserves £(1)m and Hedging reserves £1m.

Primary statements and performance (continued)

Consolidated Cash Flow Statement

For the year ended 31 December 2017	Notes	2017 £m	2016[1] £m
Cash flows from operating activities			
Profit for the year		**1,902**	1,265
Adjustments for non cash movements in net profit for the year			
Realised and unrealised (gains) on financial investments and investment properties		**(25,024)**	(53,262)
Investment income		**(9,953)**	(9,390)
Interest expense		**220**	198
Tax expense		**377**	602
Other adjustments		**154**	(45)
Net (increase)/decrease in operational assets			
Investments held for trading or designated as fair value through profit or loss		**11,794**	(11,210)
Investments designated as available-for-sale		**277**	246
Other assets		**(2,344)**	(2,658)
Net increase/(decrease) in operational liabilities			
Insurance contracts		**(3,989)**	12,910
Investment contracts		**(10,798)**	39,747
Value of in-force non-participating contracts		**206**	(22)
Other liabilities		**20,444**	16,791
Net increase in held for sale liabilities		**12,139**	
Cash used in operations		**(4,595)**	(4,828)
Interest paid		**(221)**	(198)
Interest received		**4,528**	4,863
Tax paid[2]		**(497)**	(424)
Dividends received		**5,196**	4,676
Net cash flows from operating activities		**4,411**	4,089
Cash flows from investing activities			
Net acquisition of plant, equipment, intangibles and other assets		**(230)**	(45)
Acquisitions[3]	28	**(63)**	–
Disposal of subsidiaries[4]	29	**286**	(272)
Investment in joint ventures and associates		**(7)**	(63)
Net cash flows used in investing activities		**(14)**	(380)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the company during the year	4	**(872)**	(830)
Issue of ordinary share capital		**7**	5
Purchase of employee scheme shares (net)		**10**	–
Proceeds from borrowings		**1,232**	219
Repayment of borrowings		**(600)**	(342)
Movement in non-controlling interests		**(262)**	–
Net cash flows used in financing activities		**(485)**	(948)
Net increase in cash and cash equivalents		**3,912**	2,761
Exchange (losses)/gains on cash and cash equivalents		**(19)**	182
Cash and cash equivalents at 1 January (before reallocation of held for sale cash)		**15,348**	12,544
Total cash and cash equivalents		**19,241**	15,487
Cash and cash equivalents classified as held for sale	30	**(322)**	(139)
Cash and cash equivalents at 31 December		**18,919**	15,348

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

Further information in relation to the cash flows of the discontinued operations can be found in Note 30.

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), transacts life assurance and long term savings business, investment management and general insurance and health business through its subsidiaries and associates in the UK, the United States and other countries throughout the world.

Significant accounting policies

The group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union, and with those parts of the UK Companies Act 2006 applicable to companies reporting under IFRS. The group financial statements also comply with IFRS and interpretations by the IFRS Interpretations Committee as issued by the IASB and as adopted by the European Union. The group financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit 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.

New standards, interpretations and amendments to published standards that have been adopted by the group

The group has applied the following standards and amendments for the first time in its annual reporting period commencing 1 January 2017.

Amendments to IAS 7 – Statement of Cash Flows: Disclosure Initiative
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The group has provided this information in Note 24.

Amendments to IAS 12 – Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. They also provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments did not affect the current or prior period results.

Annual Improvements to IFRS Standards 2014–2016 Cycle: Amendments to IFRS 12 – Disclosure of Interests in Other Entities
The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The group concluded that there is no additional information that it needs to disclose as a result of these amendments.

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 2018 or later periods but which the group has not adopted early, as disclosed below.

IFRS 15 – Revenue from Contracts with Customers
IFRS 15, 'Revenue from Contracts with Customers', issued in May 2014, is effective for annual periods beginning on or after 1 January 2018, and supersedes all current revenue recognition requirements under IFRS. The standard provides clear guidance over when and how much revenue should be recognised, by introducing a principles-based recognition approach based on the concept of recognising revenue for obligations as they are satisfied. As the standard does not apply to business classified as insurance contracts, the main impact of IFRS 15 is expected to be on the accounting for revenue from investment management business. The group does not expect the impact to be significant.

Primary statements and performance (continued)

IFRS 16 – Leases

IFRS 16, 'Leases', issued in January 2016, is effective for annual periods beginning on or after 1 January 2019 (subject to EU endorsement), and supersedes all current lease requirements under IFRS. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts, bringing many commitments in relation to operating leases (as 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. The group does not expect the impact to be significant.

IFRS 17 – Insurance Contracts

IFRS 17, 'Insurance Contracts' was issued in May 2017 and is effective for annual periods beginning on or after 1 January 2021 (subject to EU endorsement). The standard will be applied retrospectively, subject to the transitional options provided for in the standard, and provides a comprehensive approach for accounting for insurance contracts including their valuation, income statement presentation and disclosure. The group has mobilised a project to assess the financial and operational implications of the standard and work will continue throughout 2018 to ensure technical compliance and to develop the required system capability to implement the standard.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued IFRS 9, 'Financial Instruments' which is effective for annual periods beginning on or after 1 January 2018. The IASB subsequently issued 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which allows entities which meet certain requirements to defer their implementation of IFRS 9 until adoption of IFRS 17 or 1 January 2021, whichever is the earlier.

As disclosed in the 31 December 2016 financial statements, the group will meet these requirements and it will therefore apply this deferral of IFRS 9. The sale of the Mature Savings business, announced in 2017, is not expected to change this conclusion.

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.

IFRIC 23 – Uncertainty over Income Tax Treatments

IFRIC 23 'Uncertainty over Income Tax Treatments' was issued in June 2017 and is effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement. The interpretation clarifies the application of recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over income tax treatments.

Annual Improvements to IFRS Standards 2015–2017 Cycle

These improvements were issued in December 2017 and consist of minor amendments affecting IFRS 3 'Business combinations', IFRS 11 'Joint arrangements', IAS 12 'Income taxes' and IAS 23 'Borrowing costs'. The amendments are effective for annual reporting periods beginning on or after 1 January 2019, subject to EU endorsement.

Amendments to IAS 19 – Employee Benefits

These amendments were issued in February 2018 and are effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement. The amendments require entities to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; they also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements.

Critical accounting policies and the use of estimates

The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the Consolidated Balance Sheet and Income Statement and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly. The Audit Committee reviews the reasonableness of judgements associated with and the application of significant accounting policies. The significant accounting issues considered by the Audit Committee are included within the Audit Committee Report on page 72.

The major areas of judgement on policy application are considered below:

Financial statement area	Critical accounting judgement	Notes
Insurance and investment contract liabilities	Assessment of the significance of insurance risk transferred to the group in determining whether a contract should be accounted for as an insurance or investment contract.	21 and 22
Consolidation	Assessment of whether the group controls underlying entities and should therefore consolidate them. The assessment takes account of various criteria, including decision-making ability, equity holding and the rights to a variable return from the entity.	44 to 46

Primary statements and performance (continued)

1 Basis of preparation (continued)

The table below sets out those areas of the financial statements which are particularly susceptible to changes in estimates and assumptions:

Financial statement area	Critical accounting assumptions	Notes
Valuation of insurance and investment contract liabilities	Determination of longevity, mortality and morbidity assumptions used in the calculation of the insurance contract liabilities. The assumptions for the rate of future longevity, mortality and morbidity are based on the group's internal experience and judgements about how experience may vary in the future. This assessment takes into account market benchmarking, internal experience studies and independent industry data. Determination of valuation interest rates used to discount the liabilities are sensitive to the assumptions made, for example, on credit default of the backing assets. These assumptions take into account consideration of market experience and historic and internal data.	19 to 22
Valuation of unquoted illiquid assets and investment property	Determination of fair value of unquoted and illiquid assets, and investment property involves judgements, as mark to model valuations, through the incorporation of both observable and unobservable market inputs, inherently include assumptions that lead to the existence of a range of plausible valuations for financial assets.	12 and 20
Defined benefit pension plan	Determination of pension plan assumptions includes mortality, discount rates and inflation. These assumptions have been set in accordance with the requirements of IAS 19 and include consistent judgements with those in setting the annuity liabilities where possible. Note 25 includes a sensitivity analysis to alternative assumption.	25

Consolidation principles

Subsidiary undertakings

The consolidated financial statements incorporate the assets, liabilities, equity, income, expenses and cash flows of the company and of its subsidiary undertakings drawn up to 31 December each year. All intra-group balances, transactions, income and expenses are eliminated in full. Subsidiaries are those entities (including special purpose entities, mutual funds and unit trusts) over which the group directly or indirectly has control (i.e. when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee) (Note 44). Profits or losses of subsidiary undertakings sold or acquired during the period are included in the consolidated results up to the date of disposal or from the date of gaining control. Puttable instruments held by external parties in consolidated investment vehicles, such as unit trusts, are classified as liabilities and appear as 'Net asset value attributable to unit holders' in the Consolidated Balance Sheet.

Associates and joint ventures

The group has interests in associates and joint ventures (Note 45) which form part of an investment portfolio held through private equity vehicles, mutual funds, unit trusts and similar entities. In accordance with the choice permitted by IAS 28, 'Investments in associates', these interests have been classified as fair value through profit or loss and measured at fair value within financial investments, with changes in fair value recognised in the income statement.

Associates which do not form part of an investment portfolio are initially recognised in the Consolidated Balance Sheet at cost. The carrying amount of the associate is increased or decreased to reflect the group's share of total comprehensive income after the date of the acquisition.

Product classification

The group's products are classified for accounting purposes as either insurance contracts (participating and non-participating) or investment contracts (participating and non-participating). The basis of accounting for these products is outlined in Notes 21 and 22 respectively.

Fiduciary activities

Assets associated with fiduciary activities and the income arising from those assets, together with associated commitments to return such assets to customers, are not included in these financial statements. Where the group acts in a fiduciary capacity, for instance as a trustee or agent, it has no contractual rights over the assets concerned.

Foreign exchange and exchange rates

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. The functional currency of the group's foreign operations is the currency of the primary economic environment in which the entity operates. The assets and liabilities of all of the group's foreign operations are translated into Sterling, the group's presentation currency, at the closing rate at the date of the Consolidated Balance Sheet. The income and expenses for each income statement are translated at average exchange rates. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to a separate component of shareholders' equity.

Foreign exchange gains and losses are recognised in the Consolidated Income Statement, except when recognised in equity as qualifying cash flow or net investment hedges.

The year end exchange rates at 31 December 2017 were 1.35 United States Dollar and 1.13 Euro (31 December 2016: 1.24 United States Dollar and 1.17 Euro).

The average exchange rates for year ended 31 December 2017 were 1.29 United States Dollar and 1.14 Euro (31 December 2016: 1.36 United States Dollar and 1.22 Euro).

Primary statements and performance (continued)

2 Supplementary operating profit information

(i) Reconciliation between operating profit and profit from ordinary activities after income tax

	Notes	Profit/ (loss) before tax[1] 2017 £m	Tax (expense)/ credit 2017 £m	Profit/ (loss) after tax 2017 £m	Profit/ (loss) before tax[1] 2016 £m	Tax (expense)/ credit 2016 £m	Profit/ (loss) after tax 2016 £m
Legal & General Retirement (LGR)[3]		**1,247**	**(210)**	**1,037**	809	(138)	671
– LGR Institutional (LGRI)		906	(150)	756	651	(109)	542
– LGR Retail (LGRR)		341	(60)	281	158	(29)	129
Legal & General Investment Management (LGIM)		**400**	**(82)**	**318**	366	(81)	285
Legal & General Capital (LGC)		**272**	**(48)**	**224**	257	(43)	214
Legal & General Insurance (LGI)		**303**	**(81)**	**222**	303	(88)	215
– UK and Other[3]		209	(40)	169	218	(44)	174
– US (LGIA)		94	(41)	53	85	(44)	41
General Insurance		**37**	**(7)**	**30**	52	(10)	42
Continuing operating profit from divisions		**2,259**	**(428)**	**1,831**	1,787	(360)	1,427
Discontinued operating profit from divisions[4]		**107**	**(21)**	**86**	115	(24)	91
Operating profit from divisions/tax expense on divisions		**2,366**	**(449)**	**1,917**	1,902	(384)	1,518
Group debt costs[2]		**(191)**	**37**	**(154)**	(172)	34	(138)
Group investment projects and expenses	2(iv)	**(120)**	**24**	**(96)**	(168)	32	(136)
Operating profit/tax expense		**2,055**	**(388)**	**1,667**	1,562	(318)	1,244
Investment and other variances	2(v)	**24**	**200**	**224**	13	1	14
Gains on non-controlling interests		**11**	**–**	**11**	7	–	7
Profit for the year/tax expense for the year		**2,090**	**(188)**	**1,902**	1,582	(317)	1,265

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. During 2017, changes have been made to the organisational structure. Investment Discounts On Line Limited (the IDOL) has been transferred to LGI from LGR. Comparatives have been amended accordingly. The impact of this reclassification has been to reduce LGR 2017 operating profit by £2m, and increase LGI (UK and Other) 2017 operating profit by £2m.
4. Discontinued operating profit from divisions primarily reflects the operating profit of the Savings division following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For these operating profit disclosures, discontinued operations also includes the results of Legal & General Netherlands and Cofunds. These businesses were sold during 2017 and were components of the LGI (UK and Other) and Savings divisions respectively. Profit before tax attributable to equity holders in the Consolidated Income Statement of £1,991m excludes the profit before tax associated with discontinued operations of £99m, as this is included in the Profit after tax from discontinued operations of £80m.

This supplementary operating profit information (one of the group's key performance indicators) provides further analysis of the results reported under IFRS and the group believes it provides shareholders with a better understanding of the underlying performance of the business in the year.

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

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

Sale of Mature Savings

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

Primary statements and performance (continued)

2 Supplementary operating profit information (continued)

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

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

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

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

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

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

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

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

Primary statements and performance (continued)

For the year ended 31 December 2016	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other[2] £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR[3]	432	159	591	34	40	6	–	671	138	809
– LGRI	297	147	444	27	80	(9)	–	542	109	651
– LGRR	135	12	147	7	(40)	15	–	129	29	158
LGIM	308	(22)	286	(1)	–	–	–	285	81	366
– LGIM excluding Workplace Savings	290	–	290	–	–	–	–	290	82	372
– Workplace Savings[4]	18	(22)	(4)	(1)	–	–	–	(5)	(1)	(6)
LGC	214	–	214	–	–	–	–	214	43	257
LGI	248	23	271	(11)	5	(29)	(21)	215	88	303
– UK and Other[3]	185	23	208	(11)	5	(29)	1	174	44	218
– US (LGIA)	63	–	63	–	–	–	(22)	41	44	85
General Insurance	42	–	42	–	–	–	–	42	10	52
From continuing operations	1,244	160	1,404	22	45	(23)	(21)	1,427	360	1,787
From discontinued operations[5]	174	(5)	169	4	8	(32)	(58)	91	24	115
Total from divisions	1,418	155	1,573	26	53	(55)	(79)	1,518	384	1,902
Group debt costs	(138)	–	(138)	–	–	–	–	(138)	(34)	(172)
Group investment projects and expenses	(24)	–	(24)	–	–	–	(112)	(136)	(32)	(168)
Total	1,256	155	1,411	26	53	(55)	(191)	1,244	318	1,562

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

Primary statements and performance (continued)

2 Supplementary operating profit information (continued)

(iii) Analysis of LGR and LGI operating profit

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

1. During 2017, changes have been made to the organisational structure. The IDOL business has been transferred to LGI from LGR. Comparatives have been amended accordingly. The impact of this classification has been to reduce LGR 2016 release from operations by £1m and increase LGI 2016 release from operations by £1m.
2. Other experience variances for LGR includes the impact of an improvement in the quality of scheme data relating to bulk annuities.
3. Mortality assumption changes for LGR include a one-off longevity release of £274m in relation to an update of the portfolio base mortality assumptions as noted at H1 17, as well as the impact of moving trend assumptions from adjusted CMI 2014 to adjusted CMI 2015. The LGI assumption change reflects the impact of actual experience as well as refinements in the treatment of insured persons with sub-standard health.

(iv) Group investment projects and expenses

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

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

(v) Investment and other variances

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

1. Includes a positive variance in respect of the defined benefit pension scheme of £94m (2016: £29m) reflecting the impact of the acquisition of annuity assets from LGR, and the beneficial rate difference between the IAS19 and annuity discount rates.
2. Includes gains and losses, expenses and intangible amortisation relating to acquisitions and disposals. 2017 includes the £17m net gain resulting from the disposal of Legal & General Netherlands (2016: includes the £60m net loss resulting from the classification of Cofunds as held for sale (£64m loss) and the disposal of Suffolk Life (£4m gain)).

Primary statements and performance (continued)

3 Other operational income and expenses

Operational income from continuing operations comprises fee income from estate agency operations and agency fee income relating to distribution services. Operational income is accounted for on an accruals basis. The total operational income from continuing operations for the year is £212m (2016: £188m).

An analysis of other expenses is set out below:

	Notes	2017 £m	2016 £m
Staff costs (including pensions and share-based payments)	35	**702**	629
Redundancy costs		**–**	6
Operating lease rentals[1]		**23**	20
Auditors' remuneration	34	**9**	9
Depreciation and impairment of plant and equipment		**32**	13
Amortisation and impairment of purchased interest in long term businesses and other intangibles	10	**52**	59
Reinsurance commissions		**(9)**	(6)
Direct operating expenses arising from investment properties which generate rental income		**38**	44
Expenses attributable to consolidated private equity investment vehicles[2]		**–**	132
Other administrative expenses[3]		**444**	476
Total other expenses		**1,291**	1,382
Less other expenses from discontinued operations		**(205)**	(107)
Other expenses from continuing operations		**1,086**	1,275

1. Where a significant proportion of the risks and rewards of ownership is retained by the lessor, leases are classified as operating leases. Payments made by lessees under operating leases (net of any incentives from the lessor) are charged to the Consolidated Income Statement on a straight line basis over the period of the lease.
2. Consolidated private equity investment vehicles were sold in the year.
3. Other administrative expenses during 2016 includes the write-off of goodwill from subsidiaries classified as held for sale of £64m.

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

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

Primary statements and performance (continued)

5 Earnings per share

Earnings per share is a measure of the portion of the group's profit allocated to each outstanding share. It is calculated by dividing net income attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the year, excluding employee scheme treasury shares. For this purpose, net income is defined as the profit after tax, attributable to equity holders of the Company, derived from continuing operations.

For diluted earnings per share, the weighted average number of ordinary shares in issue, excluding employee scheme treasury shares, is adjusted to assume conversion of all dilutive potential ordinary shares, such as share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

(i) Earnings per share

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

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

(ii) Diluted earnings per share

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

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

1. For diluted earnings per share, the weighted average number of ordinary shares in issue, excluding employee scheme treasury shares, is adjusted to assume conversion of all potential ordinary shares, such as share options granted to employees.

Primary statements and performance (continued)

6 New business

New business is presented for selected lines only.

	2017 £m	2016 £m
Backbook acquisitions	–	2,945
Pension risk transfer		
– UK	**3,405**	3,338
– US	**543**	347
Individual annuities	**671**	378
Lifetime mortgage advances	**1,004**	620
Longevity insurance[1]	**800**	900
Total LGR new business	**6,423**	8,528

1. Represents the notional size of the transaction and is based on the present value of the fixed leg cash flows discounted at the LIBOR curve.

	2017 £m	2016 £m
UK Retail Protection	**172**	170
UK Group Protection	**49**	58
Netherlands Protection[2]	**1**	4
US Protection	**79**	62
Total LGI new business	**301**	294

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

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 48 to 53.

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 16 to 18.

Legal & General Retirement (LGR)

Annuity contracts

Annuity products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump sum capital payment. No surrender value is available under any of these products. Pension risk transfer (PRT) represents bulk annuities, whereby the group accepts the assets and liabilities of a company pension scheme or a life fund, are written predominantly to UK clients, but also for US, Dutch and Irish clients. Immediate and deferred annuity contracts are also offered to individual policyholders. Immediate annuities provide a regular income stream to the policyholder, purchased with a lump sum investment, where the income stream starts immediately after the purchase. The income stream from a deferred annuity is delayed until a specified future date. A small portfolio of immediate annuities has been written as participating business. Some non-participating deferred annuities sold by the group contain guaranteed cash options, predominantly minimum factors for commuting part of the annuity income into cash at the date of vesting. The value of such guaranteed options is currently immaterial. There is a block of immediate and deferred annuities within the UK non-profit business with benefits linked to changes in the RPI or for a minority the CPI, but with contractual maximum or minimum increases. In particular, most of these annuities have a provision that the annuity will not reduce if RPI, or for a minority CPI, becomes negative. The total of such annuities in payment at 31 December 2017 was £640m (2016: £610m). Thus, 1% negative inflation, which was reversed in the following year, would result in a guarantee cost of approximately £6m (2016: £6m). Negative inflation sustained over a longer period would give rise to significantly greater guarantee costs. Some of these guarantee costs have been partially matched through the purchase of negative inflation hedges and limited price indexation swaps.

The group also offers products for individuals that provide a guaranteed level of income over a chosen fixed period of time, in exchange for an initial lump sum payment from the policyholder. The products can provide a fixed lump sum at maturity and/or options to surrender on non-guaranteed terms.

The group has written some deferred annuity contracts with guaranteed minimum pensions. These options expose the group to interest rate and longevity risk as the cost would be expected to increase with decreasing interest rates and improved longevity. The market consistent value of these guarantees carried in the balance sheet is £220m at end December 2017 (2016: £250m).

Longevity insurance contracts

The group also provides longevity insurance products for company pension schemes, under which regular payments are made to the scheme reflecting their actual longevity experience, while the scheme makes an agreed set of regular payments in return. Some policies contain a guaranteed surrender value which is currently immaterial.

Lifetime mortgages

Lifetime mortgages are a form of equity release mortgage that provide non-commercial borrowers with a loan secured against their main residence, without the need for regular repayments. They are regulated retail mortgages offered only to borrowers over the age of 55 through specialist intermediaries. Interest accrues over the term of the loan and is repayable at the time the principal becomes due. Loans can be advanced in a single lump sum amount or in several subsequent drawdowns of an agreed facility. All lifetime mortgages provide a 'no negative equity' guarantee, which means that if the loan is repaid from the sale of the property and the net sale proceeds are lower than the balance of the loan, the group will accept the net sale proceeds as full settlement.

Balance sheet management (continued)

Legal & General Investment Management (LGIM)

LGIM offers both active and passive management on either a pooled or segregated basis. Assets are managed on behalf of pension funds, institutional clients, sovereign wealth clients, retail funds and subsidiary companies within the group. The core products are set out below.

Index fund management
LGIM provides a diversified range of pooled index funds, providing a wide choice and the ability to pursue specific benchmarks efficiently. In addition, segregated solutions are offered to institutional clients providing large scale customisation against established market capitalisation weighted and alternative indices.

Active fixed income and liquidity management
A range of pooled and segregated active fixed income funds. The LGIM liquidity funds offer institutional investors a solution for their cash management requirements across a range of core currencies. The liquidity funds aim to deliver competitive returns with a high level of diversification, whilst focusing on capital preservation through portfolios of high quality, liquid assets.

Solutions and Liability Driven Investment (LDI)
A range of pooled and bespoke solutions to help de-risk defined benefit pension schemes. These solutions will usually combine active or passive underlying portfolios with derivative overlays designed to meet clients' specific requirements.

Solutions also includes a range of pooled multi-asset funds for retail and institutional clients, built using LGIM's expertise in asset allocation which is informed by an in-house research capability. The underlying asset classes may be managed on an active or passive basis within LGIM. An allocation strategy service is also offered to institutional clients, which may also allocate some of the portfolio to managers other than LGIM.

Active equity
An active equity management business comprising focused teams managing stock selection across different regions.

Real assets
A range of pooled funds, segregated accounts and joint ventures investing on behalf of UK and overseas investors across physical real estate, private corporate debt, infrastructure debt and real estate loans. The business has specialist teams of fund and asset managers and an in-house research team.

Legal & General Capital (LGC)

Investment strategy and implementation
LGC manages shareholder assets which are not directly required to meet contractual obligations to policyholders. LGC's investments fall into two distinct categories; direct investments and traded assets. The value of, and income from, both categories is sensitive to conditions within investment markets and the broader economy. Potential volatility in returns are managed using a range of techniques, including performance benchmarks, foreign exchange and interest rate hedging, and exposure concentration limits by asset type, sector and geographic region.

Direct investments and structuring
Direct investments are an integral part of the wider group strategy. Direct investments are typically illiquid investments entered into through acquisition, joint venture with strategic partners or by creating new companies directly. LGC seeks to create revenue-generating direct investments in sectors where there are significant funding shortfalls, namely housing, infrastructure (including urban regeneration and clean energy) and SME finance. LGC employs capital and sector expertise to target attractive risk-adjusted returns.

Balance sheet management (continued)

7 Principal products (continued)

Legal & General Insurance (LGI)

LGI business comprises UK retail and group protection, US protection and universal life business (LGIA), networks, and the Netherlands business (LGN), which was disposed of in 2017.

UK protection business (retail and group)

The group offers protection products which provide mortality or morbidity benefits. They may include health, disability, critical illness and accident benefits; these additional benefits are commonly provided as supplements to main life policies but can also be sold separately. The benefit amounts would usually be specified in the policy terms. Some sickness benefits cover the policyholder's mortgage repayments and are linked to the prevailing mortgage interest rates. In addition to these benefits, some contracts may guarantee premium rates, provide guaranteed insurability benefits and offer policyholders conversion options.

US protection business

Protection consists of individual term assurance, which provides death benefits over the medium to long term. The contracts have level premiums for an initial period with premiums set annually thereafter. During the initial period, there is generally an option to convert the contract to a universal life contract. After the initial period, the premium rates are not guaranteed, but cannot exceed the age-related guaranteed premium.

Reinsurance is used within the protection businesses to manage exposure to large claims. These practices lead to the establishment of reinsurance assets on the group's balance sheet. Within LGIA, reinsurance and securitisation is also used to provide regulatory solvency relief (including relief from regulation governing term insurance and universal life reserves).

US universal life

Universal life contracts written by LGIA provide savings and death benefits over the medium to long term. The savings element has a guaranteed minimum growth rate. LGIA 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. LGIA 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 \$557m (£412m) at 31 December 2017 (\$596m (£482m) at 31 December 2016). The guaranteed interest rates associated with those reserves ranged from 1.5% to 6%, with the majority of the policies having guaranteed rates ranging from 3% to 4% (2016: 3% to 4%).

General Insurance (GI)

GI business comprises Household and Accident, Sickness and Unemployment (ASU), and Pet products.

Household

These contracts provide cover in respect of policyholders' homes, investment properties, contents, personal belongings and incidental liabilities which they may incur as a property owner, occupier and individual. Exposure is normally limited to the rebuilding cost of the home, the replacement cost of belongings and a policy limit in respect of liability claims. In addition, there is an additional cover option for Family Legal Protection (FLP) to cover costs of pursuing certain UK legal proceedings arising from, for example: death/personal injury, buying/hiring goods or services, infringement of property legal rights and breach of employment contracts.

Accident, Sickness and Unemployment (ASU)

These contracts provide cover in respect of continuing payment liabilities incurred by customers when they are unable to work as a result of accident, sickness or unemployment. Exposure is limited to the monthly payment level selected by the customer sufficient to cover the payment and associated costs, up to the duration limit specified in the policy, usually 12 months.

Pet insurance

Legal & General Pet Insurance is currently arranged and administered by Ultimate Pet Partners Limited and underwritten by Legal & General Insurance Limited. The policies aim to protect dogs and cats against unexpected accidents and illnesses. These are then split into three categories – accident only, 12 month or lifetime cover. In 2017, the group agreed to acquire Buddies Enterprises Limited, with the deal completing in January 2018. Buddies provide pet insurance policies which are largely marketed through breeders, and these policies will be underwritten by the group from January 2018.

Balance sheet management (continued)

Savings[1]

A range of contracts is offered in a variety of different forms to meet customers' long term savings objectives. Policyholders may choose to include a number of protection benefits within their savings contracts. Typically, any guarantees under the contract would only apply on maturity or earlier death. On certain older contracts there may be provisions guaranteeing surrender benefits. Savings contracts may or may not guarantee policyholders an investment return. The contracts fall into three main types:

- Non-participating savings, pensions and endowment contracts;
- Participating savings business, comprising endowment contracts, with-profits pensions 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 both inside and outside the 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.

Discretionary increases to benefits on participating contracts are allowed in one or both of annual and final bonus form. Some older participating contracts include a guaranteed minimum rate of roll-up of the policyholder's fund up to the date of retirement or maturity. Bonuses are determined in accordance with the principles outlined in the Fund's Principles and Practices of Financial Management (PPFM) for the management of the with-profits fund. The principles include:

- The with-profits fund will be managed with the objective of ensuring that its assets are sufficient to meet its liabilities and other regulatory and capital requirements without the need for additional capital from outside the with-profits fund; and
- Bonus rates will be smoothed so that some of the short term fluctuations in the value of the investments of the with-profits fund and the business results achieved in the with-profits fund are not immediately reflected in payments under with-profits policies.

The inherited estate is the excess of assets held within the with-profits fund over and above the amount required to meet liabilities, including those which arise from the regulatory duty to treat customers fairly in settling discretionary benefits. Following the closure to new businesses of the with-profits fund on 31 January 2015, the Board agreed a run-off plan. They will consider annually whether part of the inherited estate should be distributed to with-profits policyholders. In adverse circumstances this may result in a deduction from investment returns in order to increase the value of the inherited estate. The amount and timing of any distribution from or deduction to increase the inherited estate shall be determined by the Board. Following this approach, the Board has agreed that there should be no distribution of the estate and no charge for options and guarantees as part of the 2017 bonus declaration.

1. In December 2017, the group announced the sale of its Mature Savings business to Swiss Re. The sale is subject to regulatory approval and the Part VII transfer is expected to complete in 2019.

Balance sheet management (continued)

7 Principal products (continued)

Savings[1] (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 estate would normally be expected to absorb the impact of these investment risks. Only in extreme scenarios, where shareholders were required to provide support to the with-profits fund to meet its liabilities, would these risks affect equity. As part of the 2007 with-profits fund restructure, the 1996 sub-fund (£321m) was merged into the Shareholder Retained Capital (SRC). As a result, the Board of Directors of Legal and General Assurance Society Limited (LGAS) undertook to initially maintain £500m of assets within LGAS to support the with-profits business. The amount of the commitment reduced from £50m at the end of 2016 to zero at the end of 2017.

1. In December 2017, the group announced the sale of its Mature Savings business to Swiss Re. The sale is subject to regulatory approval and the Part VII transfer is expected to complete in 2019.

8 Asset risk

The group is exposed to the following categories of asset risk as a consequence of offering the principal products outlined in Note 7. The group is also exposed to insurance risk as a consequence of offering these products – more detail on insurance risk can be found in Note 18.

Market risk

Exposure to loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets.

Credit risk

Exposure to loss if another party fails to perform its financial obligations to the group.

Liquidity risk

The risk that the group, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

The financial risks associated with LGIM's businesses are directly borne by the investors in its funds. Therefore detailed risk disclosures have not been presented.

The group seeks to manage its exposures to risk through 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 is subject to regular monitoring. Periodic assessment is also made of the long term profitability to the group of these funds. For some contracts the group has discretion over the level of management charges levied.

Balance sheet management (continued)

Market risk

Principal risks	Product	Controls to mitigate the risk
Property risk Lifetime mortgages include a no-negative equity guarantee which transfers an exposure to loss to the group as a result of low house price inflation and an exposure on specific properties which may underperform the general house price inflation for whatever reason.	Lifetime mortgages	To mitigate the risk, maximum loan to value ratios are set for all lending with further underwriting criteria setting out acceptable properties for lending purposes. Policy terms also require properties to be fully insured and maintained, including the right of inspection. Diversification of lending by property type and geographic region seeks to control exposures to specific aspects of the property market.
Currency risk To diversify credit risk within the annuities business corporate bond portfolio, investments are held in corporate bonds denominated in non-Sterling currencies. LGC also invest in overseas assets. Fluctuations in the value of, or income from, these assets relative to liabilities denominated in Sterling could result in unforeseen loss.	Annuities and LGC	To mitigate the risk of loss from currency fluctuations, currency swaps and forwards are used to hedge exposures to corporate bonds denominated in currencies other than Sterling. Hedging arrangements are placed with strongly rated counterparties with collateral requirements being subject to regular review and reconciliation with the counterparties. In all cases, it is not possible to perfectly hedge currency risk, leading to some residual risk.
The consolidated international subsidiaries are revalued into Sterling potentially resulting in a loss to equity.	Group and LGC	
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 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.

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 general insurance and annuities 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 LGIA	Portfolio level and specific issuer limits are set by financial strength rating, sector and geographic region so as to limit exposure from a default event. Issuer limits are regularly reviewed to take account of changes in market conditions, sector performance and the re-assessment of financial strength by rating agencies and the group's own internal analysts. Exposures are monitored relative to limits. Financial instruments are also used to mitigate the impact of rating downgrades and defaults. If appropriate, actions are taken to trade out investments at risk of default.
Reinsurance counterparty risk Exposure to insurance risk is mitigated by ceding part of the risks assumed to the reinsurance market. Default of a reinsurer would require the business to be re-brokered potentially on less advantageous terms, or for the risks to be borne directly resulting in financial loss. Credit risk syndication also exposes the group to counterparty default risks with the group being required to carry an element of associated credit risk capital requirement on its balance sheet should the business not be re-brokered on the same terms.	Protection, Annuities, General Insurance, and LGIA	When selecting new reinsurance partners for its protection business, the group considers only companies which have a minimum credit rating equivalent to A- from Standard & Poor's. For each reinsurer, exposure limits are determined based on credit ratings and projected exposure over the term of the treaty. Actual exposures are regularly monitored relative to these limits. Similarly, for longevity and credit risk syndication transactions, the group targets the use of strongly rated counterparties and seeks to ensure that positions are fully collateralised. The adequacy and quality of collateral is subject to ongoing monitoring.

Balance sheet management (continued)

8 Asset risk (continued)

Credit risk (continued)

Principal risks	Product	Controls to mitigate the risk
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 and LGC	Each property lending and sale and leaseback investment transaction is subject to a due diligence process to assess the credit risks implicit in the transaction and confirm that any risk of default has been appropriately mitigated. We also protect our interests through taking security over the underlying property associated with the investment transaction.
Banking counterparty risk The group is exposed to potential financial loss should banks or the issuers of financial instruments default on their obligations to us. We are also exposed to counterparty risks in respect of the providers of settlement and custody services.	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.	LGI, General Insurance and Group	The group seeks to ensure that it meets its obligations as they fall due and avoids incurring material losses on forced asset sales in order to meet those obligations. A limited level of contingent liquidity risk is, however, an accepted element of writing insurance contracts. It is furthermore a consequence of the markets in which the group operates and the executions of investment management strategies. However, the group's insurance businesses seek to maintain sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may arise from contingent events. The level of required liquidity is identified using techniques including stress tests for shock events, with the profile of actual liquid assets being regularly compared to the required profile. The group's treasury function provides formal facilities to other areas of the group to cover contingent liquidity requirements arising from more extreme events and where investment assets may not be readily realisable.
Collateral liquidity risk Within the annuities business, the use of financial instruments to hedge default, interest rate, currency and inflation risks can require the posting of collateral with counterparties at short notice.	LGR	Liquidity requirements to meet potential collateral calls under stressed conditions are actively managed and an appropriate pool of eligible assets specified in the agreements with counterparties is maintained. As at 31 December 2017, LGR held eligible collateral worth four times the total amount of outstanding collateral (using the most representative definition of collateral contained within the company's different collateral agreements).

Other risks	Product	Controls to mitigate the risk
Investment liquidity risk Within the with-profit fund, exposure to liquidity risk may arise if the profile of investment assets held to meet obligations to policyholders is not aligned with the maturity profile of policies, or the profile does not adequately take account of the rights of policyholders to exercise options or guarantees to specified early surrender terms or minimum rates of return.	Savings	Liquidity risk is managed ensuring that an appropriate proportion of the fund is held in cash or other readily realisable assets to meet each tranche of maturities and anticipated early withdrawals as they fall due. Where policyholders have discretion to require early payment of policy proceeds, contractual safeguards are in place to ensure that the fund and remaining policyholders are not disadvantaged should a material number of policyholders exercise this discretion.
Non-participating savings contracts are exposed to liquidity risk in that certain asset classes in which underlying funds invest, such as property, may not be readily realisable in certain market conditions, or only realisable at a diminution of value.	Savings	Liquidity risks associated with non-participating savings contracts are documented and communicated to customers within product terms and conditions. The terms also highlight that for certain asset classes such as property, the group retains the right to defer the processing of fund withdrawal requests for up to six months, should underlying assets need to be realised to meet payment requests.
Direct lending, sales and leaseback investments and lifetime mortgage business are inherently illiquid forms of investment, with limited secondary markets to realise the value of assets outside agreed redemption terms.	LGR and LGC	Given the illiquid nature of the annuity and other liabilities, the group is able and willing to take advantage of the premium offered by illiquid assets. The group, however, sets limits on the overall exposure to illiquid investment types taking account of the nature and type of liabilities that the assets are held to meet.

The group seeks to manage its funds and liquidity requirements on a pooled basis and to ensure the group maintains sufficient liquid assets and standby facilities to meet a prudent estimate of its net cash outflows. In addition, it ensures that, even under plausible but unlikely severe conditions, the group has access to the funds necessary to cover all outgoings such as surrenders, withdrawals and maturing liabilities.

As at 31 December 2017, the group had £3.6bn (2016: £2.9bn) of cash and cash equivalents in shareholder funds and non profit non-unit linked funds and a £1.0bn syndicated committed revolving credit facility in place, provided by a number of its key relationship banks, maturing in December 2022.

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.

Balance sheet management (continued)

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. While the sale of the Mature Savings business will impact this exposure, and hence classification, in future years, the group's risk exposure at 31 December 2017 remains unchanged by the announcement of the sale. Therefore, a consistent disclosure with prior year has been maintained. 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 LGAS and Legal & General Assurance (Pensions Management) Limited. The financial risk on these contracts is borne by the policyholders. The group is therefore not directly exposed to any market risk, currency risk or credit risk for these contracts. As a result, risk disclosures have not been presented for unit linked assets and liabilities.

With-profits

Policyholders and shareholders share in the risks and returns of the with-profits fund. The return to shareholders on virtually all participating products is in the form of a transfer to shareholders' equity, which is analogous to a dividend from the fund and is dependent upon the bonuses credited or declared on policies in that year. The bonuses are broadly based on historic and current rates of return on equity, property and fixed income securities, as well as expectations of future investment returns. The with-profits classification excludes unit linked contracts.

Non profit non-unit linked

Shareholders are exposed to the risk and rewards of ownership of assets backing non profit non-unit linked business held in the UK with-profits fund, which comprises Annuities, Protection and Non profit Savings products.

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 on page 142 presents an analysis of the balance sheet by category.

Balance sheet management (continued)

9 Assets analysis (continued)

As at 31 December 2017	Shareholder £m	Non profit non-unit linked £m	With-profits £m	Unit linked £m	Total £m
Assets					
Goodwill and Purchased interests in long term businesses and other intangibles	144	5	–	–	149
Investment in associates and joint ventures	252	–	–	–	252
Property, plant and equipment	58	1	–	–	59
Investments	9,804	61,505	3,038	394,844	469,191
Reinsurers' share of contract liabilities	383	5,031	–	289	5,703
Other operational assets	2,688	745	86	4,420	7,939
Assets of operations classified as held for sale	133	510	8,545	13,396	22,584
Total assets	**13,462**	**67,797**	**11,669**	**412,949**	**505,877**
Liabilities					
Core borrowings	3,517	–	–	(58)	3,459
Operational borrowings	395	–	29	114	538
Participating contract liabilities	–	–	–	–	–
Non-participating contract liabilities	1,560	60,829	–	315,580	377,969
Other liabilities	2,651	3,959	59	75,365	82,034
Liabilities of operations classified as held for sale	1	507	11,575	21,875	33,958
Total liabilities	**8,124**	**65,295**	**11,663**	**412,876**	**497,958**

As at 31 December 2016	Shareholder £m	Non profit non-unit linked £m	With-profits £m	Unit linked £m	Total £m
Assets					
Goodwill and Purchased interests in long term businesses and other intangibles	155	11	–	–	166
Investment in associates and joint ventures	283	–	–	–	283
Property, plant and equipment	76	–	–	–	76
Investments	9,327	58,555	11,924	372,236	452,042
Reinsurers' share of contract liabilities	418	4,887	1	287	5,593
Other operational assets	2,440	1,099	171	3,719	7,429
Assets of operations classified as held for sale	1,557	–	–	708	2,265
Total assets	14,256	64,552	12,096	376,950	467,854
Liabilities					
Core borrowings	3,136	–	–	(65)	3,071
Operational borrowings	216	–	63	151	430
Participating contract liabilities	–	14	11,506	–	11,520
Non-participating contract liabilities	1,470	58,365	113	322,008	381,956
Other liabilities	2,789	4,774	415	53,794	61,772
Liabilities of operations classified as held for sale	1,107	–	–	715	1,822
Total liabilities	8,718	63,153	12,097	376,603	460,571

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.

Balance sheet management (continued)

	PILTB insurance contracts 2017 £m	PILTB investment contracts 2017 £m	Other intangible assets 2017 £m	Total 2017 £m
Cost				
As at 1 January	**398**	**65**	**235**	**698**
Additions	**–**	**–**	**40**	**40**
Disposals	**–**	**(29)**	**(65)**	**(94)**
Net exchange difference	**(21)**	**(3)**	**1**	**(23)**
As at 31 December	**377**	**33**	**211**	**621**
Accumulated amortisation and impairment				
As at 1 January	**(385)**	**(52)**	**(106)**	**(543)**
Amortisation for the year	**(1)**	**(12)**	**(35)**	**(48)**
Impairment	**–**	**–**	**(4)**	**(4)**
Disposals	**–**	**29**	**65**	**94**
Net exchange difference	**21**	**2**	**(2)**	**21**
As at 31 December	**(365)**	**(33)**	**(82)**	**(480)**
Total net book value as at 31 December[1]	**12**	**–**	**129**	**141**
Less assets classified as held for sale				**(3)**
Net book value as at 31 December				**138**
To be amortised within 12 months[2]				**31**
To be amortised after 12 months[2]				**110**

1. Total PILTB and other intangible assets are presented gross of held for sale assets in 2017 and net of held for sale assets in 2016. Detailed disclosure relating to these held for sale items is included in Note 30.
2. The maturity analysis of the assets between less and more than 12 months is based on the Total net book value as at 31 December 2017.

	PILTB insurance contracts 2016 £m	PILTB investment contracts 2016 £m	Other intangible assets 2016 £m	Total 2016 £m
Cost				
As at 1 January	358	94	317	769
Additions	–	–	47	47
Disposals[1]	–	–	(72)	(72)
Held for sale[2]	–	(34)	(60)	(94)
Net exchange difference	40	5	3	48
As at 31 December	398	65	235	698
Accumulated amortisation and impairment				
As at 1 January	(344)	(41)	(92)	(477)
Amortisation for the year	(1)	(2)	(39)	(42)
Impairment	–	(12)	(5)	(17)
Disposals[1]	–	–	27	27
Held for sale[2]	–	5	4	9
Net exchange difference	(40)	(2)	(1)	(43)
As at 31 December	(385)	(52)	(106)	(543)
Net book value as at 31 December	13	13	129	155
To be amortised within 12 months				36
To be amortised after 12 months				119

1. In 2016, the group disposed of its interests in its venture capital investments.
2. Legal & General Netherlands and Cofunds were classified as held for sale in 2016.

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. Some acquisition costs relating to non-participating insurance contracts written outside the with-profits fund which are incurred during a financial year are deferred by use of an asset which is amortised over the period during which the costs are expected to be recoverable, and in accordance with the expected incidence of future related margins. For participating contracts, acquisition costs are charged to the income statement when incurred.

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 2017 £m	Investment contracts 2017 £m	Total 2017 £m	Insurance contracts 2016 £m	Investment contracts 2016 £m	Total 2016 £m
As at 1 January	**1,541**	**564**	**2,105**	1,276	611	1,887
Acquisition costs deferred	**225**	**2**	**227**	203	4	207
Amortisation charged to income statement	**(169)**	**(76)**	**(245)**	(166)	(75)	(241)
(Decrease)/increase due to currency translation	**(131)**	**–**	**(131)**	240	–	240
Held for sale				(12)	–	(12)
Other	**–**	**(11)**	**(11)**	–	24	24
Total as at 31 December[1]	**1,466**	**479**	**1,945**	1,541	564	2,105
Less assets classified as held for sale	**–**	**(438)**	**(438)**			
As at 31 December	**1,466**	**41**	**1,507**	1,541	564	2,105
To be amortised within 12 months[2]	**98**	**61**	**159**	88	68	156
To be amortised after 12 months[2]	**1,367**	**419**	**1,786**	1,453	496	1,949

1. Total deferred acquisition costs are presented gross of held for sale assets in 2017 and net of held for sale assets in 2016. Detailed disclosure relating to these held for sale items is included in Note 30.
2. The maturity analysis of the assets between less and more than 12 months is based on Total as at 31 December balances.

Of the total gross deferred acquisition costs £1,407m (2016: £1,490m) relates to the LGIA business.

Balance sheet management (continued)

12 Financial investments and investment property

The group holds financial investments and investment property to back insurance contracts on behalf of policyholders and as group capital.

The group classifies its financial investments on initial recognition as held for trading (HFT), designated at fair value through profit or loss (FVTPL), available-for-sale (AFS) or loans and receivables. Initial recognition of financial investments is on the trade date.

The group's policy is to measure investments at FVTPL except for certain overseas assets where the related liability is valued on a passive basis (not using current information), in which case investments are classified as AFS or loans held at amortised cost. All derivatives other than those designated as hedges are classified as HFT.

Certain financial investments held by the group are designated as FVTPL as their performance is evaluated on a total return basis, consistent with asset performance reporting to the Group Investment and Market Risk Committee and the group's investment strategy. Assets designated as FVTPL include debt securities (including lifetime mortgages) and equity instruments which would otherwise have been classified as AFS, and reverse repurchase agreements within loans which would otherwise be designated at amortised cost. Assets backing participating and non-participating 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.

Financial investments classified as HFT and FVTPL are measured at fair value with gains and losses reflected in the Consolidated Income Statement. Transaction costs are expensed as incurred.

Financial investments classified as AFS are measured at fair value with unrealised gains and losses recognised in a separate reserve within equity. Realised gains and losses, impairment losses, dividends, interest and foreign exchange movements on non-equity instruments are reflected in the Consolidated Income Statement. Directly attributable transaction costs are included in the initial measurement of the investment.

Financial investments classified as loans are either measured at FVTPL, or initially measured at fair value plus acquisition costs, and subsequently measured at amortised cost using the effective interest method. The FVTPL classification currently only applies to reverse repurchase agreements.

Financial investments are recognised when the group becomes a party to the contractual provisions of the instrument. Financial investments are derecognised only when the contractual rights to the cash flows from the investment expire, or when the group transfers substantially all the risks and rewards of ownership to another entity.

Financial assets, other than those at fair value, are assessed for impairment at each balance sheet date. They are impaired where there is objective evidence that, as a result of one or more events after initial recognition of the financial asset, the estimated future cash flows have been affected.

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.

Non-cash collateral pledged where the group retains the contractual rights to receive the cash flows generated is not derecognised from Consolidated Balance Sheet, unless the group defaults on its obligations under the relevant agreement.

Cash collateral pledged, where the counterparty has contractual rights to receive the cash flows generated, is derecognised from the Consolidated Balance Sheet and a corresponding receivable is recognised for its return.

Balance sheet management (continued)

12 Financial investments and investment property (continued)

	Note	Shareholder 2017 £m	Non profit non-unit linked 2017 £m	With-profits 2017 £m	Unit linked 2017 £m	Total 2017 £m
Financial investments at fair value designated as:						
Fair value through profit or loss		**5,519**	**52,828**	**9,477**	**373,210**	**441,034**
Available-for-sale		**1,503**	**–**	**–**	**8**	**1,511**
Held for trading		**39**	**3,948**	**98**	**7,429**	**11,514**
Loans at fair value		**316**	**363**	**116**	**7,874**	**8,669**
Financial investments at fair value		**7,377**	**57,139**	**9,691**	**388,521**	**462,728**
Loans at amortised cost	12(ii)	**496**	**–**	**–**	**–**	**496**
Total financial investments		**7,873**	**57,139**	**9,691**	**388,521**	**463,224**
Investment property		**110**	**2,722**	**658**	**4,847**	**8,337**
Total financial investments and investment property[1]		**7,983**	**59,861**	**10,349**	**393,368**	**471,561**
Less assets of operations classified as held for sale		**(56)**	**–**	**(8,114)**	**(13,119)**	**(21,289)**
Total financial investments and investment property		**7,927**	**59,861**	**2,235**	**380,249**	**450,272**
Expected to be received within 12 months[2]						**58,803**
Expected to be received after 12 months[2]						**412,758**

1. Total financial investments and investment property are presented gross of held for sale assets in 2017 and net of held for sale assets in 2016. Detailed disclosure relating to these held for sale items is included in Note 30.
2. The maturity analysis of the assets between less than and more than 12 months is based on Total financial investments and investment property.

	Note	Shareholder 2016 £m	Non profit non-unit linked 2016 £m	With-profits 2016 £m	Unit linked 2016 £m	Total 2016 £m
Financial investments at fair value designated as:						
Fair value through profit or loss		5,259	50,269	10,322	347,356	413,206
Available-for-sale		1,645	–	–	10	1,655
Held for trading		82	4,611	134	8,294	13,121
Loans at fair value[1]		89	34	18	1,750	1,891
Financial investments at fair value		7,075	54,914	10,474	357,410	429,873
Loans at amortised cost	12(ii)	529	33	–	–	562
Total financial investments		7,604	54,947	10,474	357,410	430,435
Investment property		162	2,442	738	4,808	8,150
Total financial investments and investment property[2,4]		7,766	57,389	11,212	362,218	438,585
Expected to be received within 12 months[3]						54,487
Expected to be received after 12 months[3]						384,098

1. As at 31 December 2016, £1,891m of reverse repurchase agreements were classified in Other assets. On review, we have determined that these instruments meet the definition of a financial asset and therefore should have been included within Financial investments. Accordingly, the prior year numbers have been restated resulting in a decrease in Other assets of £1,891m and an increase in Financial investments of £1,891m. The instruments have been classified as Loans at fair value, and assessed as fair value Level 2. The restatement has nil impact on the valuation of the instruments, and a net nil impact on Total assets in the Consolidated Balance Sheet.
2. Following a review of short dated instruments, certain assets have been reclassified from Cash and cash equivalents to Financial investments as their maturity at the balance sheet date was greater than three months. These amounts totalled £10,369m and the analysis above has been restated to reflect this reclassification.
3. The maturity analysis of the assets between less and more than 12 months is based on Total financial investments and investment property.
4. Total financial investments and investment property are presented gross of held for sale assets in 2017 and net of held for sale assets in 2016. Detailed disclosure relating to these held for sale items is included in Note 30.

Investment risks on unit linked assets are borne by the policyholders. The remaining risks associated with financial investments are outlined in Note 8.

Balance sheet management (continued)

Financial investments, cash and cash equivalents include £1,788m (2016: £3,246m) of assets pledged as collateral against net derivative liability counterparty positions. The assets used as collateral are Treasury gilts, foreign government bonds, AAA and AA corporate bonds and cash (2016: Treasury gilts, foreign government bonds, AAA and AA corporate bonds and cash) having a residual maturity of over 32 years (2016: over 52 years). The group is entitled to receive all of the cash flows from the asset during the period when it is pledged as collateral. Further, there is no obligation to pay or transfer these cash flows to another entity. The group can decide to substitute an asset which is designated as collateral at any time, provided the relevant terms and conditions of the International Swap Dealers Association agreement are met.

Financial investments include £32,358m (2016: £23,914m) of assets that have been sold but not derecognised and are subject to repurchase agreements. The related obligation to repurchase the financial assets is included within Payables and other financial liabilities (Note 26).

Various bulk purchase annuity deals include collateralised structures. £6,451m (2016: £8,942m) of corporate bonds, Treasury gilts and cash are pledged as collateral in relation to these.

Collateral of £202m (2016: £996m) made up of Treasury gilts, foreign government bonds and corporate bonds (AAA, AA, A and BBB) was pledged out in respect of reinsurance agreements.

Financial investments have been allocated between those expected to be settled within 12 months and after 12 months in line with the expected settlement of the backed liabilities. Assets in excess of the insurance and investment contract liabilities have been classified as expected to be settled after 12 months.

(i) Financial investments and investment property at fair value

	Note	Shareholder 2017 £m	Non profit non-unit linked 2017 £m	With-profits 2017 £m	Unit linked 2017 £m	Total 2017 £m
Equity securities		**2,418**	**282**	**3,260**	**203,045**	**209,005**
Debt securities[1]		**4,575**	**52,008**	**6,162**	**168,196**	**230,941**
Accrued interest		**24**	**468**	**54**	**972**	**1,518**
Derivative assets	13	**44**	**4,018**	**99**	**8,434**	**12,595**
Loans at fair value		**316**	**363**	**116**	**7,874**	**8,669**
Total financial investments at fair value		**7,377**	**57,139**	**9,691**	**388,521**	**462,728**

	Note	Shareholder 2016 £m	Non profit non-unit linked 2016 £m	With-profits 2016 £m	Unit linked 2016 £m	Total 2016 £m
Equity securities		1,928	393	3,432	192,242	197,995
Debt securities[1]		4,945	49,380	6,827	154,178	215,330
Accrued interest		31	496	63	946	1,536
Derivative assets	13	82	4,611	134	8,294	13,121
Loans at fair value[2]		89	34	18	1,750	1,891
Total financial investments at fair value		7,075	54,914	10,474	357,410	429,873

1. Non profit non-unit linked debt securities include £2.2bn (2016: £1.8bn) of commercial loans and £2.0bn (2016: £0.9bn) of lifetime mortgages designated as fair value through profit and loss.
2. As at 31 December 2016, £1,891m of reverse repurchase agreements were classified in Other assets. On review, we have determined that these instruments meet the definition of a financial asset and therefore should have been included within Financial investments. Accordingly, the prior year numbers have been restated resulting in a decrease in Other assets of £1,891m and an increase in Financial investments of £1,891m. The instruments have been classified as Loans at fair value, and assessed as fair value Level 2. The restatement has nil impact on the valuation of the instruments, and a net nil impact on Total assets in the Consolidated Balance Sheet.

Non-consolidated private equity investments are included within equity securities. A loss of £16m (2016: loss of £13m) 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 £13m (2016: gain of £4m) 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 £282m (2016: £303m) of debt instruments which incorporate an embedded derivative linked to the value of the group's share price.

Balance sheet management (continued)

12 Financial investments and Investment property (continued)

(ii) Loans

	Shareholder 2017 £m	Non profit non-unit linked 2017 £m	With-profits 2017 £m	Unit linked 2017 £m	Total 2017 £m
Loans at amortised cost					
Policy loans	**37**	**–**	**–**	**–**	**37**
Other loans and receivables[1]	**459**	**–**	**–**	**–**	**459**
	496	**–**	**–**	**–**	**496**
Loans at fair value					
Reverse repurchase agreements	**316**	**363**	**116**	**7,874**	**8,669**
Total loans	**812**	**363**	**116**	**7,874**	**9,165**

	Shareholder 2016 £m	Non profit non-unit linked 2016 £m	With-profits 2016 £m	Unit linked 2016 £m	Total 2016 £m
Loans at amortised cost					
Deposits with credit institutions	1	–	–	–	1
Policy loans	43	–	–	–	43
Other loans and receivables[1]	485	33	–	–	518
	529	33	–	–	562
Loans at fair value					
Reverse repurchase agreements[2]	89	34	18	1,750	1,891
Total loans	618	67	18	1,750	2,453

1. Other loans and receivables include £324m (2016: £398m) of US commercial mortgage loans.
2. As at 31 December 2016, £1,891m of reverse repurchase agreements were classified in Other assets. On review, we have determined that these instruments meet the definition of a financial asset and therefore should have been included within Financial investments. Accordingly, the prior year numbers have been restated resulting in a decrease in Other assets of £1,891m and an increase in Financial investments of £1,891m. The instruments have been classified as Loans at fair value, and assessed as fair value Level 2. The restatement has nil impact on the valuation of the instruments, and a net nil impact on Total assets in the Consolidated Balance Sheet.

There are no material differences between the carrying values reflected above and the fair values of these loans.

(iii) Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

The levels of fair value measurement bases are defined as follows:

Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair values measured using valuation techniques for all inputs significant to the measurement other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs).

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 swaps holdings. 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 group's policy is to re-assess categorisation of financial assets at the beginning 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 2017 other than those noted above (2016: no significant transfers).

Balance sheet management (continued)

For the year ended 31 December 2017	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	**2,418**	**1,743**	**1**	**674**
Debt securities	**4,575**	**1,134**	**3,076**	**365**
Accrued interest	**24**	**7**	**14**	**3**
Derivative assets	**44**	**33**	**11**	**–**
Investment property	**110**	**–**	**–**	**110**
Loans at fair value	**316**	**–**	**316**	**–**
Non profit non-unit linked				
Equity securities	**282**	**278**	**–**	**4**
Debt securities	**52,008**	**7,436**	**35,084**	**9,488**
Accrued interest	**468**	**38**	**410**	**20**
Derivative assets	**4,018**	**–**	**4,018**	**–**
Investment property	**2,722**	**–**	**–**	**2,722**
Loans at fair value	**363**	**–**	**363**	**–**
With-profits				
Equity securities	**3,260**	**3,074**	**4**	**182**
Debt securities	**6,162**	**2,105**	**4,053**	**4**
Accrued interest	**54**	**17**	**37**	**–**
Derivative assets	**99**	**16**	**83**	**–**
Investment property	**658**	**–**	**–**	**658**
Loans at fair value	**116**	**–**	**116**	**–**
Unit linked				
Equity securities	**203,045**	**199,524**	**2,930**	**591**
Debt securities	**168,196**	**115,470**	**52,718**	**8**
Accrued interest	**972**	**416**	**556**	**–**
Derivative assets	**8,434**	**124**	**8,310**	**–**
Investment property	**4,847**	**–**	**–**	**4,847**
Loans at fair value	**7,874**	**–**	**7,874**	**–**
Total financial investments and investment property at fair value[1]	**471,065**	**331,415**	**119,974**	**19,676**

1. This table excludes loans of £496m, which are held at amortised cost.

Balance sheet management (continued)

12 Financial investments and investment property (continued)

(iii) Fair value hierarchy (continued)

For the year ended 31 December 2016	Total[1] £m	Level 1[1] £m	Level 2[1] £m	Level 3 £m
Shareholder				
Equity securities	1,928	1,478	1	449
Debt securities	4,945	1,513	3,046	386
Accrued interest	31	7	21	3
Derivative assets[2]	82	11	71	–
Investment property	162	–	–	162
Loans at fair value[3]	89	–	89	–
Non profit non-unit linked				
Equity securities	393	389	4	–
Debt securities	49,380	8,351	37,067	3,962
Accrued interest	496	42	448	6
Derivative assets[2]	4,611	1	4,588	22
Investment property	2,442	–	–	2,442
Loans at fair value[3]	34	–	34	–
With-profits				
Equity securities	3,432	3,216	9	207
Debt securities	6,827	3,467	3,349	11
Accrued interest	63	22	41	–
Derivative assets[2]	150	24	126	–
Investment property	738	–	–	738
Loans at fair value[3]	18	–	18	–
Unit linked				
Equity securities	192,242	188,769	3,028	445
Debt securities	154,178	106,224	47,954	–
Accrued interest	946	333	613	–
Derivative assets[2]	8,294	76	8,218	–
Investment property	4,808	–	–	4,808
Loans at fair value[3]	1,750	–	1,750	–
Total financial investments and investment property at fair value[4]	438,039	313,923	110,475	13,641

1. Following a review of short dated instruments, certain assets have been reclassified from Cash and cash equivalents to Financial investments as their maturity at the balance sheet date was greater than three months. These amounts totalled £10,369m and the analysis above has been restated to reflect this reclassification.
2. Within derivative assets, £425m of forward currency contracts have been reclassified from Level 1 to Level 2, following a review of the inputs required in their valuation. The reclassification has nil impact on the valuation of the instruments, and therefore nil impact on the Consolidated Balance Sheet.
3. As at 31 December 2016 £1,891m of reverse repurchase agreements were classified in Other assets. On review, we have determined that these instruments meet the definition of a financial asset and therefore should have been included within Financial investments. Accordingly, the prior year numbers have been restated resulting in a decrease in Other assets of £1,891m and an increase in Financial investments of £1,891m. The instruments have been classified as Loans at fair value, and assessed as fair value Level 2. The restatement has nil impact on the valuation of the instruments, and a net nil impact on Total assets in the Consolidated Balance Sheet.
4. This table excludes loans of £562m, which are held at amortised cost.

Balance sheet management (continued)

(a) Level 3 assets measured at fair value
Level 3 assets where internal models are used, represent a small proportion of assets to which shareholders are exposed. These comprise property, unquoted equities, untraded debt securities and securities where the broker methodology is unknown. Unquoted securities include suspended securities excluding investments in private equity and property vehicles. Untraded debt securities include private placements, commercial real estate loans, income strips and lifetime mortgages.

In many situations, inputs used to measure the fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, the group determines the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. As a result, both observable and unobservable inputs may be used in the determination of fair values that the group has classified within Level 3.

The group determines the fair values of certain financial assets and liabilities based on quoted market prices, where available. The group also determines fair value based on estimated future cash flows discounted at the appropriate current market rate. As appropriate, fair values reflect adjustments for counterparty credit quality, the group's credit standing, liquidity and risk margins on unobservable inputs.

The most significant assets classified as Level 3, and the valuation methodologies applied to them, are described below.

Equity securities
Level 3 equity securities amount to £1,451m (2016: £1,101m) and are valued by a number of third party specialists using a range of techniques, including earnings multiples and price/earnings ratios, which are deemed to be unobservable.

Other financial investments
Lifetime mortgage loans amount to £2,023m (2016: £852m). They are valued using a discounted cash flow model by projecting best-estimate net asset proceeds and discounting using rates inferred from current LTM pricing, thereby ensuring the value of loans at outset is consistent with the purchase price of the loan, and ensuring consistency between new and in-force loans. Inputs to the model include property growth rates and voluntary early redemptions. The valuation at 31 December 2017 reflects a long term property growth rate assumption of RPI + 0.5%.

Commercial real estate loans amount to £2,169m (2016: £1,777m). Their valuation is outsourced to Markit who use discounted future cash flows based on a yield curve. The discount factors take into consideration the z-spread of the LGIM approved comparable bond and an initial spread agreed by both parties. The initial spread is the calculated premium required to discount cash flows to par value/purchase price.

Income strip assets amount to £1,153m (2016: £953m). Their valuation is outsourced to Knight Frank and CBRE who apply a yield to maturity to discounted future cash flows to derive valuations. The overall valuation takes into account the property location, tenant details, tenure, rent, rental break terms, lease expiries and underlying residual value of the property.

Private placements held by the US business amount to £346m (2016: £373m). They are valued using a pricing matrix comprised of a public spread matrix, internal ratings assigned to each holding, average life of each holding, and a premium spread matrix. These are added to the risk-free rate to calculate the discounted cash flows and establish a market value for each investment grade private placement.

Commercial mortgage loans amount to £342m (2016: £365m) and are determined by incorporating credit risk for performing loans at the portfolio level and for loans identified to be distressed at the loan level. The projected cash flows of each loan are discounted along stochastic risk free rate paths and are inclusive of an Option Adjusted Spread (OAS), derived from current internal pricing on new loans, along with the best observable inputs. These are further adjusted for credit improvements due to seasonality and illiquidity premiums.

Other debt securities which are not traded in an active market have been valued using third party or counterparty valuations. These prices are considered to be unobservable due to infrequent market transactions.

Investment property
Level 3 investment property amounting to £8,337m (2016: £8,150m) is valued with the involvement of external valuers. All property valuations are carried out in accordance with the latest edition of the Valuation Standards published by the Royal Institute of Chartered Surveyors, and are undertaken by appropriately qualified valuers as defined therein. Whilst transaction evidence underpins the valuation process, the definition of market value, including the commentary, in practice requires the valuer to reflect the realities of the current market. In this context valuers must use their market knowledge and professional judgement and not rely only upon historic market sentiment based on historic transactional comparables.

Fair values are subject to a control framework designed to ensure that input variables and outputs are assessed independent of the risk taker. These inputs and outputs are reviewed and approved by a valuation committee and validated independently as appropriate.

The group's policy is to reassess the categorisation of financial assets at the end of each reporting period and to recognise transfers between levels at that point in time.

Balance sheet management (continued)

12 Financial investments and Investment property (continued)

(iii) Fair value hierarchy (continued)

(a) Level 3 assets measured at fair value (continued)

	Equity securities 2017 £m	Other financial investments[1] 2017 £m	Investment property 2017 £m	Total 2017 £m	Equity securities 2016 £m	Other financial investments[1] 2016 £m	Investment property 2016 £m	Total 2016 £m
As at 1 January	1,101	4,390	8,150	13,641	863	1,456	8,082	10,401
Total gains/(losses) for the period recognised in profit:								
– in other comprehensive income	–	37	–	37	–	5	–	5
– realised and unrealised gains/losses[2]	104	266	456	826	40	350	(78)	312
Purchases/additions	316	3,595	1,218	5,129	473	1,161	692	2,326
Sales/disposals	(267)	(118)	(975)	(1,360)	(302)	(139)	(494)	(935)
Transfers into Level 3[3]	138	1,718	–	1,856	22	1,590	–	1,612
Transfers out of Level 3	–	–	–	–	–	(33)	–	(33)
Transfers to held for sale	–	–	–	–	–	–	(53)	(53)
Other[4]	59	–	(512)	(453)	5	–	1	6
As at 31 December	1,451	9,888	8,337	19,676	1,101	4,390	8,150	13,641

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 and further internal investigations. In 2017, transfers into Level 3 include £874m of private placement and £795m of income strips, which were previously classified as Level 2. In 2016, transfers into Level 3 included £1.6bn of commercial real estate loans, which were previously classified as Level 2.
4. Other Level 3 movements for the current year primarily reflects the deconsolidation of the group's investment in a property fund (see Note 38).

(b) Effect on changes in assumptions on Level 3

Fair values of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data.

Where possible, the group assesses the sensitivity of fair values of Level 3 investments to changes in unobservable inputs to reasonable alternative assumptions. As outlined above, Level 3 investments are valued using internally-modelled valuations or independent third parties. Where internally-modelled valuations are used, sensitivities are determined by adjusting various inputs of the model and assigning them a weighting. Where independent third parties are used, sensitivities are determined as outlined below:

- Unquoted investments in property vehicles and direct holdings in investment property are valued using valuations provided by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. Reasonably possible alternative valuations have been determined using alternative yields.
- Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined using alternative price earnings multiples.
- No reasonably possible increases or decreases in fair values have been given for securities where the broker valuation methodology is unknown.

The group is therefore able to perform a sensitivity analysis for its Level 3 investments, which amount to £19.7bn. The effect of changes in significant unobservable valuation inputs to reasonable alternative assumptions would result in a change in fair value of +/- £1.2bn, which represents 6% of the total value of Level 3 investments.

Balance sheet management (continued)

13 Derivative assets and liabilities

The group's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The group uses derivatives such as foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The group uses hedge accounting, provided the prescribed criteria in IAS 39 are met, to recognise the offsetting effects of changes in the fair value or cash flow of the derivative instrument and the hedged item. The group's principal uses of hedge accounting are to:

(i) Defer in equity the changes in the fair value of derivatives designated as the hedge of a future cash flow attributable to a recognised asset or liability, a highly probable forecast transaction, or a firm commitment until the period in which the future transaction affects profit or loss or is no longer expected to occur; and

(ii) Hedge the fair value movements in loans due to interest rate and exchange rate fluctuations. Any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the Consolidated Income Statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Consolidated Income Statement.

The relationship between the hedging instrument and the hedged item, together with the risk management objective and strategy for undertaking the hedge transaction, is 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)

	Fair values		Fair values	
	Assets 2017 £m	**Liabilities[1] 2017 £m**	Assets 2016 £m	Liabilities[1] 2016 £m
Shareholder derivatives:				
Interest rate contracts – fair value hedges	**1**	**1**	–	–
Interest rate contracts – cash flow hedges	**–**	**–**	–	–
Currency swap contracts – held for trading	**–**	**119**	–	–
Inflation swap contracts – held for trading	**–**	**–**	–	–
Other derivatives – held for trading	**43**	**27**	82	19
Total shareholder derivatives	**44**	**147**	82	19
Non profit non-unit linked derivatives:				
Interest rate contracts – fair value hedges	**42**	**41**	–	–
Interest rate contracts – held for trading	**3,408**	**1,350**	4,166	1,788
Forward foreign exchange contracts – held for trading	**41**	**62**	114	147
Currency swap contracts – held for trading	**169**	**37**	30	264
Inflation swap contracts – held for trading	**256**	**673**	203	597
Credit derivatives – held for trading	**–**	**35**	–	65
Other derivatives – held for trading	**102**	**–**	98	–
Total non profit non-unit linked derivatives	**4,018**	**2,198**	4,611	2,861
With-profits derivatives:				
Interest rate contracts – held for trading	**70**	**7**	65	1
Other derivatives – held for trading	**29**	**5**	69	76
Total with-profits derivatives	**99**	**12**	134	77
Unit linked derivatives:				
Interest rate contracts – held for trading	**7,400**	**2,448**	7,869	2,595
Forward foreign exchange contracts – held for trading	**737**	**587**	256	662
Credit derivatives – held for trading	**69**	**69**	10	26
Inflation swap contracts – held for trading	**74**	**123**	92	148
Inflation rate contracts – held for trading	**1**	**481**	–	472
Equity/index derivatives – held for trading	**113**	**2,086**	24	2,147
Other derivatives – held for trading	**40**	**22**	43	7
Total unit linked derivatives	**8,434**	**5,816**	8,294	6,057
Total derivative assets and liabilities	**12,595**	**8,173**	13,121	9,014

1. Derivative liabilities are reported in the Consolidated Balance Sheet within Payables and other financial liabilities (Note 26).

The group has entered into fixed rate borrowings denominated in USD and is therefore exposed to foreign exchange and interest rate risks. In order to hedge these risks the group has entered into a cross-currency interest rate swap, enabling the exposure to be swapped into a fixed rate in its functional currency. These had fair value totalling £119m and a notional amount of £1,099m at 31 December 2017. There was no ineffectiveness recognised in the income statement in respect of these hedges during 2017.

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 2017	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	44	1,070	9	3	–	1	1,083
Derivative liabilities	(147)	199	9	3	1	–	212
Non profit non-unit linked derivatives							
Derivative assets	4,018	3,592	5,685	12,660	7,896	4,639	34,472
Derivative liabilities	(2,198)	4,201	2,407	6,276	5,540	3,813	22,237
With-profits derivatives							
Derivative assets	99	852	95	173	97	53	1,270
Derivative liabilities	(12)	227	37	46	7	2	319
Total	1,804	10,141	8,242	19,161	13,541	8,508	59,593
Cash outflows							
Shareholder derivatives							
Derivative assets	44	(957)	(6)	(3)	–	(1)	(967)
Derivative liabilities	(147)	(229)	(39)	(4)	(1)	–	(273)
Non profit non-unit linked derivatives							
Derivative assets	4,018	(2,909)	(5,361)	(11,896)	(6,978)	(3,264)	(30,408)
Derivative liabilities	(2,198)	(4,588)	(3,190)	(7,544)	(6,229)	(4,311)	(25,862)
With-profits derivatives							
Derivative assets	99	(816)	(62)	(158)	(95)	(42)	(1,173)
Derivative liabilities	(12)	(356)	(42)	(54)	(7)	(3)	(462)
Total	1,804	(9,855)	(8,700)	(19,659)	(13,310)	(7,621)	(59,145)
Net shareholder derivatives cash flows		83	(27)	(1)	–	–	55
Net non profit non-unit linked derivatives cash flows		296	(459)	(504)	229	877	439
Net with-profits derivatives cash flows		(93)	28	7	2	10	(46)

Balance sheet management (continued)

13 Derivative assets and liabilities (continued)

As at 31 December 2016	Fair values £m	Maturity profile of undiscounted cash flows Within 1 year £m	1–5 years £m	5–15 years £m	15–25 years £m	Over 25 years £m	Total £m
Cash inflows							
Shareholder derivatives							
Derivative assets	82	1,375	–	–	–	–	1,375
Derivative liabilities	(19)	213	–	–	–	–	213
Non profit non-unit linked derivatives							
Derivative assets	4,611	6,698	2,807	5,311	4,421	3,511	22,748
Derivative liabilities	(2,861)	7,125	2,254	7,093	6,087	3,269	25,828
With-profits derivatives							
Derivative assets	134	453	51	79	27	11	621
Derivative liabilities	(77)	774	–	–	–	–	774
Total	1,870	16,638	5,112	12,483	10,535	6,791	51,559
Cash outflows							
Shareholder derivatives							
Derivative assets	82	(1,290)	–	–	–	–	(1,290)
Derivative liabilities	(19)	(238)	–	–	–	–	(238)
Non profit non-unit linked derivatives							
Derivative assets	4,611	(6,580)	(1,902)	(4,079)	(2,975)	(1,942)	(17,478)
Derivative liabilities	(2,861)	(7,922)	(3,378)	(8,906)	(7,080)	(3,732)	(31,018)
With-profits derivatives							
Derivative assets	134	(371)	(23)	(60)	(20)	(8)	(482)
Derivative liabilities	(77)	(851)	–	–	–	–	(851)
Total	1,870	(17,252)	(5,303)	(13,045)	(10,075)	(5,682)	(51,357)
Net shareholder derivatives cash flows		60	–	–	–	–	60
Net non profit non-unit linked derivatives cash flows		(679)	(219)	(581)	453	1,106	80
Net with-profits derivatives cash flows		5	28	19	7	3	62

Future cash flows on the floating legs of interest rate and exchange derivatives are calculated using current spot rates, which may differ from the market expectation incorporated in the fair value.

Cash flows arising from implied events covered by credit derivatives are presented in the table above on an expected basis as cash flows within one year.

Forward foreign exchange contracts – net investment hedges

The group hedges part of the foreign exchange translation exposure on its net investment in certain overseas subsidiaries, using forward foreign exchange contracts. It recognises the portion of the gain or loss which is determined to be an effective hedge through reserves within shareholders' equity, along with the gain or loss on translation of the foreign subsidiaries.

Derivative contracts – held for trading

The group uses certain derivative contracts which are effective hedges of economic exposures in accordance with the group's risk management policy, but for various reasons are not designated within a formal hedge accounting relationship. Therefore, these contracts must be designated as held for trading, and gains and losses on these contracts are recognised immediately in the Consolidated Income Statement.

Cash inflows or outflows are presented on a net basis where the group is required to settle net or has a legally enforceable right of offset and the intention is to settle on a net basis.

Balance sheet management (continued)

14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, treasury bills and other short term highly liquid investments with maturities of three months or less from the date of acquisition.

	Shareholder 2017 £m	Non profit non-unit linked 2017 £m	With-profits 2017 £m	Unit linked 2017 £m	Total 2017 £m
Cash at bank and in hand	**349**	**471**	**141**	**1,859**	**2,820**
Cash equivalents	**1,528**	**1,247**	**739**	**12,907**	**16,421**
Total cash and cash equivalents[1]	**1,877**	**1,718**	**880**	**14,766**	**19,241**
Less assets of classified as held for sale	**–**	**(74)**	**(77)**	**(171)**	**(322)**
Cash and cash equivalents	**1,877**	**1,644**	**803**	**14,595**	**18,919**

	Shareholder 2016 £m	Non profit non-unit linked 2016 £m	With-profits 2016 £m	Unit linked 2016 £m	Total 2016 £m
Cash at bank and in hand	389	779	110	1,723	3,001
Cash equivalents	1,261	421	620	10,045	12,347
Cash and cash equivalents[1,2]	1,650	1,200	730	11,768	15,348

1. Total cash and cash equivalents are presented gross of held for sale assets in 2017 and net of held for sale assets in 2016. Detailed disclosure relating to these held for sale items is included in Note 30.
2. Following a review of short dated instruments, certain assets have been reclassified from Cash and cash equivalents to Financial investments as their maturity at the balance sheet date was greater than three months. These amounts totalled £10,369m and the analysis above has been restated to reflect this reclassification.

15 Other assets

	Note	2017 £m	2016[1] £m
Reinsurance receivables		**41**	40
Receivables under finance leases	15(i)	**92**	–
Accrued interest and rent		**235**	261
Prepayments and accrued income		**558**	555
Insurance and intermediaries receivables		**238**	193
Other receivables[2]		**5,204**	2,090
Total other assets[3]		**6,368**	3,139
Less assets classified as held for sale		**(285)**	
Other assets		**6,083**	3,139
Due within 12 months[4]		**6,342**	2,889
Due after 12 months[4]		**26**	250

1. As at 31 December 2016, £1,891m of reverse repurchase agreements were classified in Other assets. On review, we have determined that these instruments meet the definition of a financial asset and therefore should have been included within Financial investments. Accordingly, the prior year numbers have been restated resulting in a decrease in Other assets of £1,891m and an increase in Financial investments of £1,891m. The instruments have been classified as Loans at fair value, and assessed as fair value Level 2. The restatement has nil impact on the valuation of the instruments, and a net nil impact on Total assets in the Consolidated Balance Sheet.
2. Other receivables include amounts receivable from brokers and clients for investing activities, unsettled cash, FX spots which increased by £2.3bn from FY 2016, and other sundry balances.
3. Total other assets are presented gross of held for sale assets in 2017 and net of held for sale assets in 2016. Detailed disclosure of these held for sale balances is included in Note 30.
4. The maturity analysis of assets between less and more than 12 months is based on Total other assets.

Balance sheet management (continued)

15 Other assets (continued)

(i) Receivables under finance leases

The group leases certain investment properties to third parties. Under these agreements the lessee is considered to retain all the risks and rewards of ownership, therefore the contracts have been classified as finance leases. At the lease commencement date, the group has recognised a receivable asset in its balance sheet to reflect the net investment in the lease, equal to the present value of the lease payments. The group recognises finance income over the lease term to reflect the rate of return on the net investment in the lease.

In 2017 the group acted as a lessor of one finance lease, which is of 20.7 years duration and relates to the provision of healthcare services. The other party, as lessee, is regarded to be the economic owner of the leased assets.

The future minimum lease payments under these arrangements, together with their present value, are disclosed below:

	Total future payments 2017 £m	Unearned interest income 2017 £m	Present value 2017 £m	Total future payments 2016 £m	Unearned interest income 2016 £m	Present value 2016 £m
Not later than 1 year	5	(3)	2	–	–	–
Between 1 and 5 years	20	(11)	9	–	–	–
Later than 5 years	106	(25)	81	–	–	–
Total	**131**	**(39)**	**92**	–	–	–

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 2017 £m	Non profit non-unit linked 2017 £m	With-profits 2017 £m	Total 2017 £m	Shareholder 2016 £m	Non profit non-unit linked 2016 £m	With-profits 2016 £m	Total 2016 £m
United Kingdom	359	81	958	1,398	465	144	1,241	1,850
North America	413	94	563	1,070	339	122	579	1,040
Europe	443	82	698	1,223	85	37	686	808
Japan	100	3	175	278	93	16	155	264
Asia Pacific	263	20	430	713	178	24	365	567
Other	48	2	253	303	182	41	205	428
Listed equities	**1,626**	**282**	**3,077**	**4,985**	1,342	384	3,231	4,957
Unlisted UK equities	96	–	–	96	142	4	–	146
Holdings in unit trusts	696	–	183	879	444	5	201	650
Total equities	**2,418**	**282**	**3,260**	**5,960**	1,928	393	3,432	5,753

Balance sheet management (continued)

(b) Debt securities

The group controls its exposure to geographic price risks by using internal country credit ratings. These ratings are based on macroeconomic data and key qualitative indicators. The latter take into account economic, social and political environments. The table below indicates the group's exposure to different debt securities markets around the world. Unit linked debt investments are excluded from the table as the risk is retained by the policyholder.

Debt securities and accrued interest[2]	Shareholder 2017 £m	Non profit non-unit linked 2017 £m	With-profits 2017 £m	Total 2017 £m	Shareholder[1] 2016 £m	Non profit[1] non-unit linked 2016 £m	With-profits[1] 2016 £m	Total[1] 2016 £m
United Kingdom	**1,705**	**29,286**	**3,601**	**34,592**	1,342	27,386	4,582	33,310
USA	**1,569**	**12,596**	**744**	**14,909**	1,929	11,875	810	14,614
Netherlands	**214**	**1,994**	**314**	**2,522**	217	2,124	276	2,617
France	**205**	**1,334**	**317**	**1,856**	194	1,567	204	1,965
Germany	**115**	**623**	**232**	**970**	157	550	256	963
GIIPS:								
– Greece	**1**	**–**	**–**	**1**	3	–	–	3
– Ireland	**72**	**970**	**81**	**1,123**	78	993	45	1,116
– Italy	**16**	**71**	**18**	**105**	59	123	15	197
– Portugal	**1**	**–**	**1**	**2**	12	–	–	12
– Spain	**9**	**160**	**21**	**190**	19	154	11	184
Belgium	**20**	**133**	**24**	**177**	32	68	25	125
Russia	**11**	**–**	**10**	**21**	15	1	9	25
Rest of Europe	**237**	**2,044**	**379**	**2,660**	198	1,270	237	1,705
Brazil	**17**	**56**	**38**	**111**	23	79	34	136
Rest of World	**407**	**3,113**	**436**	**3,956**	698	3,613	386	4,697
CDOs[3]	**–**	**96**	**–**	**96**	–	73	–	73
Total debt securities and accrued interest	**4,599**	**52,476**	**6,216**	**63,291**	4,976	49,876	6,890	61,742
Analysed as[2]								
Debt securities	**4,575**	**52,008**	**6,162**	**62,745**	4,945	49,380	6,827	61,152
Accrued interest	**24**	**468**	**54**	**546**	31	496	63	590

1. Following a review of short dated instruments, certain assets have been reclassified from Cash and cash equivalents to Financial investments as their maturity at the balance sheet date was greater than three months. These amounts totalled £10,369m and the analysis above has been restated to reflect this reclassification.
2. For presentation in the Consolidated Balance Sheet the components of structured finance notes are shown within non profit non-unit linked investments (2017: £nil; 2016: £367m).
3. £22m (2016: £nil) of the CDOs are domiciled in the USA and £74m (2016: £73m) are domiciled in the rest of the world.

Balance sheet management (continued)

16 Market risk (continued)

(i) Investment performance risk (continued)

(c) Additional disclosures on shareholder and non profit non-unit linked debt securities exposure

	2017 £m	2017 %	2016[1] £m	2016[1] %
Sovereigns, supras and sub-sovereigns	**11,450**	**20**	12,600	24
Banks:				
– Tier 1	**4**	**–**	13	–
– Tier 2 and other subordinated	**260**	**–**	387	1
– Senior	**4,238**	**8**	3,304	6
– Covered	**221**	**–**	275	–
Financial services:				
– Tier 1	**1**	**–**	–	–
– Tier 2 and other subordinated	**251**	**–**	209	–
– Senior	**905**	**2**	772	1
Insurance:				
– Tier 1	**1**	**–**	6	–
– Tier 2 and other subordinated	**182**	**–**	129	–
– Senior	**660**	**1**	692	1
Consumer services and goods:				
– Cyclical	**2,945**	**5**	3,629	7
– Non-cyclical	**4,409**	**8**	4,041	7
– Healthcare	**490**	**1**	130	–
Infrastructure:				
– Social	**5,378**	**9**	4,960	9
– Economic	**3,384**	**6**	2,265	4
Technology and telecoms	**3,120**	**6**	3,258	6
Industrials	**1,283**	**2**	1,580	3
Utilities	**8,721**	**16**	8,296	16
Energy	**704**	**1**	730	1
Commodities	**793**	**1**	889	2
Oil and gas	**1,742**	**3**	1,800	3
Real estate	**2,355**	**4**	2,054	4
Property backed securities	**–**	**–**	78	–
Structured finance ABS/RMBS/CMBS/Other	**1,459**	**3**	1,830	3
Lifetime mortgage loans	**2,023**	**4**	852	2
CDOs	**96**	**–**	73	–
Total	**57,075**	**100**	54,852	100

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

Balance sheet management (continued)

Analysis of Sovereigns, Supras and Sub-Sovereigns	2017 £m	2016[1] £m
Market value by region		
United Kingdom	**8,689**	9,569
USA	**1,204**	1,038
Netherlands	**10**	42
France	**174**	307
Germany	**458**	480
Greece	**–**	2
Ireland	**–**	–
Italy	**2**	21
Portugal	**1**	12
Spain	**7**	18
Russia	**10**	–
Rest of Europe	**504**	392
Brazil	**18**	–
Rest of World	**373**	719
Total	**11,450**	12,600

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

(ii) Currency risk

The group has minimal exposure to currency risk from financial instruments held by business units in currencies other than their functional currencies, as nearly all such holdings are backing either insurance or investment contract liabilities or hedging.

The group operates internationally and as a result is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies, of which the largest is US dollars. The group does not hedge foreign currency revenues as these are substantially retained locally to support the growth of the group's business and meet local regulatory and market requirements.

Businesses aim to maintain sufficient assets in local currency to meet local currency liabilities; however movements may impact the value of the group's consolidated shareholders' equity which is expressed in sterling. This aspect of foreign exchange risk is monitored and managed centrally, against pre-determined limits. These exposures are managed by aligning the deployment of regulatory capital by currency with the group's regulatory capital requirements by currency. Currency borrowings and derivatives are used to manage exposures within the limits that have been set.

As at 31 December 2017, the group held 10% (2016: 19%) of its total equity attributable to shareholders in currencies, mainly US dollar and Euro, other than the functional currency of the relevant business unit. The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts.

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, where the values of economic hedging instruments are reflected at their carrying value as opposed to their notional amounts, are reflected below.

A 10% appreciation in the US Dollar to Sterling period-end foreign exchange rate would have a £1m (2016: £33m) impact on shareholder equity and a £5m (2016: £3m) on the US business profit before tax.

A 10% appreciation in the Euro to Sterling period-end foreign exchange rate would have a £33m (2016: £59m) impact on shareholder equity.

Balance sheet management (continued)

17 Credit risk

The credit profile of the group's assets exposed to credit risk is shown below. The credit rating bands are provided by independent rating agencies. For unrated assets, the group maintains internal ratings which are used to manage exposure to these counterparties. Unit linked assets have not been included as shareholders are not directly exposed to risk.

The carrying amount of the financial assets recorded in the financial statements represent the maximum exposure to credit risk.

Shareholder

As at 31 December 2017	Notes	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Internally rated other[1] £m	Total £m
Government securities		255	630	19	87	47	146	1,184
Other fixed rate securities		138	626	1,349	305	218	416	3,052
Variable rate securities		60	145	63	14	6	51	339
Total debt securities	12(i)	453	1,401	1,431	406	271	613	4,575
Accrued interest	12(i)	2	3	5	5	5	4	24
Loans	12(ii)	–	–	521	71	48	172	812
Derivative assets	13	–	–	39	–	–	5	44
Cash and cash equivalents	14	149	442	563	84	–	639	1,877
Financial assets excluding equities		604	1,846	2,559	566	324	1,433	7,332
Reinsurers' share of contract liabilities		–	172	205	–	–	5	382
Other assets		45	135	133	2	15	942	1,272
		649	2,153	2,897	568	339	2,380	8,986

1. Of the total debt securities and accrued interest that have been internally rated and unrated, £nil is rated AAA, £209m AA, £114m A, £225m BBB, £60m BB or below and £9m as unrated.

Non profit non-unit linked

As at 31 December 2017	Notes	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Internally rated other[1] £m	Total £m
Government securities		576	6,255	10	179	10	120	7,150
Other fixed rate securities		850	3,662	12,710	11,918	549	7,033	36,722
Variable rate securities[2]		335	1,641	2,235	692	124	1,086	6,113
Lifetime mortgages		–	–	–	–	–	2,023	2,023
Total debt securities[2]	12(i)	1,761	11,558	14,955	12,789	683	10,262	52,008
Accrued interest	12(i)	20	58	167	190	7	26	468
Loans	12(ii)	–	–	360	3	–	–	363
Derivative assets	13	–	22	2,701	1,295	–	–	4,018
Cash and cash equivalents	14	95	318	766	31	–	508	1,718
Financial assets excluding equities		1,876	11,956	18,949	14,308	690	10,796	58,575
Reinsurers' share of contract liabilities		–	4,709	76	–	–	293	5,078
Other assets		–	28	142	19	1	1,005	1,195
		1,876	16,693	19,167	14,327	691	12,094	64,848

1. Of the total debt securities and accrued interest that have been internally rated and unrated, £484m is rated AAA, £3,210m AA, £3,029m A, £3,432m BBB, £78m BB or below and £55m as unrated.
2. Internally rated variable rate securities include £nil (2016: £367m) of structured finance notes, incorporating £nil (2016: £37m) of cash.

Balance sheet management (continued)

With-profits

As at 31 December 2017	Notes	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Internally rated other £m	Total £m
Government securities		61	1,669	30	52	28	63	1,903
Other fixed rate securities		419	757	1,340	1,249	66	84	3,915
Variable rate securities		97	154	58	6	4	25	344
Total debt securities	12(i)	577	2,580	1,428	1,307	98	172	6,162
Accrued interest	12(i)	8	16	10	18	2	–	54
Loans	12(ii)	–	–	116	–	–	–	116
Derivative assets	13	–	–	89	9	–	1	99
Cash and cash equivalents	14	–	168	271	9	–	432	880
Financial assets excluding equities		585	2,764	1,914	1,343	100	605	7,311
Reinsurers' share of contract liabilities		–	1	–	–	–	–	1
Other assets		–	–	1	1	–	209	211
		585	2,765	1,915	1,344	100	814	7,523

Shareholder

As at 31 December 2016	Notes	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Internally rated other[1] £m	Total £m
Government securities		285	281	31	155	67	290	1,109
Other fixed rate securities		240	541	1,377	493	285	499	3,435
Variable rate securities		72	309	10	6	4	–	401
Total debt securities[1]	12(i)	597	1,131	1,418	654	356	789	4,945
Accrued interest	12(i)	2	2	8	9	6	4	31
Loans[2]	12(ii)	–	57	228	106	64	163	618
Derivative assets	13	1	1	77	–	–	3	82
Cash and cash equivalents	14	215	187	539	241	–	468	1,650
Financial assets excluding equities		815	1,378	2,270	1,010	426	1,427	7,326
Reinsurers' share of contract liabilities		–	185	224	–	–	9	418
Other assets		1	123	46	–	16	584	770
		816	1,686	2,540	1,010	442	2,020	8,514

1. Of the total debt securities and accrued interest that has been internally rated, £nil was rated AAA, £267m AA, £109m A, £234m BBB, £71m BB or below and £112m as unrated.
2. As at 31 December 2016, £89m of reverse repurchase agreements were classified in Other assets. On review, we have determined that these instruments meet the definition of a financial asset and therefore should have been included within Financial investments. Accordingly, the prior year numbers have been restated resulting in a decrease in Other assets of £89m and an increase in Financial investments of £89m. The instruments have been classified as Loans at fair value, and assessed as fair value Level 2. The restatement has nil impact on the valuation of the instruments, and a net nil impact on Total assets in the Consolidated Balance Sheet.

Balance sheet management (continued)

17 Credit risk (continued)

Non profit non-unit linked

As at 31 December 2016	Notes	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Internally rated other[1] £m	Total £m
Government securities		399	7,347	1	170	33	–	7,950
Other fixed rate securities		857	3,973	12,090	11,406	698	4,700	33,724
Variable rate securities		174	1,960	2,283	582	217	1,638	6,854
Lifetime mortgages		388	140	91	51	–	182	852
Total debt securities[1]	12(i)	1,818	13,420	14,465	12,209	948	6,520	49,380
Accrued interest	12(i)	21	79	172	196	12	16	496
Loans[2]	12(ii)	–	28	23	16	–	–	67
Derivative assets	13	–	18	3,101	1,425	–	67	4,611
Cash and cash equivalents	14	24	114	765	86	–	211	1,200
Financial assets excluding equities		1,863	13,659	18,526	13,932	960	6,814	55,754
Reinsurers' share of contract liabilities		–	4,764	115	–	–	8	4,887
Other assets		–	13	18	15	2	539	587
		1,863	18,436	18,659	13,947	962	7,361	61,228

1. Of the total debt securities and accrued interest that has been internally rated, £388m was rated AAA, £1,236m AA, £2,773m A, £2,061m BBB and £77m BB or below.
2. As at 31 December 2016, £34m of reverse repurchase agreements were classified in Other assets. On review, we have determined that these instruments meet the definition of a financial asset and therefore should have been included within Financial investments. Accordingly, the prior year numbers have been restated resulting in a decrease in Other assets of £34m and an increase in Financial investments of £34m. The instruments have been classified as Loans at fair value, and assessed as fair value Level 2. The restatement has nil impact on the valuation of the instruments, and a net nil impact on Total assets in the Consolidated Balance Sheet.

With-profits

As at 31 December 2016	Notes	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Internally rated other £m	Total £m
Government securities		74	2,975	31	61	16	–	3,157
Other fixed rate securities		623	590	1,159	1,130	57	36	3,595
Variable rate securities		6	61	2	4	2	–	75
Total debt securities	12(i)	703	3,626	1,192	1,195	75	36	6,827
Accrued interest	12(i)	11	21	11	19	1	–	63
Loans[1]	12(ii)	–	12	–	6	–	–	18
Derivative assets	13	–	–	90	44	–	–	134
Cash and cash equivalents	14	66	113	229	28	–	294	730
Financial assets excluding equities		780	3,772	1,522	1,292	76	330	7,772
Reinsurers' share of contract liabilities		–	1	–	–	–	–	1
Other assets		–	–	–	1	–	94	95
		780	3,773	1,522	1,293	76	424	7,868

1. As at 31 December 2016, £18m of reverse repurchase agreements were classified in Other assets. On review, we have determined that these instruments meet the definition of a financial asset and therefore should have been included within Financial investments. Accordingly, the prior year numbers have been restated resulting in a decrease in Other assets of £18m and an increase in Financial investments of £18m. The instruments have been classified as Loans at fair value, and assessed as fair value Level 2. The restatement has nil impact on the valuation of the instruments, and a net nil impact on Total assets in the Consolidated Balance Sheet.

Balance sheet management (continued)

Impairment

The group reviews the carrying value of its financial assets (other than those held at FVTPL) at each balance sheet date. If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the Consolidated Income Statement. There must be objective evidence of impairment as a result of one or more events which have occurred after the initial recognition of the asset. Impairment is only recognised if the loss event has an impact on the estimated future cash flows of assets held at amortised cost or fair value of assets classified as available for sale.

Assets which are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The table below provides information regarding the carrying value of financial assets which have been impaired and the ageing analysis of financial assets which are past due but not impaired. Unit linked assets have not been included as shareholders are not exposed to the risks from unit linked policies.

Ageing of financial assets that are past due but not impaired

		Financial assets that are past due but not impaired					
As at 31 December 2017	**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	**8,245**	**28**	**17**	**16**	**11**	**4**	**8,321**
Non profit non-unit linked	**63,769**	**206**	**10**	**31**	**–**	**–**	**64,016**
With-profits	**7,228**	**37**	**–**	**–**	**1**	**–**	**7,266**

		Financial assets that are past due but not impaired					
As at 31 December 2016	Neither past due nor impaired £m	0–3 months £m	3–6 months £m	6 months–1 year £m	Over 1 year £m	Financial assets that have been impaired £m	Carrying value £m
Shareholder	7,996	23	13	4	1	1	8,038
Non profit non-unit linked	60,238	160	5	5	9	–	60,417
With-profits	7,724	14	–	–	–	–	7,738

Balance sheet management (continued)

17 Credit risk (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 2017	**Gross and net amounts reported in the Consolidated Balance Sheet £m**	**Related financial instruments[1] £m**	**Cash collateral £m**	**Securities collateral pledged £m**	**Net amount £m**
Derivative assets	**4,161**	**(2,105)**	**(1,272)**	**(751)**	**33**
Reverse repurchase agreements	**795**	**–**	**–**	**(787)**	**8**
Total financial assets	**4,956**	**(2,105)**	**(1,272)**	**(1,538)**	**41**
Derivative liabilities	**(2,357)**	**2,105**	**178**	**61**	**(13)**
Repurchase agreements	**(72)**	**–**	**–**	**72**	**–**
Total financial liabilities	**(2,429)**	**2,105**	**178**	**133**	**(13)**

1. Related financial instruments represents outstanding amounts with the same counterparty which, under agreements such as the ISDA Master Agreement, could be offset and settled net following certain predetermined events.

	Amounts subject to enforceable netting arrangements				
		Amounts under master netting arrangements but not offset			
As at 31 December 2016	Gross and net amounts reported in the Consolidated Balance Sheet £m	Related financial instruments[1] £m	Cash collateral £m	Securities collateral pledged £m	Net amount £m
Derivative assets	4,827	(2,621)	(838)	(1,351)	17
Reverse repurchase agreements	139	–	–	(133)	6
Total financial assets	4,966	(2,621)	(838)	(1,484)	23
Derivative liabilities	(2,957)	2,621	68	243	(25)
Total financial liabilities	(2,957)	2,621	68	243	(25)

1. Related financial instruments represents outstanding amounts with the same counterparty which, under agreements such as the ISDA Master Agreement, could be offset and settled net following certain predetermined events.

In the tables above, the amounts of assets or liabilities presented in the Consolidated Balance Sheet are offset first by financial instruments that have the right of offset under master netting or similar arrangements with any remaining amount reduced by cash and securities collateral. The actual amount of collateral may be greater than the amounts presented in the tables above.

Balance sheet management (continued)

18 Insurance risk

The group is exposed to insurance risk as a consequence of offering the principal products outlined in Note 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. They are applicable to all stated products across the group.

Insurance risk

Principal risks	Division	Control 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.	LGI	The pricing of protection business is based on assumptions as to future trends in mortality and morbidity having regard to past experience. Underwriting criteria are defined setting out the risks that are unacceptable and the terms for non-standard risks presented by the lives to be insured. Extensive use of reinsurance is made within the UK individual protection business, placing a proportion of all risks meeting prescribed criteria. Mortality and morbidity experience is compared to that assumed within the pricing basis with variances subject to actuarial investigation.
For savings contracts providing minimum assured death benefits, higher mortality rates may result in an increase in claims costs.	Savings[1]	The pricing basis for contracts providing minimum assured death benefits include provision for future trends in mortality based on past experience. The level of mortality risk accepted within each contract is not sufficiently material to warrant formal underwriting at an individual policy level.
Older contracts containing a basic guaranteed benefit expressed as an amount of pension payable or a guaranteed annuity option, expose the group to interest rate and longevity risk. The cost of guarantees increases during periods when interest rates are low or when annuitant mortality improves faster than expected.	Savings[1]	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 2017 the value of guarantees is estimated to be £48m (31 December 2016: £59m).
For annuity contracts, the group is exposed to the risk that mortality experience is lower than assumed. Lower than expected mortality would require payments to be made for longer and increase the cost of benefits provided. Lifetime mortgage business also explicitly has some exposure to the life expectancy of borrowers.	LGR	Annuity business is priced having regard to trends in improvements in future mortality. Enhanced annuities, which are priced taking account of impairments to life expectancy, are subject to specific underwriting criteria. Certain annuitant mortality risks, including enhanced annuities, are placed with reinsurers. The group regularly reviews its mortality experience and industry projections of longevity and adjusts the pricing and valuation assumptions accordingly. In pricing lifetime mortgage business, account is taken of trends in mortality rates in setting the amounts that are advanced to borrowers relative to the value of the property on which the loan is secured.
Persistency risk		
In the early years of a policy, lapses may result in a loss to the group, as the acquisition costs associated with the contract would not have been recovered from product margins.	LGI and Savings[1]	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.	LGR, LGI and Savings[1]	In determining pricing assumptions, account is taken of changes in price indices and the costs of employment, with stress testing used to evaluate the effect of significant deviations. Actual product servicing costs are monitored relative to the costs assumed with the product pricing basis, with variances investigated.
Concentration (catastrophe) risk		
Insurance risk may be concentrated in geographic regions, altering the risk profile of the group. The most significant exposure of this type arises for group protection business, where a single event could result in a large number of related claims.	LGI and General Insurance	Group protection business contracts include an 'event limit' capping the total liability under the policy from a single event. Excess of loss reinsurance further mitigates loss from the exposure. For general insurance business, the risk acceptance policy, terms and premiums reflect expected claims and cost associated with a location and avoids adverse selection. Additionally, exposure by location is monitored to ensure there is a geographic spread of risk. Catastrophe reinsurance cover also mitigates loss from concentrations of risk.

1. In December 2017, the group announced the sale of its Mature Savings business to Swiss Re. The sale is subject to regulatory approval and the Part VII transfer is expected to complete in 2019.

Balance sheet management (continued)

18 Insurance risk (continued)

Insurance risk

Principal risks	Division	Control to mitigate the risk
Epidemic (catastrophe) risk The spread of an epidemic could cause large aggregate claims across the group's portfolio of protection businesses.	LGI	The pricing basis for protection business includes an assessment of potential claims as a result of epidemic risks. Quota share and excess of loss reinsurance contracts are used by individual and group protection, respectively, to further mitigate the risk. Depending on the nature of an epidemic, mortality experience may lead to a reduction in the cost of claims for annuity business.
Weather events risk Significant weather events such as windstorms and coastal and river floods can lead to a higher instance of claims than anticipated.	General Insurance	The financial impacts of significant weather events are managed using excess of loss catastrophe treaties under which a portion of the costs of claims may be recovered from external insurers, although the group retains an element of the risk internally. The reinsurance is designed to provide financial protection against a modelled windstorm and coastal flood event with a return probability of 1 in 200 years.

Other risks	Division	Control to mitigate the risk
Subsidence risk The incidence of subsidence can have a significant impact on the level of claims on household policies.	General Insurance	Underwriting criteria for general insurance business includes assessment of subsidence risk, with an appropriate premium being charged for the risk accepted in line with industry practice.

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.

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.

The proposed sale of the Mature Savings business has not materially impacted the 2017 long term assumptions. The impact of the business risk transfer agreement from 1 January 2018 (as described in Note 43) on long term assumptions will be appropriately reflected from this date.

(i) Non-participating business

For its non-participating business the group seeks to make prudent assumptions about its future experience based on current market conditions and recent experience. The approach used to set non-participating assumptions is generally similar to that previously used to determine the assumptions used for Solvency I and there has been no material change in approach as a result of the Solvency II regulatory regime, which came into effect on 1 January 2016. These assumptions incorporate prudent margins in excess of our best estimate assumptions to reduce the possibility of actual experience being less favourable than assumed. There are no material changes to overall non-economic prudent assumptions or the minimum prudent economic margins at 2017 arising from the regular review of these prudent margins. The assumptions for with profits unit-linked products continue to be on a best estimate basis, materially similar to that previously used under Solvency I (Peak 2).

Balance sheet management (continued)

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 2017, the group continued to hold an additional reserve to protect against the risk of an uplift in defaults in the current economic environment and maintained the level of the long term default allowance at 42bps per annum (2016: 42bps) for unapproved securities and property backing non profit business. For approved securities and swaps backing the non profit annuity business, the allowance is 9bps per annum (2016: 9bps). For unapproved securities backing non profit annuity business, the credit default allowances equate to 54bps per annum (2016: 55bps) when expressed over the duration of the assets held, leading to an overall total default provision of £2.7bn (2016: £2.7bn).

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.

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 underpinning the standard tables and suggest appropriate adjustments which need to be made to the valuation assumptions.

Persistency
The group monitors its persistency experience and carries out detailed investigations annually. Persistency can be volatile and past experience may not be an appropriate future indicator.

The group tries to balance past experience and future conditions by making prudent assumptions about the future expected long term average persistency levels.

For non-participating contracts where explicit persistency assumptions are not made, prudence is also incorporated into the liabilities by ensuring that they are sufficient to cover the more onerous of the two scenarios where the policies either remain in-force until maturity or where they discontinue at the valuation date.

Expenses
The group monitors its expense experience and carries out detailed investigations regularly to determine the expenses incurred in writing and administering the different products and classes of business. Adjustments may be made for known future changes in the administration processes, in line with the group's business plan. An allowance for expense inflation in the future is also made, taking account of both salary and price information. The expense assumptions also include an appropriate allowance for prudence.

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.

Balance sheet management (continued)

19 Long term insurance valuation assumptions (continued)

(ii) Participating business

For its participating business, the group seeks to establish its liabilities at their realistic value in line with the requirements set out in UK Generally Accepted Accounting Principles (GAAP).

Non-economic assumptions
Non-economic assumptions are set to represent the group's best estimates of future experience.

Premiums
For those contracts where the policyholder does not have the right to vary the amount of the premium paid, full credit is taken for the premiums contractually due at the valuation date. For contracts where the policyholder has the option to vary the rate of premium, the provision is taken as being the higher of the amount calculated as if the policyholder continues to make premium payments or, alternatively, ceases to pay premiums altogether.

Economic assumptions
Realistic reporting requires a market consistent economic model. The model is calibrated using market data from a variety of market sources. This enables assumptions to be determined for the term structure of risk free interest rates, and for property and equity volatility. Risk free interest rates are determined with reference to the swap yield curve on the valuation date less a credit risk adjustment (CRA) of 10bps for 2017 (2016: swap yield curve on the valuation date less a CRA of 17bps).

Property volatility is set with reference to historic variations in property prices. Equity volatility is set so that the model reproduces observed market prices of traded equity derivatives. Correlations between asset classes are based on historic data.

Each investment scenario contains a consistent set of assumptions for investment returns and inflation.

Future bonuses
Future reversionary and terminal bonuses are consistent with the bonus policies set out in Legal and General Assurance Society Limited's (LGAS) Principles and Practices of Financial Management (PPFM).

Guaranteed annuity options
The guarantees are valued on a market consistent basis. The valuation methodology allows for the correlation between interest rates and the proportion of the policyholders who take up the option.

Guaranteed cash options
The liability is determined assuming that policyholders choose the most valuable alternative between the annuity and cash available at retirement.

Value of in-force non-participating contracts
The group makes a deduction from the liabilities for the expected value of future profits arising on non-participating contracts written in the with-profits part of the LGAS Long Term Fund.

The economic assumptions used to calculate the value of these profits are consistent with those used to calculate liabilities for with-profits business. Non-economic assumptions represent best estimates of expected future experience on this business.

Balance sheet management (continued)

19 Long term insurance valuation assumptions (continued)

(iii) Long term valuation assumptions

The table below sets out the current valuation assumptions used to establish the long term UK liabilities.

	2017	2016
Rate of interest/discount rates		
Non-participating business		
– Life assurances[1]	**1.38% p.a. and 3.30% p.a.**	1.47% p.a. and 3.42% p.a.
– Pension assurances[1]	**1.25% p.a. and 3.30% p.a.**	1.50% p.a. and 3.42% p.a.
– Annuities in deferment	**2.22% p.a.**	2.39% p.a.
– Annuities in deferment (RPI-linked; net rate after allowance for inflation)	**(1.19)% p.a.**	(1.17)% p.a.
– Vested annuities	**2.22% p.a.**	2.39% p.a.
– Vested annuities (RPI-linked; net rate after allowance for inflation)	**(1.19)% p.a.**	(1.17)% p.a.
Participating business		
– Risk free rate (10 years)	**1.19% p.a.**	1.08% 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)	**20.83%**	23.67%
– Property volatility	**15.00%**	15.00%
Mortality tables		
Non-participating business		
Non-linked individual term assurances:[2]		
– Smokers	**92% TMS00/TFS00 Sel 5**	87% TMS00/TFS00 Sel 5
– Non-smokers	**80% TMN00/TFN00 Sel 5**	84% TMN00/TFN00 Sel 5
Non-linked individual term assurances with terminal illness[2]		
– Smokers	**65%–85% TMS00/TFS00 Sel 5**	64%–82% TMS00/TFS00 Sel 5
– Non-smokers	**57%–81% TMN00/TFN00 Sel 5**	62%–83% TMN00/TFN00 Sel 5
Non-linked individual term assurances with critical illness (Sold until 31/12/2012)[3]		
– Smokers	**121%–145% ACSL04M/F**	116%–139% ACSL04M/F
– Non-smokers	**120%–175% ACNL04M/F**	122%–161% ACNL04M/F
Non-linked individual term assurances with critical illness (Sold from 01/01/2013)[3]		
– Smokers	**125%–147% ACSL04M/F**	119%–140% ACSL04M/F
– Non-smokers	**123%–175% ACNL04M/F**	126%–164% ACNL04M/F
Other non-linked non profit life assurances	**100% of A67/70 Ult**	100% of A67/70 Ult
Whole of Life[4]		
– Smokers	**Bespoke tables based on TMS00/TFS00, AM92/AF92 and UK death registrations**	Bespoke tables based on TMS00/TFS00, AM92/AF92 and UK death registrations
– Non-smokers	**Bespoke tables based on TMN00/TFN00, AM92/AF92 and UK death registrations**	Bespoke tables based on TMN00/TFN00, AM92/AF92 and UK death registrations
Annuities in deferment[5]	**75.6%–84.0% PNMA00/PNFA00**	81.3%–83.4% PNMA00/PNFA00
Vested annuities[6]		
– Pension risk transfer	**76.4%–84.0% PCMA00/PCFA00**	82.2%–83.4% PCMA00/PCFA00
– Other annuities	**60.9%–115.5% PCMA00/PCFA00**	60.7%–129.1% PCMA00/PCFA00

1. A single rate is used if liabilities are negative (2017: 3.30%; 2016: 3.42%) or positive (2017: 1.25% gross (for Pension assurance) and 1.73% gross or 1.38% net (for Life assurance); 2016: 1.50% gross (for Pension assurance) and 1.85% gross or 1.47% net (for Life assurance)) throughout. The table above shows the assumption of the dominant product for the positive liabilities and the single rate for the negative liabilities. An appropriate valuation interest rate is applied at all times during the projection, i.e. when liabilities switch from being negative to positive the valuation interest rate will also switch from being high to low. The crossover point at which the margin changes direction is assessed for broad product groups but applied at a policy by policy level.
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 (2016: 0.50% p.a. for males and 0.75% p.a. for females). There is an additive loading of 1.00% (2016: 1.00%) for guaranteed term contracts post policy duration 5.
4. The percentage of the TM00/TF00 tables varies with the duration that the policy has been in-force for the first five years. Thereafter, a bespoke mortality table constructed based on TM00/TF00 tables, AM92/AF92 tables and UK death registrations. Mortality rates are assumed to reduce whilst business is ceded to reinsurer (after which any reduction is maintained but no further reduction is applied) based on CMI2015 (2016: CMI2014) model with a long term annual improvement rate of 1.5% for males and 1.0% for females (2016: 1.5% for males and 1.0% for females).
5. Table created by blending PCXA00 with PNXA00 tables. The base table to be used for 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.
6. For vested annuities, mortality rates are assumed to reduce according to an adjusted version of CMIB's mortality improvement model; CMI 2015 (2016: CMI 2014) with the following parameters:
   Males: Long Term Rate of 2.00% p.a. (2016: 2.00% p.a.) up to age 85 tapering to 0% at 120.
   Females: Long Term Rate of 1.50% p.a. (2016: 1.50% p.a.) up to age 85 tapering to 0% at 120.
   Additional period smoothing is applied for males only by age-specific constant additions to initial rates.
   In aggregate, assumptions regarding future longevity improvement at end 2017 have developed in line with emerging experience.
   Different business classes have different effective dates for applying improvers.
   For certain annuities, a further allowance is made for the effect of initial selection.
   The basis above is applicable up to age 90. After age 90 the basis is blended towards a bespoke table from age 105 onwards (2016: After age 90 the basis is blended towards a bespoke table from age 105 onwards.)

Balance sheet management (continued)

19 Long term insurance valuation assumptions (continued)

(iii) Long term valuation assumptions (continued)

Persistency assumptions

Lapse rates assumptions are used in the valuation of certain classes of long term business. Where this is the case, the valuation persistency basis is set by applying a prudential margin over the best estimate assumptions. The tables below show the major products where lapse rates have been used.

For term assurance business, the margin acts to increase the best estimate lapse rate in the early part of a policy's lifetime (when it is treated as an asset) but to reduce the best estimate lapse rate later in the policy's lifetime (when it is treated as a liability). The crossover point at which the margin changes direction is assessed for broad product groups but applied at a policy by policy level. Any liability to reinsurers on discontinuance within the first four years from inception is allowed for explicitly in the cash flows, using the valuation lapse basis, together with a prudent allowance for clawback of commission from agents upon lapse.

For unitised business, the margin acts to either increase or decrease the best estimate lapse rates, depending upon which approach results in the higher liability. The direction of the margin is assessed for unit life business and unit pensions business separately.

A summary of the lapse basis for major classes of non-profit business is shown below. The lapse rates for unit linked business represent the decrement from in-force to surrender.

	2017 Average lapse rate for the policy years			
Product	1–5 %	6–10 %	11–15 %	16–20 %
Level term	9.7	4.7	3.1	3.0
Decreasing term	9.5	9.2	7.8	7.7
Accelerated critical illness cover	13.0	9.0	5.2	4.9
Pensions term	–	5.9	4.5	4.4
Whole of Life (conventional non profit)	3.5	0.8	0.7	0.7
Bond (unit linked non profit)	2.2	6.9	3.9	3.4

	2016 Average lapse rate for the policy years			
Product	1–5 %	6–10 %	11–15 %	16–20 %
Level term	9.9	5.0	3.3	3.2
Decreasing term	9.5	9.2	7.8	7.7
Accelerated critical illness cover	13.7	9.2	5.6	5.4
Pensions term	–	6.0	4.5	4.4
Whole of Life (conventional non profit)	3.8	1.1	1.0	1.0
Bond (unit linked non profit)	2.2	6.9	3.9	3.4

Balance sheet management (continued)

For with-profits business, the realistic valuation was the biting basis under the previous Solvency I regime and therefore detail of the long term best estimate lapse rates is given below for unitised with-profits (UWP) and unit linked non-participating products. The lapse rates for unit linked business represent the decrement from in-force to surrender.

	2017 Average lapse rate for the policy years			
Product	**1–5 %**	**6–10 %**	**11–15 %**	**16–20 %**
Savings endowment (unitised with-profits)	**–**	**–**	**2.5**	**6.8**
Target cash endowment (unitised with-profits)	**–**	**–**	**7.2**	**6.2**
Savings endowment (unit linked non-participating)	**–**	**–**	**2.5**	**6.8**
Target cash endowment (unit linked non-participating)	**–**	**–**	**7.2**	**6.2**
Bond (unitised with-profits)	**2.9**	**9.4**	**7.9**	**6.2**
Bond (unit linked non-participating)	**–**	**2.3**	**8.3**	**7.4**
Individual pension regular premium (unitised with-profits)	**4.0**	**4.0**	**4.0**	**4.0**
Individual pension regular premium (unit linked non-participating)	**5.5**	**5.1**	**4.5**	**4.4**
Group pension regular premium (unitised with-profits)	**10.5**	**10.7**	**10.9**	**10.9**
Group pension regular premium (unit linked non-participating)	**3.0**	**3.8**	**4.7**	**4.7**
Individual pension single premium (unitised with-profits)	**3.2**	**3.2**	**3.2**	**3.2**
Individual pension single premium (unit linked non-participating)	**3.5**	**3.7**	**3.4**	**3.4**
Group pension single premium (unitised with-profits)	**5.8**	**5.3**	**5.2**	**5.2**
Group pension single premium (unit linked non-participating)	**15.7**	**10.0**	**9.0**	**8.9**
Trustee Investment Plan single premium (unitised with-profits)	**2.7**	**19.5**	**13.4**	**13.4**
Trustee Investment Plan single premium (unit linked non-participating)	**2.7**	**19.5**	**13.4**	**13.4**

	2016 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)	–	1.0	4.7	4.0
Savings endowment (unit linked non-participating)	–	–	3.7	5.4
Target cash endowment (unit linked non-participating)	–	1.0	4.7	4.0
Bond (unitised with-profits)	1.9	6.4	5.5	5.0
Bond (unit linked non-participating)	–	3.5	5.8	4.8
Individual pension regular premium (unitised with-profits)	4.0	4.0	4.0	4.0
Individual pension regular premium (unit linked non-participating)	5.6	5.2	4.6	4.5
Group pension regular premium (unitised with-profits)	10.0	10.1	10.2	10.2
Group pension regular premium (unit linked non-participating)	3.7	4.4	5.2	5.2
Individual pension single premium (unitised with-profits)	3.2	3.2	3.2	3.2
Individual pension single premium (unit linked non-participating)	3.5	3.7	3.4	3.4
Group pension single premium (unitised with-profits)	6.3	5.9	5.8	5.8
Group pension single premium (unit linked non-participating)	15.0	9.8	8.9	8.8
Trustee Investment Plan single premium (unitised with-profits)	2.7	19.5	13.4	13.4
Trustee Investment Plan single premium (unit linked non-participating)	2.7	19.5	13.4	13.4

Endowment reserve

The endowment reserve has been set taking reasonable account of assessment of the expected future population of complaints, the expected uphold rate for these complaints, the potential impact of any Financial Ombudsmen Service decisions on referred complaints and the average compensation per complaint.

Overseas business

In calculating the long term business provisions for international long term business operation, local actuarial tables and interest rates are used.

Balance sheet management (continued)

20 IFRS sensitivity analysis

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

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

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

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

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

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

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

Balance sheet management (continued)

For any single weather event with claims in excess of £30m (2016: £30m) but less than £520m (2016: £509m) the ultimate cost to Legal & General Insurance Limited would be £30m plus 50% of the £5m XS £30m layer (2016: £30m plus 50% of the £5m XS £30m layer) plus the cost of the reinsurance reinstatement premium. The ultimate cost to the group is greater as a proportion of the catastrophe reinsurance cover is placed with Legal and General Assurance Society Limited, which is exposed to 93% of claims between £35m and £105m and Legal & General Reinsurance Limited, which is exposed to 71% of claims between £105m and £225m, a new participant in the Legal & General Insurance Limited catastrophe reinsurance cover in 2017. The impact of a 1 in 500 year modelled windstorm and coastal flood event would exceed the upper limit of the catastrophe cover by approximately £295m (2016: £280m), with an estimated total cost to Legal & General Insurance Limited of £350m (2016: £335m) and to the group of £490m (2016: £590m).

The above sensitivity analyses do not reflect management actions which could be taken to reduce the impacts. The group seeks to actively manage its asset and liability position. A change in market conditions may lead to changes in the asset allocation or charging structure which may have a more, or less, significant impact on the value of the liabilities. The analyses also ignore any second order effects of the assumption change, including the potential impact on the group asset and liability position and any second order tax effects. In calculating the alternative values, all other assumptions are left unchanged, though in practice, items may be correlated. The sensitivity of the profit and equity to changes in assumptions may not be linear. These results should not be extrapolated to changes of a much larger order, which could be significantly more or less than the amounts shown on page 174.

21 Insurance contract liabilities

Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract. This is the case if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, other than a scenario which lacks commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment contracts.

A number of insurance and investment contracts contain discretionary participating features (DPF) which entitle the policyholders to receive guaranteed benefits as well as additional benefits:

- the amount or timing of which is contractually at the discretion of the group; and
- which are contractually based on:
  - the performance of a specified pool of contracts or a specified type of contract;
  - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - the profit or loss of the company, fund or other entity which issues the contract.

Contracts with DPF are referred to as participating contracts. With-profits contracts in the UK are classified as participating.

Long term insurance

Death claims are accounted for on notification of death. Surrenders for non-linked policies are accounted for when payment is made. Critical illness claims are accounted for when admitted. All other long term claims and surrenders are accounted for when payment is due. Claims payable include the direct costs of settlement.

The change in the insurance liability reflects the reduction in liabilities due to the payment of claims in the year, offset by liabilities arising from new business. The movement also reflects assumption changes relating to variables such as claims expectations, expenses and the unwind of the previous period's expectations.

Under current IFRS requirements, insurance contract liabilities are measured using local Generally Accepted Accounting Principles (GAAP), as permitted by IFRS 4, 'Insurance contracts'.

Balance sheet management (continued)

21 Insurance contract liabilities (continued)

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 and General Assurance Society Limited's (LGAS) 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.

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)

(i) Analysis of insurance contract liabilities

	Notes	Gross 2017 £m	Reinsurance 2017 £m	Gross 2016 £m	Reinsurance 2016 £m
Participating insurance contracts	21(iii)	**5,437**	**(1)**	5,794	(1)
Non-participating insurance contracts	21(iv)	**63,155**	**(5,474)**	60,511	(5,297)
General insurance contracts	21(v)	**291**	**(8)**	268	(9)
Total insurance contract liabilities		**68,883**	**(5,483)**	66,573	(5,307)
Less liabilities of operations classified as held for sale[1]		**(6,565)**	**49**		
Insurance contract liabilities		**62,318**	**(5,434)**	66,573	(5,307)

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

(ii) Expected insurance contract liability cash flows

As at 31 December 2017	Date of undiscounted cash flows 0–5 years £m	5–15 years £m	15–25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating insurance contracts	**2,729**	**2,241**	**717**	**231**	**5,918**	**5,437**
Non-participating insurance contracts	**10,943**	**22,459**	**16,967**	**17,955**	**68,324**	**56,955**
General insurance contracts[1]	**96**	**1**	**–**	**–**	**97**	**97**
Insurance contract liabilities	**13,768**	**24,701**	**17,684**	**18,186**	**74,339**	**62,489**

As at 31 December 2016	Date of undiscounted cash flows 0–5 years £m	5–15 years £m	15–25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating insurance contracts	2,853	2,291	684	230	6,058	5,794
Non-participating insurance contracts	10,859	24,353	17,997	20,579	73,788	58,812
General insurance contracts[1]	95	1	–	–	96	96
Insurance contract liabilities	13,807	26,645	18,681	20,809	79,942	64,702

1. Excludes unearned premium reserve of £194m (2016: £172m) 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)

21 Insurance contract liabilities (continued)

(iii) Movement in participating insurance contract liabilities

	Gross 2017 £m	Reinsurance 2017 £m	Gross 2016 £m	Reinsurance 2016 £m
As at 1 January	**5,794**	**(1)**	5,618	(1)
New liabilities in the year	**41**	**–**	40	–
Liabilities discharged in the year	**(702)**	**–**	(749)	–
Unwinding of discount rates	**20**	**–**	27	–
Effect of change in non-economic assumptions	**(5)**	**–**	(3)	–
Effect of change in economic assumptions	**233**	**–**	642	–
Modelling and methodology changes	**63**	**–**	202	–
Other	**(7)**	**–**	17	–
Total as at 31 December[1]	**5,437**	**(1)**	5,794	(1)
Less liabilities classified as held for sale	**(5,437)**	**1**		
As at 31 December	**–**	**–**	5,794	(1)
Expected to be settled within 12 months (net of reinsurance)[2]	**801**		768	
Expected to be settled after 12 months (net of reinsurance)[2]	**4,635**		5,025	

1. Total insurance contract liabilities are presented gross of held for sale liabilities in 2017 and net of held for sale liabilities in 2016. Detailed disclosure relating to these held for sale items is included in Note 30.
2. The maturity profiles equate to the total payables and other financial liabilities, presented gross of held for sale liabilities in 2017 and net of held for sale liabilities in 2016.

(iv) Movement in non-participating insurance contract liabilities

	Gross 2017 £m	Reinsurance 2017 £m	Gross 2016 £m	Reinsurance 2016 £m
As at 1 January	**60,511**	**(5,297)**	49,470	(3,861)
New liabilities in the year	**4,809**	**(932)**	6,273	(613)
Liabilities discharged in the year	**(3,006)**	**208**	(2,890)	86
Unwinding of discount rates	**1,458**	**(154)**	1,574	(129)
Effect of change in non-economic assumptions	**(663)**	**193**	51	(43)
Effect of change in economic assumptions	**789**	**(123)**	6,870	(546)
Foreign exchange adjustments	**(306)**	**35**	795	(66)
Transfer of liabilities classified as held for sale			(1,709)	1
Modelling and methodology changes	**(456)**	**568**	61	(127)
Other	**19**	**28**	16	1
Total as at 31 December[1]	**63,155**	**(5,474)**	60,511	(5,297)
Less liabilities of operations classified as held for sale	**(1,127)**	**48**		
As at 31 December	**62,028**	**(5,426)**	60,511	(5,297)
Expected to be settled within 12 months (net of reinsurance)[2]	**1,785**		1,398	
Expected to be settled after 12 months (net of reinsurance)[2]	**55,896**		53,816	

1. Total non-participating insurance contract liabilities are presented gross of held for sale liabilities in 2017 and net of held for sale liabilities in 2016. Detailed disclosure relating to these held for sale items is included in Note 30.
2. The maturity analysis of the assets between less and more than 12 months is based on the total non-participating insurance contract liabilities as at 31 December.

Balance sheet management (continued)

(v) Analysis of general insurance contract liabilities

	Gross 2017 £m	Reinsurance 2017 £m	Gross 2016 £m	Reinsurance 2016 £m
Outstanding claims	67	(1)	64	(2)
Claims incurred but not reported	30	–	32	–
Unearned premiums	194	(7)	172	(7)
General insurance contract liabilities	**291**	**(8)**	268	(9)

(vi) Movement in general insurance claim liabilities

	Gross 2017 £m	Reinsurance 2017 £m	Gross 2016 £m	Reinsurance 2016 £m
As at 1 January	**96**	**(2)**	110	(1)
Claims arising	172	(1)	159	(1)
Claims paid	(176)	3	(166)	–
Adjustments to prior year liabilities	5	(1)	(7)	–
As at 31 December	**97**	**(1)**	96	(2)
Expected to be settled within 12 months (net of reinsurance)	80		79	
Expected to be settled after 12 months (net of reinsurance)	16		15	

(vii) Unearned premiums

	Gross 2017 £m	Reinsurance 2017 £m	Gross 2016 £m	Reinsurance 2016 £m
As at 1 January	**172**	**(7)**	174	(7)
Earned in the year	(346)	14	(326)	15
Gross written premiums in respect of future periods	368	(14)	324	(15)
As at 31 December	**194**	**(7)**	172	(7)
Expected to be earned within 12 months (net of reinsurance)	187		165	
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	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	Total £m
Estimate of ultimate claims costs:						
– At end of accident year	162	169	172	152	169	
– One year later	156	163	158	145	–	
– Two years later	156	161	158	–	–	
– Three years later	158	163	–	–	–	
– Four years later	158	–	–	–	–	
Estimate of cumulative claims	158	163	158	145	169	793
Cumulative payments	(155)	(160)	(154)	(136)	(96)	(701)
Outstanding claims provision	3	3	4	9	73	92
Prior year outstanding claims						2
Claims handling provision						3
Total claims liabilities recognised in the Consolidated Balance Sheet						**97**

No net of reinsurance claim development table has been presented as it would not be materially different from the gross claims development table above.

Balance sheet management (continued)

22 Investment contract liabilities

Under current IFRS requirements, participating investment contract liabilities are measured using local GAAP, as permitted by IFRS 4. In the UK, participating investment contract liabilities are determined in accordance with guidance previously set out in FRS 27, including a value for guarantees, in the same way as participating insurance contracts. Although FRS 27 is no longer an operational standard, the group has grandfathered the provisions into its IFRS reserving methodology.

The group's non-participating investment contracts are all unit linked contracts. These liabilities are measured at fair value by reference to the value of the underlying net asset values of the group's unitised investment funds at the balance sheet date.

Unitised liabilities are recognised when premiums are received and non-unitised liabilities are recognised when premiums are due.

Claims are not included in the income statement but are deducted from investment contract liabilities. The movement in investment contract liabilities consists of claims incurred in the year less the corresponding elimination of the policyholder liability originally recognised in the balance sheet and the investment return credited to policyholders.

(i) Analysis of investment contract liabilities

	Gross 2017 £m	Reinsurance 2017 £m	Gross 2016 £m	Reinsurance 2016 £m
Participating investment contracts	**5,168**	**–**	5,271	–
Non-participating investment contracts	**336,628**	**(317)**	321,177	(286)
Total investment contract liabilities[1]	**341,796**	**(317)**	326,448	(286)
Less investment contract liabilities classified as held for sale	**(26,145)**	**48**		
Investment contract liabilities	**315,651**	**(269)**	326,448	(286)
Expected to be settled within 12 months (net of reinsurance)[2]	**47,480**		39,559	
Expected to be settled after 12 months (net of reinsurance)[2]	**293,999**		286,603	

1. Total investment contract liabilities are presented gross of held for sale liabilities in 2017 and net of held for sale liabilities in 2016. Detailed disclosure relating to these held for sale items is included in Note 30.
2. The maturity analysis of the assets between less and more than 12 months is based on the total investment contract liabilities as at 31 December.

(ii) Movement in investment contract liabilities

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

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

Change in provisions for investment contract liabilities represents the total gross and reinsurance investment return and related benefits of £27,550m including discontinued operations (2016: £58,578m).

Fair value movements of £33,671m including from discontinued operations (2016: £60,981m) are included within the income statement arising from movements in investment contract liabilities designated as fair value through profit and loss.

Balance sheet management (continued)

(iii) Non-participating investment contract liability fair value hierarchy

As at 31 December 2017	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Non-participating investment contracts	**336,628**	**336,628**	**–**	**–**	**–**

As at 31 December 2016	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Non-participating investment contracts	321,177	321,177	–	–	–

The fair value of financial liabilities is, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data.

There have been no significant transfers between any of the levels in either the current or prior years.

(iv) Expected investment contract liability cash flows

	Date of undiscounted cash flows					
As at 31 December 2017	0–5 years £m	5–15 years £m	15–25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating investment contracts	**2,596**	**2,878**	**472**	**30**	**5,976**	**5,168**

	Date of undiscounted cash flows					
As at 31 December 2016	0–5 years £m	5–15 years £m	15–25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating investment contracts	2,223	2,605	501	28	5,357	5,271

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 Value of in-force non-participating contracts

(i) Movement in value of in-force non-participating contracts

	2017 £m	2016 £m
As at 1 January	**206**	184
Unwinding of the discount rates	**3**	2
Investment return	**26**	39
Other	**(89)**	(19)
Total as at 31 December[1]	**146**	206
Less liabilities of operations classified as held for sale	**(146)**	
As at 31 December	**–**	206
Expected to be settled within 12 months[2]	**15**	29
Expected to be settled after 12 months[2]	**131**	177

1. Total as at 31 December are presented gross of held for sale liabilities in 2017 and net of held for sale liabilities in 2016. Detailed disclosure relating to these held for sale items is included in Note 30.
2. The maturity analysis of the liabilities between less and more than 12 months is based on the total value of in-force non-participating contracts as at 31 December.

(ii) Expected net cash flows

	Date of undiscounted cash flows					
As at 31 December 2017	**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	**98**	**64**	**18**	**6**	**186**	**146**

	Date of undiscounted cash flows					
As at 31 December 2016	0–5 years £m	5–15 years £m	15–25 years £m	Over 25 years £m	Total £m	Carrying value £m
Value of in-force non-participating contracts	139	90	25	9	263	206

Value of in-force non-participating undiscounted net cash flows are based on the expected date of realisation. The value of in-force non-participating contracts relates almost entirely to investment contracts.

Balance sheet management (continued)

24 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 are included as non recourse borrowings.

(i) Analysis by type

	Borrowings excluding unit linked borrowings 2017 £m	Unit linked borrowings 2017 £m	Total 2017 £m	Borrowings excluding unit linked borrowings 2016 £m	Unit linked borrowings 2016 £m	Total 2016 £m
Core borrowings	3,459	–	3,459	3,071	–	3,071
Operational borrowings	451	87	538	424	6	430
Total borrowings	**3,910**	**87**	**3,997**	3,495	6	3,501

(ii) Analysis by nature[1]

(a) Core borrowings

	Carrying amount 2017 £m	Coupon rate 2017 %	Fair value 2017 £m	Carrying amount 2016 £m	Coupon rate 2016 %	Fair value 2016 £m
Subordinated borrowings						
5.875% Sterling undated subordinated notes (Tier 2)	408	5.88	428	411	5.88	418
6.385% Sterling perpetual capital securities (Tier 1)	–	–	–	615	6.39	609
10% Sterling subordinated notes 2041 (Tier 2)	311	10.00	397	310	10.00	403
5.5% Sterling subordinated notes 2064 (Tier 2)	589	5.50	710	589	5.50	603
5.375% Sterling subordinated notes 2045 (Tier 2)	603	5.38	694	602	5.38	627
5.25% US Dollar subordinated rates 2047 (Tier 2)	628	5.25	679	–	–	–
5.55% US Dollar subordinated rates 2052 (Tier 2)	369	5.55	397	–	–	–
Client fund holdings of group debt[2]	(32)	–	(38)	(31)	–	(31)
Total subordinated borrowings	**2,876**		**3,267**	2,496		2,629
Senior borrowings						
Sterling medium term notes 2031–2041	609	5.88	857	609	5.88	845
Client fund holdings of group debt[2]	(26)	–	(37)	(34)	–	(34)
Total senior borrowings	**583**		**820**	575		811
Total core borrowings	**3,459**		**4,087**	3,071		3,440

1. Unit linked borrowings are excluded from the analysis as the risk is retained by the policyholders.
2. £58m (2016: £65m) of the group's subordinated and senior borrowings are currently held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total core borrowings in the table above.

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.

Balance sheet management (continued)

24 Borrowings (continued)

(ii) Analysis by nature (continued)

(a) Core borrowings (continued)

Subordinated borrowings

5.875% Sterling undated subordinated notes

In 2004, Legal & General Group Plc issued £400m of 5.875% Sterling undated subordinated notes. These notes are callable at par on 1 April 2019 and every five years thereafter. If not called, the coupon from 1 April 2019 will be reset to the prevailing five year benchmark gilt yield plus 2.33% p.a. These notes are treated as Tier 2 own funds for Solvency II purposes.

6.385% Sterling perpetual capital securities

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

10% Sterling subordinated notes 2041

In 2009, Legal & General Group Plc issued £300m of 10% dated subordinated notes. The notes are callable at par on 23 July 2021 and every five years thereafter. If not called, the coupon from 23 July 2021 will be reset to the prevailing five year benchmark gilt yield plus 9.325% p.a. These notes mature on 23 July 2041. They are treated as Tier 2 own funds for Solvency II purposes.

5.5% Sterling subordinated notes 2064

In 2014, Legal & General Group Plc issued £600m of 5.5% dated subordinated notes. The notes are callable at par on 27 June 2044 and every five years thereafter. If not called, the coupon from 27 June 2044 will be reset to the prevailing five year benchmark gilt yield plus 3.17% p.a. These notes mature on 27 June 2064. They are treated as Tier 2 own funds for Solvency II purposes.

5.375% Sterling subordinated notes 2045

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

5.25% US Dollar subordinated notes 2047

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

5.55% US Dollar subordinated notes 2052

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

Senior borrowings

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

(b) Operational borrowings

	Carrying amount 2017 £m	**Coupon rate 2017 %**	**Fair value 2017 £m**	Carrying amount 2016 £m	Coupon rate 2016 %	Fair value 2016 £m
Short term operational borrowings						
Euro Commercial Paper	**349**	**1.27**	**349**	216	0.96	216
Non recourse borrowings	**102**	**5.71**	**102**	208	1.99	208
Total operational borrowings[1]	**451**		**451**	424		424

1. Unit linked borrowings with a value of £87m (2016: £6m) are excluded from the analysis above as the risk is retained by policyholders. Total operational borrowings including unit linked borrowings are £538m (2016: £430m).

£191m of interest expense was incurred during the year (2016: £172m) on borrowings excluding non recourse and unit linked borrowings. The total financing costs incurred for the year were £212m (2016: £191m).

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 2017	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							
5.875% Sterling undated subordinated notes (Tier 2)	408	(6)	–	–	–	(400)	(406)
10% Sterling subordinated notes 2041 (Tier 2)	311	(13)	–	–	(300)	–	(313)
5.5% Sterling subordinated notes 2064 (Tier 2)	589	–	–	–	–	(600)	(600)
5.375% Sterling subordinated notes 2045 (Tier 2)	603	(6)	–	–	–	(600)	(606)
5.25% US Dollar subordinated notes 2047 (Tier 2)	628	(9)	–	–	–	(628)	(637)
5.55% US Dollar subordinated notes 2052 (Tier 2)	369	(4)	–	–	–	(370)	(374)
Senior borrowings							
Sterling medium term notes 2031–2041	609	(11)	–	(350)	(250)	–	(611)
Client fund holdings of group debt	(58)	–	–	–	–	–	–
Total core borrowings	3,459	(49)	–	(350)	(550)	(2,598)	(3,547)
Short term operational borrowings							
Euro Commercial Paper	349	(349)	–	–	–	–	(349)
Non recourse borrowings	102	–	(103)	–	–	–	(103)
Total operational borrowings	451	(349)	(103)	–	–	–	(452)
Total borrowings excluding unit linked borrowings	3,910	(398)	(103)	(350)	(550)	(2,598)	(3,999)
Contractual undiscounted interest payments		(161)	(837)	(1,868)	(1,153)	(823)	(4,842)
Total contractual undiscounted cash flows		(559)	(940)	(2,218)	(1,703)	(3,421)	(8,841)

As at 31 December 2016	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							
5.875% Sterling undated subordinated notes (Tier 2)	411	(6)	–	–	–	(400)	(406)
6.385% Sterling perpetual capital securities (Tier 1)	615	(6)	–	–	–	(600)	(606)
10% Sterling subordinated notes 2041 (Tier 2)	310	(13)	–	–	(300)	–	(313)
5.5% Sterling subordinated notes 2064 (Tier 2)	589	–	–	–	–	(600)	(600)
5.375% Sterling subordinated notes 2045 (Tier 2)	602	(6)	–	–	–	(600)	(606)
Senior borrowings							
Sterling medium term notes 2031–2041	609	(11)	–	(350)	(250)	–	(611)
Client fund holdings of group debt	(65)	–	–	–	–	–	–
Total core borrowings	3,071	(42)	–	(350)	(550)	(2,200)	(3,142)
Short term operational borrowings							
Euro Commercial Paper	216	(216)	–	–	–	–	(216)
Non recourse borrowings	208	(58)	(151)	–	–	–	(209)
Total operational borrowings	424	(274)	(151)	–	–	–	(425)
Total borrowings excluding unit linked borrowings	3,495	(316)	(151)	(350)	(550)	(2,200)	(3,567)
Contractual undiscounted interest payments		(154)	(772)	(1,922)	(1,597)	(872)	(5,317)
Total contractual undiscounted cash flows		(470)	(923)	(2,272)	(2,147)	(3,072)	(8,884)

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 2017, the group had in place a £1bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2022. No amounts were outstanding at 31 December 2017.

Short term assets available at the holding company level exceeded the amount of non-unit linked short term operational borrowings of £349m (2016: £216m).

Balance sheet management (continued)

24 Borrowings (continued)

(iv) Movement in borrowings

	2017 £m	2016 £m
As at 1 January	**3,501**	3,627
Cash movements:		
– Proceeds from borrowings	**1,232**	219
– Repayment of borrowings	**(600)**	(274)
– Increase in bank overdraft	**81**	5
Non-cash movements:		
– Amortisation	**(17)**	(23)
– Acquisition of subsidiary	**45**	–
– Disposal of subsidiary	**–**	(85)
– Deconsolidation of investment in property fund	**(150)**	–
– Foreign exchange movements	**(101)**	27
– Other	**6**	5
As at 31 December	**3,997**	3,501

25 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

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

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

(ii) Retirement benefit obligations

Defined contribution schemes

The group operates the following principal defined contribution pension schemes in the UK and overseas:

- Legal & General Group Personal Pension Plan (UK);
- Legal & General Staff Stakeholder Pension Scheme (UK); and
- Legal & General America Inc. Savings Plan (US).

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 £49m (2016: £52m) were charged as expenses during the year in respect of defined contribution schemes.

Balance sheet management (continued)

Defined benefit schemes

The group operates the following defined benefit pension schemes in the UK and overseas:

- Legal & General Group UK Pension and Assurance Fund (the Fund). The Fund was closed to new members from January 1995; the last full actuarial valuation was as at 31 December 2015;
- Legal & General Group UK Senior Pension Scheme (the Scheme). The Scheme was, with a few exceptions (principally transfers from the Fund), closed to new members from August 2000 and finally closed to new members from April 2007; the last full actuarial valuation was as at 31 December 2015; and
- Legal & General America Inc. Cash Balance Plan (US); the last full actuarial valuation was as at 31 December 2016.

The UK defined benefit schemes operate within the UK pensions' regulatory framework.

The UK Fund and Scheme were closed to future accruals on 31 December 2015. As part of this arrangement, payments to the Fund and Scheme in respect of future accruals ceased from this date and were replaced with a company contribution payment of between 5% and 15%. In addition, as part of the closure, the company will contribute an additional £3m per annum until 31 December 2024 towards the deficit.

The assets of all UK defined benefit schemes are held in separate trustee administered funds to meet long term pension obligations to past and present employees. Trustees are appointed to the schemes and have a responsibility to act in the best interest of the scheme beneficiaries. The trustees' long term objectives are to minimise the risk that there are insufficient assets to meet the liabilities of the scheme over the longer term, control the ongoing operational costs of the schemes and to maximise investment returns for the beneficiaries within an acceptable level of risk.

The total number of members of the UK Fund and Scheme was:

	2017	2016
Employed deferreds	**264**	381
Deferreds	**3,568**	3,900
Pensioners	**3,593**	3,524
	7,425	7,805

The group works closely with the trustees to develop an investment strategy for each UK scheme in order to meet the long term objectives of the trustees as noted above. Each UK scheme has a Statement of Investment Principles which governs the mix of assets and limits for each class of asset. As noted below, the asset mix of the UK defined benefit schemes is primarily split between bonds, Liability Driven Investment (LDI) funds and equities. Additionally, certain parts of the liabilities of the scheme are secured by way of annuities purchased from the group. These annuities are not recognised as an asset for IAS 19 purposes, but at 31 December 2017 the value of these annuities, on an IAS 19 basis, was £875m (2016: £779m).

The Scheme and Fund expose the group to a number of risks:

Risk	Detail
Uncertainty in benefit payments	The value of the group's liabilities for post-retirement benefits will ultimately depend on the amount of benefits paid out. This in turn will primarily depend on the level of inflation and how long individuals live.
Volatility in asset values	The group is exposed to future movements in the values of assets held in the Scheme and the Fund to meet future benefit payments.
Uncertainty in cash funding	Movements in the values of the obligations or assets may result in the group being required to provide higher levels of cash funding, although changes in the level of cash required can often be spread over a number of years. In addition, the group is also exposed to adverse changes in pension regulation.

These risks are managed within the risk appetite of the Scheme and fund. 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.

During 2017, an asset switch was made for the Scheme and fund, resulting in a significant reduction in the holding of equities and an increased holding in LDI funds. The main goal of the use of LDI is to hedge movements in the liabilities due to changes in interest rate and inflation expectations. On a gilts flat measure, the Scheme and Fund currently hedge 68% interest rate changes and 64% inflation expectation changes.

Annuities are purchased to mitigate risks for certain parts of the pension liabilities which passes the risks from the Scheme and Fund onto the group.

Balance sheet management (continued)

25 Provisions (continued)

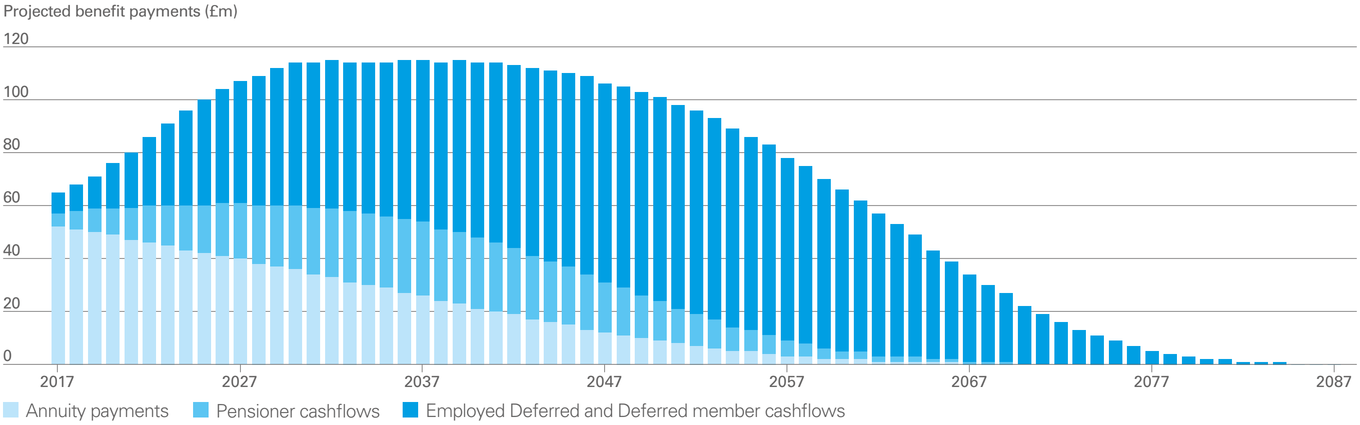
(ii) Retirement benefit obligations (continued)

Defined benefit schemes (continued)

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 aim to make good the deficits over a certain period of time. The triennial valuation at 31 December 2015 showed a total funding deficit for both the Scheme and the Fund of £599m. As a result of this, a recovery plan was agreed of £77m a year until 2024. The latest triennial valuation at 31 December 2015 was completed on 15 August 2017.

The Scheme and the Fund liabilities have an average duration of 19.8 years (2016: 20.7 years) and 20.1 years (2016: 20.8 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 unaudited chart below:

Undiscounted benefit payments



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 and Scheme is not restricted. Plan assets exclude the insurance contracts issued by the group. The defined benefit obligation is calculated actuarially each year using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The discount rate is based on market yields of high quality corporate bonds which are denominated in the currency in which the benefits will be paid, and that have terms to maturity which approximate to those of the related pension liability.

The 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 2017 %	Fund and Scheme 2016 %
Rate used to discount liabilities	**2.47**	2.70
Rate of increase in pensions in payment (pre-2006 service)	**3.67**	3.70
Rate of increase in deferred pensions (pre-2006 service)	**3.78**	3.82
Rate of general inflation (RPI)	**3.18**	3.25
Post retirement mortality		
2017: 80%/90% (Male/Female) (Fund) and 70%/80% (Male/Female) (Scheme) of PCMA/PCFA 00 with improvement at CMI 2015 base date 2013 with long term rates 1.5% p.a. males and 1.0% p.a. females, with tapering linearly down to nil between ages 90 and 120.		
2016: 80%/90% (Male/Female) (Fund) and 70%/80% (Male/Female) (Scheme) of PCMA/PCFA 00 with improvement at CMI 2014 base date 2013 with long term rates 1.5% p.a. males and 1.0% p.a. females, with tapering linearly down to nil between ages 90 and 120.		

Balance sheet management (continued)

This equates to average life expectancy as follows:

	Fund and Scheme 2017 years	Fund and Scheme 2016 years
Normal retirement age	**60.0**	60.0
Male life expectancy at retirement age	**88.0**	88.1
Female life expectancy at retirement age	**88.9**	89.0
Male life expectancy at 20 years younger than retirement age	**90.6**	90.7
Female life expectancy at 20 years younger than retirement age	**90.6**	90.7

	Fund and Scheme 2017 £m	Overseas 2017 £m	Fund and Scheme 2016 £m	Overseas 2016 £m
Movement in present value of defined benefit obligations				
As at 1 January	**(2,628)**	**(32)**	(2,259)	(58)
Current service cost	**(2)**	**(2)**	(1)	(3)
Interest expense	**(67)**	**(1)**	(84)	(2)
Actuarial remeasurement (recognised in Consolidated Statement of Comprehensive Income)				
– Change in financial assumptions	**(102)**	**–**	(539)	–
– Change in demographic assumptions	**(11)**	**–**	85	–
– Experience	**23**	**(1)**	81	(5)
Benefits paid	**244**	**1**	89	2
Exchange differences	**–**	**3**	–	(10)
Transfer to held for sale[1]	**–**	**–**	–	44
As at 31 December	**(2,543)**	**(32)**	(2,628)	(32)
Movement in fair value of plan assets				
As at 1 January	**1,394**	**27**	1,133	53
Expected return on plan assets at liability discount rate	**37**	**1**	44	2
Actuarial remeasurement (recognised in Consolidated Statement of Comprehensive Income)	**3**	**1**	235	5
Employer contributions	**92**	**1**	71	4
Benefits paid	**(244)**	**(1)**	(89)	(2)
Exchange differences	**–**	**(2)**	–	9
Transfer to held for sale[1]	**–**	**–**	–	(44)
As at 31 December	**1,282**	**27**	1,394	27
Gross pension obligations	**(1,261)**	**(5)**	(1,234)	(5)
Gross pension obligations included in provisions	**(1,261)**	**(5)**	(1,234)	(5)
Annuity obligations insured by LGAS	**875**	**–**	779	–
Gross defined benefit pension deficit	**(386)**	**(5)**	(455)	(5)
Deferred tax on defined benefit pension deficit	**69**	**1**	81	1
Net defined benefit pension deficit	**(317)**	**(4)**	(374)	(4)

1. Legal & General Netherlands was classified as held for sale in 2016.

During 2017 annuities were purchased from the group. A premium of £161m (2016: £nil) was paid from the assets of the Scheme and the Fund to purchase these annuities. These annuities are not recognised as an asset for IAS 19 purposes and so the actuarial remeasurement recognised in the Consolidated Statement of Comprehensive Income includes allowance for this premium payment as well as annuity receipts over 2017 of £53m.

The gross amount of actuarial losses net of tax recognised in the Consolidated Statement of Comprehensive Income for the year was £72m (2016: £121m loss net of tax); cumulative £(898)m (2016: £(826)m).

The post-retirement mortality assumptions have been updated to the mortality improvement table.

Balance sheet management (continued)

25 Provisions (continued)

(ii) Retirement benefit obligations (continued)

Defined benefit schemes (continued)

The effect on the defined benefit obligation of the Scheme and Fund of assuming reasonable alternative assumptions in isolation is shown below. Opposite sensitivities are broadly symmetrical, but larger sensitivities are not necessarily broadly proportionate due to the existence of maxima and minima for inflation linked benefits. These sensitivities have been calculated to show the movement in the defined benefit obligation in isolation, and assuming no other changes in market conditions at the accounting date. This is unlikely in practice – for example, a change in discount rate is unlikely to occur without any movement in the value of the assets held by the Scheme and Fund.

	2017 £m	2016 £m
1 year increase in longevity	(92)	(86)
0.1% decrease in the rate used to discount liabilities	(43)	(43)
0.1% increase in the rate of general inflation (RPI)	(25)	(20)

The historic funding and experience adjustments are as follows:

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Present value of defined benefit obligations	(2,575)	(2,660)	(2,317)	(2,404)	(2,110)
Fair value of plan assets	1,309	1,421	1,186	1,187	1,000
Restricted surplus not recognised	–	–	–	–	(3)
Gross pension obligations included in provisions	**(1,266)**	(1,239)	(1,131)	(1,217)	(1,113)
Experience adjustments on plan liabilities	22	76	38	(7)	(11)
Experience adjustments on plan assets	4	240	(62)	133	39

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 2017	UK £m	Overseas £m	UK £m	Overseas £m
Equities	78	13	–	–
Bonds	1,111	8	–	–
Properties	–	–	74	–
Other investments	19	3	–	3
	1,208	24	74	3

	Valuation based on quoted market price		Valuation based on other than quoted market price	
As at 31 December 2016	UK £m	Overseas £m	UK £m	Overseas £m
Equities	595	19	–	–
Bonds	638	3	–	–
Properties	–	–	68	–
Other investments	–	2	93	3
	1,233	24	161	3

The average credit rating of the bond portfolio is A (2016: A).

Employer contributions of £93m (2016: £75m) have been made during 2017. Employer contributions of £81m are expected to be paid to the plan during 2018.

The following amounts have been charged to the income statement:

	Note	2017 £m	2016 £m
Current service costs		2	4
Net interest expense		31	40
Total included in other expenses	3	**33**	44

Balance sheet management (continued)

26 Payables and other financial liabilities

Derivative liabilities and repurchase agreements are measured at fair value, with changes in fair value recognised in the Consolidated Income Statement.

Security on short position reverse repurchase agreements and other financial liabilities balances, including FX spots, broker and other payables, are measured at amortised cost. The carrying value of these liabilities approximates the fair value.

Trail commission represents a liability for the present value of future commission costs on distribution agreements with intermediaries, recognised in the balance sheet on inception of the contract. 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 remeasured, with changes reflected in the Consolidated Income Statement.

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

1. The repurchase agreements are presented gross; however they and their related assets, included within Debt securities, are subject to master netting arrangements.
2. Other includes trail commission, future commission costs, FX spots and collateral repayable on short position reverse repurchase agreements. The value of FX spots and collateral repayable on short position reverse repurchase agreements increased by £2.3bn and £4.0bn, respectively, within the financial year.
3. Total payables and other financial liabilities are presented gross of held for sale liabilities in 2017 and net of held for sale liabilities in 2016. Detailed disclosure relating to these held for sale items is included in Note 30.
4. The maturity analysis of the liabilities between less and more than 12 months is based on the Total payables and other financial liabilities as at 31 December.

Fair value hierarchy

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

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

1. Within derivative assets as at 31 December 2016, £839m of forward currency contracts have been reclassified from Level 1 to Level 2, following a review of the inputs required in their valuation. The reclassification has no impact on the valuation of the instruments, and therefore no impact on the Consolidated Balance Sheet.
2. £23,163m of repurchase agreements have been restated from amortised cost to fair value (Level 2) to properly reflect their classification as fair value through profit and loss. At the same time £43m of accrued interest on repurchase agreements has been reclassified from Other to Repurchase agreements.

Future commission costs are modelled using expected cash flows, incorporating expected future persistency. They have therefore been classified as Level 3 liabilities. The entire movement in the balance has been reflected in the Consolidated Income Statement during the year. A reasonably possible alternative persistency assumption would have the effect of increasing the liability (including held for sale liabilities) by £4m (2016: £5m).

Significant transfers between levels

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

Balance sheet management (continued)

27 Management of capital resources

Solvency II

The group is required to measure and monitor its capital resources on a regulatory basis and to comply with the minimum capital requirements of regulators in each territory in which it operates. At a group level, Legal & General had to comply with the requirements established by the Solvency II Framework Directive, as adopted by the Prudential Regulation Authority (PRA) at the balance sheet date.

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

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

The Solvency II results are estimated and unaudited.

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

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

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

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

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

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

Balance sheet management (continued)

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

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

1. Treated as available capital on the Solvency II balance sheet as the liabilities are subordinate to policyholder claims.
2. Differences in the measurement of technical provisions between IFRS and Solvency II.
3. Reflects valuation differences on other assets and liabilities, predominately in respect of borrowings measured at fair value under Solvency II.
4. Relating to the Own Funds of non-insurance regulated entities that are subject to local regulatory rules.
5. Own Funds do not include an accrual for the dividend of £658m (2016: £616m) declared after the balance sheet date.

Capital management policies and objectives

The group aims to manage its capital resources to maintain financial strength, policyholder security and relative external ratings advantage. The group also seeks to maximise its financial flexibility by maintaining strong liquidity and by utilising a range of alternative sources of capital including equity, senior debt, subordinated debt and reinsurance.

Capital measures

The group measures its capital on a number of different bases, including those which comply with the regulatory frameworks within which the group operates and those which the directors consider most appropriate for managing the business. The measures used by the group include:

Accounting and Economic bases

Management use financial information prepared on both an IFRS and Economic Capital basis to manage capital and cash flow usage and to determine dividend paying capacity.

The group maintains a risk-based capital model that is used to calculate the group's Economic Capital balance sheet and support the management of risk within the group. This modelling framework, suitably adjusted for regulatory constraints, also meets the needs of the Solvency II regime. Our Economic Capital model has not been reviewed by the PRA, nor will it be.

Regulatory bases

The financial strength of the group's insurance subsidiaries is measured under various local regulatory requirements (see below).

Basis of regulatory capital and corresponding regulatory capital requirements

In each country in which the group operates, the local insurance regulator specifies rules and guidance for the minimum amount and type of capital which must be held by insurance subsidiaries in excess of their insurance liabilities. The minimum capital requirements have been maintained at all times throughout the year. This helps to ensure that payments to policyholders can be made as they fall due.

The required capital is calculated by either assessing the additional assets which would be required to meet the insurance company's liabilities in specified, stressed financial conditions, or by applying fixed percentages to the insurance company's liabilities and risk exposures. The requirements in the different jurisdictions in which the group operates are detailed below:

Group regulatory basis

The group is required to comply with the Solvency II capital requirements using a Partial Internal Model. The vast majority of the risk to which the group is exposed is assessed on the Internal Model basis approved by the PRA. The group capital requirements for a handful of smaller entities are assessed using the Standard Formula basis on materiality grounds. The group's capital requirements in respect of its US insurance businesses are valued on a local statutory basis, following PRA approval of the group's application to use the Deduction and Aggregation method of including these businesses in the group solvency calculation.

UK regulatory basis

At the balance sheet date, required capital for the life business was based on the Solvency II Framework Directive, as adopted by the PRA. All material EEA insurance firms, including Legal and General Assurance Society Limited, Legal & General Insurance Limited, and Legal & General Assurance (Pensions Management) Limited (LGIM's insurance subsidiary) are required to hold eligible own funds in excess of their Solvency Capital Requirement, calculated on an Internal Model basis. These firms, as well as the non-EEA insurance firm (Legal & General Reinsurance Company Limited based in Bermuda) contribute over 97% of the group's SCR.

Balance sheet management (continued)

27 Management of capital resources (continued)

Basis of regulatory capital and corresponding regulatory capital requirements (continued)

US regulatory basis

Required capital is determined to be the Company Action Level Risk Based Capital (RBC) based on the National Association of Insurance Commissioners RBC model. RBC is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations, taking into account its size and risk profile. The calculation is based on applying factors to various asset, premium, claims, expense and reserve items, with higher factors used for those items with greater underlying risk and lower factors for less risky items.

Bermudan regulatory basis

Bermudan regulated insurers are required to hold sufficient capital to meet 120% of the Bermudan Solvency Capital Requirement (BSCR). The BSCR model follows a standard formula framework; capital attributed to each risk is calculated by applying 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.

28 Acquisitions

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

29 Disposals

During 2017, the group made the following disposals:

- On 1 January 2017, the group completed the disposal of Cofunds Limited (Cofunds) to Aegon for £141m, net of transaction costs. The sale included the Investor Portfolio Service (IPS) platform as well as Cofunds' retail and institutional business. The group carrying value of the investment was £141m resulting in a net nil current year impact to the group.
- On 6 April 2017, the group completed the sale of Legal & General Netherland Levensverzekering Maatschappij N.V. (LGN) to Chesnara plc (Chesnara) for €161m (£137m). The group carrying value of the investment was £118m, resulting in a current year profit of £17m, net of transaction costs of £2m.

30 Held for sale and discontinued operations

On 6 December 2017 the group announced the sale of its Mature Savings business to Swiss Re for £650m. The sale is expected to be final in 2019 following the completion of the Part VII transfer. As a result of the announcement the assets and liabilities of the Mature Savings business have been classified as held for sale.

The group also initiated the planned disposal of a number of investments which are expected to finalise in 2018. These have also been classified as held for sale and the associated assets and liabilities included in the table on page 195.

The 2016 balances relate to planned disposals of investment property, LGN and Cofunds, which were disposed of in 2017 (detailed in Note 29).

Balance sheet management (continued)

	2017 £m	2016 £m
Assets classified as held for sale		
Purchased interest in long term business and other intangible assets	**3**	85
Deferred acquisition costs	**438**	12
Investments in associates and joint ventures	**73**	–
Property, plant and equipment	**–**	11
Investment property	**1,227**	95
Financial investments	**20,062**	1,861
Reinsurers' share of contract liabilities	**97**	1
Cash and cash equivalents	**322**	139
Other assets	**362**	61
Assets of operations classified as held for sale	**22,584**	2,265
Assets in consolidated funds[1]	**11,065**	
Total assets of the disposal groups	**33,649**	2,265
Liabilities classified as held for sale		
Insurance contract and related liabilities[2]	**7,136**	1,709
Investment contract liabilities	**26,145**	–
Operational borrowings	**–**	–
Payables and other financial liabilities	**310**	28
Other liabilities	**367**	85
Liabilities of operations classified as held for sale	**33,958**	1,822
Total net liabilities of the disposal groups	**(309)**	443

1. Included in Total assets of the disposal groups are assets in consolidated funds, which are held by the Mature Savings business and disclosed within Financial investments on the Consolidated Balance Sheet. The group controls these funds and therefore consolidates 100% of the assets with any non-controlling interest recognised in the Net asset value attributable to unit holders. Following the disposal of the Mature Savings business, the group currently anticipates that it will retain control of these funds and so will continue to recognise 100% of the assets while increasing its non-controlling interest in the Net asset attributable to unit holders.
2. Insurance contract liabilities include participating insurance contracts, unallocated divisional surplus relating to with-profits business and the value of in-force non-participating contracts.

(i) Financial performance and cash flow information

	2017 £m	2016 £m
Revenue	**3,000**	4,499
Expenses	**(2,901)**	(4,382)
Profit before tax	**99**	117
Tax expense	**(19)**	(26)
Profit after tax from discontinued operations	**80**	91
Total comprehensive income from discontinued operations	**80**	91
Net cash outflow from operating activities	**(464)**	(305)
Net cash outflow from investing activities	**–**	–
Net cash outflow from financing activities	**(89)**	(86)
Net decrease in cash generated by the business	**(553)**	(391)

Additional financial information

31 Segmental analysis

The group provides a segmental analysis to enhance the understanding of the financial statements.

Under the requirements of IFRS 8, 'Operating segments', operating and reportable segments are presented in a manner consistent with the internal reporting provided to the chief operating decision maker, which has been identified as the Board of Legal & General Group Plc.

Reportable segments

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

Central group expenses and debt costs are reported separately.

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

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

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

(i) Profit/(loss) for the year

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

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

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

Additional financial information (continued)

(ii) Income

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

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

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

(iii) Gross written premiums on insurance contracts

Gross written premiums represents the total premiums written by the group before deductions for reinsurance.

Long term insurance premiums are recognised as income when due for payment. General insurance premiums are accounted for in the period in which the risk commences. Estimates are included for premiums not notified by the year end and provision is made for the anticipated lapse of renewals not yet confirmed. Those proportions of premiums written in a year which relate to periods of risk extending beyond the end of the year are carried forward as unearned premiums.

Premiums received relating to investment contracts are not recognised as income, but are included in the balance sheet investment contract liability.

Outward reinsurance premiums from continuing operations of £1,858m (2016: £1,568m) are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured.

For the year ended 31 December 2017	LGR £m	LGIM £m	LGI £m	General Insurance £m	LGC and other £m	Continuing operations[1] £m	Discontinued operations[1] £m	Total £m
Gross written premiums	4,971	–	2,530	369	–	7,870	122	7,992

For the year ended 31 December 2016	LGR £m	LGIM £m	LGI £m	General Insurance £m	LGC and other £m	Continuing operations[1] £m	Discontinued operations[1] £m	Total £m
Gross written premiums	7,326	–	2,412	326	–	10,064	261	10,325

1. Discontinued operations gross written premiums reflects the income from the Savings division following the announcement in December 2017 to sell the Mature Savings business to Swiss Re. For this segmental analysis, discontinued operations also includes the gross written premiums of Legal & General Netherlands (2017: £62m; 2016: £188m). This business (which was not previously classified as discontinued in 2016) was sold during 2017 and was a component of the LGI (UK and Other) division.

Additional financial information (continued)

32 Investment return

Investment return includes fair value gains and losses, excluding fair value movements attributable to available-for-sale (AFS) investments, dividends, rent and interest. Dividends are accrued on an ex-dividend basis. Interest and rent are included on an accruals basis. Interest income for financial assets which are not classified as fair value through profit or loss (FVTPL) is recognised using the effective interest method.

The group earns an investment return from holdings in financial instruments and property investments, held to back insurance and investment contracts on behalf of policyholders and as group capital.

	2017 £m	2016 £m
Dividend income	**5,207**	4,751
Interest income on financial investments at fair value through profit or loss	**4,639**	4,540
Other investment income[1]	**136**	77
Gains on financial investments at fair value through profit or loss	**24,901**	59,982
Gains/(losses) on derivative instruments (designated as held for trading)	**772**	(2,034)
Realised gains on available-for-sale financial assets	**5**	20
Financial investment return	**35,660**	67,336
Rental income	**467**	499
Fair value gains/(losses) on properties	**21**	(11)
Property investment return	**488**	488
Total investment return	**36,148**	67,824
Less investment return from discontinued operations	**(2,691)**	(4,082)
Investment return from continuing operations	**33,457**	63,742

1. Includes interest income of £88m (2016: £59m) on financial investments designated as available-for-sale. There were no impairments on assets classified as available-for-sale during the year (2016: £nil).

Additional financial information (continued)

33 Tax

The tax shown in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income comprises current and deferred tax.

Current tax
Current tax comprises tax payable on current year profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous periods. Current tax is recognised in the Consolidated Income Statement unless it relates to items which are recognised in the Consolidated Statement of Comprehensive Income or directly in equity.

Deferred tax
Deferred tax is calculated on differences between the accounting value of assets and liabilities and their respective tax values. Deferred tax is also recognised in respect of unused tax losses to the extent it is probable that future taxable profits will arise against which the losses can be utilised. Deferred tax is charged or credited to the Consolidated Income Statement, except when it relates to items charged or credited to the Consolidated Statement of Comprehensive Income or charged or credited directly in equity.

Tax attributable to policyholders and equity holders
The total tax expense shown in the group's Consolidated Income Statement includes income tax borne by both policyholders and shareholders. This has been apportioned between that attributable to policyholders' returns and equity holders' profits. This represents the fact that the group's long term business in the UK pays tax on policyholder investment return, in addition to the corporation tax charge charged on shareholder profit. The separate presentation is intended to provide more relevant information about the tax that the group pays on the profits that it makes.

For this apportionment, the equity holders' tax on long term business is estimated by applying the statutory tax rate to profits attributed to equity holders. This is considered to approximate the corporation tax attributable to shareholders as calculated under UK tax rules. The balance of income tax associated with UK long term business is attributed to income tax attributable to policyholders' returns and approximates the corporation tax attributable to policyholders as calculated under UK tax rules.

Use of estimates
Tax balances include the use of estimates and assumptions which affect items reported in the Consolidated Balance Sheet and Income Statement. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates.

For tax this includes the determination of liabilities/recoverables for uncertain tax positions and estimation of future taxable income supporting deferred tax asset recognition.

Tax rates
The table below provides a summary of the standard corporate income tax rates of territories we operate in.

	2017	2016
UK[1]	**19.25%**	20.0%
USA[2]	**35.0%**	35.0%
Netherlands	**25.0%**	25.0%
Bermuda	**0%**	0%
Hong Kong	**16.5%**	16.5%
Japan	**30.86%**	30.86%

1. Reductions in the UK corporation tax rate to 19% from 1 April 2017 and to 17% from 1 April 2020 have been enacted in UK law. Enacted rates between 20% and 17% have been applied to UK temporary differences to calculate UK deferred tax assets and liabilities on the basis of when temporary differences are expected to reverse.
2. On 22 December 2017, the US passed US Tax Reform measures. As a result the US federal corporate income tax rate has reduced from 35% to 21% from 1 January 2018. The enacted rate of 21% has been applied to US temporary differences to calculate US deferred tax assets and liabilities on the basis of when temporary differences are expected to reverse.

Additional financial information (continued)

33 Tax (continued)

(i) Tax charge in the Consolidated Income Statement

	2017 £m	2016 £m
Current tax	**499**	406
Deferred tax		
– Origination or reversal of temporary differences in the year	**97**	185
– Impact of reduction in UK and US corporate tax rates on deferred tax balances	**(242)**	(2)
Total deferred tax	**(145)**	183
Adjustment to equity holders' tax in respect of prior years	**23**	13
Total tax charge[1]	**377**	602
Less tax attributable to policyholder returns		
– Continuing operations	**(70)**	(52)
– Discontinued operations	**(119)**	(233)
	(189)	(285)
Total tax charge attributable to equity holders	**188**	317
Less tax from continuing operations attributable to equity holders	**(19)**	(26)
Tax from continuing operations attributable to equity holders	**169**	291

1. Total tax charge comprises tax attributable to continuing operations of £239m and discontinued operations of £138m.

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

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

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

The UK standard tax rate is used in the above reconciliation as a significant proportion of the group's profits are earned and are taxable in the UK. The group's standard corporate income tax rate for the year, reflecting the standard tax rates of the countries we operate in, proportionately applied to equity holders profits before tax by country, is 19.0% (2016: 20.3%).

Additional financial information (continued)

(ii) Deferred tax – Consolidated Balance Sheet

Deferred tax assets and liabilities have been recognised/(provided) for temporary differences and unused tax losses. The recognition of deferred tax assets in respect of temporary differences and tax losses are supported by management's best estimate of future taxable profits to absorb the losses in future years. Deferred tax assets and liabilities presented on the Consolidated Balance Sheet have been offset to the extent it is permissible under the relevant accounting standards. The net movement in deferred tax assets and liabilities during the year is as follows:

	Net tax liability as at 1 January 2017 £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to the equity £m	Transfers £m	Net tax liability as at 31 December 2017 £m
Deferred acquisition expenses	(429)	146	26	–	(257)
– UK	(45)	5	–	–	(40)
– Overseas	(384)	141	26	–	(217)
Difference between the tax and accounting value of insurance contracts	(286)	93	15	–	(178)
– UK	(123)	52	2	–	(69)
– Overseas	(163)	41	13	–	(109)
Realised and unrealised gains on investments	(255)	(20)	(7)	–	(282)
Excess of depreciation over capital allowances	15	–	–	–	15
Excess expenses	49	(18)	–	–	31
Accounting provisions and other	(51)	18	–	–	(33)
Trading losses[1]	80	(45)	(4)	–	31
Pension fund deficit	82	(27)	15	–	70
Purchased interest in long term business	(13)	11	–	–	(2)
Total net deferred tax liabilities[2]	**(808)**	**158**	**45**	**–**	**(605)**
Less net deferred tax liabilities classified as held for sale[3]				262	262
Net deferred tax liabilities	**(808)**	**158**	**45**	**262**	**(343)**
Presented on the Consolidated Balance Sheet as:					
– Deferred tax assets	5	2	–	–	7
– UK deferred tax liabilities[3]	(291)	(1)	17	262	(13)
– Overseas deferred tax liabilities	(522)	157	28	–	(337)

1. Trading losses include UK trade and US operating losses of £4m (2016: £5m) and £27m (2016: £75m) respectively.
2. Total net deferred tax liabilities are presented gross of held for sale liabilities in 2017 and net of held for sale liabilities in 2016. Detailed disclosure on these held for sale items is included in Note 30.
3. Transfers include net deferred tax liabilities that are now classified as held for sale.

Additional financial information (continued)

33 Tax (continued)

(ii) Deferred tax – Consolidated Balance Sheet (continued)

	Net tax liability as at 1 January 2016 £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to the equity £m	Transfers £m	Net tax liability as at 31 December 2016 £m
Deferred acquisition expenses	(359)	(3)	(60)	(7)	(429)
– UK	(51)	6	–	–	(45)
– Overseas	(308)	(9)	(60)	(7)	(384)
Difference between the tax and accounting value of insurance contracts	(324)	68	(36)	6	(286)
– UK	(83)	(40)	–	–	(123)
– Overseas	(241)	108	(36)	6	(163)
Realised and unrealised gains on investments	(154)	(105)	–	4	(255)
Excess of depreciation over capital allowances	18	2	–	(5)	15
Excess expenses	74	(25)	–	–	49
Accounting provisions and other	(19)	(22)	(14)	4	(51)
Trading losses	165	(105)	21	(1)	80
Pension fund deficit	72	(7)	17	–	82
Purchased interest in long term business	(26)	–	–	13	(13)
Net deferred tax liabilities	(553)	(197)	(72)	14	(808)
Presented on the Consolidated Balance Sheet as:					
– Deferred tax assets	20	(15)	–	–	5
– UK deferred tax liabilities	(137)	(172)	11	7	(291)
– Overseas deferred tax liabilities	(436)	(10)	(83)	7	(522)

Unrecognised deferred tax assets

The group has the following unrelieved tax losses and deductible temporary differences carried forward as at 31 December 2017, none of which have expiry dates under current tax laws. No deferred tax asset has been recognised in respect of these as at 31 December 2017 (or 31 December 2016), as it is not probable that there will be suitable taxable profits emerging in future periods against which to relieve them. These tax assets will only be recognised if it becomes probable that suitable taxable profits will arise in future periods. The potential deferred tax asset unrecognised as at 31 December 2017 is £22m (2016: £19m).

	Gross 2017 £m	**Tax 2017 £m**	Gross 2016 £m	Tax 2016 £m
Trading losses	**31**	**5**	25	4
Capital losses	**69**	**14**	73	13
Unrelieved interest payments on debt instruments	**14**	**3**	14	2
Unrecognised deferred tax assets[1]	**114**	**22**	112	19

1. Unrecognised deferred tax assets include UK balances of £19m (2016: £17m) and trade losses arising overseas of £3m (2016: £2m).

Additional financial information (continued)

(iii) Current tax – Consolidated Balance Sheet

	2017 £m	2016 £m
Tax recoverable within 12 months	155	83
Tax recoverable after 12 months	265	214
Total current tax assets[1]	420	297
Less current tax assets classified as held for sale	(78)	
Current tax assets	342	297

	2017 £m	2016 £m
Tax due within 12 months	223	117
Tax due after 12 months	47	–
Total current tax liabilities[1]	270	117
Less current tax liabilities classified as held for sale	(47)	
Current tax liabilities	223	117

1. Total current tax assets and liabilities are presented gross of held for sale liabilities in 2017 and net of held for sale liabilities in 2016. Detailed disclosure on these held for sale items is included in Note 30.

(iv) Tax charged directly in equity

	Note	2017 £m	2016 £m
Current tax		(2)	(2)
Deferred tax	33(ii)	(45)	72
Tax recognised directly in equity[1]		(47)	70

1. Tax recognised directly in equity wholly relates to continuing operations.

34 Auditors' remuneration

	2017 £m	2016 £m
Remuneration receivable by the Company's auditors for the audit of the consolidated and company financial statements	1.3	1.2
Remuneration receivable by the Company's auditors and its associates for the supply of other services to the Company and its associates, including remuneration for the audit of the financial statements of the Company's subsidiaries:		
The audit of the Company's subsidiaries	4.8	4.5
Audit related assurance services – required by national or EU legislation[1]	0.8	1.0
Audit related assurance services – other[1]	1.0	1.0
Other assurance services	0.4	0.4
Total assurance services	8.3	8.1
Tax compliance services	0.1	0.2
Other tax services	0.1	0.1
Services related to corporate finance transactions	0.3	0.2
Other services not covered above	0.3	0.6
Total non-assurance services	0.8	1.1
Total remuneration	9.1	9.2

1. Audit related assurance services includes £1.2m of Solvency II costs (2016: £1.2m).

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 £37k (2016: £36k).

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)

35 Employee information

	2017	2016
Monthly average number of staff employed during the year:		
UK	**6,849**	7,464
Europe	**43**	155
USA	**653**	612
Other	**25**	22
Total excluding consolidated private equity investment vehicles	**7,570**	8,253
Consolidated private equity investment vehicles[1]	**–**	686
Worldwide employees	**7,570**	8,939

	Notes	2017 £m	2016 £m
Wages and salaries		**459**	457
Social security costs		**70**	50
Share-based incentive awards	36	**31**	26
Defined benefit pension costs[2]	25	**93**	75
Defined contribution pension costs	25	**49**	52
Total employee related expenses excluding consolidated private equity investment vehicles		**702**	660
Consolidated private equity investment vehicles[1]		**–**	17
Total employee related expenses		**702**	677

1. The private equity investment vehicles are controlled by virtue of majority holdings owned by the with-profits funds. The £nil (2016: £17m) costs of employment for private equity investment subsidiaries primarily comprise salaries and £0.2m of defined contribution pension costs (2016: £0.2m).
2. Defined benefit pension costs for the year ended 31 December 2016 have been restated from £44m to £75m. The restatement has nil impact on either Total expenses or Profit before tax for the year.

36 Share-based payments

The fair value at the date of grant of the equity instrument is recognised as an expense, spread over the vesting period of the instrument. The total amount to be expensed is determined by reference to the fair value of the awards, excluding the impact of any non-market vesting conditions. At each balance sheet date, the group revises its estimate of the number of equity instruments which are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment is made to equity. On vesting or exercise, the difference between the expense charged to the income statement and the actual cost to the group is transferred to retained earnings. Where new shares are issued, the proceeds received are credited to share capital and share premium.

(i) Description of plans

The group provides a number of equity settled share-based long term incentive plans for directors and eligible employees.

The Savings Related Share Option Scheme (SAYE) allows employees to enter into a regular savings contract over three and/or five years, coupled with a corresponding option over shares of the group. The grant price is equal to 80% of the quoted market price of the group shares on the invitation date. Fair value is calculated using the Black-Scholes model.

Nil Cost Options can be granted to senior managers under the Performance Share Plan (PSP), based upon individual and company performance. Pre the 2014 award, the number of performance shares transferred to the individual at the end of the three year vesting period was dependent on the group's relative Total Shareholder Return (TSR). New performance conditions attached to awards from 2014 result in the number of options that vest being equally dependent on the group's relative TSR and Earnings per Share (EPS)/Dividend per Share (DPS) growth. In addition, the awards vest after the end of the three year performance period and become exercisable in thirds over three, four and five years.

Additional financial information (continued)

The Share Bonus Plan (SBP) awards restricted shares, combined awards of CSOP options and restricted shares and combined awards of CSOP options and nil-paid options. With the exception of the Executive Directors, 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 HMRC tax-advantaged Employee share plan (ESP), 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 £125. There is currently no match on contributions between £125 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. The fair value of granted shares is equal to the market value at grant date.

The fair values of the share grants made during the year have been calculated using the following assumptions:

	SAYE	PSP
Award date	**7 April 2017**	**18 April 2017**
Weighted average share price	**246.3p**	**249.3p**
Weighted average exercise price	**201.0p**	**n/a**
Expected volatility	**29%**	**17–60%**
Expected life	**3–5 years**	**3–5 years**
Risk free investment rate	**0.16–0.42%**	**0.10%**
Dividend yield	**6.1%**	**6.1%**

(ii) Total recognised expense

The total recognised expense relating to share-based payments in 2017 was £31m (2016: £26m) before tax, all of which related to equity settled share schemes. This is broken down between the group's plans as detailed below:

	2017 £m	2016 £m
Share bonus plan (SBP)	**17**	14
Performance share plan (PSP)	**9**	7
Employee share plan (ESP)	**3**	4
Savings related share option scheme (SAYE)	**2**	1
Total share-based payment expense	**31**	26

Additional financial information (continued)

36 Share-based payments (continued)

(iii) Outstanding share options

	SAYE Options 2017	Weighted average exercise price 2017 p	CSOP Options 2017	Weighted average exercise price 2017 p	SBP Options 2017	Weighted average exercise price 2017 p
Outstanding at 1 January	**14,803,696**	**185**	**3,897,089**	**246**	**393,574**	**–**
Granted during the year	**3,717,189**	**201**	**1,451,394**	**250**	**75,702**	**–**
Forfeited during the year	**(789,845)**	**199**	**–**	**–**	**–**	**–**
Exercised during the year	**(3,781,727)**	**169**	**(1,166,762)**	**212**	**(78,583)**	**–**
Expired during the year	**(1,345,171)**	**193**	**(217,781)**	**253**	**(32,082)**	**–**
Outstanding at 31 December	**12,604,142**	**193**	**3,963,940**	**257**	**358,611**	**–**
Exercisable at 31 December	**159,132**	**172**	**3,252**	**118**	**–**	**–**
Weighted average remaining contractual life (years)	**2**		**8**		**8**	

Exercised during the year includes 1,245,345 options, which were predominantly CSOP options linked to SBP which have been settled using employee scheme shares.

	SAYE Options 2016	Weighted average exercise price 2016 p	CSOP Options 2016	Weighted average exercise price 2016 p	SBP Options 2016	Weighted average exercise price 2016 p
Outstanding at 1 January	17,987,397	164	3,742,416	209	583,059	–
Granted during the year	8,007,594	188	1,545,711	243	184,627	–
Forfeited during the year	(4,382,100)	214	–	–	–	–
Exercised during the year	(5,867,986)	99	(696,558)	175	(71,370)	–
Expired during the year	(941,209)	193	(694,480)	193	(302,742)	–
Outstanding at 31 December	14,803,696	185	3,897,089	246	393,574	–
Exercisable at 31 December	206,114	111	3,252	118	–	–
Weighted average remaining contractual life (years)	3		8		8	

Exercised during the year includes 696,558 options which were predominantly CSOP options linked to SBP which have been settled using employee scheme shares.

(iv) Total options

Options over 16,926,693 shares (2016: 19,094,359 shares) are outstanding under CSOP, SAYE and SBP as at 31 December 2017. These options have a range of exercise prices between 0p and 257p (2016: 0p and 246p) and maximum remaining contractual life up to 2027 (2016: 2026).

Additional financial information (continued)

37 Share capital, share premium and employee scheme treasury shares

An equity instrument is any contract which evidences a residual interest in the net assets of an entity. It follows that a financial instrument is treated as equity if:

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on unfavourable terms; and
- the instrument is either a non-derivative which contains no contractual obligation to deliver a variable number of own equity instruments, or is a derivative which will be settled only by the group exchanging a fixed amount of cash, or other financial assets, for a fixed number of its own equity instruments.

Where any group entity purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to shareholders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to shareholders, net of any directly attributable incremental transaction costs and the related income tax effects. Shares held on behalf of employee share schemes are disclosed as such on the balance sheet.

(i) Share capital and share premium

Authorised share capital	2017 Number of shares	2017 £m	2016 Number of shares	2016 £m
At 31 December: ordinary shares of 2.5p each	**9,200,000,000**	**230**	9,200,000,000	230

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2017	**5,954,656,466**	**149**	**981**
Options exercised under share option schemes:			
– Savings related share option scheme	**3,781,727**	**–**	**7**
As at 31 December 2017	**5,958,438,193**	**149**	**988**

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2016	5,948,788,480	149	976
Options exercised under share option schemes:			
– Savings related share option scheme	5,867,986	–	5
As at 31 December 2016	5,954,656,466	149	981

There is one class of ordinary shares of 2.5p each. All shares issued carry equal voting rights.

The holders of the company's ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholder meetings of the company.

(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.

	2017 Number of shares	2017 £m	2016 Number of shares	2016 £m
As at 1 January	**21,433,142**	**30**	22,256,649	30
Shares purchased	**6,988,042**	**16**	4,574,152	10
Shares vested	**(5,145,639)**	**(6)**	(5,397,659)	(10)
As at 31 December	**23,275,545**	**40**	21,433,142	30

Additional financial information (continued)

38 Non-controlling interests

Non-controlling interests represent third party interests in direct equity investments as well as investments in private equity and property investment vehicles which are consolidated in the group's results.

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

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

39 Other liabilities

	2017 £m	2016 £m
Accruals	**344**	338
Reinsurers' share of deferred acquisition costs	**71**	80
Deferred income liabilities	**55**	70
Other	**147**	106
Total other liabilities[1]	**617**	594
Less liabilities classified as held for sale	**(54)**	
Other liabilities	**563**	594
Due within 12 months[2]	**484**	415
Due after 12 months[2]	**133**	179

1. Total other liabilities are presented gross of held for sale liabilities in 2017 and net of held for sale liabilities in 2016. Detailed disclosure relating to these held for sale items is included in Note 30.
2. The maturity analysis of the liabilities between less and more than 12 months is based on the Total other liabilities as at 31 December.

40 Related party transactions

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

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

(i) Key management personnel compensation

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

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

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

Additional financial information (continued)

(ii) Related party transactions

The group has the following related party transactions:

- Annuity contracts issued by Legal and General Assurance Society Limited (LGAS) for consideration of £161m (2016: £3m) purchased by the group's UK defined benefit pension schemes during the year, priced on an arm's length basis;
- Investments in venture capital, property and financial investments held via collective investment vehicles. All transactions between the group and these collective investment vehicles are on commercial terms which are no more favourable than those available to companies in general. The net investments into associate investment vehicles totalled £32m during the year (2016: £47m). The group received investment management fees of £3m during the year (2016: £2m). Distributions from these investment vehicles to the group amount to £17m (2016: £20m);
- Loans, including accrued interest, outstanding from CALA at 31 December 2017 of £71m (2016: £65m);
- The equity investment in Pemberton is now fully drawn at £18m. A commitment of £222m was previously made to Pemberton's inaugural European Mid-Market Debt Fund, of which £183m was drawn as at 31 December 2017. A commitment of £69m was also made to Pemberton's Mid-Market Debt Fund II, of which £12m was drawn as at 31 December 2017. In addition, a £50m commitment was previously made to the Pemberton U.K. Mid-Market Direct Lending Fund, of which £27m has been drawn at 31 December 2017;
- Loans outstanding from MediaCity at 31 December 2017 of £55m (2016: £55m);
- Preference shares outstanding from Thorpe Park at 31 December 2017 of £59m (2016: £18m);
- A 50/50 joint venture in Access Development Partnership, developing build to rent properties. LGC has a total commitment of £150m, of which £34m has been drawn at 31 December 2017;
- A 46% investment in Accelerated Digital Ventures, a venture investment company, for a total commitment of £34m, of which £17m has been drawn at 31 December 2017;
- Further contingent capital commitments of £1m for NTR Asset Management Europe DAC, with a total commitment of £5m. A commitment of £103m to the NTR Wind 1 Limited fund, of which £80m has been drawn at 31 December 2017; and
- SalaryFinance, an early-stage financial wellbeing fintech platform, closed a £40m funding round in September 2017, which was led by LGC and LGI.

41 Contingent liabilities, guarantees and indemnities

Provision for the liabilities arising under contracts with policyholders is based on certain assumptions. The variance between actual experience from that assumed may result in those liabilities differing from the provisions made for them. Liabilities may also arise in respect of claims relating to the interpretation of policyholder contracts, or the circumstances in which policyholders have entered into them. The extent of these liabilities is influenced by a number of factors including the actions and requirements of the PRA, FCA, ombudsman rulings, industry compensation schemes and court judgments.

Various group companies receive claims and become involved in actual or threatened litigation and regulatory issues from time to time. The relevant members of the group ensure that they make prudent provision as and when circumstances calling for such provision become clear, and that each has adequate capital and reserves to meet reasonably foreseeable eventualities. The provisions made are regularly reviewed. It is not possible to predict, with certainty, the extent and the timing of the financial impact of these claims, litigation or issues.

In 1975, Legal and General Assurance Society Limited (LGAS) was required by the Institute of London Underwriters (ILU) to execute the ILU form of guarantee in respect of policies issued through the ILU's Policy Signing Office on behalf of NRG Victory Reinsurance Company Ltd (Victory), a company which was then a subsidiary of LGAS. In 1990, Nederlandse Reassurantie Groep Holding NV (the assets and liabilities of which have since been assumed by Nederlandse Reassurantie Groep NV under a statutory merger in the Netherlands) acquired Victory and provided an indemnity to LGAS against any liability LGAS may have as a result of the ILU's requirement, and the ILU agreed that its requirement of LGAS would not apply to policies written or renewed after the acquisition. Nederlandse Reassurantie Groep NV is now owned by Columbia Insurance Company, a subsidiary of Berkshire Hathaway Inc. Whether LGAS has any liability as a result of the ILU's requirement and, if so, the amount of its potential liability is uncertain. LGAS has made no payment or provision in respect of this matter.

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

Additional financial information (continued)

42 Commitments

(i) Capital commitments

	2017 £m	2016[1] £m
Authorised and contracted commitments not provided for in respect of investment property development, payable after 31 December:		
– Long term business	**478**	410

(ii) Operating lease commitments

	2017 £m	2016 £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
– Not later than 1 year	**24**	28
– Later than 1 year and not later than 5 years	**88**	109
– Later than 5 years	**360**	395
Lease commitment payable	**472**	532
Future aggregate minimum sublease payments expected to be received under operating subleases	**83**	35
The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:		
– Not later than 1 year	**392**	366
– Later than 1 year and not later than 5 years	**1,445**	1,352
– Later than 5 years	**4,945**	4,368
Lease commitment receivable	**6,782**	6,086

1. The lease commitment payable balance as at 31 December 2016 has been restated from £337m to £532m to reflect the inclusion of previously omitted operating lease commitments in respect of various group properties.

The group leases offices and other premises under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

43 Post balance sheet events

Mature Savings

Risk transfer agreement

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

With-profits pension scheme contributions

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

Acquisitions

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

Additional financial information (continued)

44 Subsidiaries

The Companies Act 2006 requires disclosure of information about the group's subsidiaries, associates, joint ventures and other significant holdings. A complete list of the group's subsidiaries, associates, joint ventures and significant holdings in this context is provided in Notes 44 and 45.

Subsidiaries are those entities (including special purpose entities, mutual funds and unit trusts) over which the group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. Profits or losses of subsidiary undertakings sold or acquired during the year are included in the consolidated results up to the date of disposal or from the date of gaining control. The interests of parties, other than the group, in investment vehicles, such as unit trusts, are classified as liabilities and appear as 'Net asset value attributable to unit holders' in the Consolidated Balance Sheet. The basis by which subsidiaries are consolidated in the group financial statements is outlined in the basis of preparation (Note 1).

The particulars of the company's subsidiaries, mutual funds and partnerships that have been consolidated as at 31 December 2017 are listed below. The main territory of operation of subsidiaries incorporated in England and Wales is the UK. For overseas subsidiaries the principal country of operation is the same as the country of incorporation. All subsidiaries have a 31 December year end reporting date and are 100% owned, unless stated otherwise. The registered office of all subsidiaries in England and Wales is One Coleman Street, London EC2R 5AA, United Kingdom, and in Ireland is Dillon Eustace, 33 Sir John Rogerson's Quay, Dublin 2, Ireland, unless otherwise noted. All subsidiaries are held through intermediate holding companies unless noted that they are held direct by the company. Subsidiaries that are consolidated where the group owns less than 50% of the ordinary share capital, are consolidated based on an assessment of control normally arising from special rights attaching to the class of share owned, other contractual arrangements and factors such as the purpose of the investee, the nature of its relevant activities, voting rights (including potential voting rights) and substantive and protective rights.

The group reassesses the appropriateness of the consolidation of an investee whenever facts and circumstances indicate that there has been a change in the relationship between the group and the investee which affects control.

Additional financial information (continued)

44 Subsidiaries (continued)

Company name	Nature of business	Country of incorporation	Year end reporting date	% of equity shares held by the group
103 Wardour Street Retail Investment Company Limited	Investment vehicle	England and Wales	31-Dec	100.0
7T Developments Limited	Investment vehicle	England and Wales	31-Dec	100.0
Adam Kennedy Estate Agents Limited[1]	Real estate agencies	England and Wales	31-Dec	100.0
Antham 1 Limited	Investment vehicle	England and Wales	31-Dec	100.0
Chineham General Partner Limited	Dormant company	England and Wales	31-Dec	100.0
Chineham Shopping Centre Limited Partnership	Investment vehicle	England and Wales	31-Dec	100.0
City & Urban Developments Limited	Holding company	England and Wales	31-Dec	100.0
Ealing General Partner Limited	Investment vehicle	England and Wales	31-Dec	100.0
Ealing Shopping Centre Limited Partnership	Limited partnership	England and Wales	31-Dec	100.0
ECV Partnerships Tattenhall Limited	Limited partnership	England and Wales	31-Dec	100.0
ECV Partnerships Warwick Limited	Limited partnership	England and Wales	31-Dec	100.0
Gresham Street General Partner Limited	Investment vehicle	England and Wales	31-Dec	100.0
Gresham Street Limited Partnership	Limited partnership	England and Wales	31-Dec	100.0
Industrial Property Investment Fund	Investment vehicle	England and Wales	31-Dec	100.0
Investment Discounts On Line Limited	Insurance agents and brokers	England and Wales	31-Dec	100.0
IPIF Trade General Partner Limited	Dormant company	England and Wales	31-Dec	100.0
L&G European Equity Income Fund	Unit trust	England and Wales	31-Dec	100.0
Latchmore Park Nominee No.1 Limited	Non-trading company	England and Wales	31-Dec	100.0
Legal & General (Caerus) Limited	Institutional fund management	England and Wales	31-Dec	100.0
Legal & General (PMC Trustee) Limited	Dormant company	England and Wales	31-Dec	100.0
Legal & General (Portfolio Management Services) Limited	Institutional fund management	England and Wales	31-Dec	100.0
Legal & General (Portfolio Management Services) Nominees	Dormant company	England and Wales	31-Dec	100.0
Legal & General (Strategic Land) Limited	Holding company	England and Wales	31-Dec	100.0
Legal & General (Unit Trust Managers) Limited	Unit trust management	England and Wales	31-Dec	100.0
Legal & General (Unit Trust Managers) Nominees Limited	Non-trading company	England and Wales	31-Dec	100.0
Legal & General Capital Investments Limited[2]	Holding company	England and Wales	31-Dec	100.0
Legal & General Co Sec Limited[2]	Dormant company	England and Wales	31-Dec	100.0
Legal & General Development Assets Holdings Limited	Holding company	England and Wales	31-Dec	100.0
Legal & General Distribution Services Limited	Distribution company	England and Wales	31-Dec	100.0
Legal & General Employee Benefits Administration Limited	Non-trading company	England and Wales	31-Dec	100.0
Legal & General Estate Agencies Limited	Mortgage finance companies	England and Wales	31-Dec	100.0
Legal & General Finance PLC[2]	Treasury operations	England and Wales	31-Dec	100.0
Legal & General Financial Services Limited[1,2]	Holding company	England and Wales	31-Dec	100.0
Legal & General FX Structuring (SPV) Limited	SPV	England and Wales	31-Dec	100.0
Legal & General GP LLP	Development of building projects	England and Wales	31-Dec	100.0
Legal & General Grenfell Limited[1]	Dormant company	England and Wales	31-Dec	100.0
Legal & General Holdings No.2 Limited	Holding company	England and Wales	31-Dec	100.0
Legal & General Home Finance Administration Services Limited	Provision of services	England and Wales	31-Dec	100.0
Legal & General Home Finance Holding Company Limited	Holding company	England and Wales	31-Dec	100.0
Legal & General Home Finance Limited	Mortgage finance companies	England and Wales	31-Dec	100.0
Legal & General Homes (Services Co) Limited	Provision of services	England and Wales	31-Dec	100.0
Legal & General Homes Communities (Aborfield) Limited	Development of building projects	England and Wales	31-Dec	100.0
Legal & General Homes Communities (Crowthorne) Limited	Development of building projects	England and Wales	31-Dec	100.0
Legal & General Homes Communities (Shrivenham) Limited	Development of building projects	England and Wales	31-Dec	100.0
Legal & General Homes Communities Limited	Development of building projects	England and Wales	31-Dec	100.0
Legal & General Homes Holdings Limited	Holding company	England and Wales	31-Dec	100.0
Legal & General Homes Modular Limited	Development of modular housing	England and Wales	31-Dec	100.0
Legal & General Insurance Holdings Limited	Holding company	England and Wales	31-Dec	100.0
Legal & General Insurance Holdings No.2 Limited[2]	Holding company	England and Wales	31-Dec	100.0
Legal & General Insurance Limited	General insurance	England and Wales	31-Dec	100.0

1. Placed into Members' Voluntary Liquidation (MVL) during 2017. Liquidators registered office: 30 Finsbury Square, London, EC2P 2YU.
2. Directly held by Legal & General Group Plc. All other subsidiaries are held through intermediate holding companies.

Additional financial information (continued)

Company name	Nature of business	Country of incorporation	Year end reporting date	% of equity shares held by the group
Legal & General International (Holdings) Limited	Holding company	England and Wales	31-Dec	100.0
Legal & General International Limited	Holding company	England and Wales	31-Dec	100.0
Legal & General Investment Management (Holdings) Limited[2]	Holding company	England and Wales	31-Dec	100.0
Legal & General Investment Management Funds ICVC	Open ended investment company	England and Wales	31-Dec	100.0
Legal & General Investment Management Limited	Institutional fund management	England and Wales	31-Dec	100.0
Legal & General Kingston upon Hull Limited[1]	Dormant company	England and Wales	31-Dec	100.0
Legal & General Leisure Fund Trustee Limited	Investment vehicle	England and Wales	31-Dec	100.0
Legal & General Life Fund Limited Partnership	Limited partnership	England and Wales	31-Dec	100.0
Legal & General LTM Structuring (SPV) Limited	SPV	England and Wales	31-Dec	100.0
Legal & General Middle East Limited[2]	Holding company	England and Wales	31-Dec	100.0
Legal & General Overseas Holdings Limited	Holding company	England and Wales	31-Dec	100.0
Legal & General Overseas Operations Limited[2]	Holding company	England and Wales	31-Dec	100.0
Legal & General Partnership Holdings Limited[2]	Holding company	England and Wales	31-Dec	100.0
Legal & General Partnership Services Limited	Provision of services	England and Wales	31-Dec	100.0
Legal & General Pension Fund Trustee Limited	Dormant company	England and Wales	31-Dec	100.0
Legal & General Pension Scheme Trustee Limited	Dormant company	England and Wales	31-Dec	100.0
Legal & General Pensions Limited	SPV	England and Wales	31-Dec	100.0
Legal & General Property Limited	Development of building projects	England and Wales	31-Dec	100.0
Legal & General Property Partners (Industrial Fund) Limited	Development of building projects	England and Wales	31-Dec	100.0
Legal & General Property Partners (Industrial) Nominees Limited	Dormant company	England and Wales	31-Dec	100.0
Legal & General Property Partners (IPIF GP) LLP	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General Property Partners (Leisure GP) LLP	Fund general partner	England and Wales	31-Dec	100.0
Legal & General Property Partners (Leisure) Limited	Development of building projects	England and Wales	31-Dec	100.0
Legal & General Property Partners (Life Fund) Limited	Investment vehicle	England and Wales	31-Dec	100.0
Legal & General Property Partners (Life Fund) Nominee Limited	Investment vehicle	England and Wales	31-Dec	100.0
Legal & General Property Partners (UK PIF Geared) Limited	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General Property Partners (UK PIF) Limited	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General Property Partners (UKPIF Geared Two) Limited	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General Property Partners (UKPIF Two) Limited	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General Re Holdings Limited[2]	Holding company	England and Wales	31-Dec	100.0
Legal & General Resources Limited[2]	Provision of services	England and Wales	31-Dec	100.0
Legal & General Retail Investments (Holdings) Limited[2]	Holding company	England and Wales	31-Dec	100.0
Legal & General Senior Living Limited	Holding company	England and Wales	31-Dec	100.0
Legal & General Share Scheme Trustees Limited[2]	Dormant company	England and Wales	31-Dec	100.0
Legal & General Surveying Services Limited	Provision of services	England and Wales	31-Dec	100.0
Legal & General Tattenhall Limited	Development of building projects	England and Wales	31-Dec	100.0
Legal & General Trustees Limited	Fund trustee	England and Wales	31-Dec	100.0
Legal & General UK PIF Two GP LLP	Investment in UK real estate	England and Wales	31-Dec	100.0
Legal & General Warwick Gates Limited	Development of building projects	England and Wales	31-Dec	100.0
Legal and General Assurance (Pensions Management) Limited	Long term business	England and Wales	31-Dec	100.0
Legal and General Assurance Society Limited	Long term and general insurance	England and Wales	31-Dec	100.0
LGIM Commercial Lending Limited	Commercial lending	England and Wales	31-Dec	100.0
LGIM Corporate Director Limited	Non-trading company	England and Wales	31-Dec	100.0
LGIM International Limited	Institutional fund management	England and Wales	31-Dec	100.0
LGIM Real Assets (Operator) Limited	Development of building projects	England and Wales	31-Dec	100.0
LGIM Real Assets Limited	Development of building projects	England and Wales	31-Dec	100.0
LGP Newco Limited	Dormant company	England and Wales	31-Dec	100.0
LGPL Cornwall Limited	Investment vehicle	England and Wales	31-Dec	100.0
LGV Capital Limited	Venture and development capital	England and Wales	31-Dec	100.0
LGV Capital Partners Limited	Venture and development capital	England and Wales	31-Dec	100.0
ND7 Limited	Development of building projects	England and Wales	31-Dec	100.0

1. Placed into MVL during 2017. Liquidators registered office: 30 Finsbury Square, London, EC2P 2YU.
2. Directly held by Legal & General Group Plc. All other subsidiaries are held through intermediate holding companies.

Additional financial information (continued)

44 Subsidiaries (continued)

Company name	Nature of business	Country of incorporation	Year end reporting date	% of equity shares held by the group
New Life Mortgage Funding Limited	Mortgage finance companies	England and Wales	31-Dec	100.0
New Life Reversions Limited[1]	Dormant company	England and Wales	31-Dec	100.0
NLR Nominee No.1 Limited[1]	Dormant company	England and Wales	31-Dec	100.0
NLR Nominee No.2 Limited[1]	Dormant company	England and Wales	31-Dec	100.0
Northampton General Partner Limited	Investment vehicle	England and Wales	31-Dec	100.0
Northampton Shopping Centre Limited Partnership	Limited partnership	England and Wales	31-Dec	100.0
NSC Building A Limited	Real estate trading	England and Wales	31-Dec	100.0
NSC Building B Limited	Real estate trading	England and Wales	31-Dec	100.0
Old Cornwall Limited	Investment vehicle	England and Wales	31-Dec	100.0
Partnership Nominee Limited	Dormant company	England and Wales	31-Dec	100.0
Performance Retail (General Partner) Limited	Development of building projects	England and Wales	31-Dec	100.0
Performance Retail (Nominee) Limited	Dormant company	England and Wales	31-Dec	100.0
Rackhams Birmingham Limited	Investment vehicle	England and Wales	31-Dec	100.0
Real Income Builder	Authorised contractual scheme	England and Wales	31-Dec	100.0
Senior Living (Bramshott Place) Limited	Dormant company	England and Wales	31-Dec	100.0
Senior Living (Durrants) Limited	Dormant company	England and Wales	31-Dec	100.0
Senior Living (Exeter) Limited	Dormant company	England and Wales	31-Dec	100.0
Senior Living (Ledian Farm) Limited	Dormant company	England and Wales	31-Dec	100.0
Senior Living Finance 1 Limited	Dormant company	England and Wales	31-Dec	100.0
Senior Living Medici Holdco Limited	Dormant company	England and Wales	31-Dec	100.0
Senior Living Medici Limited	Dormant company	England and Wales	31-Dec	100.0
Synergy Gracechurch Limited	Investment vehicle	England and Wales	31-Dec	100.0
Tattenhall Care Village LLP	Trading company	England and Wales	31-Dec	100.0
Terminus Road (Nominee 1) Limited	Dormant company	England and Wales	31-Dec	100.0
Terminus Road (Nominee 2) Limited	Dormant company	England and Wales	31-Dec	100.0
The Pathe Building Management Company Limited	Investment vehicle	England and Wales	31-Dec	100.0
Warwick Gates LLP	Trading company	England and Wales	31-Dec	100.0
Whitegates (Holdings) Limited	Dormant company	England and Wales	31-Dec	100.0
Whitegates (Tyne & Wear) Limited[1]	Dormant company	England and Wales	31-Dec	100.0
William Parker and Son (Reading) Limited[1]	Real estate agencies	England and Wales	31-Dec	100.0
L&G Real Capital Builder Fund	Unit trust	England and Wales	31-Dec	99.9
L&G Multi-Asset Target Return Fund	Unit trust	England and Wales	14-Apr	99.7
LGV 7 Private Equity Fund LP	Private equity	England and Wales	31-Dec	99.7
L&G Real Income Builder Fund	Unit trust	England and Wales	31-Dec	95.8
L&G Cash Trust	Unit trust	England and Wales	5-Feb	92.9
Legal & General Growth Trust	Unit trust	England and Wales	15-May	90.1
LGIM Global Corporate Bond Fund	Open ended investment company	England and Wales	31-Dec	73.6
Legal & General UK Special Situations Trust	Unit trust	England and Wales	14-Sep	68.2
L&G Global Real Estate Dividend Index Fund	Unit trust	England and Wales	20-Apr	65.2
Legal & General European Trust	Unit trust	England and Wales	28-Jul	64.9
Legal & General Authorised Contractual Scheme	Authorised contractual scheme	England and Wales	31-Dec	64.8
Legal & General UK Smaller Companies Trust	Unit trust	England and Wales	18-Jun	63.8
L&G UK Alpha Trust	Unit trust	England and Wales	18-Jun	57.9
Legal & General High Income Trust	Unit trust	England and Wales	5-Sep	57.9
L&G Mixed Investment 0-20% Fund	Unit trust	England and Wales	31-Jul	54.7
Legal & General Global Emerging Market Index Fund	Unit trust	England and Wales	31-Jul	50.9
L&G Japan Index Trust	Unit trust	England and Wales	24-Oct	50.8
Legal & General European Index Trust	Unit trust	England and Wales	31-Jul	50.3
Performance Retail Limited Partnership	Limited partnership	England and Wales	31-Dec	50.1

1. Placed into MVL during 2017. Liquidators registered office: 30 Finsbury Square, London, EC2P 2YU.

Additional financial information (continued)

Company name	Nature of business	Country of incorporation	Year end reporting date	% of equity shares held by the group
Thorpe Park Developments Limited[3]	Property development company	England and Wales	31-Dec	50.0
Thorpe Park Holdings Limited[3]	Holding company	England and Wales	31-Dec	50.0
TP 2005 Limited[3]	Dormant company	England and Wales	29-Mar	50.0
TP Property Services Limited[3]	Property services	England and Wales	31-Mar	50.0
L&G Multi Manager Balanced Trust	Unit trust	England and Wales	15-Jan	49.8
L&G UK Mid Cap Index Fund	Unit trust	England and Wales	31-Dec	45.0
Legal & General Emerging Markets Government Bond (US$) Index Fund	Unit trust	England and Wales	10-Nov	43.3
L&G Ethical Trust	Unit trust	England and Wales	12-Dec	42.5
L&G US Index Trust	Unit trust	England and Wales	5-Dec	38.8
Legal & General Pacific Index Trust	Unit trust	England and Wales	25-Mar	38.3
L&G Fixed Interest Trust	Unit trust	England and Wales	5-Sep	37.9
L&G Dynamic Bond Trust	Unit trust	England and Wales	5-Sep	35.2
L&G Emerging Markets Government Bond (Local Currency) Index Fund	Unit trust	England and Wales	20-Apr	34.7
Legal & General UK Equity Income Fund	Unit trust	England and Wales	24-Jan	24.9
L&G Multi-Index Income 6 Fund	Unit trust	England and Wales	15-Aug	23.0
Legal & General Asian Income Trust	Unit trust	England and Wales	10-Sep	22.3
L&G Multi Manager Income Trust	Unit trust	England and Wales	15-Jan	20.5
Sapphire Campus Management Company Limited	Investment vehicle	England and Wales	31-Dec	9.5
LGV Capital Partners (GP) LLP[4]	Dormant company	Scotland	31-Dec	100.0
LGV Capital Partners (Scotland) Limited[4]	Venture and development capital	Scotland	31-Dec	100.0
Sauchiehall Trustee Limited[5]	Investment vehicle	Scotland	31-Dec	100.0
UK PIF FGP LLP[4]	Fund general partner	Scotland	31-Dec	100.0
Lagoon 3	Limited liability company	Ireland	31-Dec	100.0
Lagoon 4	Limited liability company	Ireland	31-Dec	100.0
Lagoon Finance Limited	Limited liability company	Ireland	31-Dec	100.0
Legal & General Fund Managers (Ireland) Limited[6]	Institutional fund management	Ireland	31-Dec	100.0
Legal & General ICAV	Open Ended Umbrella Investment Company	Ireland	31-Dec	100.0
Legal & General UCITS Managers (Ireland) Limited	Institutional fund management	Ireland	31-Dec	100.0
LGIM (Ireland) Risk Management Solutions Plc	Management company	Ireland	31-Dec	100.0
LGIM 2020 FIXED FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2020 INFLATION FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2020 REAL FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2024 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2025 FIXED FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2025 INFLATION FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2025 REAL FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2030 FIXED FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2030 INFLATION FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2030 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2030 REAL FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2034 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2035 FIXED FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2035 INFLATION FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2035 REAL FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2037 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2038 LEVERAGED GILT FUND	QIAIF[7]	Ireland	31-Dec	100.0

3. Registered office: Europa House, 20 Esplanade, Scarborough, North Yorkshire, YO11 2AQ.
4. Registered office: 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ.
5. Registered office: Eversheds LLP, 3-5 Melville Street, Edinburgh, EH3 7PE.
6. Registered office: Grand Canal House, 1 Upper Grand Canal Street, Dublin 4, Ireland.
7. Qualifying Investor Alternative Investment Fund.

Additional financial information (continued)

44 Subsidiaries (continued)

Company name	Nature of business	Country of incorporation	Year end reporting date	% of equity shares held by the group
LGIM 2040 FIXED FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2040 INFLATION FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2040 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2040 REAL FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2042 LEVERAGED GILT FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2042 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2045 FIXED FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2045 LEVERAGED GILT FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2045 REAL FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2047 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2049 LEVERAGED GILT FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2050 FIXED FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2050 INFLATION FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2050 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2050 REAL FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2055 FIXED FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2055 LEVERAGED GILT FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2055 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2055 REAL FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2060 FIXED FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2060 INFLATION FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2060 LEVERAGED GILT FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2060 REAL FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2062 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2068 LEVERAGED GILT FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM 2068 Leveraged Index Linked Gilt Fund	QIAIF[7]	Ireland	31-Dec	100.0
LGIM ACTIVE GILTS ALL STOCKS FUND AH	QIAIF[7]	Ireland	31-Dec	100.0
LGIM Bespoke Active Credit Fund AM	QIAIF[7]	Ireland	31-Dec	100.0
LGIM Bespoke Active Credit Fund BP	QIAIF[7]	Ireland	31-Dec	100.0
LGIM Bespoke Active Credit Fund BS	QIAIF[7]	Ireland	31-Dec	100.0
LGIM EURO 2030 REAL FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM FIXED LONG DURATION FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM FIXED SHORT DURATION FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND A	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AC	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AK	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AN	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AO	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AP	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AR	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AS	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AU	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AV	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND AZ	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND B	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND BA	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND BB	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND BF	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND BH	QIAIF[7]	Ireland	31-Dec	100.0

7. Qualifying Investor Alternative Investment Fund.

Additional financial information (continued)

Company name	Nature of business	Country of incorporation	Year end reporting date	% of equity shares held by the group
LGIM HEDGING – FUND BJ	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND C	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND DC	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND H	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND I	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND J	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND L	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND M	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND O	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND P	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND Q	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND R	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND V	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND W	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND WH	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND WS	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND WT	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING – FUND ZZ	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING FUND AE	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING FUND AI	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING FUND BI	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING FUND CI	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING FUND CJ	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING FUND Z	QIAIF[7]	Ireland	31-Dec	100.0
LGIM HEDGING-FUND AT	QIAIF[7]	Ireland	31-Dec	100.0
LGIM LEVERAGED GILT PLUS FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM LEVERAGED INDEX LINKED GILT PLUS FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM Liquidity Funds plc	Open Ended Umbrella Investment Company	Ireland	31-Dec	100.0
LGIM Managers (Europe) Limited	QIAIF[7]	Ireland	31-Dec	100.0
LGIM REAL LONG DURATION FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM REAL SHORT DURATION FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM SOLUTIONS FUND CA	QIAIF[7]	Ireland	31-Dec	100.0
LGIM SOLUTIONS FUND CB	QIAIF[7]	Ireland	31-Dec	100.0
LGIM SOLUTIONS FUND CU	QIAIF[7]	Ireland	31-Dec	100.0
LGIM SYNTHETIC LEVERAGED CREDIT FUND	QIAIF[7]	Ireland	31-Dec	100.0
LGIM UK Smaller Companies Alpha Fund plc[8]	QIAIF[7]	Ireland	31-Dec	100.0
Sterling Liquidity Plus Fund	Open Ended Umbrella Investment Company	Ireland	31-Dec	96.3
L&G Diversified USD Fund	Irish Collective Asset-management Vehicle	Ireland	31-Dec	95.4
L&G Asia Pacific ex Japan Equity Index Fund	Irish Collective Asset-management Vehicle	Ireland	31-Dec	71.7
STERLING LIQUIDITY FUND	Open Ended Umbrella Investment Company	Ireland	31-Dec	53.4
L&G North American Equity Index Fund	Irish Collective Asset-management Vehicle	Ireland	31-Dec	48.0
L&G Europe ex UK Equity Index Fund	Open Ended Umbrella Investment Company	Ireland	31-Dec	44.1
EURO LIQUIDITY FUND	Open Ended Umbrella Investment Company	Ireland	31-Dec	43.8
US DOLLAR LIQUIDITY FUND	Open Ended Umbrella Investment Company	Ireland	31-Dec	40.4

7. Qualifying Investor Alternative Investment Fund.
8. Registered office: HSBC House, Harcourt Centre, Harcourt Street, Dublin 2, Ireland.

Additional financial information (continued)

44 Subsidiaries (continued)

Company name	Nature of business	Country of incorporation	Year end reporting date	% of equity shares held by the group
L&G Global Small Cap Equity Index Fund	Irish Collective Asset-management Vehicle	Ireland	31-Dec	33.5
L&G Emerging Markets Equity Index Fund	Irish Collective Asset-management Vehicle	Ireland	31-Dec	24.5
Atlantic Quay Three Limited[9]	Investment vehicle	Jersey	31-Dec	100.0
Bucklersbury House Unit Trust[10]	Unit trust	Jersey	31-Dec	100.0
Canary Property Unit Trust[10]	Unit trust	Jersey	31-Dec	100.0
Chineham Shopping Centre Unit Trust[11]	Unit trust	Jersey	31-Dec	100.0
Ealing Shopping Centre Unit Trust[10]	Unit trust	Jersey	31-Dec	100.0
Gracechurch Property Limited[10]	Investment vehicle	Jersey	31-Dec	100.0
Gresham Street Unit Trust[11]	Unit trust	Jersey	31-Dec	100.0
Kingsland Industrial Limited[12]	Investment vehicle	Jersey	31-Dec	100.0
Northampton Shopping Centre Unit Trust[11]	Unit trust	Jersey	31-Dec	100.0
Procession House One Unit Trust[13]	Unit trust	Jersey	31-Dec	100.0
SCBD S6 Trust[10]	Unit trust	Jersey	31-Dec	100.0
Senior Living (Liphook) Limited[14]	Investment vehicle	Jersey	31-Dec	100.0
Synergy Gracechurch Holdings Limited[10]	Investment vehicle	Jersey	31-Dec	100.0
Vantage General Partner Limited[15]	Fund general partner	Jersey	31-Dec	100.0
Cardiff Central One Property Unit Trust[15]	Unit trust	Jersey	31-Dec	99.0
Performance Retail Unit Trust[11]	Unit trust	Jersey	31-Dec	50.1
First British Bermuda Reinsurance Company II Limited[16]	Reinsurance	Bermuda	31-Dec	100.0
Legal & General Reinsurance Company Limited[17]	Reinsurance	Bermuda	31-Dec	100.0
Legal & General Resources Bermuda Limited[17]	Provision of services	Bermuda	31-Dec	100.0
Legal & General SAC Limited[17]	Reinsurance	Bermuda	31-Dec	100.0
Legal & General Investment Management Asia Limited[18]	Institutional fund management	Hong Kong	31-Dec	100.0
Legal & General Investment Management Japan KK[19]	Investment management	Japan	31-Dec	100.0
L&G Absolute Return Bond Plus Fund[20]	Société d'investissement à capital variable	Luxembourg	31-Dec	100.0
L&G Buy & Maintain Credit Fund[20]	Société d'investissement à capital variable	Luxembourg	31-Dec	100.0
L&G Commodity Index Fund[20]	Société d'investissement à capital variable	Luxembourg	31-Dec	100.0
L&G Emerging Markets Bond[20]	Société d'investissement à capital variable	Luxembourg	31-Dec	100.0
L&G Euro High Alpha Corporate Bond Fund[20]	Société d'investissement à capital variable	Luxembourg	31-Dec	100.0
L&G Multi Strategy Credit Fund[20]	Société d'investissement à capital variable	Luxembourg	31-Dec	100.0
L&G UK Core Plus Bond Fund[20]	Société d'investissement à capital variable	Luxembourg	31-Dec	100.0
Legal & General SICAV[20]	Umbrella company for sub funds	Luxembourg	31-Dec	100.0
One Piccadilly Gardens s.a.r.l.[21]	Luxembourg s.a.r.l.	Luxembourg	31-Dec	100.0
L&G Absolute Return Bond Fund[20]	Société d'investissement à capital variable	Luxembourg	31-Dec	93.0
L&G Emerging Markets Short Duration Bond Fund[20]	Société d'investissement à capital variable	Luxembourg	31-Dec	82.6

9. Registered office: 12 Castle Street, St Helier, Jersey, JE2 3RT.
10. Registered office: Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST.
11. Registered office: 47 Esplanade, St Helier, Jersey, JE1 0BD.
12. Registered office: Third Floor, Kensington Chambers, 46/50 Kensington Place, St Helier, Jersey, JE1 1ET.
13. Registered office: 44 Esplanade, St Helier, Jersey, JE4 9WG.
14. Registered office: One, The Esplanade, St Helier, Jersey, JE2 3QA.
15. Registered office: 11–15 Seaton Place, St Helier, Jersey, JE4 0QH.
16. Registered office: Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda.
17. Registered office: 19 Par-la-Ville Road, Hamilton, HM11, Bermuda.
18. Registered office: Room 902, 9th Floor, Chinachem Tower, 34–37 Connaught Road Central, Central, Hong Kong.
19. Registered office: 22F Toranomon Kotohira Tower, 1-2-8 Toranomon, Minato-ku, Tokyo 105-0001, Japan.
20. Registered office: 2–4 Rue Eugène Ruppert, L-2453 Luxembourg.
21. Registered office: 68–70 Boulevard de la Petrusse, 2320 Luxembourg.

Additional financial information (continued)

Company name	Nature of business	Country of incorporation	Year end reporting date	% of equity shares held by the group
Banner Life Insurance Company[22]	Long term business	USA	31-Dec	100.0
First British Vermont Reinsurance Company II[23]	Reinsurance	USA	31-Dec	100.0
Global Index Advisors Inc.[24]	Investment advisory	USA	31-Dec	100.0
Legal & General America Inc.[25]	Holding company	USA	31-Dec	100.0
Legal & General Investment Management America Inc[25]	Institutional fund management	USA	31-Dec	100.0
Legal & General Investment Management United States (Holdings), Inc[25]	Holding company	USA	31-Dec	100.0
William Penn Life Insurance Company of New York Inc[26]	Long term business	USA	31-Dec	100.0

22. Registered office: 1701 Research Boulevard, Rockville, MD 20850, United States.
23. Registered office: Marsh Management Services, 100 Bank Street, Suite 610, Burlington, VT 05402, United States.
24. Registered office: 29 North Park Square, Ste.201, Marietta, GA 30060, United States.
25. Registered office: Corporation Trust Centre, 1209 Orange Street, Willmington, New Castle, DE 19801, United States.
26. Registered office: 100 Quentin Roosevelt Blvd, PO Box 519, Garden City New York 11530, United States.

45 Associates and joint ventures

Associates are entities over which the group has significant influence but which it does not control. It is presumed that the group has significant influence where it has between 20% and 50% of the voting rights in the investee unless indicated otherwise. Joint ventures are entities where the group and other parties undertake an activity which is subject to joint control. The basis by which associates and joint ventures are consolidated in the group financial statements is outlined in the basis of preparation (Note 1).

The group has the following significant holdings classified as associates and joint ventures which have been included as financial investments, investments in associates or investments in joint ventures. The gross assets of these companies are in part funded by borrowings which are non recourse to the group.

Company name	Country of incorporation	Accounting treatment	Investment type	Year end reporting date	% of equity shares held by the group
Bracknell Property Unit Trust[1,2]	Jersey	FVTPL	Joint Venture	31-Mar	50.9
245 Hammersmith Road Limited Partnership[3]	England and Wales	FVTPL	Joint Venture	31-Dec	50.0
Access Development Limited Partnership[4]	Jersey	Equity method	Joint Venture	31-Dec	50.0
Central St Giles Unit Trust[5]	Jersey	FVTPL	Joint Venture	31-Mar	50.0
Peel Holdings (Media) Limited[6]	England and Wales	Equity method	Joint Venture	31-Mar	50.0
Inspired Villages Group Limited[3]	England and Wales	FVTPL	Associate	31-Dec	49.0
Haut Investment Limited[7]	England and Wales	Equity method	Joint Venture	30-Jun	47.8
Accelerated Digital Ventures Limited[8]	England and Wales	FVTPL	Associate	31-Dec	46.0
English Cities Fund[3]	England and Wales	FVTPL	Associate	31-Mar	35.4
Air Energi Group Holdings Limited[9]	England and Wales	FVTPL	Associate	31-Dec	29.0
IndiaFirst Life Insurance Company Limited[10]	India	Equity method	Joint Venture	31-Mar	26.0
NTR Wind Management Limited[11]	Ireland	FVTPL	Associate	31-Mar	25.0
Leisure Fund Unit Trust[12]	Jersey	FVTPL	Associate	31-Dec	21.2
Sennen Finance Designated Activity Company[13,14]	Ireland	Equity method	Joint Venture	30-Jun	–

1. The Bracknell Property Unit Trust is not consolidated as the group does not have the power to control the entity.
2. Registered office: 40 Esplanade, St Helier, Jersey, JE2 3QB.
3. Registered office: One Coleman Street, London, EC2R 5AA.
4. Registered office: 11–15 Seaton Place, St Helier, Jersey, JE4 0QH.
5. Registered office: Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST.
6. Registered office: Peel Dome Intu Trafford Centre, Traffordcity, Manchester, United Kingdom, M17 8PL.
7. Registered office: 54 Portland Place, London, United Kingdom, W1B 1DY.
8. Registered office: Maybrook House 5th Floor, 27 Grainger Street, Newcastle Upon Tyne, England, NE1 5JE.
9. Registered office: Delphian House 4th Floor, Riverside New Bailey Street, Manchester, Greater Manchester, M3 5FS.
10. Registered office: 301, B Wing, The Qube, Infinity Park, Dindoshi Filmcity Road, Malad East, Mumbai, 400 097, India.
11. Registered office: Burton Court, Burton Hall Drive, Sandyford, Dublin 18, Ireland.
12. Registered office: 28 Esplanade, St Helier, Jersey, JE2 3QA.
13. Registered office: 1–2 Victoria Buildings, Haddington Road, Dublin 4, D04 XN32, Ireland.
14. The company is subject to joint control by the group and other parties by means of contractual arrangements or bases other than voting or similar rights. As such, it also meets the definition of a structured entity. Refer to Note 46 for further details on consolidated and unconsolidated structured entities.

Additional financial information (continued)

45 Associates and joint ventures (continued)

(i) Joint ventures

Summarised financial information for joint ventures accounted for under the equity method are shown below:

Joint ventures	Equity method 2017 £m	Equity method 2016 £m
Current assets	**1,085**	903
Non-current assets	**1,644**	1,448
Current liabilities	**422**	279
Non-current liabilities	**1,639**	1,526
Revenue	**1,190**	1,084
Profit from continuing operations	**126**	79
Total comprehensive income	**126**	79

The joint ventures have no significant contingent liabilities to which the group is exposed. The group has no commitments to provide funding to joint ventures.

(ii) Other significant holdings

The group has the following other significant holdings which have been included as financial investments.

Company name	Country of incorporation	Territory	Year end reporting date	% of equity shares held by the group
Mithras Investment Trust[1]	England & Wales	UK	31-Dec	27.9
Bishopsgate Long Term Property Limited Partnership[2]	Jersey	Jersey	31-Dec	25.0

1. The net asset value at 31 December 2017 was £15.5m (2016: £31.5m) and the registered office is 1 Northumberland Avenue, Trafalgar Square, London, WC2N 5BW.
2. The net asset value at 31 December 2017 was £147.7m (2016: £231m) and the registered office is 12 Castle Street, St Helier, Jersey, JE2 3RT.

46 Interests in structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominating factor in deciding who controls the entity, such as when voting rights might relate to administrative tasks only and the relevant activities are directed by means of contractual arrangement. The group has interests in investment vehicles which, depending upon their status, are classified as either consolidated or unconsolidated structured entities as described below:

- Debt securities, consisting of traditional asset backed securities, together with securitisation and debentures and Collateralised Debt Obligations (CDOs);
- Investment funds, largely being unit trusts;
- Specialised investment vehicles, analysed between Irish Collective Asset-management Vehicles (ICAVs), Open Ended Investment Companies (OEICs), Sociétés d'Investissement à Capital Variables (SICAVs), Specialised Investment Funds (SIFs) and property limited partnerships.

All of the group's holdings in the above vehicles are subject to the terms and conditions of the respective investment vehicle's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investment vehicles. The investment manager makes investment decisions after extensive due diligence of the underlying investment vehicle, including consideration of its strategy and the overall quality of the underlying investment vehicle's manager.

All of the investment vehicles in the investment portfolio are managed by portfolio managers who are compensated by the respective investment vehicles for their services. Such compensation generally consists of an asset based fee and a performance related incentive fee, and is reflected in the valuation of the investment vehicles.

(a) Interests in consolidated structured entities

The group has determined that where it has control over an investment vehicle, that investment is a consolidated structured entity. The group has not provided, and has no intention to provide, financial or other support to any other structured entities which it does not consolidate.

Additional financial information (continued)

(b) Interests in unconsolidated structured entities

As part of its investment activities, the group also invests in unconsolidated structured entities. As at 31 December 2017, the group's interest in such entities reflected on the group's Consolidated Balance Sheet and classified as financial investments held at fair value through profit or loss was £11,800m (2016: £10,112m). A summary of the group's interests in unconsolidated structured entities is provided below:

	Financial investments 2017 £m	Financial investments 2016[1] £m
Debt securities		
Analysed as:		
Asset backed securities	**2,383**	2,179
Securitisations and debentures	**125**	843
CDOs	**145**	120
Investment funds		
Analysed as:		
Unit trusts	**6,439**	3,855
Property limited partnerships	**376**	–
Exchange traded funds	**149**	947
Specialised investment vehicles		
Analysed as:		
ICAVs	**6**	–
OEICs	**1,892**	1,875
SICAVs	**84**	89
SIFs	**4**	4
Property limited partnerships	**197**	200
Total	**11,800**	10,112

1. In the prior year, the interests in asset backed securities and securitisations and debentures at 31 December 2016 included interests in debt securities that were not unconsolidated structured entities. These balances have been restated, resulting in a reduction in interests in unconsolidated structured entities of £20,434m at 31 December 2016. This restatement has no impact on the total value of financial investments on the group's Consolidated Balance Sheet at 31 December 2016.

Management fees received for investments that the group manages also represent interests in unconsolidated structured entities, and the group always maintains an interest in those funds which it manages. Where the group does not manage the investments, its maximum exposure to loss is the carrying amount in the group Consolidated Balance Sheet. Where the group does manage these investments, the maximum exposure is the underlying balance sheet value, together with future management fees.

The table below shows the assets under management (AUM) of those structured entities which the group manages, together with investment management fees received from external parties.

	AUM 2017 £m	Investment management fees 2017 £m	AUM 2016 £m	Investment management fees 2016 £m
Investment funds	**42,063**	**129**	30,559	101
Specialised investment vehicles				
Analysed as:				
OEICs	**1,085**	**3**	929	3
SICAVs	**651**	**1**	653	1
Property limited partnerships	**3,266**	**11**	3,303	12
Other	**109**	**–**	–	–
Total	**47,174**	**144**	35,444	117

The group does not sponsor any of the above entities. The group has not provided, and has no intention to provide, financial or other support to any other structured entities which it does not consolidate.

In addition to the above, the group has an exposure of £228m (2016: £nil) related to special purpose vehicles classified as joint ventures and accounted for under the equity method, with a carrying value on the group Consolidated Balance Sheet as at 31 December 2017 of £nil (2016: £nil).

Company financial statements

Company Balance Sheet

As at 31 December 2017	Notes	2017 £m	2016 £m
Non-current assets			
Investments in subsidiaries	7	**7,717**	7,252
Loans to subsidiaries	7	**720**	19
Current assets			
Receivables	8	**1,612**	1,411
Other financial investments		**95**	19
Cash and cash equivalents		**2**	2
Total assets		**10,146**	8,703
Non-current liabilities			
Payables: amounts falling due after more than one year	9	**3,501**	3,117
Current liabilities			
Payables: amounts falling due within one year	10	**150**	115
Derivative liabilities	11	**119**	1
Total liabilities		**3,770**	3,233
Net assets		**6,376**	5,470
Equity			
Share capital	13	**149**	149
Share premium		**988**	981
Revaluation reserve		**2,459**	2,459
Capital redemption and other reserves		**77**	77
Retained earnings – balance brought forward		**1,804**	1,919
Retained earnings – profit for the year		**1,771**	715
Retained earnings – dividend paid		**(872)**	(830)
Total equity		**6,376**	5,470

The notes on pages 224 to 230 form an integral part of these financial statements.

The financial statements on pages 222 to 230 were approved by the directors on 6 March 2018 and were signed on their behalf by:

Sir John Kingman
Chairman

Nigel Wilson
Group Chief Executive

Stuart Jeffrey Davies
Group Chief Financial Officer

Company financial statements (continued)

Company Statement of Changes in Equity

For the year ended 31 December 2017	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 2017	**149**	**981**	**17**	**–**	**60**	**2,459**	**1,804**	**5,470**
Profit for the financial year	–	–	–	–	–	–	**1,767**	**1,767**
Dividends	–	–	–	–	–	–	**(872)**	**(872)**
Value of employee services	–	–	–	–	**28**	–	–	**28**
Shares vested and transferred from share-based payment reserve	–	–	–	–	**(19)**	–	**4**	**(15)**
Options exercised under share option schemes	–	**7**	–	–	–	–	–	**7**
Additions to hedging reserve	–	–	–	**(9)**	–	–	–	**(9)**
As at 31 December 2017	**149**	**988**	**17**	**(9)**	**69**	**2,459**	**2,703**	**6,376**

For the year ended 31 December 2016	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Share-based payment reserve £m	Revaluation reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2016	149	976	17	–	68	2,459	1,919	5,588
Profit for the financial year	–	–	–	–	–	–	710	710
Dividends	–	–	–	–	–	–	(830)	(830)
Value of employee services	–	–	–	–	24	–	–	24
Shares vested and transferred from share-based payment reserve	–	–	–	–	(32)	–	5	(27)
Options exercised under share option schemes	–	5	–	–	–	–	–	5
As at 31 December 2016	149	981	17	–	60	2,459	1,804	5,470

Notes to the company financial statements

1 Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial assets and financial liabilities measured at fair value through profit and loss, and in accordance with the Companies Act 2006. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

There were no material critical accounting estimates used or judgements made by management in the preparation of these financial statements.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise price of share options, and how the fair value of goods or services received was determined);
- The requirement paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated;
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), (statement of cash flows),
  - 16 (a statement of compliance with all IFRS),
  - 38 in respect of paragraph 79(a)(iv) (outstanding shares comparative),
  - 38A (requirement for minimum of two primary statements, including cash flow statements),
  - 38B–D (additional comparative information),
  - 111 (cash flow statement information), and
  - 134–136 (capital management disclosures);
- IAS 7, 'Statement of cash flows';
- IFRS 7 'Financial instrument disclosures';
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective); and
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group and key management compensation.

The company's financial statements have been prepared in compliance with Section 394 and 396 of the Companies Act 2006 adopting the exemption of omitting the income statement conferred by Section 408 of that Act.

The company's financial statements have been prepared on a going concern basis.

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.

Notes to the 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 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.

Notes to the company financial statements (continued)

Share-based payments

The company operates a number of share-based payment plans on behalf of its subsidiaries. The fair value of the equity instruments granted is spread over the vesting period of the instrument and treated as a capital contribution to the respective subsidiary. The total capital contribution is determined by reference to the fair value of the awards, excluding the impact of any non-market vesting conditions. The capital contribution to the subsidiaries is accounted for as an increase in the investment in the parent company's financial statements.

At each balance sheet date, the company revises its estimate of the number of equity instruments which are expected to become exercisable. It recognises the impact of the revision of original estimate, if any, in the cost of the investment in the subsidiary and a corresponding adjustment is made to equity over the remaining vesting period. On vesting or exercise, the difference between the accumulated capital contribution and the actual cost to the company is transferred to retained earnings. Where new shares are issued, the proceeds received are credited to share capital and share premium. Any capital contribution is subsequently recharged to the respective subsidiary as incurred and the corresponding cost of investment is reduced.

2 Dividends

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

1. The dividend per share calculation is based on the number of equity shares registered on the ex-dividend date.
2. Subsequent to 31 December 2017, the directors proposed a final dividend for 2017 of 11.05 pence per ordinary share. Subject to approval at the AGM, the dividend will be accounted for as an appropriation of retained earnings during the year ended 31 December 2018, and is not included as a liability in the Company 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 2017 there were no remuneration payments outstanding with directors of the company (2016: £nil). The company has no other employees (2016: nil).

4 Pensions

There were £nil contributions prepaid or outstanding at 31 December 2017 (2016: £nil) in respect of these schemes, and there were £nil current service costs incurred in respect of these schemes for year ended 31 December 2017 (2016: £nil). The company had £nil liability for retirement benefits at 31 December 2017 (2016: £nil).

Defined contribution plans

The company operates the following defined contribution pension schemes in the UK:

- Legal & General Group Personal Pension Plan
- Legal & General Staff Stakeholder Pension Scheme

Defined benefit plans

The company operates the following defined benefit pension schemes in the UK:

- Legal & General Group UK Pension and Assurance Fund (the Fund). The Fund was closed to new members from January 1995; last full actuarial valuation as at 31 December 2015.
- Legal & General Group UK Senior Pension Scheme (the Scheme). The Scheme was, with a few exceptions (principally transfers from the Fund), closed to new members from August 2000 and finally closed to new members from April 2007; last full actuarial valuation as at 31 December 2015.

The UK schemes operate within the UK pensions' regulatory framework.

In the UK, the Fund and the Scheme are group defined benefit schemes. The UK Fund and Scheme were closed to future accrual on 31 December 2015. The sponsoring employer is Legal & General Resources Limited and a deficit in respect of these schemes for the year ended 31 December 2017 of £317m (2016: £374m) is recognised on that company's balance sheet. Further information is also given in Note 25 of the group's consolidated financial statements.

Notes to the company financial statements (continued)

5 Share-based payments

The full disclosures required by IFRS 2 are provided in the group's consolidated financial statements (Note 36).

The total expense retained by the company in relation to share-based payments was £nil (2016: £nil).

6 Auditors' remuneration

Remuneration receivable by the company's auditors for the audit of the company's financial statements is not presented. The group's consolidated IFRS financial statements disclose the aggregate remuneration receivable by the company's auditors for the audit of the group's annual financial statements, which include the company's financial statements (Note 34).

The disclosure of fees payable to the auditors and its associates for other (non-audit) services has not been made because the group's consolidated financial statements are required to disclose such fees on a consolidated basis.

7 Non-current assets

	Investments in subsidiaries 2017 £m	Loans to subsidiaries 2017 £m	Total 2017 £m	Investments in subsidiaries 2016 £m	Loans to subsidiaries 2016 £m	Total 2016 £m
At 1 January	**7,252**	**19**	**7,271**	6,866	764	7,630
Additions[1]	**465**	**–**	**465**	386	–	386
Transfer from/(to) current assets[2]	**–**	**701**	**701**	–	(745)	(745)
At 31 December	**7,717**	**720**	**8,437**	7,252	19	7,271

1. Additions represent capital injections into group undertakings.
2. Following the renewal of loan agreement with group undertaking the loan value has been reclassified from current assets.

Full disclosure of the company's investments in subsidiary undertakings is contained in Note 44 of the group's consolidated financial statements.

8 Receivables

	2017 £m	2016 £m
Amounts owed by group undertakings[1]	**1,427**	1,356
Corporation tax	**55**	40
Deferred tax	**20**	12
Other debtors	**110**	3
Receivables	**1,612**	1,411

1. Amounts owed by group undertakings are repayable at the request of either party and include an £1,083m (2016: £286m) interest bearing balance with a current interest rate of LIBOR-12.5 bps.

9 Payables: amounts falling due after more than one year

	Note	2017 £m	2016 £m
Subordinated borrowings	12	**2,879**	2,496
Amounts owed to group undertakings[1]		**622**	621
Payables: amounts falling due after more than one year		**3,501**	3,117

1. Amounts owed to group undertakings falling due after more than one year are unsecured and include £601m (2016: £602m) of interest bearing balances with current interest rates between 5.71% and 6.12% (2016: 5.71% and 6.12%).

10 Payables: amounts falling due within one year

	Note	2017 £m	2016 £m
Amounts owed to group undertakings[1]		**97**	81
Accrued interest on subordinated borrowings	12	**29**	31
Other payables		**24**	3
Payables: amounts falling due within one year		**150**	115

1. Amounts owed to group undertakings falling due within one year are interest free and repayable at the request of either party.

Notes to the company financial statements (continued)

11 Derivative assets and liabilities

	Contract/ notional amount 2017 £m	Fair values Assets 2017 £m	Fair values Liabilities 2017 £m
Forward foreign exchange contracts – held for trading	**28**	**–**	**–**
Currency swap contracts – held for trading	**1,099**	**–**	**119**
Derivative assets and liabilities		**–**	**119**

	Contract/ notional amount 2016 £m	Fair values Assets 2016 £m	Fair values Liabilities 2016 £m
Forward foreign exchange contracts – net investment hedges	125	–	1
Forward foreign exchange contracts – held for trading	100	–	–
Derivative assets and liabilities		–	1

The descriptions of each type of derivative are given in Note 13 of the group's consolidated financial statements.

12 Borrowings

Analysis by nature	Carrying amount 2017[1] £m	Coupon rate 2017 %	Fair value 2017[1] £m	Carrying amount 2016[1] £m	Coupon rate 2016 %	Fair value 2016[1] £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities (Tier 1)	**–**	**–**	**–**	614	6.39	609
5.875% Sterling undated subordinated notes (Tier 2)	**408**	**5.88**	**428**	411	5.88	418
5.375% Sterling subordinated notes 2045 (Tier 2)	**603**	**5.38**	**694**	602	5.38	603
10% Sterling subordinated notes 2041 (Tier 2)	**311**	**10.00**	**397**	311	10.00	403
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**5.50**	**710**	589	5.50	627
5.25% US Dollar subordinated notes 2047 (Tier 2)	**628**	**5.25**	**679**	–	–	–
5.55% US Dollar subordinated notes 2052 (Tier 2)	**369**	**5.55**	**397**	–	–	–
Total borrowings	**2,908**		**3,305**	2,527		2,660

1. Includes accrued interest on subordinated borrowings of £29m (2016: £31m).

Notes to the company financial statements (continued)

As at 31 December 2017, the Company had in place a £1bn syndicated committed revolving credit facility provided by a number of its key relationship banks maturing in December 2022. This facility replaced the syndicated facility totalling £1bn, 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 2017.

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

5.875% Sterling undated subordinated notes
In 2004, Legal & General Group Plc issued £400m of 5.875% Sterling undated subordinated notes. These notes are callable at par on 1 April 2019 and every five years thereafter. If not called, the coupon from 1 April 2019 will be reset to the prevailing five year benchmark gilt yield plus 2.33% p.a. These notes are treated as Tier 2 own funds for Solvency II purposes.

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

10% Sterling subordinated notes 2041
In 2009, Legal & General Group Plc issued £300m of 10% dated subordinated notes. The notes are callable at par on 23 July 2021 and every five years thereafter. If not called, the coupon from 23 July 2021 will be reset to the prevailing five year benchmark gilt yield plus 9.325% p.a. These notes mature on 23 July 2041. They are treated as Tier 2 own funds for Solvency II purposes.

5.5% Sterling subordinated notes 2064
In 2014, Legal & General Group Plc issued £600m of 5.5% dated subordinated notes. The notes are callable at par on 27 June 2044 and every five years thereafter. If not called, the coupon from 27 June 2044 will be reset to the prevailing five year benchmark gilt yield plus 3.17% p.a. These notes mature on 27 June 2064. They are treated as Tier 2 own funds for Solvency II purposes.

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

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

Notes to the company financial statements (continued)

13 Called up share capital

Authorised share capital	2017 Number of shares	2017 £m
At 31 December: ordinary shares of 2.5p each	**9,200,000,000**	**230**

Authorised share capital	2016 Number of shares	2016 £m
At 31 December: ordinary shares of 2.5p each	9,200,000,000	230

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2017	**5,954,656,466**	**149**	**981**
Options exercised under share option schemes			
– Savings related share option scheme	**3,781,727**	**–**	**7**
As at 31 December 2017	**5,958,438,193**	**149**	**988**

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2016	5,948,788,480	149	976
Options exercised under share option schemes			
– Savings related share option scheme	5,867,986	–	5
As at 31 December 2016	5,954,656,466	149	981

Options over the ordinary share capital of the company are disclosed in Note 37 of the group's consolidated financial statements.

Directors' report

The Directors' report required under the Companies Act 2006 comprises this Directors' report, and certain other disclosures in the Strategic Report and the Notes to the group consolidated financial statements, including:

- an outline of important events that have occurred during the year (pages 40 to 47)
- an indication of likely future developments (pages 8 to 29)
- employee engagement (page 34)
- post-balance sheet events (Note 43)

Articles of Association
The company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. The Company's Articles of Association were last amended at its AGM held on 26 May 2016.

Conflicts of interest
In accordance with the Companies Act 2006, the Board has adopted a policy and procedure for the disclosure and authorisation (if appropriate) of conflicts of interest, and these have been followed during 2017.

Powers of directors
The directors (as detailed on pages 56 and 57) may exercise all powers of the company subject to applicable legislation and regulation and the company's Articles of Association.

Share capital
As at 31 December 2017, the company's issued share capital comprised 5,958,438,193 ordinary shares each with a nominal value of 2.5 pence. Details of the ordinary share capital can be found in Note 37 to the group consolidated financial statements.

At the 2017 AGM, the company was granted authority by shareholders to purchase up to 595,517,229 ordinary shares, being 10% of the issued share capital of the company as at 29 March 2017. In the year to 31 December 2017, no shares were purchased by the company. This authority will expire at the 2018 AGM. As such, a resolution is proposed in the Notice of AGM seeking shareholder approval to renew this authority.

At the 2017 AGM, the directors were given the power to allot shares up to an amount of £49,626,436, being 33% of the issued share capital of the company as at 29 March 2017. This authority will also expire at the 2018 AGM. As such, a resolution is proposed in the Notice of AGM seeking shareholder approval to renew this authority.

Further resolutions are proposed, as set out in the Notice of AGM, that will, if approved by shareholders, authorise the directors to issue shares up to the equivalent of 10% of the company's issued share capital as at 31 March 2018 for cash without offering the shares first to existing shareholders in proportion to their holdings.

Detailed explanatory notes to these resolutions are set out in the Notice of AGM.

Other than the above, the directors have no current intention of issuing further share capital and no issue will be made which would effectively alter control of the company without prior approval of shareholders in a general meeting.

Interests in voting rights
Information on major interests in shares provided to the company under the Disclosure Guidance and Transparency Rules (DTR) of the UK Listing Authority is published via a Regulatory Information Service and on the company's website: legalandgeneralgroup.com. As at 31 December 2017, the company had been advised of the following significant direct and indirect interests in the issued share capital of the company:

	Number of ordinary shares of 2.5p	% of capital[1]	Total interest in issued share capital
Invesco Ltd	405,675,370	7.4	Indirect
BlackRock Inc.	370,271,325	6.2	Indirect
Capital Group Companies Inc.	332,377,875	5.6	Indirect
Woodford Investment Management (UK) LLP	285,934,036	4.9	Direct
Schroders Plc	244,463,386	4.2	Indirect

1. Using the voting rights figure as at 31 December 2017, as announced to the London Stock Exchange on 3 January 2018, of 5,958,438,193.

No material changes to the interests have been disclosed between 31 December 2017 and 6 March 2018.

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 2017 of 11.05 pence per ordinary share which, together with the interim dividend of 4.30 pence per ordinary share paid to shareholders on 22 September 2017, will make a total dividend for the year of 15.35 pence (2016: 14.35 pence). Subject to shareholder approval at the AGM, the final dividend will be paid on 7 June 2018 to shareholders on the share register on 27 April 2018 provided that the Board of directors may cancel payment of the dividend at any time prior to payment in accordance with the Articles of Association, if it considers it necessary to do so for regulatory capital purposes.

Related party transactions
Details of related party transactions are set out in Note 40 to the group consolidated financial statements.

Rights and obligations attaching to shares

The rights and obligations relating to the company's ordinary shares are set out in the Articles of Association. A copy of the Articles of Association can be requested from the Company Secretary at the company's registered office.

Holders of ordinary shares are entitled to attend, speak and vote at general meetings. In a vote on a show of hands, every member present in person or every proxy present, who has been duly appointed by a member, will have one vote and on a poll every member present in person or by proxy shall have one vote for every ordinary share held. These rights are subject to any special terms as to voting upon which any shares may be issued or may at the relevant time be held and to any other provisions of the company's Articles of Association. Under the Companies Act 2006 and the Articles of Association, directors have the power to suspend voting rights and, in certain circumstances, the right to receive dividends in respect of shares where the holder of those shares fails to comply with a notice issued under section 793 of the Companies Act 2006.

The Board can decline to register a transfer of any share which is not a fully paid share. In addition, registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules and where the number of joint holders exceeds four. The Board may also refuse to register the transfer of a certificated share unless:

(a) the instrument of transfer is duly stamped and is left at the Company's registered office or such other place as the Board may from time to time determine, accompanied by the certificate for the share to which it relates and such evidence as the Board may reasonably require to show the right of the transfer or to make the transfer;

(b) the instrument of transfer is in respect of only one class of share; and

(c) the number of joint holders does not exceed four.

Subject to the provisions of the Companies Act 2006, all or any of the rights attaching to an existing class of shares may be varied from time to time, either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of that class (excluding any treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares.

Shares acquired through the employee share schemes rank equally with all other ordinary shares in issue. Zedra Trust Company (Guernsey) Limited, as trustee of the Legal & General Employees' Share Ownership Trust, held 0.3% of the issued share capital of the company as at 6 March 2018 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 was wound up in 2017. The trustee of Legal & General Employees' Share Ownership Trust has waived the right of that trust to receive dividends on unallocated shares it holds. The voting rights in relation to these shares are exercised by the trustee. The trustee may vote or abstain from voting, or accept or reject any offer relating to shares, in any way it sees fit, without incurring any liability and without being required to give reasons for its decision. Under the rules of the Legal & General Group Employee Share Plan (the 'Plan'), eligible employees are entitled to acquire shares in the company. Plan shares are held in trust for participants by Link Market Services Trustees Limited, which held 0.3% of the issued share capital of the company as at 6 March 2018. Voting rights are exercised by the trustees on receipt of the participants' instructions. If a participant does not submit an instruction to the trustees, no vote is registered. In addition, the trustees do not vote on any unawarded shares held under the Plan as surplus assets.

The company is not aware of any agreements between shareholders which may result in restrictions on the transfer of securities and/or voting rights.

Change of control

There are no agreements between the company and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) in the event of a takeover bid, except for those relating to normal notice periods. The rules of the company's share plans contain provisions under which options and awards to participants, including executive directors, may vest on a takeover or change of control of the company or transfer of undertakings. The company has a committed £1 billion bank syndicated credit facility which is terminable if revised terms cannot be agreed with the syndicate of banks in a 30-day period following a change of control. As at 6 March 2018, the company has no borrowings under this facility. There are no change of control conditions in the terms of any of the company's outstanding debt securities. The terms of the company's agreements with its banking counterparties, under which derivative transactions are undertaken, include in some instances the provision for termination of transactions upon takeover/merger depending on the rating of the merged entity. There are no other committed banking arrangements either drawn or undrawn that incorporate any change of control conditions.

Use of financial instruments

Information on the group's risk management process is set out on pages 48 to 53. 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 2017 and remain so. Copies of the deeds of indemnity are available for inspection at the company's registered office and will also be available at the AGM.

Requirements of Listing Rule 9.8.4

Information to be included in the annual report and accounts under Listing Rule 9.8.4 may be found as follows:

Relevant Listing Rule	Page
LR 9.8.4C (12)	232
LR 9.8.4C (13)	232

Political donations
No political donations were made during 2017.

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 2017	Jan–Dec 2016
Scope 1	**8,655.05**	8,519.92
Scope 2 Total From renewable tariff	 **32,573.30** **30,392.44**	 37,498.48 32,883.96
Scope 3 – Business travel	**3,568.54**	4,362.59
Total CO_2 (scope 1,2,3) (based on the scope of Legal & General's UK CRC energy efficiency scheme disclosed emissions, overseas property emissions and reported travel emissions)	**44,796.89**	50,381.00
Intensity ratio: $kgCO_2e$ Emissions per policy	**3.99**	4.54
Fugitive Emissions	**1,591.31**	1,812.66

Please refer to our CSR report for further breakdown and analysis of emissions.

Methodology
We have reported on the emission sources required under the Companies Act 2006 Strategic Report and Directors' Report Regulations 2013.

We have used the GHG reporting protocol to calculate our GHG emissions and applied the emission factors from UK Government's GHG Conversion Factors for Company Reporting 2017.

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 Audit Committee undertook a tender process in respect of external audit services during 2016. KPMG LLP will be proposed for appointment to shareholders at the 2018 AGM.

Directors' interests
The Directors' report on remuneration on pages 78 to 107 provides details of the interests of each director, including details of current incentive schemes and long term incentive schemes, the interests of directors in the share capital of the company and details of their share interests, as at 28 February 2018.

Annual general meeting
The Company's AGM will be held on Thursday, 17 May 2018 at 12pm 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' report on remuneration and the financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), and the company financial statements in accordance with United Kingdom (UK) Generally Accepted Accounting Practice (GAAP) (UK Accounting Standards, comprising FRS 101 'Reduced Disclosures Framework', and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group and the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the EU have been followed for the group financial statements and UK Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the EU and applicable UK Accounting Standards, comprising FRS 101 'Reduced Disclosures Framework', have been followed, subject to any material departures disclosed and explained in the group and the company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements and the Directors' report on remuneration comply with the Companies Act 2006, as regards to the group financial statements and Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the group's and the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's and the company's position and performance, business model and strategy.

Each of the directors who held office at the date this report was approved, whose names and functions are listed in the Board of directors section, confirm that, to the best of their knowledge:

- the company's financial statements, which have been prepared in accordance with UK GAAP (UK Accounting Standards, comprising FRS 101 'Reduced Disclosures Framework' and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group
- the Strategic report includes a fair review of the development and performance of the business and the position of the group and the company, together with a description of the principal risks and uncertainties that it faces

Fair, balanced and understandable

In accordance with the principles of the UK Corporate Governance Code, we have processes and procedures in place to ensure that the information presented in the annual report is fair, balanced and understandable. We describe these processes and procedures on page 62.

On the advice of the Audit Committee, the Board considers that the annual report, as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the group's position, performance, business model and strategy.

Critical accounting estimates, key judgements and significant accounting policies

Our critical accounting estimates, key judgements and significant accounting policies conform with IFRS and are set out on page 72 of the consolidated financial statements. The directors have reviewed these policies and applicable estimation techniques and have confirmed them to be appropriate for the preparation of the 2017 consolidated financial statements.

Disclosure of information to auditors

As far as each of the directors is aware, there is no relevant information (as defined by section 418 (3) of the Companies Act 2006) that has been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the auditors have been made fully aware of that information.

Going concern

The Strategic report on pages 1 to 53 of this report includes information on the group's structure and business principles, the performance of the business areas, the impact of regulation and principal risks and uncertainties.

The group performance detailed on page 5 includes information on the group financial results, financial outlook, cash flow and net debt and balance sheet position. The consolidated financial statements include information on the group's financial investments and investment property (Note 12), derivatives (Note 13), cash and cash equivalents (Note 14), asset risk (Note 8), market, credit and insurance risks (Notes 16 to 18) and borrowings (Note 24).

In line with IAS 1 'Presentation of financial statements', and revised FRC guidance on 'risk management, internal control and related financial and business reporting', management has taken into account all available information about the future for a period of at least, but not limited to, 12 months from the date of approval of the financial statements when assessing the group's ability to continue as a going concern.

Details of the main risks affecting the group and how we manage and mitigate them are set out in 'Managing risks' on pages 48 to 53.

Having assessed the main risks and other matters discussed in connection with the Group board viability statement set out on page 51, in accordance with the UK Corporate Governance Code and the FRC guidance, the directors considered it appropriate to adopt the going concern basis of accounting when preparing the financial statements.

The Directors' report and Strategic report were approved by the Board, and signed on their behalf.

By order of the Board

G J Timms
Company Secretary

Shareholder information

Annual general meeting

The 2018 AGM will be held on Thursday, 17 May 2018 at 12pm at The Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ. The AGM provides the Board with the opportunity to meet shareholders. The Board regards the AGM as an important opportunity to communicate directly with private investors. The Notice of Meeting and all other details for the AGM are available at: legalandgeneralgroup.com (the website).

Dividend information

Dividend per share

This year the directors are recommending the payment of a final dividend of 11.05 pence per share. If you add this to your interim dividend of 4.30 pence per share, the total dividend recommended for 2017 will be 15.35 pence per share (2016: 14.35 pence per share). The key dates for the payment of dividends are set out in the important dates section on page 236.

Communications

Internet

Information about the company, including details of the current share price, is available on the website, legalandgeneralgroup.com.

Investor relations

Private investors should contact the Registrar with any queries. Institutional investors can contact the investor relations team by email: investor.relations@group.landg.com.

Financial reports

The company's financial reports are available on the website. The Annual Report and Accounts are sent to those shareholders who have elected to receive paper copies. Alternatively, shareholders may elect to receive notification by email by registering on landgshareportal.com. If you receive more than one copy of our communications, it could be because you have more than one record on the share register. To avoid duplicate mailings, please contact the Registrar, who can arrange for your accounts to be amalgamated.

Registrar

Link Asset Services is the Registrar and 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 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 Link Customer Support Centre which is available to answer any queries you have in relation to your shareholding:

By phone – 0371 402 3341*

By email – landgshares@linkgroup.co.uk

By post – Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

Sign up to electronic communications

Help us save paper and get your shareholder information quickly and securely by signing up to receive your shareholder communications by email.

Registering for electronic communications is very straightforward. Just visit landgshareportal.com. All you need is your Investor Code, which can be found on your share certificate or dividend confirmation.

Corporate sponsored nominee

The corporate sponsored nominee allows you to hold shares in the company without the need for a share certificate and enables you to benefit from shorter market settlement periods. Individual shareholders hold their Legal & General shares in a nominee holding registered in the name of Link Market Services Trustees Limited. To join or obtain further information, contact the Registrar. You will be sent a booklet outlining the terms and conditions under which your shares will be held.

Dividend payment options

Re-invest your dividends

Link's Dividend Re-investment Plan offers a convenient way for shareholders to build up their shareholding by using dividend money to purchase additional shares. The plan is provided by Link Asset Services, a trading name of Link Market Services Trustees Limited which is authorised and regulated by the Financial Conduct Authority.

For more information and an application pack, please call 0371 402 3341.* Alternatively you can email landgshares@linkgroup.co.uk or log on to landgshareportal.com.

It is important to remember that the value of shares and income from them can fall as well as rise and you may not recover the amount of money you invest. Past performance should not be seen as indicative of future performance. This arrangement should be considered as part of a diversified portfolio.

Arrange to have your dividends paid direct into your bank account

The advantages are:

- your dividend reaches your bank account on the payment date
- it is more secure – cheques can sometimes get lost in the post
- you don't have the inconvenience of depositing a cheque
- it helps reduce cheque fraud

If you have a UK bank account you can sign up for this service on the Share Portal (by clicking on 'your dividend options' and following the on-screen instructions) or by contacting the Customer Support Centre.

Choose to receive your next dividend in your local currency

If you live outside the UK, Link has partnered with Deutsche Bank to provide you with a service that will convert your sterling dividends into your local currency at a competitive rate. You can choose to receive payment directly into your local bank account or, alternatively, you can be sent a currency draft.

You can sign up for this service on the Share Portal (by clicking on 'your dividend options' and following the on-screen instructions) or by contacting the Customer Support Centre.

For further information contact Link

By phone – UK – 0371 402 3341*
By email – shareportal@linkgroup.co.uk

Buy and sell shares

A simple and competitively priced service to buy and sell shares is provided by Link Asset Services. There is no need to pre-register and there are no complicated application forms to fill in. By visiting linksharedeal.com you can also access a wealth of stock market news and information free of charge.

For further information on this service, or to buy and sell shares, visit linksharedeal.com or call 0371 664 0445.**

This is not a recommendation to buy and sell shares and this service may not be suitable for all shareholders. The price of shares can go down as well as up and you are not guaranteed to get back the amount you originally invested. Terms, conditions and risks apply.

Link Asset Services is a trading name of Link Market Services Trustees Limited, which is authorised and regulated by the Financial Conduct Authority. This service is only available to private shareholders resident in the European Economic Area, the Channel Islands or the Isle of Man.

* Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open 9am to 5.30pm, Monday to Friday excluding public holidays in England and Wales.

** Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. Lines are open 8am to 4.30pm Monday to Friday excluding public holidays in England and Wales.

Important dates:

26 April 2018	• Ex-dividend date (final dividend)
16 May 2018	• Last day for DRIP elections
17 May 2018	• Annual General Meeting
7 June 2018	• Payment of final dividend for 2017 (to members registered on 27 April 2018)
9 August 2018	• Half-year results 2018
16 August 2018	• Ex-dividend date (interim dividend)
27 September 2018	• Payment of interim dividend for 2018 (to members registered on 17 August 2018)

Share fraud warning

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

Have you been:

- contacted out of the blue;
- promised tempting returns and told the investment is safe;
- called repeatedly; or
- told the offer is only available for a limited time?

If so, you might have been contacted by fraudsters.

1. Reject cold calls
If you've been cold called with an offer to buy or sell shares, chances are it's a high risk investment or a scam. You should treat the call with extreme caution. The safest thing to do is to hang up.

2. Check the firm on the FS register at fca.org.uk/register
The Financial Services Register is a public record of all the firms and individuals in the financial services industry that are regulated by the FCA.

3. Get impartial advice
Think about getting impartial financial advice before you hand over any money. Seek advice from someone unconnected to the firm that has approached you.

If you suspect that you have been approached by fraudsters, please tell the FCA using the share fraud reporting form at fca.org.uk/scamsmart where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have lost money to investment fraud, you should report it to Action Fraud on 0300 123 2040 or online at actionfraud.police.uk.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme.

Find out more at fca.org.uk/scamsmart.

General information

Capital gains tax: for the purpose of calculating UK capital gains tax, the market value on 31 March 1982 of each share was 7.996 pence after adjusting for the 1986 capitalisation issue and the 1996 and 1999 sub-divisions, but not reflecting any rights taken up under the 2002 rights issue.

Close company provisions: The company is not a close company within the terms of the Corporation Tax Act 2010.

Registered office: One Coleman Street, London EC2R 5AA. Registered in England and Wales, No. 01417162.

Shareholder offer line: For details of shareholder offers on Legal & General products, call 0800 107 6830.

Glossary

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

Adjusted earnings per share*
Calculated by dividing profit after tax from continuing operations, attributable to equity holders of the company, excluding recognised gains and losses associated with held for sale and completed business disposals, by the weighted average number of ordinary shares in issue during the period, excluding employee scheme treasury shares. Excluding the impact of anticipated and completed disposals provides an indication of the earnings per share from continuing operations.

Adjusted return on equity*
ROE measures the return earned by shareholders on shareholder capital retained within the business. Adjusted ROE is calculated as IFRS profit after tax divided by average IFRS shareholders' funds excluding recognised gains and losses associated with held for sale and completed business disposals. Excluding the impact of anticipated and completed disposals provides an indication of the return on equity from on-going operations.

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

Advisory assets
These are assets on which Global Index Advisors (GIA) provide advisory services. Advisory assets are beneficially owned by GIA's clients and all investment decisions pertaining to these assets are also made by the clients. These are different from Assets under Management (AUM) defined below.

Alternative performance measures (APMs)
An alternative performance measure is a financial measure of historic or future financial performance, financial position, or cash flows, other than a financial measure defined under IFRS or the regulations of Solvency II. The group uses a range of these metrics to provide a better understanding of the underlying performance of the group. Where appropriate, reconciliations of alternative performance measures to IFRS measures are provided. All APMs defined within this glossary are marked with an asterisk.

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

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

Assets under administration (AUA)*
Assets administered by Legal & General which are beneficially owned by clients and are therefore not reported on the Consolidated Balance Sheet. Services provided in respect of assets under administration are of an administrative nature, including safekeeping, collecting investment income, settling purchase and sales transactions and record keeping.

Assets under management (AUM)*
Funds which are managed by our fund managers on behalf of investors. It represents the total amount of money investors have trusted with our fund managers to invest across our investment products.

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

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

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

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

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

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

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

Derivatives
Derivatives are not a separate asset class but are contracts usually giving a commitment or right to buy or sell assets on specified conditions, for example on a set date in the future and at a set price. The value of a derivative contract can vary. Derivatives can generally be used with the aim of enhancing the overall

* These items represent an alternative performance measure (APM)

investment returns of a fund by taking on an increased risk, or they can be used with the aim of reducing the amount of risk to which a fund is exposed.

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

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

Earnings per share (EPS)
EPS is a common financial metric which can be used to measure the profitability and strength of a company over time. It is the total shareholder profit after tax divided by the number of shares outstanding. EPS uses a weighted average number of shares outstanding during the year.

Economic capital*
Economic capital is the capital that an insurer holds internally as a result of its own assessment of risk. It differs from regulatory capital, which is determined by regulators. It represents an estimate of the amount of economic losses an insurer could withstand and still remain solvent with a target level of confidence over a specified time horizon.

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

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

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

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

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

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

Euro Commercial paper
Short term borrowings with maturities of up to one year typically issued for working capital purposes.

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

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

General insurance combined operating ratio
The combined operating ratio is calculated as the sum of incurred losses and expenses, including commission, divided by net earned premium.

Generally accepted accounting principles (GAAP)
These are a widely accepted collection of guidelines and principles, established by accounting standard setters and used by the accounting community to report financial information.

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

ICAV – Irish Collective Asset-Management Vehicle
A legal structure investment funds, based in Ireland and aimed at European investment funds looking for a simple, tax-efficient investment vehicle.

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

Index tracker (passive fund)
Index tracker funds invest in most or all of the same shares, and in a similar proportion, as the index they are tracking, for example the FTSE 100 index. Index tracker funds aim to produce a return in line with a particular market or sector, for example, Europe or technology. They are also sometimes known as 'tracker funds'.

International financial reporting standards (IFRS)
These are accounting guidelines and rules that companies and organisations follow when completing financial statements.

They are designed to enable comparable reporting between companies, and they are the standards that all publicly listed groups in the European Union (EU) are required to use.

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.

* These items represent an alternative performance measure (APM)

LGAS
Legal and General Assurance Society Limited.

LGC
Legal & General Capital.

LGI
Legal & General Insurance.

LGIM
Legal & General Investment Management.

LGR
Legal & General Retirement.

LGR new business
Single premiums arising from annuity sales and back book acquisitions (including individual annuity and pension risk transfer), the volume of lifetime mortgage lending and the notional size of longevity insurance transactions, based on the present value of the fixed leg cash flows discounted at the LIBOR curve.

Liability driven investment (LDI)
A form of investing in which the main goal is to gain sufficient assets to meet all liabilities, both current and future. This form of investing is most prominent in final salary pension plans, whose liabilities can often reach into billions of pounds for the largest of plans.

Lifetime mortgages
An equity release product aimed at people aged 60 years and over. It is a mortgage loan secured against the customer's house. Customers do not make any monthly payments and continue to own and live in their house until they move into long term care or on death. A no negative equity guarantee exists such that if the house value on repayment is insufficient to cover the outstanding loan, any shortfall is borne by the lender.

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

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

Net release from operations*
Net release from operations is defined as release from operations plus new business surplus/(strain). Net release from operations was previously referred to as net cash and provides information on the underlying release of prudent margins from the back book.

New business surplus/(strain)*
The net impact of writing new business on the IFRS position, including the benefit/cost of acquiring new business and the setting up of reserves, for UK non profit annuities, workplace savings, protection and savings, net of tax. This metric provides an understanding of the impact of new contracts on the IFRS profit for the year.

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

Overlay assets
Overlay assets are derivative assets that are managed alongside the physical assets held by LGIM. These instruments include interest rate swaps, inflation swaps, equity futures and options. These are typically used to hedge risks associated with pension scheme assets during the derisking stage of the pension life cycle.

Open architecture
Where a company offers investment products from a 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.

Pension risk transfer (PRT)
PRT represents bulk annuities bought by entities that run final salary pension schemes to reduce their responsibilities by closing the schemes to new members and passing the assets and obligations to insurance providers.

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

Platform
Online services used by intermediaries and consumers to view and administer their investment portfolios. Platforms usually provide facilities for buying and selling investments (including, in the UK products such as Individual Savings Accounts (ISAs), Self-Invested Personal Pensions (SIPPs) and life insurance) and for viewing an individual's entire portfolio to assess asset allocation and risk exposure.

Profit before tax attributable to equity holders (PBT)
Profit attributable to shareholders incorporating actual investment returns experienced during the year but before the payment of tax.

Purchased interest in long term business (PILTB)
An estimate of the future profits that will emerge over the remaining term of life and pensions policies that have been acquired via a business combination.

* These items represent an alternative performance measure (APM)

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

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

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

Return on equity (ROE)*
ROE measures the return earned by shareholders on shareholder capital retained within the business. ROE is calculated as IFRS profit after tax divided by average IFRS shareholders' funds.

Risk appetite
The aggregate level and types of risk a company is willing to assume in its exposures and business activities in order to achieve its business objectives.

SCR coverage ratio
The eligible own funds on a regulatory basis divided by the group solvency capital requirement. This represents the number of times the SCR is covered by eligible own funds.

SCR coverage ratio (proforma basis)*
The proforma basis Solvency II SCR coverage ratio incorporates the impacts of a recalculation of the Transitional Measures for Technical Provisions and the contribution of with-profits fund and our defined benefit pension schemes in both Own Funds and the SCR in the calculation of the SCR coverage ratio.

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

Single premiums*
Single premiums arise on the sale of new contracts where the terms of the policy do not anticipate more than one premium being paid over its lifetime, such as in individual and bulk annuity deals.

Solvency II
Taking effect from 1 January 2016, the Solvency II regulatory regime is a harmonised prudential framework for insurance firms in the EEA. This single market approach is based on economic principles that measure assets and liabilities to appropriately align insurers' risk with the capital they hold to safeguard policyholder.

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

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

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

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

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

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

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

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

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

* These items represent an alternative performance measure (APM)

FRONT COVER

Clockwise, from top left: Later Living residents from Tattenhall's Inspired Village development; customers using digital platforms to access and manage our products; Newcastle, a city with an estimated 4.5% economic growth rate; onshore wind projects financed by Legal & General that will produce enough clean energy to power around 150,000 homes.

BACK COVER

Clockwise, from above: retired residents in Tattenhall being assisted; Newcastle, where more than 4,000 new jobs and 450 new homes will be created thanks to the city centre regeneration project; NTR wind turbines located in Scotland that will help support the transition to a low-carbon economy.

Registered office:
One Coleman Street, London EC2R 5AA

T 020 3124 2000 F 020 3124 2500

www.legalandgeneralgroup.com

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