Stock Exchange Release
08 March 2017

EPS[1] UP 19% TO 22.2P, PROFIT BEFORE TAX[2] UP 17% TO £1.6BN

FINANCIAL HIGHLIGHTS[3]:

- **NET RELEASE FROM OPERATIONS (NET CASH)[4] UP 12% TO £1,411M (2015: £1,256M)**
- **ADJUSTED OPERATING PROFIT[5] UP 11% TO £1,628M (2015: £1,463M)**
- **PROFIT AFTER TAX UP 16% TO £1,265M (2015: £1,094M)**
- **EARNINGS PER SHARE UP 17% TO 21.22P (2015: 18.16P)**
- **ADJUSTED EARNINGS PER SHARE[1] UP 19% TO 22.20P (2015: 18.58P)**
- **FULL YEAR DIVIDEND UP 7% TO 14.35P PER SHARE (2015: 13.40P)**
- **ADJUSTED RETURN ON EQUITY[6] 19.6% (2015: 17.7%)**
- **SOLVENCY II SURPLUS OF £5.7BN (2015: £5.5BN)**
- **SOLVENCY II COVERAGE RATIO OF 171% (2015: 176%), SHAREHOLDER BASIS[7]**

BUSINESS HIGHLIGHTS:

- **LGR NEW BUSINESS OF £8.5BN (2015: £2.9BN)**
- **LGR ANNUITY ASSETS UP 25% AT £54.4BN (2015: £43.4BN)**
- **GROUP-WIDE DIRECT INVESTMENT UP 39% AT £10.0BN (2015: £7.2BN)**
- **LGIM AUM UP 20% AT £894.2BN (2015: £746.1BN)**

Nigel Wilson, Group Chief Executive, said:

“Our long term approach to strategy and investment coupled with outstanding execution has again delivered terrific financial performance in 2016. Profit before tax up 17% to £1.6 billion, net release from operations up 12% to £1.4 billion, EPS up 19% at 22.2p and a return on equity of nearly 20%.

We believe the UK remains a great place for us to help fill the huge funding gaps and under-provision of key financial products. We are playing our part to regenerate the UK’s cities, delivering economic growth and jobs, capitalise on its world-leading universities and improve commercialisation of its scientific discoveries. Additionally, we are accelerating the evolution of our US businesses.

We look forward to the future with confidence as our core markets are growing, our market share is increasing, our balance sheet is strong and we have positive cash and earnings momentum. Through a combination of selective hiring and internal promotions we have significantly strengthened our management team and technology capability”.

Sir John Kingman, Chairman, said:

“Legal & General has a strong management team and formidable further potential. Against that backdrop, the Board has considered the best trajectory of dividend growth, taking into account sustainability across a wide range of economic scenarios and the Group’s anticipated financial performance. Accordingly, the Board has recommended an increase in the full year 2016 dividend of 7%”.

1. Adjusted earnings per share is calculated by dividing profit after tax attributable to equity holders of the Company, by the weighted average number of ordinary shares in issue during the period. This excludes a £60m net loss on disposals being a £64m impairment loss in relation to the disposal of Cofunds and a £4m profit in relation to the disposal of Suffolk Life (2015: £25m net loss in relation to the disposals of Legal & General France, Legal & General Gulf, Legal & General Egypt and Legal & General International (Ireland)).
2. Represents profit before tax attributable to equity holders.
3. The metrics within the Group’s financial highlights are defined in the glossary, which includes Alternative Performance Measures, on pages 89 to 92 to this report.
4. Net release from operations has replaced the term Net cash generation. There is no change in how it is determined.
5. Adjusted operating profit is calculated as operating profit of £1,562m (2015: £1,455m) before taking account of the provision in respect of the closure of our Kingswood office of £66m (2015: £8m).
6. Adjusted return on equity is calculated by taking profit after tax attributable to equity holders of the Company, excluding the £60m net loss on disposals (2015: £25m net loss) described in note 1, divided by the average shareholders’ equity during the period.
7. Solvency II coverage ratio on a shareholder basis is adjusted for the Own Funds and SCR of the With-profits fund and the final salary pension schemes.

FINANCIAL SUMMARY

£m	2016	2015	Growth %
Analysis of operating profit			
Legal & General Retirement	**811**	641	**27**
Legal & General Investment Management	**366**	355	**3**
Legal & General Capital	**257**	233	**10**
Legal & General Insurance	**317**	315	**1**
General Insurance	**52**	51	**2**
Savings	**99**	107	**(7)**
Operating profit from divisions	**1,902**	**1,702**	**12**
Group debt costs	**(172)**	(153)	**(12)**
Group investment projects and expenses[1]	**(102)**	(86)	**(19)**
Adjusted operating profit	**1,628**	**1,463**	**11**
Kingswood office closure provision[2]	**(66)**	(8)	**n/a**
Operating profit	**1,562**	**1,455**	**7**
Investment and other variances (inc. minority interests)	**80**	(75)	**n/a**
Adjusted profit before tax attributable to equity holders	**1,642**	**1,380**	**19**
Net loss on disposals[3]	**(60)**	(25)	**n/a**
Profit before tax attributable to equity holders	**1,582**	**1,355**	**17**
Profit after tax	**1,265**	**1,094**	**16**
Adjusted earnings per share (p)[4]	**22.20**	**18.58**	**19**
IFRS earnings per share (p)	**21.22**	**18.16**	**17**
Adjusted return on equity (%)[5]	**19.6**	**17.7**	**n/a**
Full year dividend per share (p)	**14.35**	**13.40**	**7**
- Final dividend per share (p)	**10.35**	9.95	**4**
- Interim dividend per share (p)	**4.00**	3.45	**16**
Release from operations[6]	**1,256**	1,217	**3**
New business surplus	**155**	39	**297**
Net release from operations[6]	**1,411**	**1,256**	**12**

1. In 2016, we invested £40m (2015: £50m) to deliver a reduction in operating costs and management expenses.
2. The Group recorded a £66m (2015: £8m) provision in respect of the closure of our Kingswood office. No further related costs are expected in the future.
3. Net loss on disposals in 2016 of £60m includes a £64m impairment loss in relation to the disposal of Cofunds and a £4m profit on disposal of Suffolk Life (2015: £25m net loss in relation to the disposals of Legal & General France, Legal & General Gulf, Legal & General Egypt and Legal & General International (Ireland)).
4. Adjusted earnings per share is calculated by dividing profit after tax attributable to equity holders of the Company, excluding the £60m net loss on disposals (2015: £25m net loss) described in note 3, by the weighted average number of ordinary shares in issue during the period.
5. Adjusted return on equity is calculated by taking profit after tax attributable to equity holders of the Company, excluding the £60m net loss on disposals (2015: £25m net loss) described in note 3, divided by the average shareholders' equity during the period.
6. Release from operations and Net release from operations have replaced the terms Operational cash generation and Net cash generation respectively. There is no change in how they are determined.

COMMENTARY ON 2016 FINANCIAL PERFORMANCE

INCOME STATEMENT

Net release from operations increased 12% to £1,411m (2015: £1,256m)

The Group delivered £1,411m net release from operations comprising £1,256m (2015: £1,217m) release from operations and £155m (2015: £39m) new business surplus. The increase in release from operations was consistent with the guidance we issued in August 2016. The £116m year-on-year increase in new business surplus was primarily a result of significantly higher new business volumes in LGR, with new annuity sales up 155% at £7.0bn.

Adjusted operating profit increased 11% to £1,628m (2015: £1,463m)

The Group achieved double digit percentage growth in adjusted operating profit for the third consecutive year, demonstrating the successful execution of our strategy.

LGR achieved record operating profits of £811m driven by strong performance from our front and back books, as well as benefitting from higher levels of longevity reinsurance on new business. Longevity experience in the year was once again positive compared to our assumptions. Despite this outcome, we have not materially adjusted our forward-looking longevity reserves.

LGIM operating profit increased by 3%. The combined contribution from positive net flows of £31.2bn (2015: £33.3bn) and higher asset values in the second half, was partially offset by planned investment to grow the business, as well as the impact of ongoing industry fee pressure.

LGC operating profit increased by 10% due to strong performance in the division's £1.1bn (2015: £0.9bn) direct investment portfolio which delivered £121m (2015: £69m) operating profit, of which 44% (2015: 28%) came from earnings in LGC's operating businesses, including CALA Homes.

LGI operating profit was flat year-on-year, in part as a consequence of a £39m lower expected release from the UK retail protection back book, and adverse claims experience of £43m, primarily in group protection. The 2015 comparator for LGI was impacted by one-off reserve strengthening primarily relating to the modelling of reinsurance contracts in retail protection.

Profit before tax attributable to equity holders increased 17% to £1,582m (2015: £1,355m)

In 2016 profit before tax has increased by £227m on the back of the 11% increase in adjusted operating profit. In addition, positive investment and other variances contributed £80m (2015: £(75)m), demonstrating diversification benefits across the Group. This included £162m (2015: £(116)m) in LGC, primarily due to the traded assets portfolio outperforming our long term economic assumptions, and £36m (2015: £78m) in LGR. This was partially offset by £(123)m (2015: £(44)m) in LGI driven by a reduction in UK government bond yields of c.85bps which impacted the discount rate used to calculate the reserves for our UK protection liabilities.

The Group had a net loss on disposal in 2016 of £60m (2015: £25m) following the sale of Cofunds, IPS and Suffolk Life.

Additionally, the Group booked a £66m (2015: £8m) provision in respect of the closure of our Kingswood office. No further related costs are expected in the future.

BALANCE SHEET

The Group's Solvency II surplus increased by £0.4bn since the half year, from £5.3bn to £5.7bn at the year end.

This incorporates management's estimate of the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at the end of 2016 as we believe this provides the most up to date and meaningful view of our Solvency II position. The conditions set out by the PRA to allow a formal recalculation of the Group's TMTP were not met as at end 2016 but, in line with PRA guidance, a formal recalculation will take place no later than 1st January 2018.

As we stated at our Capital Markets Event on 5th December 2016, to assist with peer comparability, going forwards we will lead with coverage ratio defined on a shareholder basis which progressed from 163% at the half year to 171% at the year end. On a proforma basis of calculation, our Solvency II coverage ratio increased from 158% at the half year to 165% at the year end. The surplus is the same on both bases.

The Group remains focused on delivering appropriate returns on capital. In 2016, our Solvency II new business strain was less than £100m in a year when we wrote a record £7bn of new annuity business as we continued to deliver our capital efficient strategy.

OUTLOOK

We remain confident in outlook for the Group as our strategy is aligned to, what we believe to be, established long term growth drivers of; ageing demographics; globalisation of asset markets; creating new real productive assets; reform of the welfare state; technological innovation; and providing "today's capital". Our focus on attractive high growth markets, coupled with increasing expertise, is expected to deliver further profit growth, built on our resilient IFRS and Solvency II balance sheets. With further political and economic uncertainty anticipated in 2017 and beyond, we expect further market volatility. The risk of slowing global economic activity remains and no business model can be fully immunised. However, we believe the opportunities available to the Group, primarily in the UK and US, remain attractive.

Our operating model is built on clear synergies between our core divisions. LGIM is the UK market leader in providing LDI solutions to defined benefit (DB) pension scheme clients, which can be a precursor to pension risk transfer (PRT) transactions in LGR, such as the £1.1bn Vickers Group Pension Scheme buy-out in 2016. LGR, the market leader in UK PRT, has over £54bn of assets actively managed by LGIM and potential for matching adjustment compliant direct investments being developed by LGC. LGI provides significant Solvency II diversification benefits contributing to sustainable levels of new business surplus in the Group.

In **LGR**, demand for pension de-risking strategies remains strong. We are currently quoting on c.£13bn of buy-in and buy-out deals in the UK. We will remain disciplined in the deployment of our capital, and will only select PRT and longevity opportunities that meet our return on capital hurdle rates. In October 2016, we commenced a distribution agreement with Aegon to offer our individual annuities to their pension customers with sales of c.£190m expected in the first 12 months. The lifetime mortgage market is expected to grow to £2.8bn in 2017 and we anticipate writing c.£0.8bn of new business in the year.

LGIM is targeting further outperformance of market net fund flows. The business will maintain a client focused, low cost fee model, however, we anticipate further fee pressure in the asset management industry. We will continue our investment in technology, client propositions and overseas distribution to maintain momentum in net flows. Our market leading Solutions business is well placed to support DB pension schemes as they de-risk. In the defined contribution (DC) market, LGIM continues to gain market share and we expect the number of members of our workplace schemes to increase to around 2.5m in 2017. We expect our US business to expand its asset base in Index, Active Fixed Income and Solutions as we seek to establish ourselves as a leading US pension solutions provider.

LGC is planning to invest over £0.5bn of shareholder capital in direct investments in 2017. In Housing, we plan to expand our build to sell and build to rent businesses into affordable and senior living, which will incorporate modern factory construction methods. For the Infrastructure sector, we will build on our successful Urban Regeneration model, increasing the number of cities we invest in. We will also expand our SME funding initiatives across equity and new debt products. We expect our operating profit and profit before tax from LGC's direct investments to grow further in 2017 and beyond. We are also targeting proceeds of c.£250m from asset disposals, representing an uplift to our carrying values at the year-end 2016. LGC's £3.8bn traded asset portfolio significantly outperformed our long term assumptions in 2016, however, we do not anticipate a similar outperformance in 2017.

In **LGI**, we expect operating profit to grow in 2017 as we have started the process of addressing areas of poor performance in our UK group protection business. Although operating in a mature sector, our UK leading retail protection business is targeting further operating profit growth in 2017, and will continue to provide good customer outcomes and attractive returns for our shareholders. We will also focus on accelerating the digital transformation of our US protection business including diversifying distribution and products, building on our proven expertise in the UK.

In **General Insurance**, we see the potential to grow the business through distribution agreements and increased growth in the direct channel. Recently signed distribution agreements in aggregate are expected to increase gross premiums by c.10% in 2017. Despite recent poor weather in the UK, General Insurance has had a strong start to 2017, however, exceptional weather events can impact future profitability.

Our **Mature Savings** operation is largely closed to new business. We will continue to focus on customer service whilst actively managing costs.

FULL YEAR DIVIDEND UP 7%

In March 2016, Legal & General adopted a progressive dividend policy reflecting the Group's expected medium term underlying business growth, including net release from operations and operating earnings. There is no change to this dividend policy.

In line with our policy, the Board has considered the best trajectory of dividend growth, taking into account sustainability across a wide range of economic scenarios and the Group's anticipated financial performance. Accordingly, the Board has recommended a final dividend of 10.35p (2015: 9.95p) giving a full year dividend of 14.35p (2015: 13.40p), 7% higher than 2015.

LEGAL & GENERAL RETIREMENT

FINANCIAL HIGHLIGHTS £m	2016	2015
Release from operations	**433**	374
New business surplus	**159**	45
Net release from operations	**592**	**419**
Experience variances, assumption changes, tax and non-cash movements	**219**	222
Operating profit	**811**	**641**
Investment and other variances	**36**	78
Profit before tax	**847**	**719**
Back book acquisitions	**2,945**	-
UK PRT	**3,338**	1,977
International PRT	**347**	440
Individual annuity single premiums	**378**	327
Lifetime mortgage advances	**620**	201
Longevity insurance[1]	**900**	-
Total LGR new business	**8,528**	**2,945**
Annuity net inflows (£bn)	**4.3**	0.4
Total annuity assets (£bn)	**54.4**	**43.4**

1. Represents a reinsured longevity insurance deal transacted in December 2016. The £900m quoted represents the notional size of the transaction and is based on the present value of the fixed leg cashflows discounted at the LIBOR curve.

INCREASED SCALE AND PROFITABILITY

LGR had another strong financial performance in 2016 achieving record profits. Total new business was up 190% at £8.5bn (2015: £2.9bn).

Release from operations increased 16% to £433m (2015: £374m), reflecting the growth in the scale of the business over the last few years and the release of prudential margins associated with that larger annuity fund. This also includes a contribution from our Legal & General Home Finance business.

Net release from operations increased 41% to £592m (2015: £419m) with new business surplus of £159m (2015: £45m) reflecting higher levels of new business and greater use of longevity reinsurance. UK annuity sales delivered a 10.4% new business margin on SII capital.

Operating profit increased to £811m (2015: £641m) which included increased favourable mortality experience compared to our best estimate assumptions. However, we have not made any material adjustments to our forward-looking longevity assumptions despite the recurrence of further positive in-year longevity experience.

STRONG DEMAND FOR DE-RISKING STRATEGIES

The need for products and services to manage the consequences of ageing populations is increasing, and our strategy is to be at the forefront of providing those products and services. Our core business themes of Global Pension Risk Transfer for our corporate customers and Individual Retirement Choices for our retail customers are there to meet these substantial and growing needs.

Global Pension Risk Transfer

In 2016, LGR completed £3,685m (2015: £2,417m) of buy-in and buy-out transactions and a longevity insurance transaction of £900m.

2016 was a good year for the UK pension de-risking market. LGR achieved the largest pension buy-out of the year with £1.1bn Vickers Group Pension Scheme, part of the Rolls-Royce Group, covering over 11,000 members. This transaction further demonstrates the strength of our de-risking proposition as we transitioned Vickers from a liability driven investment (LDI) customer in 2007 to a full buyout in 2016. In addition, we completed £1.5bn of buy-ins with the ICI Pension Fund, including £750m in the fortnight after the EU referendum vote. In the US we completed six bulk deals in 2016 totalling $448m premiums. We also transacted a £900m longevity insurance deal in December 2016 which we expect to fully reinsure.

The UK private sector defined benefit market is estimated to have £2.1 trillion liabilities, with only c.5% transacted to date. Two thirds of large pension plans expect to use pension risk transfer by 2020, and consequently our UK market pipeline for pension risk transfer remains strong. We are currently quoting on c.£13bn of UK buy-in and buy-out deals and a variety of longevity insurance opportunities. Whilst lower real yields increase the average pension fund deficit, the impact on pension funds depends on the amount of LDI hedging they have done, the extent to which equities have been switched to bonds, and the extent to which equities have been diversified globally with or without currency hedging. We estimate that nearly 50% of the interest rate and inflation risk has been removed from the UK private sector defined benefit system.

Pension funds are increasingly looking to de-risk in steps that can include tranches of pensioner buy-ins, top-slicing, or longevity insurance as a first step. Pension funds do not need to be fully funded or fully hedged to make progress. Legal & General is well placed for this incremental approach as a financially sound partner, committed to the pension risk transfer market. We are unique in being able to offer all possible pension risk transfer and DB pension de-risking steps.

Our aim is to recreate this disciplined approach in the US, with our US PRT business making progress in 2016. Our reinsurance hub, L&G Re, A 'plus' rated, in a Solvency II equivalent regime, and with registered reinsurer status in the Netherlands, allows us to participate as a reinsurer in the Dutch pension risk transfer market.

Individual Retirement Choices

Sales of individual annuities and lifetime mortgages reached £1bn in LGR's Retail Customer business in 2016. This business area now manages almost £20bn in assets for its 500,000 individual annuity customers. Chris Knight was appointed Managing Director of this business in January 2017.

Individual annuity sales were up 16% on 2015 at £378m (2015: £327m) and are set to grow further in 2017. In July, we agreed an arrangement with Aegon where Legal & General would be Aegon's preferred supplier of annuity business from October 2016. We expect this arrangement to increase LGR's individual annuity volumes by approximately 50%.

Legal & General Home Finance has made an exceptionally strong entry into the Lifetime Mortgage market since April 2015, writing £620m in 2016 (2015: £201m), and now has over 10,000 customers. The market is expected to grow substantially from £2.2bn of annual lending in 2016. This fact coupled with an estimated £1.5 trillion of housing equity currently owned by the over 55s in the UK, makes the long-term growth characteristics of this market strong. Additionally, we are helping to solve the problem of interest-only mortgages for those who have high levels of equity in their house.

In 2016 we signed distribution agreements with Santander and continue to broaden our distribution to offer lifetime mortgages. We anticipate that this will result in up to an additional £100m of lifetime mortgages per annum. We secured Solvency II matching adjustment treatment from the PRA for our lifetime mortgages in Q4 2016.

Industry consolidation

The combination of Freedom & Choice in Pensions and the introduction of the EU's Solvency II regime has already led to consolidation among individual annuity providers. We participated in this consolidation in May 2016 with the acquisition of a £2.9bn back book of individual annuities from Aegon. We expect there to be further consolidation opportunities over time but we will only pursue these if they have sufficiently attractive return characteristics.

ONGOING CREDIT AND ASSET MANAGEMENT

Credit portfolio management

LGR's £54.4bn asset portfolio backing its IFRS liabilities is well diversified. We hold £2.7bn of IFRS credit default reserves (2015: £2.2bn) against these assets and have experienced less than £10m in defaults in the last 5 years, with no defaults in 2016. Within the £49.5bn bond portfolio, just over 2/3rds of the portfolio is A-rated or better, 29% BBB-rated and 2% sub-investment grade. The bond portfolio has 14% in gilts, 5% in Banks, 4% in Energy, Oil & Gas, and 5% in bonds in the property sector, illustrating the high degree of diversification in the portfolio.

Direct Investment

Our direct investment portfolio is secured through directly negotiated covenants and security or collateral. This portfolio is now £8.1bn, (2015: £5.7bn) including £852m in lifetime mortgages, and makes up c.15% of the assets within the annuity portfolio. With the Group's balance sheet size and the long term nature of LGR's liabilities, LGR is able to invest in assets of size and term that differentiates it from many other investors. The ability to self-manufacture attractive assets to back annuities, working with LGIM, LGC, or through lifetime mortgages, is an important feature of LGR's business as the hunt for yield continues with lower for longer interest rates.

In 2016 LGR has invested over £2bn in direct investments, including infrastructure, housing and lifetime mortgages, over double last year's investment. Notable investments in 2016 include the funding of the new Amazon distribution centre in Tilbury, and the third berth at the London Gateway port.

LEGAL & GENERAL INVESTMENT MANAGEMENT

FINANCIAL HIGHLIGHTS £m	2016	2015
Management fee revenue	**714**	651
Transactional revenue	**30**	43
Total revenue	**744**	**694**
Total costs	**(372)**	(335)
Asset management operating profit	**372**	**359**
Workplace Savings (admin only) operating loss[1]	**(6)**	**(4)**
Operating profit	**366**	355
Investment and other variances	**(32)**	(20)
Profit before tax	**334**	**335**
Net release from operations	**286**	**281**
Cost:income ratio[2] (%)	**49**	48
External net flows (£bn)	**29.2**	37.7
Internal net flows (£bn)	**2.0**	(2.1)
Disposal of LGF assets (£bn)	**-**	(2.3)
Total net flows (£bn)	**31.2**	**33.3**
Of which international (£bn)	**14.5**	9.5
Persistency (%)	**91**	92

£bn	2016	2015
Assets under management, including overlay assets[3]	**894.2**	746.1
Advisory assets	**7.8**	10.5
Total assets	**902.0**	**756.6**
Of which:		
- International assets under management, including overlay assets[3]	**177.4**	122.4
- Advisory assets	**7.8**	10.5
- Total international assets	**185.2**	**132.9**
Assets under administration – Workplace Savings	**20.8**	**14.7**

1. Represents Workplace Savings admin only and excludes fund management profits.
2. Excluding Workplace Savings and recoverable market data costs which are treated as a cost of sale.
3. Assets under management include overlay assets, which represent the notional value of derivative instruments on which LGIM earns fees. Fees are charged on notional values and as such are not subject to positive or negative market movements.

STRONG PERFORMANCE IN UNCERTAIN ENVIRONMENT

LGIM continues to expand its business across channels, regions and product lines. External net flows were £29.2bn (2015: £37.7bn), contributing to 20% growth in assets under management (AUM) to £894.2bn (2015: £746.1bn). Revenues from management fees were up 10% to £714m (2015: £651m), while transactional revenues were lower at £30m (2015: £43m) due to the decision to discontinue box profits (2015: £11m). Operating profit increased by 3% to £366m (2015: £355m), reflecting higher AUM growth occurring later in the year, partially offset by planned investment to grow the business, and ongoing industry fee pressure.

The International business experienced net inflows of £14.5bn (2015: £9.5bn), with a particularly strong performance in the US business and higher flows in Europe, the Gulf and Asia. The DC business continued to expand, with net inflows of £2.0bn (2015: £2.9bn) driven by our bundled business, which offers investment and administration services to DC schemes. The retail business experienced net inflows of £1.4bn (2015: £1.2bn) and was ranked third in UK net sales in 2016 (Source: Pridham), despite challenging retail market conditions.

BREADTH OF INVESTMENT MANAGEMENT SOLUTIONS

Asset movements £bn	Index funds	Active fixed income	Solu-tions	Real assets	Active equities	Total AUM	Advisory assets	Total assets
At 1st January 2016	**274.3**	**106.8**	**338.2**	**18.3**	**8.5**	**746.1**	**10.5**	**756.6**
External inflows	35.2	10.8	19.9	1.4	-	67.3		67.3
External outflows	(45.0)	(6.5)	(12.4)	(1.2)	(0.2)	(65.3)		(65.3)
Overlay / advisory net flows	-	-	27.2	-	-	27.2	(5.4)	21.8
External net flows	**(9.8)**	**4.3**	**34.7**	**0.2**	**(0.2)**	**29.2**	**(5.4)**	**23.8**
Internal net flows	(0.3)	1.5	-	0.7	0.1	2.0	-	2.0
Total net flows	**(10.1)**	**5.8**	**34.7**	**0.9**	**(0.1)**	**31.2**	**(5.4)**	**25.8**
Cash management movements	-	(0.7)	-	-	-	(0.7)	-	(0.7)
Market and other movements	55.6	22.9	39.0	0.4	(0.3)	117.6	2.7	120.3
At 31st December 2016	**319.8**	**134.8**	**411.9**	**19.6**	**8.1**	**894.2**	**7.8**	**902.0**

Total AUM increased 20% to £894.2bn (2015: £746.1bn). Total external net inflows were £29.2bn (2015: £37.7bn) despite political and economic uncertainty and represent c.4% of opening AUM. Positive flows across our main product lines, client channels and regions demonstrate the breadth of LGIM's business model. In a challenging year for active managers in which the majority underperformed, LGIM delivered consistent strong performance for its active clients, with the majority of our funds outperforming their respective benchmarks over the past one, three and five years.

Solutions net inflows were strong at £34.7bn (2015: £34.7bn), as DB pension schemes implement LDI strategies and DC schemes seek a range of multi-asset and drawdown strategies.

Index external net outflows were £9.8bn in 2016 (2015: £5.4bn). Net outflows were largely from UK DB clients switching into other products, primarily Solutions. There were net inflows from international and retail clients as the Index business diversifies. We are well positioned for the continued de-risking of DB schemes, taking clients from traditional index strategies, through LDI and multi-asset capabilities, to solutions that combine LDI and credit.

Net external inflows into Active Fixed Income of £4.3bn (2015: £7.7bn) were driven primarily by institutional clients in the UK and US with growing demand from clients in other regions.

The Retail business has performed well despite net industry sales falling to their lowest level since 1995 (Source: Pridham report). Against this backdrop, the business has gained market share and AUM increased to £24.1bn (2015: £19.9bn).

Real Assets was adversely impacted by fewer transactions in the property market in 2016. All of LGIM's unitised property funds remained open post the EU Referendum vote, and net inflows resumed in Q4 contributing to overall AUM of £19.6bn (2015: £18.3bn). We continued to develop innovative direct investment solutions to meet our clients' needs, such as the recently launched Build to Rent fund.

WORKPLACE PENSIONS BENEFIT FROM SME MARKET

LGIM is well positioned to benefit from the rapid growth of the UK DC market, experiencing a 23% increase in customers on our Workplace platform to more than 2.2m (2015: 1.8m). Net flows were £2.0bn (2015: £2.9bn) and contributed to £20.8bn of assets on our Workplace platform. In 2016, LGIM acquired a 16.5% stake in Smart Pension, an online auto-enrolment platform, which has enhanced our presence in the SME market. The number of pension schemes supported by the DC business has grown to over 9,400 (2015: 4,376). Total LGIM DC AUM increased by 24% to £57.1bn (2015: £46.1bn).

INTERNATIONAL EXPANSION CONTINUES

LGIM delivered strong net inflows of £14.5bn (2015: £9.5bn) in its international businesses. Total International AUM was £177.4bn, a 45% increase (2015: £122.4bn). Along with positive flows and rallying equity markets, the devaluation of sterling during the year had a significant impact on the increase in AUM.

Net inflows in the US business were £9.4bn (2015: £6.3bn), with significant growth in Index and continued strength in Solutions and Fixed Income. In November 2016, Aaron Meder was appointed Chief Executive Officer of LGIM America.

European net inflows were £2.6bn (2015: £2.0bn), driven by growing interest in our index and multi-asset products and supported by the launch of additional products. In the Gulf, net inflows were £1.6bn (2015: £0.6bn). Asian net inflows for the period were £0.8bn (2015: £0.8bn). In Japan, we signed a second co-operation agreement, are establishing a regional office in Tokyo, and in Hong Kong we are developing our trading and fund management capabilities.

LEGAL & GENERAL CAPITAL

FINANCIAL HIGHLIGHTS £m	2016	2015
Net release from operations	**214**	**187**
Operating profit from:		
UK Housing	**61**	31
Infrastructure	**51**	33
SME finance	**10**	5
Direct investment operating profit	**121**	**69**
Traded investment portfolio	**122**	154
Treasury assets	**14**	10
Total operating profit	**257**	**233**
Investment and other variances	**162**	(116)
Profit before tax	**419**	**117**

DIRECT INVESTMENT PORTFOLIO[1] £m	2016	2015
UK Housing	**392**	345
Infrastructure	**591**	428
SME Finance	**154**	94
	1,137	**867**
TRADED PORTFOLIO[2] £m		
Equities	**1,714**	1,552
Fixed income	**492**	480
Multi-asset	**150**	133
Cash	**1,418**	1,048
	3,774	**3,213**
LGC investment portfolio	**4,911**	**4,080**
Treasury assets at holding company £m	**1,282**	1,585
Total	**6,193**	**5,665**

1. Direct Investment portfolio excludes two LGC assets valued at £91m at 31 December 2016 which have entered advanced disposal negotiations and are classified as "assets held for sale" and reported separately.
2. Traded portfolio in 2015 restated to show reclassification of assets held within underlying fund structures.

DIRECT INVESTMENT STRATEGY DELIVERS RECORD PROFITS

The direct investment portfolio delivered operating profit of £121m (2015: £69m) and profit before tax of £94m (2015: £73m), representing a net portfolio return of 9.0% (2015: 9.2%). Direct investments increased 31% to £1,137m (2015: £867m).

Since it was established in 2013, LGC has trebled its total direct investments to over £1bn, with investments in all its key sectors of UK Housing, Infrastructure and SME finance. Driven by long term social and economic trends, LGC invests in enterprises where funding gaps exist which we expect to be met through future long term direct investors. We target attractive risk-adjusted returns for shareholders by building successful platforms and generating returns by delivering the direct investment pipeline. We work alongside trusted partners with proven experience in several joint ventures in a disciplined way. Innovative direct investing attracts long term co-investors which further underpins improved UK growth. We also create investment opportunities for our LGR business. Throughout, we ensure we meet our Group liquidity requirements and maintain the Group's capital strength. We are planning to invest over £0.5bn of shareholder capital in direct investments in 2017.

We are also targeting proceeds of c.£250m from asset disposals which will deliver additional funding for re-investment. We are already in discussions with external parties to dispose of several developed property assets in our portfolio, including One Central Square in Cardiff, thus demonstrating the liquidity of our direct investment strategy.

Operating profit for direct investments is calculated as a share of the investments' own trading profits less costs or a smoothed IRR basis. Direct investment trading profits from our operating businesses, such as CALA Homes, are recognised as our share of their profit before tax, and delivered £53m, representing 44% of direct investment operating profit (2015: £19m, 28%). For projects, profit before tax is based on an independently verified valuation plus any net revenue from these assets.

Housing operating profit increased 97% to £61m in 2016 (2015: £31m), assets increased to £392m (2015: £345m)

CALA Homes[1] had a very strong year to 31st December 2016, delivering a record number of homes sold of 1,476, and revenues of £718m, 62% and 43% increases respectively from the previous year. This delivered profit before tax for LGC, net of expenses, of £31m (2015: £16m). In the second half of 2016, CALA Homes secured planning consent on 15 sites, which is expected to deliver 1,533 new homes with a gross development value (GDV) of £648m.

LGC launched a build-to-rent JV with PGGM in early 2016 which, including the newly created L&G managed build to rent fund, now has £940m of committed funds and over 900 homes under development in Walthamstow, Bristol and Salford. Work has also started to build 1000 new homes at our 250-acre site at Crowthorne with a GDV of approximately £450m. We also launched a modular homes business which will modernise home building with innovative precision built modular housing. Strong interest is being seen from prospective buyers.

Infrastructure operating profit increased 55% to £51m in 2016 (2015: £33m), assets increased to £591m (2015: £428m)

During 2016, the urban regeneration business continued to grow. In Cardiff, our investment in One Central Square at the site adjacent to BBC Wales' new HQ (acquired by LGR in 2015), has been 100% let, with development commencing on a third asset in 2017. The £240m Bracknell Town Centre development (The Lexicon) is progressing well towards the planned opening in September 2017. MediaCityUK (Salford) is trading well and we have agreed plans to double the size of the estate over 10 years, with a GDV of over £1bn, with LGC retaining options over the pipeline of assets.

LGC also agreed a new partnership with Newcastle City Council and University to develop the £350m Science Central 24-acre science and technology hub. This is set to create over 4,000 jobs, 500,000 sq ft of office space and 450 new homes plus asset opportunities for LGR.

In clean energy, NTR onshore wind construction fund reached final close in 2016, at €246m, with over 66% deployed, and a €500m NTR Fund II is targeted for launch in 2017.

In addition to the opportunities available through existing partners, we will continue to work with the UK Department of International Trade to identify investment opportunities across the UK.

SME Finance operating profit increased 100% to £10m in 2016 (2015: £5m), assets increased to £154m (2015: £94m)

Pemberton announced the final close of its first mid-market loan fund at the beginning of November at €1.2bn with 53% now deployed. The fund has secured commitments from 27 insurance and pension investors across Europe, the US and Asia. New strategies for 2017 include a UK Sterling loan fund and Trade Receivables fund, in total targeting €3bn AUM by the end of the year.

LGC also invested keystone funds in Accelerated Digital Ventures which is set to provide capital to the emerging UK SME sector, supported by a co-investment from the British Business Bank and Woodford Investment Management.

TRADED PORTFOLIO

LGC's traded investment portfolio delivered operating profit of £122m (2015: £154m). Treasury assets contributed a further £14m (2015: £10m) to operating profit. The investment variance on the traded investment portfolio and treasury assets was £189m (2015: £(120)m), resulting in a combined profit before tax of £325m (2015: £44m).

The traded portfolio holds a diversified set of exposures across equities, fixed income, multi-asset funds and cash. Overall, operating profit has decreased by 21% in the year following a re-positioning of the portfolio, reducing risk through holding more cash and increased hedging activity, leading to a reduced return expectation. The portfolio performed above assumed returns over the year, benefiting from positive equity market performance in particular UK and Emerging Market exposures. The portfolio also benefited from a currency translation effect on foreign holdings, notably on USD denominated assets, from the devaluation of GBP following the market reaction to the outcome of the EU Referendum.

LGC holds cash for a variety of reasons including working capital, collateral to cover derivative trades and cash awaiting longer term investment. In addition, Group Treasury holds cash and near cash investments to cover a range of uses including working capital, upcoming interest and dividend payments, derivative collateral requirements and contingency funding for the Group. The treasury liquid assets also include working capital balances from various business units.

1. LGC owned a 47.9% share in CALA Homes as at 31st December 2016. Performance metrics are based on CALA Homes calendar year, with data sourced from the company's unaudited management accounts as its financial year-end is 30th June.

LEGAL & GENERAL INSURANCE

FINANCIAL HIGHLIGHTS[1] £m	2016	2015
Release from operations	**317**	328
New business surplus	**23**	25
Net release from operations	**340**	**353**
Experience variances, assumption changes, tax, international and non-cash movements	**(23)**	(38)
Operating profit	**317**	**315**
- UK	216	204
- US	85	83
- Netherlands	16	16
- France[2]	-	12
Investment and other variances	**(123)**	(44)
Profit before tax	**194**	**271**
UK Protection new business annual premiums	**228**	231
Retail Protection gross premiums	**1,179**	1,112
Group Protection gross premiums	**333**	330
US Protection gross premiums	**897**	773
Total UK and US gross premiums	**2,409**	**2,215**

1. Reported consolidated numbers reflect the new Insurance divisional structure announced in 2016.
2. Legal & General France disposal completed on 31st December 2015.

In November 2016, the Group announced the formation of Legal & General Insurance (LGI) which combined our UK and US Protection businesses, with Bernie Hickman appointed Chief Executive Officer. The new Insurance division provides life insurance, critical illness cover, and income protection to over 7 million individuals and company employees in the UK and US.

LGI UK

CONTINUED GROWTH IN PREMIUM INCOME

Retail Protection gross premium income increased 6% to £1,179m (2015: £1,112m) with new business annual premiums of £170m (2015: £162m). We remain the leading provider of Retail Protection in the UK and benefit from a highly efficient automated underwriting model and broad distribution reach. Our direct distribution channel delivered Retail Protection new business APE of £31m, representing 7% growth on 2015 and accounts for 18% of new business APE (2015: £29m, 18% of new business APE). Group Protection gross premium income was £333m (2015: £330m) with new business of £58m (2015: £69m).

Legal & General Mortgage Club facilitated £53bn of mortgages in 2016 (2015: £46bn) through strong partnerships with top lenders and over 10,000 mortgage brokers. As the largest participant in the intermediated mortgage market in the UK, we are now involved in one in five of all UK mortgage transactions. Legal & General Surveying Services continues to deliver a strong performance, completing over 523,000 surveys (2015: 482,000).

SUSTAINED OPERATING PROFIT

Release from operations from our UK business was lower at £185m (2015: £244m) following the change to the modelling of reinsurance contracts in retail protection in 2015, to ensure sufficient prudence is being held in later years. New business surplus was £23m (2015: £25m) driven primarily by the competitive market environment and refinement of our models.

LGI UK operating profit increased 6% to £216m (2015: £204m), with the one-off reserve strengthening impacting the 2015 comparator, partially offset by the lower net release from operations and £43m adverse claims experience, primarily in group protection where we reinsure significantly less risk than on our retail protection book.

We expect 2016 to be the LGI UK operating profit base level from which the business will grow in 2017 and onwards, with continued growth in retail protection supported by an improved group protection performance as we address specific areas of poor performance.

PROFIT BEFORE TAX IMPACTED BY INTEREST RATES

LGI UK's profit before tax reduced to £84m (2015: £226m), as a result of a negative investment variance of £(132)m (2015: £22m) following a reduction in UK government bond yields of c.85bps which impacted the discount rate used to calculate the reserves for our UK protection liabilities.

LGI US

FINANCIAL HIGHLIGHTS $m	2016	2015
Net release from operations	**91**	**83**
Operating profit	**115**	**125**
Gross premium income	**1,220**	1,183

INCREASED CONTRIBUTION TO CASH AND PROFITS

Net release from operations increased by 10% (17% on a sterling basis) to $91m (2015: $83m). This represents the dividends paid by Legal & General America to the Group.

Operating profit decreased 8% (up 2% on a sterling basis) to $115m (2015: $125m), primarily due to higher mortality experience with profit before tax of $119m, up 13% (27% on a sterling basis).

Gross premium revenue increased 3% (16% on a sterling basis) to $1,220m (2015: $1,183m) due to continued strong persistency of our core term product. LGI US is the tenth largest provider of term life assurance by annual premium equivalent in the US and is the fourth largest provider through the brokerage channel. LGI US has 1.2m policies in force (2015: 1.2m).

In 2015, LGI US adjusted its protection new business pricing to be better positioned in the market. These changes allowed for the pricing of risk at a more granular level which has raised prices at lower margin price points and reduced prices elsewhere. The impact of this has been improved new business margins and reduced new business volumes. LGI US maintained this disciplined approach in 2016, resulting in a strong Solvency II new business margin of 12.4%. New annual premiums decreased 21% to $84m (2015: $106m).

Legal & General America paid its 2017 dividend in February of this year, up 10% to $100m (2015: $91m).

GENERAL INSURANCE

FINANCIAL HIGHLIGHTS £m	2016	2015
Net release from operations	**42**	**41**
Experience variances, assumption changes, tax and non-cash movements	**10**	10
Operating profit	**52**	**51**
Investment and other variances	**16**	(8)
Profit before tax	**68**	**43**
General Insurance gross premiums	**326**	337
Combined operating ratio (%)	**89**	89

INCREASE IN PROFITS AND DIRECT PREMIUM INCOME

Operating profit increased to £52m (2015: £51m) with a combined operating ratio of 89% (2015: 89%). This was despite the introduction of the annual Flood Re levy of £9m which added 3% to the combined operating ratio.

General Insurance gross premiums were down 3% at £326m (2015: £337m) as we maintained pricing discipline in a competitive market. Our direct business delivered GWP of £121m in 2016, representing 20% growth on 2015 and now accounts for 37% of gross premiums (2015: £101m, 30% of gross premiums).

In December 2016, Cheryl Agius was appointed Chief Executive Officer of General Insurance. The division has 1.3m policyholders (2015: 1.4m) covering household, travel and pet insurance products. Additionally, General Insurance signed distribution agreements with several leading UK financial institutions which in aggregate are expected to increase 2017 gross premiums by around 10%.

SAVINGS

FINANCIAL HIGHLIGHTS £m	2016	2015
Release from operations	**104**	125
New business strain	**(5)**	(9)
Net release from operations	**99**	**116**
Experience variances, assumption changes, tax and non-cash movements	**-**	(9)
Operating profit	**99**	**107**
- Mature Savings	105	106
- Digital Savings	(6)	1
Investment and other variances	**9**	3
Net profit / (loss) on disposals	**(60)**	-
Profit before tax	**48**	**110**

LOWER CONTRIBUTION FROM MATURE SAVINGS

Release from operations reduced to £104m (2015: £125m) as we continue to manage the reducing contribution from our declining Mature Savings business. Net release from operations was £17m lower at £99m (2015: £116m), with new business strain of £5m (2015: £9m) as we actively manage the cost base.

Operating profit in Mature Savings remains strong at £99m (2015: £107m). The introduction of robotics has increased automation and allowed us to reduce unit costs. Favourable market movements contributed £9m (2015: £3m) to profit before tax.

The Group completed the sale of Cofunds and IPS to Aegon on 1st January 2017 for a total consideration of £147.5m, resulting in a £64m impairment loss in 2016. On 25th May 2016, the Group announced the completion of the sale of Suffolk Life to Curtis Banks Group for £45m, resulting in a £4m profit on disposal.

The Digital Savings operating loss in 2016 was £6m (2015: £1m operating profit).

Mature Retail Savings business outflows of £(3.0)bn (2015: £(5.8)bn), and assets under administration of £30.7bn (2015: £29.6bn).

Mature Savings outflows reduced year on year due to the reducing maturity profile of some products, particularly Endowments. Since the introduction of the Pensions Reform legislation we have seen an increase in the proportion of customers wishing to take their pension pots as cash withdrawals, with c.80% or 13,000 customers, electing to take cash payments. Our average payment size is £14k. This compares to c.60% of customers taking cash before the reform legislation was announced.

DISPOSALS

On 1st January 2017, the Group completed the sale of Cofunds and IPS to Aegon for total consideration of £147.5m. The Cofunds business was acquired in stages between 2005 and 2013, for a total cash consideration of £153m. Investment in Cofunds subsequent to the acquisition as well as our IPS platform, including capitalised costs in respect of the Retail Distribution Review, resulted in an impairment loss of £64m. This was offset by a £4m profit on disposal of Suffolk Life, resulting in total net loss on disposals of £60m in 2016.

In November 2016, Legal & General reached an agreement in principle with Chesnara plc to sell Legal & General Nederland Levensverzekering Maatschappij N.V. for €160m. The sale is expected to complete in H1 2017. During the year, Legal & General Netherlands contributed £70m (2015: £29m) of dividends to LGI due to a favourable surplus capital position.

The sale of Legal & General France to APICIL Prévoyance completed on 31st December 2015.

NET RELEASE FROM OPERATIONS BACKED BY DIVIDENDS TO GROUP

The 2016 full year dividend of £854m reflects net release from operations coverage of 1.65 times (2015: 1.58 times).

	2016			2015		
£m	Net release from operations	Subsidiaries' dividends to Group	Dividend % of Net release from operations	Net release from operations	Subsidiaries' dividends to Group	Dividend % of Net release from operations
Total	**1,411**	**1,085**	**77**	**1,256**	**1,003**	**80**
External dividend	**854**			**797**		
Dividend coverage	**1.65**			**1.58**		

BORROWINGS

Legal & General continues to have a strong liquidity position reflecting its requirements for working capital and derivative collateral. The Group's outstanding core borrowings total £3.1bn (2015: £3.1bn). There is also a further £0.4bn (2015: £0.5bn) of operational borrowings including £0.2bn (2015: £0.6bn) of non-recourse borrowings.

Group debt costs of £172m (2015: £153m) reflect an average cost of debt of 5.4% per annum (2015: 5.3% per annum) on average nominal value of debt balances of £3.2bn (2015: £2.9bn).

TAXATION - EFFECTIVE TAX RATE OF 20.0%

Equity holders' Effective Tax Rate (%)	2016	2015
Equity holders' total Effective Tax Rate	**20.0**	19.3
Annualised rate of UK corporation tax	**20.00**	20.25

In 2016, the Group's effective tax rate was in line with the UK corporation tax rate. This reflects the overall positive impact from differences between the measurement of accounting and taxable profits, offset by the average higher rates of taxes applied on overseas profits.

SOLVENCY II

As at 31st December 2016, the Group had an estimated Solvency II surplus of £5.7bn over its Solvency Capital Requirement, corresponding to a Solvency II coverage ratio of 171% on a shareholder basis. The Cofunds disposal, which completed on 1st January 2017, will provide a c.1.5% coverage ratio benefit in 2017.

Capital (£bn)[1]	2016	2015
Own Funds	**13.6**	12.8
Solvency Capital Requirement (SCR)	**(7.9)**	(7.3)
Solvency II surplus	**5.7**	**5.5**
SCR coverage ratio (%)	**171%**	**176%**

1. Solvency II position on a shareholder basis as at 31st December and before the accrual of the final dividend.

Analysis of movement from 1st January to 31st December 2016 (£bn)	Solvency II surplus
Operational surplus generation	1.2
New business strain	(0.1)
Net surplus generation	**1.1**
Dividends paid	(0.8)
Operating variances	0.2
Market movements	(0.3)
Total surplus movement (after dividends paid in the year)	**0.2**

The increase in surplus reflects the surplus generated over 2016 net of dividends paid of £0.8bn and interest payments on the Group's debt of £0.2bn. The net surplus generation was £1.1bn, after allowing for the amortisation of 1/16th of the opening Transitional Measures on Technical Provisions (TMTP). New business strain was £0.1bn. The total surplus generation includes a negative investment variance of £0.3bn reflecting market movements over 2016, in particular falls in risk free rates.

Operating variances include the impact of experience variances, changes to valuation and capital calibration assumptions, changes to planned volumes of new business, tax rate changes, PRA approval of changes to the Internal Model and Matching Adjustment, (in particular the inclusion of Lifetime Mortgages as assets eligible for Matching Adjustment), and other management actions including changes in asset mix and hedging strategies.

When stated on a proforma basis, including the SCR attributable to our With-profits fund of £0.5bn and the final salary pension schemes of £0.2bn in both the Group's Own Funds and the SCR, the Group's coverage ratio was 165% (2015: 169%).

The analysis incorporates management's estimate of a recalculation of the TMTP as at the end of 2016. The conditions set out by the the PRA to allow a formal recalculation of the Group's TMTP were not met as at end 2016 but, in line with PRA guidance, a formal recalculation will take place no later than 1st January 2018. Therefore, the disclosed Solvency II position on a shareholder basis and proforma basis do not reflect the regulatory capital position as at 31st December 2016. This will be made public in May 2017.

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

The table below gives a reconciliation of the Group's IFRS Release from operations and Solvency II Operational surplus generation in 2016:

	£bn
IFRS Release from operations	**1.3**
Expected release of IFRS prudential margins	(0.5)
Release of IFRS specific reserves	(0.1)
Solvency II investment margin	0.2
Release of Solvency II Capital Requirement and Risk Margin less TMTP amortisation	0.4
Other Solvency II items and presentational differences	(0.1)
Solvency II Operational surplus generation	**1.2**

The table below gives a reconciliation of the Group's IFRS New business surplus to Solvency II New business strain in 2016:

	£bn
IFRS New business surplus	**0.2**
Removal of requirement to set up prudential margins above best estimate on new business	0.5
Set up of Solvency II Capital Requirement on new business	(0.7)
Set up of Risk Margin on new business	(0.1)
Solvency II New business strain	**(0.1)**

SENSITIVITY ANALYSIS

	Impact on net of tax Solvency II capital surplus 2016 £bn	**Impact on net of tax Solvency II coverage ratio 2016 %**
Credit spreads widen by 100bps assuming a level addition to all ratings	**0.4**	**10**
Credit spreads widen by 100bps assuming an escalating addition to ratings	**0.2**	**7**
Credit spreads narrow by 100bps assuming a level addition to all ratings	**(0.4)**	**(9)**
Credit spreads narrow by 100bps assuming an escalating addition to ratings	**(0.2)**	**(7)**
Credit migration	**(0.6)**	**(8)**
20% fall in equity markets	**(0.4)**	**(5)**
40% fall in equity markets	**(0.8)**	**(9)**
20% rise in equity markets	**0.5**	**5**
15% fall in property markets	**(0.2)**	**(3)**
15% rise in property markets	**0.2**	**3**
100bps increase in risk free rates	**1.0**	**22**
50bps fall in risk free rates	**(0.5)**	**(10)**
Future inflation expectation increase by 50bps	**(0.1)**	**(3)**
1% reduction in annuitant base mortality	**(0.2)**	**(2)**
1% increase in annuitant base mortality	**0.2**	**2**
Substantially reduced Risk Margin	**0.1**	**1**

The above sensitivity analysis does not reflect all of the management actions which could be taken to reduce the impacts. In practice, the group actively manages its asset and liability positions to respond to market movements. These results all allow (on an approximate basis) for the recalculation of estimated TMTP as at 31st December 2016 where the impact of the stress would cause this to change materially. The impacts of these stresses are not linear therefore these results should not be used to interpolate or extrapolate the impact of a smaller or larger stress. The results of these tests are indicative of the market conditions prevailing at the balance sheet date. The results would be different if performed at an alternative reporting date.

SOLVENCY II NEW BUSINESS CONTRIBUTION

Management estimates of the value of new business and the margin as at 31st December 2016 are shown below:

	PVNBP	Contribution from new business	Margin %
LGR[1](£m)	**6,661**	**693**	**10.4**
UK Protection Total (£m)	**1,466**	**153**	**10.4**
- Individual protection	1,255	139	11.1
- Workplace health and protection	211	14	6.6
US Protection (£m)	**631**	**78**	**12.4**

1. UK annuity business.

Key assumptions in calculating the Solvency II new business contribution are shown below:

Risk margin	**3.1%**
Risk free rate	
- UK	**1.7%**
- US	**2.1%**
Risk discount rate (net of tax)	
- UK	**4.8%**
- US	**5.2%**
Long term rate of return on non-profit annuities in LGR	**3.1%**

Demographic assumptions and reserving methodologies have been updated in line with our Solvency II and Economic Capital balance sheets. Other assumptions and methodologies that would have a material impact on the margin for these contracts are unchanged from end 2015 other than the cost of currency hedging which has been updated to reflect current market conditions and hedging activity in light of Solvency II.

PRINCIPAL RISKS AND UNCERTAINTIES

Legal & General runs a portfolio of risk taking businesses; we accept risk in the normal course of business and aim to deliver sustainable returns on risk based capital to our investors in excess of our cost of capital. We manage the portfolio of risk that we accept to build a sustainable franchise for the interests of all our stakeholders; we do not aim to eliminate that risk. We have an appetite for risks that we understand deeply and are rewarded for, and which are consistent with delivery of our strategic objectives. Risk management is embedded within the business. The Group is exposed to a number of key risk categories.

RISKS AND UNCERTAINTIES	TREND, OUTLOOK AND MITIGATION
Reserves and our assessment of capital requirements may require revision as a result of changes in experience, regulation or legislation. The writing of long-term insurance business requires the setting of assumptions for long term trends in factors such as mortality, lapse rates, valuation interest rates, expenses and credit defaults. Actual experience may require recalibration of these assumptions impacting profitability. Management estimates are also required in the derivation of Solvency II capital metrics. These include modelling simplifications to reflect that it is not possible to perfectly model the external environment, with adjustment necessitated where new data emerges. Forced changes in reserves can also arise from regulatory or legislative intervention impacting capital requirements and profitability.	We regularly appraise the assumptions underpinning the business that we write. Certain extreme events, however, could require us to adjust our reserves. For example in our annuities business, while recent trend data suggests the rate of longevity improvement may be slowing, we're inherently exposed to the risk that a dramatic advance in medical science beyond that anticipated leads to an unexpected change in life expectancy. This could require adjustment to reserves as improvements in mortality emerged. In our protection businesses, the emergence of new factors with potential to cause widespread mortality/morbidity or significant policy lapse rates may similarly require us to re-evaluate reserves. We undertake significant analysis of the variables associated with writing long-term insurance business to ensure that a suitable premium is charged for the risks we take on, and that reserves continue to remain appropriate for factors including mortality, lapse rates, valuation interest rates, expenses and credit defaults. We remain focused on developing a comprehensive understanding of longevity science and continue to evolve and develop our underwriting capabilities for our protection business. Our use of reinsurance also acts to reduce the impacts of significant variations in life expectancy and mortality.
Investment market performance and conditions in the broader economy may adversely impact earnings, profitability or surplus capital. The performance and liquidity of investment markets, interest rate movements and inflation impact the value of investments we hold in shareholders' funds and those to meet the obligations from insurance business, with the movement in certain investments directly impacting profitability. Interest rate movements and inflation can also change the value of our obligations. We use a range of techniques to manage mismatches between assets and liabilities. However, loss can still arise from adverse markets. Interest rate expectations leading to falls in the risk free yield curve can also create a greater degree of inherent volatility to be managed in the Solvency II balance sheet, than the underlying economic position would dictate, potentially impacting capital requirements and surplus capital. In addition, significant falls in investment values can reduce fee income to our investment management business.	2016 has seen volatility in financial markets as they have responded to uncertainties in the global economy and political events, such as the UK referendum on membership of the EU. For Legal & General the vote to leave has little direct impact on trading, as our customer base is located very largely in the UK, the US and Asia. It is, however, probable that a potentially lengthy period of negotiation and an uncertain outcome will create ongoing uncertainty for financial markets and the broader UK economy in which we operate; with potential for asset price shifts should uncertainty lead markets to reappraise their value. Potential also exists for renewed financial stress in Europe driven by political events and residual weaknesses in the Euro currency banking systems. Broader geo-political events also have potential to cause shocks to financial markets, with stressed conditions having potential to create illiquidity in bond markets exaggerating the impacts of any significant market correction. We model our business plans across a broad range of economic scenarios and take account of alternative economic outlooks within our overall business strategy. Our ORSA process plays an integral part in our business planning ensuring a clear link between capital sufficiency and the nature of risks to which we may be exposed. We have sought to ensure focus upon those market segments that we expect to be resilient in projected conditions. For example, investing in real assets provides both enhanced returns to our 'slow money' and reduces exposure to the volatilities of traded investments.

In dealing with issuers of debt and other types of counterparty the group is exposed to the risk of financial loss.

A systemic default event within the corporate sector, or a major sovereign debt event, could result in dislocation of bond markets, significantly widening credit spreads and in extreme scenarios trigger defaults impacting the value of bond portfolios. We are also exposed to banking, money market and reinsurance counterparties, and settlement, custody and other bespoke business services, a failure of which could expose us to both financial loss and operational disruption of our business processes. Under Solvency II, a widespread widening of credit spreads and downgrades can also result in a reduction in our Solvency II balance sheet surplus, despite already setting aside significant capital for credit risk.

A material deterioration in economic conditions inherently increases potential for a widening in credit spreads as financial markets price for increased uncertainty, which in turn may impact our Solvency II balance sheet surplus. Current factors that may trigger a reassessment include the changing global economic outlook with uncertainties following the UK referendum on EU membership and other political events potentially exacerbating down side risks; a renewed banking crisis within the Euro zone area; and default on debt linked to emerging markets.

We actively manage our exposure to default risks within our bond portfolios, setting selection criteria and exposure limits, and using the capabilities of LGIM's global credit team to ensure the risks are effectively controlled, and if appropriate trade out to improve credit quality. We also seek to closely manage risks to our Solvency II balance sheet through monitoring factors that could give rise to a heightened level of default risk. However, we can never completely eliminate default risks or their impacts to our Solvency II balance sheet, although we seek to hold a strong balance sheet that we believe to be prudent for a range of adverse scenarios.

Changes in regulation or legislation may have a detrimental effect on our strategy.

Legislation and government fiscal policy influence our product design, the period of retention of products and required reserves for future liabilities. Regulation defines the overall framework for the design, marketing, taxation and distribution of our products; and the prudential capital that we hold. Significant changes in legislation or regulation may increase our cost base, reduce our future revenues and impact profitability or require us to hold more capital. The prominence of the risk increases where change is implemented without prior engagement with the sector. The nature of long-term business can also result in some changes in regulation, and the re-interpretation of regulation over time, having a retrospective effect on our in-force books of business, impacting the future cash generation.

There remains a significant regulatory change agenda, both from the EU and from within the UK. Current changes in EU driven regulation include GDPR, UCITS V, MIFID II and PRIIPS. While over the longer term, the UK exit from the EU will potentially lead to a re-writing of some legislation, until the UK formally leaves and the UK Government legislates otherwise, EU derived legislation will remain in force. There is also the risk that EU exit negotiation proposals have unintended consequences for the operation of the UK financial services sector. There also continues to be significant change in the tax environment including the global implementation of OECD BEPS recommendations and the prospect of significant US tax reform. With regard to UK regulation, alongside the PRA ensuring the effective operation of Solvency II, the FCA continues to focus on its approach to consumer regulation, with the inherent risk that thematic reviews of historic industry practices lead to unanticipated additional costs.

We are supportive of regulation in the markets in which we operate where it ensures trust and confidence and can be a positive force on business. We seek to actively participate with government and regulatory bodies in the UK and Europe to assist in the evaluation of change so as to develop outcomes that meet the needs of all stakeholders. Internally, we evaluate change as part of our formal risk assessment processes, with material matters being considered at the Group Risk Committee and the Group Board. Our internal control framework seeks to ensure ongoing compliance with relevant legislation and regulation. We cannot, however, completely eliminate the risks that controls may fail or that historic accepted practices may be reappraised by regulators, resulting in sanction against the group.

New entrants may disrupt the landscape of the markets in which we operate.

As has been seen in other business sectors, it is possible that alternative digitally enabled providers of financial service products emerge with lower cost business models or innovative service propositions and capital structures disrupting the current competitive landscape.

There is already strong competition in all our markets, and although we have had considerable past success at building scale to offer low cost products, we recognise that markets remain attractive to new entrants. We are also cognisant of the potential for entry by scale overseas competitors who may have lower return on capital requirements and be unconstrained by Solvency II.

We are executing a digital strategy, using platforms that allow for growth and high scale. Alongside our direct insurance business that enable customers to purchase our protection products on-line, we continue to enhance our online capabilities for auto-enrolment, investment platforms and individual retirement products ensuring focus on customer engagement and the digital experience.

A material failure in our business processes or IT security may result in unanticipated financial loss or reputation damage.

We have constructed our framework of internal controls to minimise the risk of unanticipated financial loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage. We are also inherently exposed to the risk that third parties may seek to disrupt our online business operations, steal customer data or perpetrate acts of fraud using digital media.

Our plans for growth and the digitalisation of our businesses, together with the regulatory change agenda, inherently increase the profile of operational risks across our businesses. We continue to invest in our system capabilities and business processes to ensure that we meet the expectations of our customers; comply with regulatory, legal and financial reporting requirements; and mitigate the risks of loss or reputational damage from operational risk events and external cyber threats.

Our risk governance model seeks to ensure that business management are actively engaged in maintaining an appropriate control environment, supported by risk functions led by the group chief risk officer, with independent assurance from Group Internal Audit. 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.

ENQUIRIES

Investors:

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

Media:

Richard King	Head of Group Corporate Communications	020 3124 2095
Doug Campbell	Tulchan Communications	020 7353 4200

NOTES

A copy of this announcement can be found in "Results", under the "Financial information" section of our shareholder website at http://www.legalandgeneralgroup.com/investors/results2017.html.

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

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

PARTICIPANT DIAL-IN NUMBERS

LOCATION YOU ARE DIALLING IN FROM	NUMBER YOU SHOULD DIAL
UNITED KINGDOM	020 3059 8125
UNITED STATES (TOLL FREE)	1 855 287 9927
ALL OTHER LOCATIONS	+44 20 3059 8125

2017 Financial Calendar	Date
Ex-dividend date (final dividend)	**27th April 2017**
Record date	**28th April 2017**
Last day for DRIP elections	**19th May 2017**
Annual general meeting	**25th May 2017**
Payment date of 2016 final dividend	**8th June 2017**
Half-year results 2017	**9th August 2017**

DEFINITIONS

Definitions are included in the Glossary on pages 89 to 92 of this release.

FORWARD LOOKING STATEMENTS

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

NOTES

NOTES

IFRS and Release from Operations

Operating profit

For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
From continuing operations			
Legal & General Retirement (LGR)	2.02	**811**	641
Legal & General Investment Management (LGIM)	2.03	**366**	355
Legal & General Capital (LGC)	2.05	**257**	233
Legal & General Insurance (LGI)	2.02	**317**	315
- UK and Other		232	232
- US		85	83
Savings	2.02	**99**	107
General Insurance	2.04	**52**	51
Operating profit from divisions		**1,902**	1,702
Group debt costs[1]		**(172)**	(153)
Group investment projects and expenses[2]	2.06	**(102)**	(86)
Adjusted operating profit		**1,628**	1,463
Kingswood office closure costs		**(66)**	(8)
Operating profit		**1,562**	1,455
Investment and other variances	2.07	**13**	(119)
Gains on non-controlling interests		**7**	19
Profit before tax attributable to equity holders		**1,582**	1,355
Tax expense attributable to equity holders of the company	2.15	**(317)**	(261)
Profit for the year		**1,265**	1,094
Profit attributable to equity holders of the company		**1,258**	1,075
		p	p
Earnings per share[3]	2.10	**21.22**	18.16
Diluted earnings per share[3]	2.10	**21.13**	18.04

1. Group debt costs exclude interest on non recourse financing.
2. Group investment projects and expenses in 2016 include restructuring costs of £54m (2015: £42m).
3. All earnings per share calculations are based on profit attributable to equity holders of the company.

This supplementary operating profit information (one of the group's key performance indicators) provides further analysis of the results reported under IFRS and the group believes it provides shareholders with a better understanding of the underlying performance of the business in the year.

During 2016, Insurance and LGA segments (excluding General Insurance) were combined to create the new Legal & General Insurance (LGI) segment. General Insurance is now presented as a separate segment.

LGR represents worldwide pension risk transfer business (including longevity insurance), individual retirement and lifetime mortgages.

The LGIM segment represents institutional and retail investment management and workplace savings businesses.

LGC represents shareholder assets invested in direct investments, and traded and treasury assets.

LGI represents business in retail protection, group protection, networks, Legal & General Netherlands (LGN) and protection business written in the USA (LGA). LGI comparatives include Legal & General France (LGF), which was sold during 2015.

Savings represents business in platforms, SIPPs and mature savings including with-profits.

The General Insurance segment comprises short-term protection.

During 2016, changes have been made to the organisational structure. The advised sales and India businesses have transferred to LGI from Savings, and Investment Discounts On Line Limited (the IDOL) has been transferred to LGR from LGI. Comparatives have been amended accordingly. The impact of this reclassification has been to increase LGR 2015 operating profit by £2m, increase Savings 2015 operating profit by £8m and reduce LGI 2015 operating profit by £10m.

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

IFRS and Release from Operations

2.01 Reconciliation of release from operations to operating profit before tax

The table below provides an analysis of the release from operations by each of the group's business segments, together with a reconciliation to operating profit before tax.

For the year ended 31 December 2016	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other[2] £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	**433**	**159**	**592**	**34**	**40**	**6**	**-**	**672**	**139**	**811**
LGIM	**308**	**(22)**	**286**	**(1)**	**-**	**-**	**-**	**285**	**81**	**366**
- LGIM excluding Workplace Savings (admin only)	290	-	290	-	-	-	-	290	82	372
- Workplace Savings (admin only)[3]	18	(22)	(4)	(1)	-	-	-	(5)	(1)	(6)
LGC	**214**	**-**	**214**	**-**	**-**	**-**	**-**	**214**	**43**	**257**
LGI	**317**	**23**	**340**	**(11)**	**5**	**(29)**	**(79)**	**226**	**91**	**317**
- UK and Other	254	23	277	(11)	5	(29)	(57)	185	47	232
- US	63	-	63	-	-	-	(22)	41	44	85
Savings	**104**	**(5)**	**99**	**4**	**8**	**(32)**	**-**	**79**	**20**	**99**
General Insurance	**42**	**-**	**42**	**-**	**-**	**-**	**-**	**42**	**10**	**52**
Total from divisions	**1,418**	**155**	**1,573**	**26**	**53**	**(55)**	**(79)**	**1,518**	**384**	**1,902**
Group debt costs	**(138)**	**-**	**(138)**	**-**	**-**	**-**	**-**	**(138)**	**(34)**	**(172)**
Group investment projects and expenses	**(24)**	**-**	**(24)**	**-**	**-**	**-**	**(59)**	**(83)**	**(19)**	**(102)**
Adjusted total	**1,256**	**155**	**1,411**	**26**	**53**	**(55)**	**(138)**	**1,297**	**331**	**1,628**
Kingswood office closure costs[4]	**-**	**-**	**-**	**-**	**-**	**-**	**(53)**	**(53)**	**(13)**	**(66)**
Total	**1,256**	**155**	**1,411**	**26**	**53**	**(55)**	**(191)**	**1,244**	**318**	**1,562**

1. Release from operations includes dividends remitted from LGN of £70m (2015: £28m) within the LGI UK and Other line and US of £63m (2015: £54m).
2. International and other includes £43m (2015: £34m) of restructuring costs (£54m before tax) (2015: £42m before tax) within the Group investment projects and expenses line.
3. This represents Workplace Savings admin only and excludes fund management profits.
4. The Kingswood office closure costs reflect expenditure in relation to rent and rates, as well as the write-off of previously capitalised expenditure.

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

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

Net release from operations for LGR, LGIM, LGI and Savings is defined as release from operations less new business strain.

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

During 2016, changes have been made to the organisational structure. The advised sales and India businesses have been transferred to LGI from Savings, and the IDOL business has been transferred to LGR from LGI. Comparatives have been amended accordingly.

See Note 2.02 for more detail on experience variances, changes to valuation assumptions and non-cash items.

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

For the year ended 31 December 2015	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Exper-ience variances £m	Changes in valuation assump-tions £m	Non-cash items and other £m	Inter-national and other[2] £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR[4]	374	45	419	13	114	(20)	-	526	115	641
LGIM	303	(22)	281	(1)	1	(2)	-	279	76	355
- LGIM excluding Workplace Savings (admin only)	282	-	282	-	-	-	-	282	77	359
- Workplace Savings (admin[3] only)	21	(22)	(1)	(1)	1	(2)	-	(3)	(1)	(4)
LGC	187	-	187	-	-	-	-	187	46	233
LGI[4]	328	25	353	(14)	(45)	(46)	(28)	220	95	315
- UK and Other	274	25	299	(14)	(45)	(46)	(11)	183	49	232
- US	54	-	54	-	-	-	(17)	37	46	83
Savings[4]	125	(9)	116	(9)	-	(23)	2	86	21	107
General Insurance	41	-	41	-	-	-	-	41	10	51
Total from divisions	1,358	39	1,397	(11)	70	(91)	(26)	1,339	363	1,702
Group debt costs	(122)	-	(122)	-	-	-	-	(122)	(31)	(153)
Group investment projects and expenses	(19)	-	(19)	-	-	-	(50)	(69)	(17)	(86)
Adjusted total	1,217	39	1,256	(11)	70	(91)	(76)	1,148	315	1,463
Kingswood office closure costs	-	-	-	-	-	-	(6)	(6)	(2)	(8)
Total	1,217	39	1,256	(11)	70	(91)	(82)	1,142	313	1,455

1. Release from operations includes dividends remitted from LGF of £1m and LGN of £28m within the LGI UK and Other line and US of £54m.
2. International and other includes £34m of restructuring costs (£42m before tax) within the Group investment projects and expenses line.
3. This represents Workplace Savings admin only and excludes fund management profits.
4. LGR includes the IDOL business which was previously reported in LGI, and LGI includes the advised sales and India businesses which were previously reflected in Savings. The impact of this reclassification has been to increase LGR 2015 release from operations by £2m, increase Savings 2015 release from operations by £6m and reduce LGI 2015 release from operations by £8m.

2.02 Analysis of LGR, LGI and Savings operating profit

	LGR 2016 £m	**LGI 2016 £m**	**Savings 2016 £m**	LGR 2015 £m	LGI 2015 £m	Savings 2015 £m
Net release from operations	**592**	**340**	**99**	419	353	116
Experience variances						
Persistency	**2**	**(2)**	**-**	4	5	(2)
Mortality/morbidity[1]	**47**	**(34)**	**-**	18	(16)	-
Expenses	**(9)**	**4**	**7**	-	2	3
Project and development costs	**(21)**	**2**	**(4)**	(20)	(2)	(2)
Other	**15**	**19**	**1**	11	(3)	(8)
Total experience variances	**34**	**(11)**	**4**	13	(14)	(9)
Changes to valuation assumptions						
Persistency[2]	**-**	**(52)**	**5**	-	48	-
Mortality/morbidity[3]	**40**	**4**	**-**	97	(20)	-
Expenses[4]	**-**	**53**	**-**	17	27	(2)
Reinsurance modelling[5]	**-**	**-**	**-**	-	(93)	-
Other	**-**	**-**	**3**	-	(7)	2
Total valuation assumption changes	**40**	**5**	**8**	114	(45)	-
Movement in non-cash items						
Deferred tax	**-**	**-**	**1**	-	-	2
Utilisation of brought forward trading losses	**-**	**-**	**-**	(25)	(6)	-
Acquisition expense tax relief[6]	**-**	**(27)**	**(3)**	-	(30)	(4)
Deferred Acquisition Costs (DAC)[7]	**-**	**-**	**(28)**	-	-	(54)
Deferred Income Liabilities (DIL)[7]	**-**	**-**	**9**	-	-	39
Other	**6**	**(2)**	**(11)**	5	(10)	(6)
Total non-cash movement items	**6**	**(29)**	**(32)**	(20)	(46)	(23)
International and other[8]	**-**	**(79)**	**-**	-	(28)	2
Operating profit after tax	**672**	**226**	**79**	526	220	86
Tax gross up	**139**	**91**	**20**	115	95	21
Operating profit before tax	**811**	**317**	**99**	641	315	107

1. The LGR mortality/morbidity experience variance reflects higher than expected annuitant deaths experience over 2016. LGI mortality/morbidity experience variance in 2016 primarily reflects adverse claims experience on the group protection book of business.
2. The LGI persistency valuation assumption change in 2016 is the result of a review of prudence within the lapse assumption for level and decreasing term assurance products.
3. The mortality/morbidity valuation assumption change in LGR primarily reflects a change in the treatment to historic longevity insurance deals where future fees in excess of prudent estimates of longevity and expense experience are now included as an offset to IFRS reserves. The 2015 LGR mortality/morbidity change to valuation assumptions primarily reflected a change in mortality reserving assumptions in relation to unreported deaths of deferred annuitants.
4. The LGI expense valuation assumption change is the result of the reduction in unit costs following recent expense savings actions, together with a review of the prudence within renewal expenses on our protection products.
5. The reinsurance modelling for our UK protection business was enhanced in 2015. Recent reinsurance contracts have been written on a risk premium basis (as opposed to level premium) and the model change ensured that for these treaties, sufficient prudence was being held in later years. The one-off impact reduced operating profit by £93m in 2015. This also deferred a higher proportion of release from operations into the later years of these reinsurance contracts.
6. Net release from operations for LGI and Savings recognises tax relief from prior year acquisition expenses, which are spread evenly over seven years under relevant 'I-E' tax legislation in the period the cash flows actually occur. In contrast, operating profit typically recognises the value of these future cash flows in the same period as the underlying expense as deferred tax amounts. The reconciling amounts arising from these items are included in the table above. Following the removal of new retail protection business from the 'I-E' tax regime, and the removal of commission from new insured savings business under the Retail Distribution Review at the end of 2012, no material amount of deferred tax assets arise on new acquisition expenses and the value of these future cash flows for post-2013 acquisition expenses have been reflected within net release from operations. The residual prior year acquisition expenses will run off predictably to 2018.
7. The DAC in Savings represents the amortisation charges offset by new acquisition costs deferred in the year. The DIL reflects initial fees on insured savings business which relate to the future provision of services and are deferred and amortised over the anticipated period in which these services are provided.
8. LGI Other in 2016 reflects the difference between the dividend (release from operations) remitted from LGN and LGA of £70m and £63m respectively (2015: dividends remitted from LGN of £28m, LGF of £1m and LGA of £54m) and the LGN, LGA and India operating profit after tax (2015: LGN, LGF, LGA and India operating profit after tax).

2.03 LGIM

	2016 £m	2015 £m
Investment management revenue	**744**	694
Investment management expenses	**(372)**	(335)
Workplace Savings (admin only) operating loss[1]	**(6)**	(4)
Total LGIM operating profit	**366**	355

1. This represents Workplace Savings admin only and excludes fund management profits.

2.04 General Insurance operating profit and combined operating ratio

	2016 £m	2015 £m
General Insurance operating profit[1]	**52**	51
General Insurance combined operating ratio (%)[2]	**89**	89

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

2.05 LGC

	2016 £m	2015 £m
Direct investments	**121**	69
Traded portfolio including treasury operations	**136**	164
Total LGC operating profit	**257**	233

2.06 Group investment projects and expenses

	2016 £m	2015 £m
Group investment projects and central expenses	**(48)**	(44)
Restructuring costs[1]	**(54)**	(42)
Total Group investment projects and expenses	**(102)**	(86)

1. Restructuring costs exclude the Kingswood office closure costs which have been presented separately.

2.07 Investment and other variances

	2016 £m	2015 £m
Investment variance[1]	**147**	(57)
M&A related[2]	**(102)**	(57)
Other[3]	**(32)**	(5)
Total Investment and other variances	**13**	(119)

1. 2016 investment variance is positive, primarily driven by foreign exchange gains on US dollar assets, the outperformance of equity markets to expectations and a lack of defaults on the group's bond portfolios, partially offset by the negative impact of interest rate changes during the period. The defined benefit pension scheme variance of £29m contained within this line (2015: £(15)m) reflects the actuarial gains and losses, and valuation differences arising on annuity assets held by defined benefit pension schemes that have been purchased from Legal & General Assurance Society Limited. A segmental analysis of Investment and other variances can be found in note 2.09 (a).

2. M&A related includes gains and losses, expenses and intangible amortisation relating to acquisitions and disposals. 2016 includes the £60m net loss resulting from the classification of Cofunds Plc as held for sale (£64m loss) and the disposal of Suffolk Life (£4m gain).(2015: includes the £25m net loss resulting from the disposal of subsidiary and joint venture investments during the year).

3. Other includes new business start-up costs and other non-investment related variance items.

Consolidated Income Statement

For the year ended 31 December 2016

	Notes	**2016 £m**	2015 £m
Income			
Gross written premiums		**10,325**	6,321
Outward reinsurance premiums		**(1,573)**	(1,603)
Net change in provision for unearned premiums		**4**	21
Net premiums earned		**8,756**	4,739
Fees from fund management and investment contracts		**1,068**	1,139
Investment return		**67,824**	5,947
Operational income		**321**	876
Total income	2.09	**77,969**	12,701
Expenses			
Claims and change in insurance liabilities		**17,896**	5,080
Reinsurance recoveries		**(2,745)**	(2,466)
Net claims and change in insurance liabilities		**15,151**	2,614
Change in provisions for investment contract liabilities		**58,578**	5,615
Acquisition costs		**793**	838
Finance costs		**198**	186
Other expenses		**1,569**	1,893
Transfers (from)/to unallocated divisible surplus		**(187)**	141
Total expenses		**76,102**	11,287
Profit before tax		**1,867**	1,414
Tax expense attributable to policyholder returns		**(285)**	(59)
Profit before tax attributable to equity holders		**1,582**	1,355
Total tax expense		**(602)**	(320)
Tax expense attributable to policyholder returns		**285**	59
Tax expense attributable to equity holders	2.15	**(317)**	(261)
Profit for the year		**1,265**	1,094
Attributable to:			
Non-controlling interests	2.24	**7**	19
Equity holders of the company		**1,258**	1,075
Dividend distributions to equity holders of the company during the year	2.17	**830**	701
Dividend distributions to equity holders of the company proposed after the year end	2.17	**616**	592

		p	p
Earnings per share[1]	2.10	**21.22**	18.16
Diluted earnings per share[1]	2.10	**21.13**	18.04

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	2016 £m	2015 £m
Profit for the year	**1,265**	1,094
Items that will not be reclassified subsequently to profit or loss		
Actuarial (losses)/gains on defined benefit pension schemes	**(138)**	47
Tax on actuarial (losses)/gains on defined benefit pension schemes	**17**	(11)
Actuarial gains/(losses) on defined benefit pension schemes transferred to unallocated divisible surplus	**51**	(17)
Tax on actuarial gains/(losses) on defined benefit pension schemes transferred to unallocated divisible surplus	**(6)**	4
Total items that will not be reclassified to profit or loss subsequently	**(76)**	23
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of overseas operations	**190**	25
Net change in financial investments designated as available-for-sale	**(4)**	(64)
Tax on net change in financial investments designated as available-for-sale	**1**	22
Total items that may be reclassified to profit or loss subsequently	**187**	(17)
Other comprehensive income after tax	**111**	6
Total comprehensive income for the year	**1,376**	1,100
Total comprehensive income attributable to:		
Non-controlling interests	**7**	19
Equity holders of the company	**1,369**	1,081

Consolidated Balance Sheet
As at 31 December 2016

	Notes	**2016 £m**	2015 £m
Assets			
Goodwill		**11**	83
Purchased interest in long term businesses and other intangible assets		**155**	292
Deferred acquisition costs		**2,105**	1,887
Investment in associates and joint ventures		**283**	220
Property, plant and equipment		**76**	92
Investment property	2.14/3.04	**8,150**	8,082
Financial investments	2.14/3.04	**418,175**	354,063
Reinsurers' share of contract liabilities		**5,593**	4,120
UK deferred tax asset	2.15	**5**	20
Current tax recoverable		**297**	236
Other assets		**5,022**	3,618
Assets of operations classified as held for sale	2.12	**2,265**	3,409
Cash and cash equivalents		**25,717**	20,677
Total assets		**467,854**	396,799
Equity			
Share capital	2.18	**149**	149
Share premium	2.18	**981**	976
Employee scheme treasury shares		**(30)**	(30)
Capital redemption and other reserves		**212**	89
Retained earnings		**5,633**	5,220
Attributable to owners of the parent		**6,945**	6,404
Non-controlling interests	2.24	**338**	289
Total equity		**7,283**	6,693
Liabilities			
Participating insurance contracts	2.21	**5,794**	5,618
Participating investment contracts	2.22	**5,271**	4,912
Unallocated divisible surplus		**661**	893
Value of in-force non-participating contracts		**(206)**	(184)
Participating contract liabilities		**11,520**	11,239
Non-participating insurance contracts	2.21	**60,779**	49,754
Non-participating investment contracts	2.22	**321,177**	278,554
Non-participating contract liabilities		**381,956**	328,308
Core borrowings	2.19	**3,071**	3,092
Operational borrowings	2.20	**430**	536
Provisions	2.27	**1,328**	1,171
UK deferred tax liabilities	2.15	**291**	137
Overseas deferred tax liabilities	2.15	**522**	436
Current tax liabilities		**117**	95
Payables and other financial liabilities	2.16	**37,347**	22,709
Other liabilities		**594**	737
Net asset value attributable to unit holders		**21,573**	18,277
Liabilities of operations classified as held for sale	2.12	**1,822**	3,369
Total liabilities		**460,571**	390,106
Total equity and liabilities		**467,854**	396,799

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves[1] £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
As at 1 January 2016	**149**	**976**	**(30)**	**89**	**5,220**	**6,404**	**289**	**6,693**
Profit for the year	-	-	-	-	1,258	1,258	7	1,265
Exchange differences on translation of overseas operations	-	-	-	190	-	190	-	190
Actuarial losses on defined benefit pension schemes	-	-	-	-	(121)	(121)	-	(121)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	-	-	-	-	45	45	-	45
Net change in financial investments designated as available-for-sale	-	-	-	(3)	-	(3)	-	(3)
Total comprehensive income/(expense) for the year	-	-	-	187	1,182	1,369	7	1,376
Options exercised under share option schemes:								
- Savings related share option scheme	-	5	-	-	-	5	-	5
Shares purchased	-	-	(10)	-	-	(10)	-	(10)
Shares vested	-	-	10	(33)	-	(23)	-	(23)
Employee scheme treasury shares:								
- Value of employee services	-	-	-	24	-	24	-	24
Share scheme transfers to retained earnings	-	-	-	-	6	6	-	6
Dividends	-	-	-	-	(830)	(830)	-	(830)
Movement in third party interests	-	-	-	-	-	-	42	42
Currency translation differences	-	-	-	(55)	55	-	-	-
As at 31 December 2016	**149**	**981**	**(30)**	**212**	**5,633**	**6,945**	**338**	**7,283**

1. Capital redemption and other reserves include Share-based payments £60m (2015: £69m), Foreign exchange £135m (2015: £nil), Capital redemption £17m (2015: £17m), Available-for-sale reserves £(1)m (2015: £2m) and Hedging reserves £1m (2015: £1m).

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2015	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves[1] £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
As at 1 January 2015	149	969	(37)	117	4,830	6,028	275	6,303
Profit for the year	-	-	-	-	1,075	1,075	19	1,094
Exchange differences on translation of						-		
overseas operations	-	-	-	25	-	25	-	25
Actuarial gains on defined benefit						-		
pension schemes	-	-	-	-	36	36	-	36
Actuarial gains on defined benefit								
pension schemes transferred to								
unallocated divisible surplus	-	-	-	-	(13)	(13)	-	(13)
Net change in financial investments						-		-
designated as available-for-sale	-	-	-	(42)	-	(42)	-	(42)
Total comprehensive income/(expense)								
for the year	-	-	-	(17)	1,098	1,081	19	1,100
Options exercised under share option scheme:								
- Savings related share option scheme	-	7	-	-	-	7	-	7
Shares purchased	-	-	(3)	-	-	(3)	-	(3)
Shares vested	-	-	10	(23)	-	(13)	-	(13)
Employee scheme treasury shares:						-		
- Value of employee services	-	-	-	26	-	26	-	26
Share scheme transfers to retained earnings	-	-	-	-	(21)	(21)	-	(21)
Dividends	-	-	-	-	(701)	(701)	-	(701)
Movement in third party interests	-	-	-	-	-	-	(5)	(5)
Currency translation differences	-	-	-	(14)	14	-	-	-
As at 31 December 2015	149	976	(30)	89	5,220	6,404	289	6,693

1. Capital redemption and other reserves include Share-based payments £69m, Foreign exchange £nil, Capital redemption £17m, Available-for-sale reserves £2m and Hedging reserves £1m.

Consolidated Cash Flow Statement

For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Profit for the year		**1,265**	1,094
Adjustments for non cash movements in net profit for the year			
Realised and unrealised (gains)/losses on financial investments and investment properties		**(53,262)**	4,077
Investment income		**(9,390)**	(9,760)
Interest expense		**198**	186
Tax expense		**602**	320
Other adjustments		**(45)**	(70)
Net (increase)/decrease in operational assets			
Investments held for trading or designated as fair value through profit or loss		**(9,363)**	1,007
Investments designated as available-for-sale		**246**	158
Other assets		**(2,658)**	(2,594)
Net increase/(decrease) in operational liabilities			
Insurance contracts		**12,910**	(1,083)
Transfer from unallocated divisible surplus		**(232)**	(90)
Investment contracts		**39,747**	(9,524)
Value of in-force non-participating contracts		**(22)**	24
Other liabilities		**17,023**	6,645
Cash used in operations		**(2,981)**	(9,610)
Interest paid		**(198)**	(186)
Interest received		**4,863**	5,286
Tax paid[1]		**(424)**	(244)
Dividends received		**4,676**	3,931
Net cash flows from/(used in) operating activities		**5,936**	(823)
Cash flows from investing activities			
Net acquisition of plant, equipment and intangibles		**(45)**	(24)
Acquisitions[2]		**-**	(5)
Disposal of subsidiaries[3]	2.11	**(272)**	(82)
Investment in joint ventures		**(63)**	(71)
Net cash flows from investing activities		**(380)**	(182)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the company during the year	2.17	**(830)**	(701)
Proceeds from issue of ordinary share capital		**5**	7
Purchase of employee scheme shares (net)		**-**	(8)
Proceeds from borrowings		**219**	697
Repayment of borrowings		**(342)**	(527)
Net cash flows used in financing activities		**(948)**	(532)
Net increase/(decrease) in cash and cash equivalents		**4,608**	(1,537)
Exchange gains/(losses) on cash and cash equivalents		**182**	(106)
Cash and cash equivalents at 1 January (before reallocation of held for sale cash)		**21,066**	22,709
Cash and cash equivalents (before reallocation of held for sale cash)		**25,856**	21,066
Cash and cash equivalents classified as held for sale	2.12	**(139)**	(389)
Cash and cash equivalents at 31 December		**25,717**	20,677

1. Tax comprises UK corporation tax paid of £249m (2015: £128m), overseas corporate taxes of £16m (2015: £36m) and withholding tax of £159m (2015: £80m).
2. Net cash flows from acquisitions includes cash paid of £nil (2015: £5m) less cash and cash equivalents acquired of £nil (2015: £nil).
3. Net cash flows from disposals includes cash received of £144m (2015: £242m) less cash and cash equivalents disposed of £416m (2015: £324m).

The group's Consolidated Cash Flow Statement includes all cash and cash equivalent flows. The closing cash position includes £944m (2015: £856m) relating to the with-profit fund policy-holders policyholders and £20,434m (2015: £16,116m) relating to unit-linked policyholders.

2.08 Basis of preparation

The group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union, and with those parts of the UK Companies Act 2006 applicable to companies reporting under IFRS. The group financial statements also comply with IFRS and interpretations by the IFRS Interpretations Committee as issued by the IASB and as adopted by the European Union. The group financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

The group has selected accounting policies which state fairly its financial position, financial performance and cash flows for a reporting period. The accounting policies have been consistently applied to all years presented.

Financial assets and financial liabilities are disclosed gross in the Consolidated Balance Sheet unless a legally enforceable right of offset exists and there is an intention to settle recognised amounts on a net basis. Income and expenses are not offset in the Consolidated Income Statement unless required or permitted by any accounting standard or interpretations by the IFRS Interpretations Committee.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. The functional currency of the group's foreign operations is the currency of the primary economic environment in which the entity operates. The assets and liabilities of all of the group's foreign operations are translated into sterling, the group's presentation currency, at the closing rate at the date of the balance sheet. The income and expenses for 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.

Use of estimates
The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the Consolidated Balance Sheet and Income Statement and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly. This is particularly relevant for the determination of fair values of investment property and unquoted and illiquid financial investments and the estimation of deferred acquisition costs, tax balances and insurance and investment contract liabilities. The basis of accounting for these areas, and the significant judgements used in determining them, are outlined in the respective notes to the group's 2016 Annual Report and Accounts.

Key technical terms and definitions
The report refers to various key performance indicators, accounting standards and other technical terms. A comprehensive list of these definitions is contained within the glossary of the group's 2016 Annual Report and Accounts.

Tax attributable to policyholders and equity holders
The total tax expense shown in the group's Consolidated Income Statement includes income tax borne by both policyholders and shareholders. This has been apportioned between that attributable to policyholders' returns and equity holders' profits. This represents the fact that the group's long-term business in the UK pays tax on policyholder investment return, in addition to the corporation tax charge charged on shareholder profit. The separate presentation is intended to provide more relevant information about the tax that the group pays on the profits that it makes.

For this apportionment, the equity holders' tax on long-term business is estimated by applying the statutory tax rate to profits attributed to equity holders. This is considered to approximate the corporation tax attributable to shareholders as calculated under UK tax rules. The balance of income tax associated with UK long-term business is attributed to income tax attributable to policyholders' returns and approximates the corporation tax attributable to policyholders as calculated under UK tax rules.

2.09 Segmental analysis

Reportable segments

The group has six reportable segments comprising LGR, LGIM, LGC, LGI, Savings and General Insurance. Central group expenses and debt costs are reported separately.

LGR represents worldwide pension risk transfer business (including longevity insurance), individual retirement and lifetime mortgages.

The LGIM segment represents institutional and retail investment management and workplace savings businesses.

LGC represents shareholder assets in direct investments, and traded and treasury assets.

LGI represents UK retail protection, group protection and network business, Legal & General Netherlands (LGN) and protection business written in the USA (LGA). LGI comparatives include Legal & General France (LGF), which was sold during 2015.

Savings represents business in platforms, SIPPs, mature savings and with-profits.

The General Insurance segment comprises short-term protection.

During 2016, the Insurance (excluding General Insurance) and LGA segments (excluding General Insurance) were combined to create the new Legal & General Insurance (LGI) segment. General Insurance is now presented as a separate segment.

During 2016, changes have been made to the organisational structure. The advised sales and India businesses have transferred to LGI from Savings, and the IDOL business has been transferred to LGR from LGI. Comparatives have been amended accordingly.

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

2.09 Segmental analysis (continued)
(a) Profit/(loss) for the year

For the year ended 31 December 2016	LGR[1] £m	LGIM £m	LGC £m	LGI[1] £m	Savings[1] £m	General Insurance £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	**811**	**366**	**257**	**317**	**99**	**52**	**(340)**	**1,562**
Investment and other variances[2]	**36**	**(32)**	**162**	**(123)**	**(51)**	**16**	**5**	**13**
Gains attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**7**	**7**
Profit/(loss) before tax attributable to equity holders	**847**	**334**	**419**	**194**	**48**	**68**	**(328)**	**1,582**
Tax (expense)/credit attributable to equity holders of the company	**(149)**	**(68)**	**(52)**	**(71)**	**(22)**	**(13)**	**58**	**(317)**
Profit/(loss) for the year	**698**	**266**	**367**	**123**	**26**	**55**	**(270)**	**1,265**

For the year ended 31 December 2015	LGR[1] £m	LGIM £m	LGC £m	LGI[1] £m	Savings[1] £m	General Insurance £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	641	355	233	315	107	51	(247)	1,455
Investment and other variances[2]	78	(20)	(116)	(44)	3	(8)	(12)	(119)
Gains attributable to non-controlling interests	-	-	-	-	-	-	19	19
Profit/(loss) before tax attributable to equity holders	719	335	117	271	110	43	(240)	1,355
Tax (expense)/credit attributable to equity holders of the company	(131)	(74)	(9)	(93)	(16)	(8)	70	(261)
Profit/(loss) for the year	588	261	108	178	94	35	(170)	1,094

1. During 2016, changes have been made to the organisational structure. The advised sales and India businesses have been transferred to LGI from Savings, and the IDOL business has been transferred to LGR from LGI. Comparatives have been amended accordingly. The impact of the reclassification has been to increase LGR 2015 operating profit by £2m and profit before tax by £1m, increase Savings 2015 operating profit by £8m and profit before tax by £8m, and reduce Insurance 2015 operating profit by £10m and profit before tax by £9m.
2. 2016 Investment and other variances - Savings includes the £60m net loss resulting from the disposal of subsidiaries during the period (2015: LGI and Savings include the £43m loss and £18m gain respectively resulting from the disposal of subsidiary and joint venture investments during the year).

2.09 Segmental analysis (continued)
(b) Income

For the year ended 31 December 2016	LGR[1] £m	LGIM £m	LGI[1] £m	Savings[1] £m	General Insurance £m	LGC and other[2] £m	Total £m
Internal income	-	270	-	-	-	(270)	-
External income	13,851	49,856	2,237	4,362	326	7,337	77,969
Total income	**13,851**	**50,126**	**2,237**	**4,362**	**326**	**7,067**	**77,969**

For the year ended 31 December 2015	LGR[1] £m	LGIM £m	LGI[1,3] £m	Savings[1] £m	General Insurance £m	LGC and other[2] £m	Total £m
Internal income	-	267	-	-	-	(267)	-
External income	2,554	5,514	2,516	2,473	349	(705)	12,701
Total income	2,554	5,781	2,516	2,473	349	(972)	12,701

1. During 2016, changes have been made to the organisational structure. The advised sales and India businesses have transferred to LGI from Savings, and the IDOL business has been transferred to LGR from LGI. Comparatives have been amended accordingly. The impact of this reclassification has been to increase LGR 2015 external income by £26m, reduce Savings 2015 external income by £5m and reduce LGI 2015 external income by £21m.
2. LGC and other includes LGC, inter-segmental eliminations and group consolidation adjustments.

2.10 Earnings per share
(a) Earnings per share

	Profit after tax 2016 £m	Earnings per share[1] 2016 p	Adjusted profit after tax 2016 £m	Adjusted earnings per share[1,2] 2016 p	Profit after tax 2015 £m	Earnings per share[1] 2015 p	Adjusted profit after tax 2015 £m	Adjusted earnings per share[1,2] 2015 p
Operating profit after tax	**1,244**	**20.98**	**1,244**	**20.98**	1,142	19.29	1,142	19.29
Investment and other variances	**14**	**0.24**	**72**	**1.22**	(67)	(1.13)	(42)	(0.71)
Earnings per share based on profit attributable to equity holders	**1,258**	**21.22**	**1,316**	**22.20**	1,075	18.16	1,100	18.58

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

2. Adjusted earnings per share has been calculated after excluding the net loss after tax, £58m, resulting from the disposal of Suffolk Life and the classification of Cofunds as held for sale (2015: excluding the £25m net loss after tax resulting from the disposal of subsidiary and joint venture investments).

(b) Diluted earnings per share

	Number of shares 2016 m	Profit after tax 2016 £m	Earnings per share[1] 2016 p	Adjusted profit after tax 2016 £m	Adjusted earnings per share[1,2] 2016 p
Profit attributable to equity holders of the company	**5,929**	**1,258**	**21.22**	**1,316**	**22.20**
Net shares under options allocable for no further consideration	**24**	**-**	**(0.09)**	**-**	**(0.09)**
Diluted earnings per share	**5,953**	**1,258**	**21.13**	**1,316**	**22.11**

	Number of shares 2015 m	Profit after tax 2015 £m	Earnings per share[1] 2015 p	Adjusted profit after tax 2015 £m	Adjusted earnings per share[1,2] 2015 p
Profit attributable to equity holders of the company	5,920	1,075	18.16	1,100	18.58
Net shares under options allocable for no further consideration	38	-	(0.12)	-	(0.12)
Diluted earnings per share	5,958	1,075	18.04	1,100	18.46

1. For diluted earnings per share, the weighted average number of ordinary shares in issue, excluding employee scheme treasury shares, is adjusted to assume conversion of all potential ordinary shares, such as share options granted to employees.

2. Adjusted earnings per share has been calculated after excluding the net loss after tax, £58m, resulting from the disposal of Suffolk Life and the classification of Cofunds as held for sale (2015: excluding the £25m net loss after tax resulting from the disposal of subsidiary and joint venture investments).

2.11 Disposals

During 2016, the group made the following disposals:

- Suffolk Life Group Limited was sold to Curtis Banks Group plc for £45m (excluding transaction costs). The carrying value of the investment was £40m, realising a profit on disposal of £5m (excluding transaction costs) reported in operational income in the Consolidated Income Statement. The disposal of Suffolk Life Group Limited was not classified as a discontinued operation as it does not represent a major line of business or geographical segment of the group.

- The investment in ABI Alpha Limited was sold to a management buyout led by CBPE Capital with cash proceeds for the group's investment of £29m. The carrying value of the investment was £23m, realising a profit on disposal of £6m reported in operational income in the Consolidated Income Statement. The majority of the profit on disposal is allocated to the with-profits fund.

- Air Energi is no longer controlled by the group following its merger with Swift WWR to create Airswift. The group now holds less than 50% of Airswift and therefore has classified the investment as an associate, included in financial investments. The investment has been revalued to fair value, increasing the carrying value of the investment by £13m which has been reported in operational income in the Consolidated Income Statement. The majority of the profit on merger is allocated to the with-profits fund.

- The investment in The Liberation Group was sold to Caledonia Investments Plc with cash proceeds for the group's investment of £70m. The carrying value of the investment was £68m, realising a profit on disposal of £2m reported in operational income in the Consolidated Income Statement. The majority of the profit on disposal is allocated to the with-profits fund.

- On 2 December 2016 the group transferred its portfolio of insurance and investment contracts originated by Legal & General Deutschland (LGD) to Canada Life Europe (CLAE) via a Part VII transfer. £120m of insurance liabilities together with the financial assets held to back them were transferred, and no consideration was received for the transfer. There has been no impact on profit.

2.12 Held for sale

In November, the group reached an agreement in principle with Chesnara plc (Chesnara) to sell Legal & General Netherland Levensvervekering Maatschappij N.V. (LGN) to Chesnara for €160million.

On 1 January 2017, the group completed the disposal of Cofunds Limited (Cofunds) to Aegon for £147.5m, before transaction costs. The sale included the Investor Portfolio Service (IPS) platform as well as Cofunds' retail and institutional business.

Accordingly, the assets and liabilities of LGN and Cofunds have been assessed separately as disposal groups and have been classified as held for sale as at 31 December 2016. An impairment loss arising on classification of Cofunds as held for sale of £64m is recognised in other expenses in the Consolidated Balance Sheet. Cofunds forms part of the Savings segment in note 2.09.

Neither LGN nor Cofunds is considered to be a discontinued operation as neither represent a major line of business or geographical segment of the group.

In addition, two investment properties with a combined valuation of £91m have been classified as held for sale as we have entered into advanced sale negotiations.

	2016 £m	2015[1] £m
Assets classified as held for sale		
Purchased interest in long term business and other intangible assets	**85**	28
DAC	**12**	-
Property, plant and equipment	**11**	1
Investment property	**95**	1,140
Financial investments	**1,861**	1,801
Reinsurers' share of contract liabilities	**1**	39
Cash and cash equivalents	**139**	389
Other assets[2]	**62**	11
Total assets of the disposal groups	**2,266**	3,409
Liabilities classified as held for sale		
Insurance contract liabilities	**1,709**	-
Investment contract liabilities	**-**	3,235
Operational borrowings	**-**	102
Tax liabilities	**26**	5
Payables and other financial liabilities	**28**	10
Other liabilities[2]	**147**	17
Total liabilities of the disposal groups	**1,910**	3,369
Total net assets of the disposal groups	**356**	40

1. At 2015, Suffolk Life Group Limited was classified as held for sale.
2. Included in other assets is £1m, and in other liabilities, £88m, which are balances with other group entities which are eliminated on the Consolidated Balance Sheet.

2.13 Post balance sheet events

On 1 January 2017 the group sold Cofunds Limited to Aegon. The sale includes the Investor Portfolio Services (IPS) platform as well as Cofunds' retail and institutional business. The assets and liabilities of Cofunds Limited have been assessed as a disposal group and have been classified as held for sale as at 31 December 2016.

2.14 Financial investments and investment property

	2016 £m	2015 £m
Equities	**191,025**	166,892
Unit trusts	**6,969**	6,021
Debt securities[1]	**204,970**	169,720
Accrued interest	**1,528**	1,456
Derivative assets[2]	**13,121**	9,509
Loans and receivables	**562**	465
Financial investments	**418,175**	354,063
Investment property[3]	**8,150**	8,082
Total financial investments and investment property	**426,325**	362,145

1. A detailed analysis of debt securities, which shareholders are directly exposed to, is disclosed in note 4.06.
2. Derivatives are used to ensure efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management. Derivative assets are shown gross of derivative liabilities and include £8,294m (2015: £5,795m) held on behalf of unit linked policyholders.
3. A detailed analysis of investment property, which shareholders are directly exposed to, is disclosed in note 4.07.

2.15 Tax
(a) Tax charge in the Consolidated Income Statement

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

	2016 £m	2015 £m
Profit before tax attributable to equity holders	**1,582**	1,355
Tax calculated at 20.00% (2015: 20.25%)	**316**	274
Adjusted for the effects of:		
Recurring reconciling items:		
Income not subject to tax	**(12)**	(11)
Higher/(lower) rate of tax on profits taxed overseas	**7**	16
Non-deductible expenses/(additional allowances)	**4**	(8)
Differences between taxable and accounting investment gains	**(11)**	(3)
Non-recurring reconciling items:		
Income not subject to tax	**(1)**	-
Non-deductible expenses[1]	**17**	4
Differences between taxable and accounting investment gains[2]	**(14)**	(7)
Adjustments in respect of prior years	**13**	(5)
Impact of reduction in UK corporate tax rate to 17% from 2020 on deferred tax balances[3]	**(2)**	1
Tax attributable to equity holders	**317**	261
Equity holders' effective tax rate[4]	**20.0%**	19.3%

1. Includes costs relating to M&A activity which are non-deductible for tax purposes.
2. £14m relates to a deferred tax asset recognised on losses crystallised in the year.
3. Following the 2016 Finance Act, the rate of corporation tax will reduce progressively to 17% by 1 April 2020. The 19% rate will apply from 1 April 2017 and the 17% rate from 1 April 2020 onwards. The enacted rates of 20-17% have been used in the calculation of UK deferred tax assets and liabilities.
4. Equity holders' effective tax rate is calculated by dividing the tax attributable to equity holders over profit before tax attributable to equity holders. Refer to note 2.08 for detail on the methodology of the split of policyholder and equity holders' tax.

2.15 Tax (continued)
(b) Deferred tax

Deferred tax (liabilities)/assets	2016 £m	2015 £m
Deferred acquisition expenses	**(429)**	(359)
- UK	**(45)**	(51)
- Overseas	**(384)**	(308)
Difference between the tax and accounting value of insurance contracts	**(286)**	(324)
- UK	**(123)**	(83)
- Overseas	**(163)**	(241)
Realised and unrealised gains on investments	**(255)**	(154)
Excess of depreciation over capital allowances	**15**	18
Excess expenses[1]	**49**	74
Accounting provisions and other	**(51)**	(19)
Trading losses[2]	**80**	165
Pension fund deficit	**82**	72
Purchased interest in long-term business	**(13)**	(26)
Net deferred tax liabilities	**(808)**	(553)

Presented on the Consolidated Balance Sheet as:		
- UK deferred tax asset[3]	**5**	20
- UK deferred tax liability[3]	**(291)**	(137)
- Overseas deferred tax liability[4]	**(522)**	(436)

1. The reduction in the UK deferred tax asset on excess expenses reflects the unwind of the spread acquisition expenses.
2. Trading losses include UK trade and US operating losses of £5m (2015: £6m) and £75m (2015: £159m) respectively. The reduction in the deferred tax asset primarily reflects utilisation of brought forward US operating losses against US profits.
3. On the Consolidated Balance Sheet, the net UK deferred tax liability has been split between an asset of £5m and a liability of £291m where the relevant items cannot be offset.
4. Overseas deferred tax liability is wholly comprised of US balances as at 31 December 2016 (2015: US £424m; LGN £12m).

2.16 Payables and other financial liabilities

	2016 £m	2015 £m
Derivative liabilities	**9,014**	8,047
Repurchase agreements[1]	**23,163**	13,343
Other[2]	**5,170**	1,319
Payables and other financial liabilities	**37,347**	22,709
Due within 12 months	**34,517**	20,027
Due after 12 months	**2,830**	2,682

1. The repurchase agreements are presented gross, however they and their related assets are subject to master netting arrangements.
2. Other financial liabilities include obligations in respect of collateral received from derivative contracts of £2.7bn (2015: £0.1bn). Other also includes the present value of future commission costs which have contingent settlement provisions of £177m (2015: £175m).

Fair value hierarchy

As at 31 December 2016	**Total £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Amortised cost £m**
Derivative liabilities	**9,014**	**884**	**8,130**	**-**	**-**
Repurchase agreements	**23,163**	**-**	**-**	**-**	**23,163**
Other	**5,170**	**806**	**8**	**177**	**4,179**
Payables and other financial liabilities	**37,347**	**1,690**	**8,138**	**177**	**27,342**

As at 31 December 2015	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	8,047	1,451	6,596	-	-
Repurchase agreements	13,343	-	-	-	13,343
Other	1,319	5	12	175	1,127
Payables and other financial liabilities	22,709	1,456	6,608	175	14,470

Future commission costs are modelled using expected cash flows, incorporating expected future persistency. They have therefore been classified as level 3 liabilities. The entire movement in the balance has been reflected in the Consolidated Income Statement during the year. A reasonably possible alternative persistency assumption would have the effect of increasing the liability by £5m (2015: £6m).

Significant transfers between levels

There have been no significant transfers between levels 1, 2 and 3 for the year ended 31 December 2016 (2015: no significant transfers between levels 1, 2 and 3).

2.17 Dividends

	Dividend 2016 £m	**Per share[1] 2016 p**	Dividend 2015 £m	Per share[1] 2015 p
Ordinary share dividends paid in the year:				
- Prior year final dividend	**592**	**9.95**	496	8.35
- Current year interim dividend	**238**	**4.00**	205	3.45
	830	**13.95**	701	11.80
Ordinary share dividend proposed[2]	**616**	**10.35**	592	9.95

1. The dividend per share calculation is based on the number of equity shares registered on the ex-dividend date.
2. The dividend proposed is not included as a liability in the Consolidated Balance Sheet.

2.18 Share capital

(i) Share capital and share premium

Authorised share capital	**2016 Number of shares**	**2016 £m**	2015 Number of shares	2015 £m
At 31 December: ordinary shares of 2.5p each	**9,200,000,000**	**230**	9,200,000,000	230

Issued share capital, fully paid	**Number of shares**	**Share capital £m**	**Share premium £m**
As at 1 January 2016	**5,948,788,480**	**149**	**976**
Options exercised under share option schemes:			
- Savings related share option scheme	**5,867,986**	**-**	**5**
As at 31 December 2016	**5,954,656,466**	**149**	**981**

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2015	5,942,070,229	149	969
Options exercised under share option schemes:			
- Savings related share option scheme	6,718,251	-	7
As at 31 December 2015	5,948,788,480	149	976

There is one class of ordinary shares of 2.5p each. All shares issued carry equal voting rights.

The holders of the company's ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholder meetings of the company.

2.19 Core Borrowings

	Carrying amount 2016 £m	**Fair value 2016 £m**	Carrying amount 2015 £m	Fair value 2015 £m
Subordinated borrowings				
6.385% Sterling perpetual capital securities (Tier 1)	**615**	**609**	637	631
5.875% Sterling undated subordinated notes (Tier 2)	**411**	**418**	413	426
10% Sterling subordinated notes 2041 (Tier 2)	**310**	**403**	310	398
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**603**	589	570
5.375% Sterling subordinated notes 2045 (Tier 2)	**602**	**627**	602	611
Client fund holdings of group debt[1]	**(31)**	**(31)**	(26)	(27)
Total subordinated borrowings	**2,496**	**2,629**	2,525	2,609
Senior borrowings				
Sterling medium term notes 2031-2041	**609**	**845**	609	779
Client fund holdings of group debt[1]	**(34)**	**(34)**	(42)	(54)
Total senior borrowings	**575**	**811**	567	725
Total core borrowings	**3,071**	**3,440**	3,092	3,334

1. £65m (2015: £68m) of the group's subordinated and senior borrowings are currently held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total core borrowings in the table above.

All of the group's core borrowings are measured using amortised cost. The presented fair values of the group's core borrowings reflect quoted prices in active markets and they are classified as level 1 in the fair value hierarchy.

Subordinated borrowings

6.385% Sterling perpetual capital securities
In 2007, Legal & General Group Plc issued £600m of 6.385% Sterling perpetual capital securities. These securities are callable at par on 2 May 2017 and every three months thereafter. If not called, the coupon from 2 May 2017 will be reset to three month LIBOR plus 1.93% pa. For Solvency II purposes these securities are treated as tier 1 own funds.

5.875% Sterling undated subordinated notes
In 2004, Legal & General Group Plc issued £400m of 5.875% Sterling undated subordinated notes. These notes are callable at par on 1 April 2019 and every five years thereafter. If not called, the coupon from 1 April 2019 will be reset to the prevailing five year benchmark gilt yield plus 2.33% pa. These notes are treated as tier 2 own funds for Solvency II purposes.

10% Sterling subordinated notes 2041
In 2009, Legal & General Group Plc issued £300m of 10% dated subordinated notes. The notes are callable at par on 23 July 2021 and every five years thereafter. If not called, the coupon from 23 July 2021 will be reset to the prevailing five year benchmark gilt yield plus 9.325% pa. These notes mature on 23 July 2041. They are treated as tier 2 own funds for Solvency II purposes.

5.5% Sterling subordinated notes 2064
In 2014, Legal & General Group Plc issued £600m of 5.5% dated subordinated notes. The notes are callable at par on 27 June 2044 and every five years thereafter. If not called, the coupon from 27 June 2044 will be reset to the prevailing five year benchmark gilt yield plus 3.17% pa. These notes mature on 27 June 2064. They are treated as tier 2 own funds for Solvency II purposes.

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

2.20 Operational borrowings

	Carrying amount 2016 £m	**Fair value 2016 £m**	Carrying amount 2015 £m	Fair value 2015 £m
Short term operational borrowings				
Euro Commercial paper	**216**	**216**	15	15
Bank loans and overdrafts	**6**	**6**	2	2
Total short term operational borrowings	**222**	**222**	17	17
Non recourse borrowings				
US Dollar Triple X securitisation 2037	**-**	**-**	302	258
Suffolk Life unit linked borrowings[1]	**-**	**-**	-	-
LGV 6/LGV 7 Private Equity Fund Limited Partnership	**-**	**-**	98	98
Consolidated Property Limited Partnerships	**208**	**208**	184	184
Total non recourse borrowings	**208**	**208**	584	540
Group holding of operational borrowings[2]	**-**	**-**	(65)	(56)
Total operational borrowings	**430**	**430**	536	501

1. On 25 May 2016, the group sold Suffolk Life Group Limited to Curtis Banks Group. At 2015, the Suffolk Life unit linked borrowings were transferred to held for sale, refer to note 2.12.
2. Group investments in operational borrowings have been eliminated from the Consolidated Balance Sheet.

The presented fair values of the group's operational borrowings reflect observable market information and have been classified as level 2 in the fair value hierarchy.

Short term operational borrowings

Short term assets available at the holding company level exceeded the amount of the non-unit linked short term operational borrowings of £216m (2015: £15m). Short term operational borrowings comprise Euro Commercial paper, bank loans and overdrafts.

Non recourse borrowings

US Dollar Triple X securitisation 2037
In 2006, a subsidiary of LGA issued US$450m of non recourse debt in the US capital markets to meet the Triple X reserve requirements of part of the US term insurance written after 2005 and 2006. It was secured on the cash flows related to that tranche of business. On 15 June 2016, this securitisation was redeemed at par.

LGV 6/LGV 7 Private Equity Fund Limited Partnerships
These borrowings were non recourse bank borrowings.

Consolidated Property Limited Partnerships
These borrowings are non recourse bank borrowings.

Syndicated credit facility

As at 31 December 2016, the group had in place a £1.00bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2021. No amounts were outstanding at 31 December 2016.

2.21 Insurance contract liabilities
(a) Analysis of insurance contract liabilities

	Notes	**Gross 2016 £m**	**Re-insurance 2016 £m**	Gross 2015 £m	Re-insurance 2015 £m
Participating insurance contracts	2.21(b)(iii)	**5,794**	**(1)**	5,618	(1)
Non-participating insurance contracts	2.21(c)(iv)	**60,511**	**(5,297)**	49,470	(3,861)
General insurance contracts	2.21(v)	**268**	**(9)**	284	(8)
Insurance contract liabilities		**66,573**	**(5,307)**	55,372	(3,870)

During the year, the group continued utilising prospective reinsurance arrangements which resulted in a profit of £535m (2015: £503m). This profit has been reflected in the Consolidated Income Statement for the year and arises from new reinsurance arrangements or the reinsurance of new business under existing arrangements.

(b) Movement in participating insurance contract liabilities

	Gross 2016 £m	**Re-insurance 2016 £m**	Gross 2015 £m	Re-insurance 2015 £m
As at 1 January	**5,618**	**(1)**	6,579	(1)
New liabilities in the year	**40**	**-**	52	-
Liabilities discharged in the year	**(749)**	**-**	(977)	-
Unwinding of discount rates	**27**	**-**	40	-
Effect of change in non-economic assumptions	**(3)**	**-**	5	-
Effect of change in economic assumptions	**642**	**-**	81	-
Disposals[1]	**-**	**-**	(171)	-
Modelling and methodology changes	**202**	**-**	-	-
Other	**17**	**-**	9	-
As at 31 December	**5,794**	**(1)**	5,618	(1)

1. Reflects the disposal of Legal & General France during 2015.

(c) Movement in non-participating insurance contract liabilities

	Gross 2016 £m	**Re-insurance 2016 £m**	Gross 2015 £m	Re-insurance 2015 £m
As at 1 January	**49,470**	**(3,861)**	49,589	(2,587)
New liabilities in the year	**6,273**	**(613)**	2,866	(768)
Liabilities discharged in the year	**(2,890)**	**86**	(2,744)	(39)
Unwinding of discount rates	**1,574**	**(129)**	1,451	(93)
Effect of change in non-economic assumptions	**51**	**(43)**	(384)	157
Effect of change in economic assumptions	**6,870**	**(546)**	(1,335)	(513)
Foreign exchange adjustments	**795**	**(66)**	27	(18)
Transfer of liabilities classified as held for sale	**(1,709)**	**1**	-	-
Modelling and methodology changes	**61**	**(127)**	-	-
Other	**16**	**1**	-	-
As at 31 December	**60,511**	**(5,297)**	49,470	(3,861)

2.22 Investment contract liabilities
(a) Analysis of investment contract liabilities

	Note	Gross 2016 £m	Re-insurance 2016 £m	Gross 2015 £m	Re-insurance 2015 £m
Participating investment contracts		**5,271**	**-**	4,912	-
Non-participating investment contracts		**321,177**	**(286)**	278,554	(250)
Investment contract liabilities	2.22(b)	**326,448**	**(286)**	283,466	(250)

(b) Movement in investment contract liabilities

	Gross 2016 £m	Re-insurance 2016 £m	Gross 2015 £m	Re-insurance 2015 £m
As at 1 January	**283,466**	**(250)**	296,225	(310)
Reserves in respect of new business	**27,832**	**(27)**	37,639	(598)
Amounts paid on surrenders and maturities during the year	**(43,217)**	**35**	(46,557)	164
Investment return and related benefits	**58,622**	**(44)**	5,160	455
Management charges	**(251)**	**-**	(303)	-
Foreign exchange adjustments	**-**	**-**	(162)	-
Disposals[1]	**-**	**-**	(5,321)	-
Transfer to held for sale	**-**		(3,235)	39
Other	**(4)**	**-**	20	-
As at 31 December	**326,448**	**(286)**	283,466	(250)

1. Reflects the disposal of Legal & General France and Legal & General International (Ireland) during 2015.

2.23 IFRS sensitivity analysis

	Impact on pre-tax group profit net of re-insurance 2016 £m	**Impact on group equity net of re-insurance 2016 £m**	Impact on pre-tax group profit net of re-insurance 2015 £m	Impact on group equity net of re-insurance 2015 £m
Economic sensitivity				
Long-term insurance				
100bps point increase in interest rates	**173**	**42**	48	(36)
100bps point decrease in interest rates	**(280)**	**(120)**	(168)	(49)
100bps point increase in long term inflation expectations	**(90)**	**(72)**	(38)	(31)
Credit spread widens by 100bps with no change in expected defaults	**(19)**	**(100)**	(102)	(138)
10% decrease in listed equities	**(127)**	**(164)**	(124)	(103)
10% fall in property values	**(116)**	**(102)**	(81)	(65)
10bps increase in credit default assumption	**(426)**	**(339)**	(324)	(258)
10bps decrease in credit default assumption	**437**	**348**	366	292
Non-economic sensitivity				
Long-term insurance				
1% decrease in annuitant mortality	**(200)**	**(202)**	(132)	(105)
5% increase in assurance mortality	**(62)**	**(47)**	(64)	(49)
General insurance				
Single storm event with 1 in 200 year probability	**(62)**	**(50)**	(67)	(54)
Subsidence event – worst claims ratio in last 30 years	**(61)**	**(49)**	(72)	(57)

The table shows the impacts on group pre-tax profit and equity, net of reinsurance, under each sensitivity scenario. The shareholders' share of with-profit bonus declared in the year is relatively insensitive to market movements due to the smoothing policies applied.

The interest rate sensitivity assumes a 100bps change in the gross redemption yield on fixed interest securities together with a 100bps change in the real yields on variable securities. For the UK with-profit funds, valuation interest rates are assumed to move in line with market yields adjusted to allow for the impact of PRA regulations. The interest rate sensitivities reflect the impact of the regulatory restrictions on the reinvestment rate used to value the liabilities of the long term business. No yield floors have been applied in the estimation of the stresses, despite the current low interest rate environment.

Interest rate and inflation expectation have historically shown positive correlation and have therefore been presented next to each other.

The inflation stress adopted is a 100bps pa increase in inflation resulting in a 100bps pa reduction in real yield and no change to the nominal yield. In addition the expense inflation rate is increased by 100bps pa.

In the sensitivity for credit spreads, corporate bond yields have increased by 100bps, gilt and approved security yields are unchanged, and there has been no adjustment to the default assumptions.

The equity stress is a 10% fall in listed equity market values. The property stress adopted is a 10% fall in property market value. Rental income is assumed to be unchanged; however the vacant possession value is stressed down by 10% in line with the market value stress. Where property is being used to back liabilities, the valuation interest rate used to place a value on the liabilities moves with the implied change in property yields.

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

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

For any single event with claims in excess of £30m (2015: £30m) but less than £509m (2015: £496m) the ultimate cost to Legal & General Insurance Limited would be £30m plus 50% of the £5m XS £30m layer (2015: £30m plus 50% of the £5m XS £30m layer) plus the cost of the reinsurance reinstatement premium. The ultimate cost to the group is greater as a proportion of the catastrophe reinsurance cover is placed with Legal & General Assurance Society Limited, which is exposed to 75% of claims between £35m and £100m, 75% of claims between £100m and £250m and 45% of claims between £250m and £478m. The impact of a 1 in 500 year modelled windstorm and coastal flood event would exceed the upper limit of the catastrophe cover by approximately £280m (2015: £270m), with an estimated total cost to Legal & General Insurance Limited of £335m (2015: £330m) and to the group of £590m (2015: £563m).

The above sensitivity analyses do not reflect management actions which could be taken to reduce the impacts. The group seeks to actively manage its asset and liability position. A change in market conditions may lead to changes in the asset allocation or charging structure which may have a more, or less, significant impact on the value of the liabilities. The analyses also ignore any second order effects of the assumption change, including the potential impact on the group asset and liability position and any second order tax effects. In calculating the alternative values, all other assumptions are left unchanged, though in practice, items may be correlated. The sensitivity of the profit and equity to changes in assumptions may not be linear. These results should not be extrapolated to changes of a much larger order, which could be significantly more or less than the amounts shown above.

2.24 Non-controlling interests

Non-controlling interests represent third party interests in direct equity investments as well as investments in private equity and property investment vehicles which are consolidated in the group's results. The majority of the non-controlling interests in 2016 are in relation to investments in the Leisure Fund Unit Trust, the Performance Retail Unit Trust, the Legal & General UK Property Ungeared Fund Limited Partnership, and Thorpe Park Developments Limited.

2.25 Foreign exchange rates

Principal rates of exchange used for translation are:

Period end exchange rates	**At 31.12.16**	At 31.12.15
United States Dollar	**1.24**	1.47
Euro	**1.17**	1.36

Average exchange rates	**01.01.16 - 31.12.16**	01.01.15 - 31.12.15
United States Dollar	**1.36**	1.53
Euro	**1.22**	1.38

2.26 Related party transactions

There were no material transactions between key management and the Legal & General group of companies during the period. All transactions between the group and its key management are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment defined benefit plans were £75m (2015: £93m) for all employees.

At 31 December 2016 and 31 December 2015 there were no loans outstanding to officers of the company.

Key management personnel compensation

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

	2016 £m	2015 £m
Salaries	**9**	10
Social security costs	**2**	2
Post-employment benefits	**-**	1
Share-based incentive awards	**5**	5
Key management personnel compensation	**16**	18
Number of key management personnel	**15**	16

2.27 Provisions
(a) Analysis of provisions

	2016 £m	2015 £m
Retirement benefit obligations	**1,239**	1,131
Other provisions	**89**	40
	1,328	1,171

(b) Retirement benefit obligations

	Fund and Scheme 2016 £m	Overseas 2016 £m	Fund and Scheme 2015 £m	Overseas 2015 £m
Gross pension obligations included in provisions	**(1,234)**	**(5)**	(1,126)	(5)
Annuity obligations insured by Society	**779**	**-**	746	-
Gross defined benefit pension deficit	**(455)**	**(5)**	(380)	(5)
Deferred tax on defined benefit pension deficit	**81**	**1**	72	-
Net defined benefit pension deficit	**(374)**	**(4)**	(308)	(5)

The Legal & General Group UK Pension and Assurance Fund and the Legal & General Group UK Senior Pension Scheme are defined benefit pension arrangements and account for all UK and the majority of worldwide assets of, and contributions to, such arrangements. The schemes were closed to future accrual on 31 December 2015. At 31 December 2016, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Society) has been estimated at £374m (2015: £308m). These amounts have been recognised in the financial statements with £236m charged against shareholder equity (2015: £194m) and £138m against the unallocated divisible surplus (2015: £114m).

2.28 Contingent liabilities, guarantees and indemnities

Provision for the liabilities arising under contracts with policyholders is based on certain assumptions. The variance between actual experience from that assumed may result in those liabilities differing from the provisions made for them. Liabilities may also arise in respect of claims relating to the interpretation of policyholder contracts, or the circumstances in which policyholders have entered into them. The extent of these liabilities is influenced by a number of factors including the actions and requirements of the PRA, FCA, ombudsman rulings, industry compensation schemes and court judgments.

Various group companies receive claims and become involved in actual or threatened litigation and regulatory issues from time to time. The relevant members of the group ensure that they make prudent provision as and when circumstances calling for such provision become clear, and that each has adequate capital and reserves to meet reasonably foreseeable eventualities. The provisions made are regularly reviewed. It is not possible to predict, with certainty, the extent and the timing of the financial impact of these claims, litigation or issues.

In 1975, Legal & General Assurance Society Limited (the Society) was required by the Institute of London Underwriters (ILU) to execute the ILU form of guarantee in respect of policies issued through the ILU's Policy Signing Office on behalf of NRG Victory Reinsurance Company Ltd (Victory), a company which was then a subsidiary of the Society. In 1990, Nederlandse Reassurantie Groep Holding NV (the assets and liabilities of which have since been assumed by Nederlandse Reassurantie Groep NV under a statutory merger in the Netherlands) acquired Victory and provided an indemnity to the Society against any liability the Society may have as a result of the ILU's requirement, and the ILU agreed that its requirement of the Society would not apply to policies written or renewed after the acquisition. Nederlandse Reassurantie Groep NV is now owned by Columbia Insurance Company, a subsidiary of Berkshire Hathaway Inc. Whether the Society has any liability as a result of the ILU's requirement and, if so, the amount of its potential liability is uncertain. The Society has made no payment or provision in respect of this matter.

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

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Asset and premium flows

3.01 Legal & General investment management total assets

For the year ended 31 December 2016	Index £bn	Active fixed income £bn	Solu-tions[1] £bn	Real assets £bn	Active equities £bn	Total AUM £bn	Advisory assets £bn	Total assets £bn
At 1 January 2016	**274.3**	**106.8**	**338.2**	**18.3**	**8.5**	**746.1**	**10.5**	**756.6**
External inflows[7]	35.2	10.8	19.9	1.4	-	67.3	-	67.3
External outflows[7]	(45.0)	(6.5)	(12.4)	(1.2)	(0.2)	(65.3)	-	(65.3)
Overlay/advisory net flows	-	-	27.2	-	-	27.2	(5.4)	21.8
External net flows[3]	**(9.8)**	**4.3**	**34.7**	**0.2**	**(0.2)**	**29.2**	**(5.4)**	**23.8**
Internal net flows	(0.3)	1.5	-	0.7	0.1	2.0	-	2.0
Total net flows	**(10.1)**	**5.8**	**34.7**	**0.9**	**(0.1)**	**31.2**	**(5.4)**	**25.8**
Cash management movements[5]	-	(0.7)	-	-	-	(0.7)	-	(0.7)
Market and other movements[3,7]	55.6	22.9	39.0	0.4	(0.3)	117.6	2.7	120.3
At December 2016[6]	**319.8**	**134.8**	**411.9**	**19.6**	**8.1**	**894.2**	**7.8**	**902.0**
Assets attributable to:								
External						**796.7**	**7.8**	**804.5**
Internal						**97.5**	**-**	**97.5**
Assets attributable to:								
UK						**716.8**	**-**	**716.8**
International						**177.4**	**7.8**	**185.2**

For the year ended 31 December 2015	Index £bn	Active fixed income £bn	Solu-tions[1] £bn	Real assets £bn	Active equities £bn	Total AUM £bn	Advisory assets £bn	Total assets £bn
At 1 January 2015	**274.8**	**102.9**	**293.3**	**14.5**	**8.2**	**693.7**	**14.8**	**708.5**
External inflows[2,7]	33.4	12.0	23.1	1.6	-	70.1		70.1
External outflows[7]	(38.8)	(4.3)	(6.6)	(0.9)	-	(50.6)		(50.6)
Overlay/advisory net flows	-	-	18.2	-	-	18.2	(4.6)	13.6
External net flows[3]	**(5.4)**	**7.7**	**34.7**	**0.7**	**-**	**37.7**	**(4.6)**	**33.1**
Internal net flows	(0.7)	(1.9)	-	0.9	(0.4)	(2.1)	-	(2.1)
Disposal of LGF[4]	-	(2.3)	-	-	-	(2.3)	-	(2.3)
Total net flows	**(6.1)**	**3.5**	**34.7**	**1.6**	**(0.4)**	**33.3**	**(4.6)**	**28.7**
Cash management movements[5]	-	0.8	-	-	-	0.8	-	0.8
Market and other movements[3,7]	5.6	(0.4)	10.2	2.2	0.7	18.3	0.3	18.6
At 31 December 2015[6]	**274.3**	**106.8**	**338.2**	**18.3**	**8.5**	**746.1**	**10.5**	**756.6**
Assets attributable to:								
External						**661.0**	**10.5**	**671.5**
Internal						**85.1**	**-**	**85.1**
Assets attributable to:								
UK						**623.7**	**-**	**623.7**
International						**122.4**	**10.5**	**132.9**

1. Solutions include liability driven investments, multi-asset funds and included £251.8bn at 31 December 2016 (31 December 2015: £226.2bn) of derivative notionals associated with the Solutions business.
2. In 2015 Solutions external inflows include £11.7bn of assets associated with the transfer of National Grid UK Pension Scheme after the purchase of their asset manager Aerion Fund Management.
3. External net flows exclude movements in short-term solutions assets, with maturity as determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 31 December 2016 was £52.6bn (31 December 2015: £59.9bn), and the movement in these assets is included in market and other movements for Solutions assets.
4. On 31 December 2015, the group sold Legal & General Holdings (France) S.A. to APICIL Prévoyance.
5. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.
6. Total assets under management have been reconciled to the financial investments and investment property held on the Consolidated Balance Sheet in note 3.04.
7. Switches between asset classes are included in the gross inflows and outflows, and moved out of Market and other movements. 2015 has been restated for full comparative purposes.

Asset and premium flows

3.02 Legal & General investment management total assets half-yearly progression

For the year ended 31 December 2016	Index £bn	Active fixed income £bn	Solu-tions[1] £bn	Real assets £bn	Active equities £bn	Total AUM £bn	Advisory assets £bn	Total assets £bn
At 1 January 2016	**274.3**	**106.8**	**338.2**	**18.3**	**8.5**	**746.1**	**10.5**	**756.6**
External inflows[4]	17.6	4.8	9.3	0.8	-	32.5	-	32.5
External outflows[4]	(20.0)	(2.2)	(6.6)	(0.7)	(0.1)	(29.6)	-	(29.6)
Overlay/ advisory net flows	-	-	6.7	-	-	6.7	(0.3)	6.4
External net flows[2]	**(2.4)**	**2.6**	**9.4**	**0.1**	**(0.1)**	**9.6**	**(0.3)**	**9.3**
Internal net flows	(0.4)	0.7	(0.1)	0.1	-	0.3	-	0.3
Total net flows	**(2.8)**	**3.3**	**9.3**	**0.2**	**(0.1)**	**9.9**	**(0.3)**	**9.6**
Cash management movements[3]	-	(0.6)	-	-	-	(0.6)	-	(0.6)
Market and other movements[4]	28.9	16.3	41.6	(0.1)	(0.6)	86.1	1.4	87.5
At 30 June 2016	**300.4**	**125.8**	**389.1**	**18.4**	**7.8**	**841.5**	**11.6**	**853.1**
External inflows[4]	17.6	6.0	10.6	0.6	-	34.8	-	34.8
External outflows[4]	(25.0)	(4.3)	(5.8)	(0.5)	(0.1)	(35.7)	-	(35.7)
Overlay / advisory net flows	-	-	20.5	-	-	20.5	(5.1)	15.4
External net flows[2]	**(7.4)**	**1.7**	**25.3**	**0.1**	**(0.1)**	**19.6**	**(5.1)**	**14.5**
Internal net flows	0.1	0.8	0.1	0.6	0.1	1.7	-	1.7
Total net flows	**(7.3)**	**2.5**	**25.4**	**0.7**	**-**	**21.3**	**(5.1)**	**16.2**
Cash management movements[3]	-	(0.1)	-	-	-	(0.1)	-	(0.1)
Market and other movements[4]	26.7	6.6	(2.6)	0.5	0.3	31.5	1.3	32.8
At 31 December 2016	**319.8**	**134.8**	**411.9**	**19.6**	**8.1**	**894.2**	**7.8**	**902.0**

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

4. Switches between asset classes are included in the gross inflows and outflows, and moved out of Market and other movements.

Asset and premium flows

3.02 Legal & General investment management total assets half-yearly progression

For the year ended 31 December 2015	Index £bn	Active fixed income £bn	Solu- tions[1] £bn	Real assets £bn	Active equities £bn	Total AUM £bn	Advisory assets £bn	Total assets £bn
At 1 January 2015	**274.8**	**102.9**	**293.3**	**14.5**	**8.2**	**693.7**	**14.8**	**708.5**
External inflows[7]	15.9	5.3	8.9	0.8	-	30.9	-	30.9
External outflows[7]	(22.7)	(2.5)	(3.4)	(0.3)	-	(28.9)	-	(28.9)
Overlay/ advisory net flows	-	-	11.8	-	-	11.8	(3.5)	8.3
External net flows[3]	**(6.8)**	**2.8**	**17.3**	**0.5**	**-**	**13.8**	**(3.5)**	**10.3**
Internal net flows	(0.3)	(0.8)	-	0.4	(0.3)	(1.0)	-	(1.0)
Total net flows	**(7.1)**	**2.0**	**17.3**	**0.9**	**(0.3)**	**12.8**	**(3.5)**	**9.3**
Cash management movements[5]	-	1.7	-	-	-	1.7	-	1.7
Market and other movements[3,7]	7.0	(0.2)	(2.4)	1.3	0.7	6.4	-	6.4
At 30 June 2015	**274.7**	**106.4**	**308.2**	**16.7**	**8.6**	**714.6**	**11.3**	**725.9**
External inflows[7]	17.5	6.7	14.2	0.8	-	39.2	-	39.2
External outflows[7]	(16.1)	(1.8)	(3.2)	(0.6)	-	(21.7)	-	(21.7)
Overlay/ advisory net flows	-	-	6.4	-	-	6.4	(1.1)	5.3
External net flows[3]	**1.4**	**4.9**	**17.4**	**0.2**	**-**	**23.9**	**(1.1)**	**22.8**
Internal net flows	(0.4)	(1.1)	-	0.5	(0.1)	(1.1)	-	(1.1)
Disposal of LGF[4]	-	(2.3)	-	-	-	(2.3)	-	(2.3)
Total net flows	**1.0**	**1.5**	**17.4**	**0.7**	**(0.1)**	**20.5**	**(1.1)**	**19.4**
Market and other								
Cash management movements[5]	-	(0.9)	-	-	-	(0.9)	-	(0.9)
Market and other movements[3,7]	(1.4)	(0.2)	12.6	0.9	-	11.9	0.3	12.2
At 31 December 2015[6]	**274.3**	**106.8**	**338.2**	**18.3**	**8.5**	**746.1**	**10.5**	**756.6**

1. Solutions include liability driven investments, multi-asset funds, and include £226.2bn at 31 December 2015 (30 June 2015: £208.1bn) of derivative notionals associated with the Solutions business.
2. Solutions external inflows include £11.7bn of assets associated with the transfer of National Grid UK Pension Scheme after the purchase of their asset manager Aerion Fund Management.
3. External net flows exclude movements in short-term solutions assets, with maturity as determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 31 December 2015 was £59.9bn (30 June 2015: £48.2bn), and the movement in these assets is included in market and other movements for Solutions assets.
4. On 31 December 2015, the group sold Legal & General Holdings (France) S.A. to APICIL Prévoyance.
5. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.
6. Total assets under management have been reconciled to the financial investments and investment property on the Consolidated Balance Sheet in note 3.04.
7. Switches between asset classes are included in the gross inflows and outflows, and moved out of Market and other movements. 2015 has been restated for full comparative purposes.

3.02 Legal & General investment management total assets half-yearly progression (continued)

	As at 31.12.16 £bn	**As at 30.06.16 £bn**	As at 31.12.15 £bn	As at 30.06.15 £bn
Total assets attributable to:[1]				
External	**804.5**	**761.4**	671.5	636.1
Internal	**97.5**	**91.7**	85.1	89.8
Total assets attributable to:[1]				
UK	**716.8**	**689.6**	623.7	598.8
International	**185.2**	**163.5**	132.9	127.1

1. Total assets at 31 December 2016 include £7.8bn of advisory assets (31 December 2015: £10.5bn).

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

	6 months to 31.12.16 £bn	**6 months to 30.06.16 £bn**	6 months to 31.12.15 £bn	6 months to 30.06.15 £bn
LGIM total external AUM net flows[1]	**19.5**	**9.6**	23.9	13.8
Attributable to:				
International	**7.8**	**6.7**	4.1	5.4
UK Institutional				
- Defined contribution	**1.2**	**0.8**	1.9	1.0
- Defined benefit[2]	**9.8**	**1.4**	17.0	7.1
UK Retail	**0.7**	**0.7**	0.9	0.3

1. External net flows exclude movements in short term overlay assets, with maturity as determined by client agreements and cash management movements.
2. In the six months to 31 December 2015, Solutions external inflows include £11.7bn of assets associated with the transfer of National Grid UK Pension Scheme after the purchase of their asset manager Aerion Fund Management.

3.04 Assets under management reconciliation to Consolidated Balance Sheet financial assets

	As at 30.12.16 £bn	As at 31.12.15 £bn
Assets under management	**894.2**	746.1
Derivative notionals[1]	**(251.8)**	(226.2)
Third party assets[2]	**(234.7)**	(157.9)
Derivative liabilities	**9.0**	8.0
Other[3]	**9.6**	(7.9)
Total group financial investments and investment property	**426.3**	362.1

1. Derivative notionals are included in the assets under management but not for IFRS reporting and are thus removed.

2. Third party assets are those that LGIM manage on behalf of others, for which the group does not have the risks or rewards and thus are not incldued on the IFRS balance sheet.
3. Other includes assets that are managed by third parties on behalf of the group, cash and broker balances.

3.05 Assets under administration

For the year ended 31 December 2016	Platforms[1,2] £bn	Suffolk Life £bn	Mature Retail Savings[3] £bn	Consolidation adjustment[4] £bn	Total Savings £bn	LGIM Netherlands £bn	LGIM Workplace £bn	LGIM Retail Investments[5] £bn	Annuities £bn
At 1 January 2016	**76.9**	**8.6**	**29.6**	**(6.8)**	**108.3**	**1.6**	**14.7**	**22.6**	**43.4**
Gross inflows[1]	24.2	0.5	0.8	(0.1)	25.4	0.2	4.4	6.7	7.3
Gross outflows	(25.5)	(0.3)	(3.8)	0.5	(29.1)	(0.2)	(1.1)	(6.7)	
Payments to pensioners	-	-	-	-	-	-	-	-	(3.0)
Net flows	**(1.3)**	**0.2**	**(3.0)**	**0.4**	**(3.7)**	**-**	**3.3**	**-**	**4.3**
Market and other movements	8.0	-	4.1	(0.3)	11.8	0.2	2.8	2.8	6.7
Disposals[6]	-	(8.8)	-	1.8	(7.0)	-	-	-	-
At 31 December 2016	**83.6**	**-**	**30.7**	**(4.9)**	**109.4**	**1.8**	**20.8**	**25.4**	**54.4**

For the year ended 31 December 2015	Platforms[1,2] £bn	Suffolk Life £bn	Mature Retail Savings[3] £bn	Consolidation adjustment[4] £bn	Total Savings £bn	LGIM France and Netherlands £bn	LGIM Workplace £bn	LGIM Retail Investments[5] £bn	Annuities £bn
At 1 January 2015	**71.9**	**7.7**	**36.0**	**(6.9)**	**108.7**	**4.4**	**11.1**	**21.3**	**44.2**
Gross inflows[1]	8.7	1.2	1.1	(0.5)	10.5	0.4	3.3	5.9	3.0
Gross outflows	(5.2)	(0.5)	(4.1)	0.8	(9.1)	(0.3)	(0.7)	(5.7)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(2.6)
Disposals[7]	-	-	(2.8)	-	(2.8)	(2.7)	-	-	-
Net flows	**3.5**	**0.7**	**(5.8)**	**0.3**	**(1.4)**	**(2.6)**	**2.6**	**0.2**	**0.4**
Market and other movements	1.5	0.2	(0.6)	(0.2)	1.0	(0.2)	1.0	1.1	(1.2)
At 31 December 2015	**76.9**	**8.6**	**29.6**	**(6.8)**	**108.3**	**1.6**	**14.7**	**22.6**	**43.4**

1. Platforms gross inflows include Cofunds institutional net flows. Total 2016 Platforms comprise £83.6bn of which £39.4bn (31 December 2015: £37.5bn) are retail assets and £44.2bn (31 December 2015: £39.4bn) are assets held on behalf of institutional clients.
2. Platforms AUA comprise: ISAs £21.4bn (31 December 2015: £19.9bn); onshore bonds £2.8bn (31 December 2015: £3.0bn); offshore bonds £0.1bn (31 December 2015: £0.1bn); platform SIPPs £3.9bn (31 December 2015: £3.5bn) and non-wrapped funds £54.0bn (31 December 2015: £50.4bn).
3. Mature Retail Savings products include with-profits products, bonds and retail pensions.
4. Consolidation adjustment represents Suffolk Life and Mature Retail Savings assets included in the Platforms column.
5. Retail Investments include £2.4bn (31 December 2015: £2.0bn) of LGIM unit trust assets held on the Cofunds platform and £3.7bn (31 December 2015: £3.2bn) of LGIM unit trust assets held on the IPS platform.
6. Suffolk Life was sold on 25 May 2016 to Curtis Banks Group plc.
7. £2.8bn of assets relating to Legal & General International (Ireland) Limited, were sold to Canada Life Group on 1 July 2015. £2.7bn of assets relating to Legal & General Holdings (France) S.A. were sold on 31 December 2015 to APICIL Prévoyance.

Asset and premium flows

3.06 Assets under administration half-yearly progression

							LGIM		
For the year ended 31 December 2016	**Platforms[1,2] £bn**	**Suffolk Life £bn**	**Mature Retail Savings[3] £bn**	**Consolidation adjustment[4] £bn**	**Total Savings £bn**	**Netherlands £bn**	**Workplace £bn**	**Retail Investments[5] £bn**	**Annuities[7] £bn**
At 1 January 2016	**76.9**	**8.6**	**29.6**	**(6.8)**	**108.3**	**1.6**	**14.7**	**22.6**	**43.4**
Gross inflows[1]	2.2	0.5	0.5	(0.2)	3.0	0.1	2.3	3.0	4.0
Gross outflows	(2.9)	(0.3)	(1.8)	0.3	(4.7)	(0.1)	(0.5)	(3.2)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(1.4)
Net flows	**(0.7)**	**0.2**	**(1.3)**	**0.1**	**(1.7)**	**-**	**1.8**	**(0.2)**	**2.6**
Market and other movements	1.3	-	1.1	-	2.4	0.2	0.8	0.9	5.0
Disposals[6]	-	(8.8)		1.8	(7.0)	-	-	-	-
At 30 June 2016	**77.5**	**-**	**29.4**	**(4.9)**	**102.0**	**1.8**	**17.3**	**23.3**	**51.0**
Gross inflows[1]	22.0	-	0.3	0.1	22.4	0.1	2.1	3.7	3.3
Gross outflows	(22.6)	-	(2.0)	0.2	(24.4)	(0.1)	(0.6)	(3.5)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(1.6)
Net flows	**(0.6)**	**-**	**(1.7)**	**0.3**	**(2.0)**	**-**	**1.5**	**0.2**	**1.7**
Market and other movements	6.7	-	3.0	(0.3)	9.4	-	2.0	1.9	1.7
At 31 December 2016	**83.6**	**-**	**30.7**	**(4.9)**	**109.4**	**1.8**	**20.8**	**25.4**	**54.4**

1. Platforms gross inflows include Cofunds institutional net flows. Total 2016 Platforms comprise £39.4bn (30 June 2016: £37.2bn) of retail assets and £44.2bn (30 June 2016: £40.3bn) of assets held on behalf of institutional clients.
2. Platforms AUA comprise: ISAs £21.4bn (30 June 2016: £20.1bn); onshore bonds £2.8bn (30 June 2016: £2.8bn); offshore bonds £0.1bn (30 June 2016: £0.1bn); platform SIPPs £3.9bn (30 June 2016: £3.6bn) and non-wrapped funds £54.0bn (30 June 2016: £49.5bn).
3. Mature Retail Savings products include with-profits products, bonds and retail pensions.
4. Consolidation adjustment represents Suffolk Life and Mature Retail Savings assets included in the Platforms column.
5. At 31 December 2016 Retail Investments include £2.4bn (30 June 16: £1.8bn) of LGIM unit trust assets held on the Cofunds platform and £3.7bn (30 June 2016: £3.4bn) of LGIM unit trust assets held on the IPS platform.
6. Suffolk Life was sold on 25 May 2016 to Curtis Banks Group plc.
7. Annuities exclude LGRE and LGA assets.

Asset and premium flows

3.06 Assets under administration half-yearly progression

For the year ended 31 December 2015	Platforms[1,2] £bn	Suffolk Life £bn	Mature Retail Savings[3] £bn	Consolidation adjustment[4] £bn	Total Savings £bn	France and Netherlands £bn	LGIM Workplace £bn	LGIM Retail Investments[5] £bn	Annuities £bn
At 1 January 2015	**71.9**	**7.7**	**36.0**	**(6.9)**	**108.7**	**4.4**	**11.1**	**21.3**	**44.2**
Gross inflows[1]	3.8	0.6	0.7	(0.2)	4.9	0.2	1.2	3.0	1.4
Gross outflows	(2.7)	(0.3)	(2.2)	0.4	(4.8)	(0.2)	(0.3)	(3.0)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(1.2)
Net flows	**1.1**	**0.3**	**(1.5)**	**0.2**	**0.1**	**-**	**0.9**	**-**	**0.2**
Market and other movements	1.6	0.3	0.3	(0.2)	2.0	(0.2)	1.1	1.2	(1.0)
At 30 June 2015	**74.6**	**8.3**	**34.8**	**(6.9)**	**110.8**	**4.2**	**13.1**	**22.5**	**43.4**
Gross inflows[1]	4.9	0.6	0.4	(0.3)	5.6	0.2	2.1	2.9	1.6
Gross outflows	(2.5)	(0.2)	(1.9)	0.4	(4.2)	(0.1)	(0.4)	(2.7)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(1.4)
Disposals[6]	-	-	(2.8)	-	(2.8)	(2.7)	-	-	-
Net flows	**2.4**	**0.4**	**(4.3)**	**0.1**	**(1.4)**	**(2.6)**	**1.7**	**0.2**	**0.2**
Market and other movements	(0.1)	(0.1)	(0.9)	-	(1.1)	-	(0.1)	(0.1)	(0.2)
At 31 December 2015	**76.9**	**8.6**	**29.6**	**(6.8)**	**108.3**	**1.6**	**14.7**	**22.6**	**43.4**

1. Platforms gross inflows include Cofunds institutional net flows. Total 2015 Platforms comprise £37.5bn (30 June 2015: £37.9bn) of retail assets and £39.4bn (30 June 2015: £36.7bn) of assets held on behalf of institutional clients.

2. Platforms AUA comprise ISAs: £19.9bn (June 2015: £20.0bn); onshore bonds £3.0bn (June 2015 £3.2bn); offshore bonds £0.1bn (June 2015 £0.1bn); platform SIPPs £3.5bn (June 2015 £3.4bn) and non-wrapped funds £50.4bn (June 2015 £46.7bn).

3. Mature Retail Savings products include with-profits products, bonds and retail pensions.

4. Consolidation adjustment represents Suffolk Life (until disposal) and Mature Retail Savings assets included in the Platforms column.

5. At 31 December 2015 Retail Investments included £2.0bn (June 2015: £1.8bn) of LGIM unit trust assets held on our Cofunds platform and £3.2bn (June 2015: £3.3bn) of LGIM unit trust assets held on our IPS platform.

6. £2.8bn of assets relating to Legal & General International (Ireland) Limited, were sold to Canada Life Group on 1 July 2015. £2.7bn of assets relating to Legal & General Holdings (France) S.A. were sold on 31 December 2015 to APICIL Prevoyance.

Asset and premium flows

3.07 LGR new business

	6 months to 31.12.16 £m	6 months to 30.06.16 £m	6 months to 31.12.15 £m	6 months to 30.06.15 £m
Backbook acquisitions	**-**	**2,945**	-	-
Pension risk transfer				
- UK	**2,698**	**640**	831	1,146
- USA	**302**	**45**	295	**-**
- Netherlands	**-**	**-**	145	**-**
Individual Annuities	**220**	**158**	147	180
Lifetime Mortgage Advances	**389**	**231**	164	37
Longevity Insurance[1]	**900**	**-**	-	-
Total LGR new business	**4,509**	**4,019**	1,582	1,363

1. Represents a reinsured longevity insurance deal transacted in December 2016. The figure quoted represents the notional size of the transaction and is based on the present value of the fixed leg cash flows discounted at the LIBOR curve. The first year's fixed cash flow is £25m.

3.08 Insurance new business

	6 months to 31.12.16 £m	6 months to 30.06.16 £m	6 months to 31.12.15 £m	6 months to 30.06.15 £m
UK Retail Protection	**88**	**82**	83	79
UK Group Protection	**22**	**36**	29	40
France Protection[1]	**-**	**-**	-	30
Netherlands Protection	**2**	**2**	2	3
US Protection	**34**	**28**	29	41
Total Insurance new business	**146**	**148**	143	193

1. Legal & General Holdings (France) S.A. was sold on 31 December 2015 to APICIL Prévoyance.

3.09 Gross written premiums on Insurance business

	6 months to 31.12.16 £m	6 months to 30.06.16 £m	6 months to 31.12.15 £m	6 months to 30.06.15 £m
UK Retail Protection	**597**	**582**	567	545
UK Group Protection	**100**	**233**	101	229
General Insurance	**170**	**156**	173	164
France Protection	**-**	**-**	83	85
Netherlands Protection	**27**	**25**	22	24
US Protection	**477**	**420**	387	386
Longevity Insurance	**160**	**161**	162	164
Total gross written premiums on insurance business	**1,531**	**1,577**	1,495	1,597

Capital and Investments

4.01 Group regulatory capital – Solvency II Directive

From 1 January 2016, the group has been required to comply with the requirements established by the Solvency II Framework Directive, as adopted by the Prudential Regulation Authority (PRA) in the UK and to measure and monitor its capital resources on this basis.

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

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

The table below shows the estimated group Own Funds, Solvency Capital Requirement and Surplus Own Funds of the group, based on the Internal Model and Matching Adjustment approved by the PRA. This incorporates the estimated impacts of a recalculation of the Transitional Measures for Technical Provisions (Estimated TMTP) recalculated based on end 2016 economic conditions and changes during 2016 to the Internal Model and Matching Adjustment. The Estimated TMTP has been amortised to end 2016. The conditions for the PRA to allow a formal recalculation of the group's TMTP were not met as at end 2016. In line with PRA guidance, we expect to undertake a formal recalculation of the TMTP on or before 1 January 2018, i.e. when PRA conditions are met or two years from the date of commencement of the Solvency II regime.

(a) Capital position

As at 31 December 2016, and on the above basis, the group had a Solvency II surplus of £5.7bn (2015: £5.5bn) over its Solvency Capital Requirement, corresponding to a coverage ratio on a "shareholder view" basis of 171% (2015: 176%). The shareholder view of Solvency II capital position is as follows:

	2016 £bn	2015 £bn
Core tier 1 Own Funds	**11.0**	10.6
Tier 1 subordinated liabilities	**0.6**	0.6
Tier 2 subordinated liabilities	**2.1**	2.0
Eligibility restrictions	**(0.1)**	(0.4)
Own Funds[1]	**13.6**	12.8
Solvency Capital Requirement (SCR)[2]	**(7.9)**	(7.3)
Solvency II surplus	**5.7**	5.5
SCR coverage ratio[3]	**171%**	176%

1. Own Funds do not include an accrual for the dividend of £616m (2015: £592m) declared after the balance sheet date.
2. The SCR is not subject to audit.
3. Coverage ratio is on an unrounded basis.

The "shareholder view" basis excludes the SCR for the with-profits fund and the final salary pension schemes from both Own Funds and SCR. The 2015 comparatives have been restated from the originally reported pro-forma basis to be on a "shareholder view". On the pro-forma basis as reported at end 2015 the coverage ratio at end 2016 would have been 165% (2015: 169%).

(b) Methodology

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

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

Liabilities are valued on a best estimate market consistent basis, with the application of a Solvency II Matching Adjustment for valuing annuity liabilities. This incorporates the estimated impacts of a recalculation of the Transitional Measures for Technical Provisions (Estimated TMTP) recalculated based on end 2016 economic conditions and changes during 2016 to the Internal Model and Matching Adjustment. The Estimated TMTP has been amortised to end 2016.

The liabilities include the Risk Margin which represents an allowance for the cost of capital for a purchasing insurer taking on the portfolio of liabilities and residual risks that are deemed to be not hedgeable under Solvency II, following the 1-in-200 stress event. This is calculated using a cost of capital of 6% as prescribed by the European Insurance and Occupational Pensions Authority (EIOPA).

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

4.01 Group regulatory capital – Solvency II Directive (continued)
(b) Methodology (continued)

All material EEA insurance firms, including Legal & General Assurance Society Limited, Legal & General Insurance Limited, and Legal & General Assurance (Pensions Management) Limited (LGIM's insurance subsidiary) are incorporated into the group's Solvency II Internal Model assessment of required capital, assuming diversification of the risks between and within those firms. These firms, as well as the non-EEA insurance firm (Legal & General Reinsurance Company Limited (L&G Re) based in Bermuda) contribute over 90% of the group's SCR.

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

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

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

The group completed the sale of Cofunds in January 2017 and has announced the sale of Legal & General Netherlands (subject to regulatory approval). The shareholder view of Solvency II capital position as at 31 December 2016 does not reflect the expected impacts of these sales.

Allowance is made within the Solvency II balance sheet for the group's defined benefit pension schemes using results on an IFRS basis.

Allowance is made within the SCR by stressing the IFRS result position using the same Internal Model basis as for the insurance firms.

(c) Assumptions

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

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

At end 2016 the Matching Adjustment for UK GBP was 124bps after allowing for the EIOPA specified Fundamental Spread 58bps.

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

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

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

(d) Analysis of change

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

	31.12.16 surplus £bn
Operational Surplus Generation[1]	1.2
New Business Strain	(0.1)
Net Surplus Generation	**1.1**
Dividends paid[2]	(0.8)
Operating variances[3]	0.2
Market Movements[4]	(0.3)
Total Surplus movement (after dividends paid in the year)	**0.2**

1. Release of surplus generated by in-force business and includes management actions which at the start of the year could have been reasonably expected to take place. For 2016 these were limited to those to deliver further eligible assets into the Matching Adjustment portfolio in respect of a small amount of pension risk transfer business.
2. Dividends paid are the amounts from the declarations at end 2015 and HY2016.
3. Operating variances include the impact of experience variances, changes to valuation and capital calibration assumptions, changes to planned volumes of new business, tax rate changes, PRA approval of changes to the Internal Model and Matching Adjustment, (in particular the inclusion of Lifetime Mortgages as assets eligible for Matching Adjustment), and other management actions including changes in asset mix and hedging strategies. This incorporates an Estimated TMTP recalculated on a basis as described at the start of 4.01.
4. Market Movements is the impact of market movements over the year and changes to future economic assumptions. It includes the capital impact of investment portfolio changes implemented by LGC.

4.01 Group regulatory capital – Solvency II Directive (continued)
(d) Analysis of change (continued)

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

New Business Strain/Surplus is the cost of acquiring, and setting up Technical Provisions and SCR capital, on actual new business written over the year. It is based on economic conditions at the point of sale.

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

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

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

1. Release of prudence from IFRS specific reserves which are not included in Solvency II (e.g. long term expense margin or new business closure reserves).
2. Release of prudence related to differences between the EIOPA-defined Fundamental Spread and L&G's best estimate default assumption.
3. Expected market returns earned on LGR's free assets in excess of risk free rates over 2016.
4. Solvency II Operational Surplus Generation includes management actions which at the start of 2016 were expected to take place within the group plan. These were limited to actions by LGR to deliver further eligible assets into the Matching Adjustment portfolio in respect of a small amount of pension risk transfer business.

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

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

1. Shown net of the TMTP attached to the back book acquisition of liabilities from Aegon.

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

The table below gives a reconciliation of the group's IFRS shareholders' equity to the Solvency II Own Funds.

	2016 £bn	2015[6] £bn
IFRS shareholders' equity	**6.9**	6.4
Remove DAC, goodwill and other intangible assets and liabilities	(2.1)	(2.0)
Add subordinated debt treated as available capital[1]	2.5	2.5
Insurance contract valuation differences[2]	7.7	7.5
Add value of shareholder transfers	0.2	0.2
Difference in value of net deferred tax liabilities (resulting from valuation differences)	(0.5)	(0.5)
SCR for with-profits fund and final salary pension schemes	(0.7)	(0.7)
Other[3]	(0.3)	(0.2)
Eligibility restrictions[4]	(0.1)	(0.4)
Own Funds[5]	**13.6**	12.8

1. Treated as available capital on the Solvency II balance sheet as the liabilities are subordinate to policyholder claims.
2. Differences in the measurement of liabilities between IFRS and Solvency II, offset by the inclusion of the Risk Margin net of TMTP. This also allows for a recalculation of TMTP using management's estimate.
3. Reflects valuation differences on other assets and liabilities, predominately in respect of borrowings measured at fair value under Solvency II.
4. Relating to the Own Funds of non-insurance regulated entities, subject to local regulator rules.
5. Own Funds do not include an accrual for the dividend of £616m (2015: £592m) declared after the balance sheet date.
6. The 2015 comparatives are restated on the shareholder view basis.

4.01 Group regulatory capital – Solvency II Directive (continued)

(g) Sensitivity analysis

The following sensitivities are provided to give an indication of how the group's Solvency II surplus as at 31 December 2016 would have changed in a variety of adverse events. These are all independent stresses to a single risk. In practice, the balance sheet is impacted by combinations of stresses and the combined impact can be larger than adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse stresses will happen together.

	Impact on net of tax Solvency II capital surplus 2016 £bn	Impact on net of tax Solvency II coverage ratio 2016 %
Credit spreads widen by 100bps assuming a level addition to all ratings[1]	**0.4**	**10**
Credit spreads widen by 100bps assuming an escalating addition to ratings[1,2]	**0.2**	**7**
Credit spreads narrow by 100bps assuming a level addition to all ratings[1]	**(0.4)**	**(9)**
Credit spreads narrow by 100bps assuming an escalating addition to ratings[1,2]	**(0.2)**	**(7)**
Credit migration[3]	**(0.6)**	**(8)**
20% fall in equity markets	**(0.4)**	**(5)**
40% fall in equity markets	**(0.8)**	**(9)**
20% rise in equity markets	**0.5**	**5**
15% fall in property markets	**(0.2)**	**(3)**
15% rise in property markets	**0.2**	**3**
100bps increase in risk free rates	**1.0**	**22**
50bps fall in risk free rates[4]	**(0.5)**	**(10)**
Future inflation expectation increase by 50bps	**(0.1)**	**(3)**
1% reduction in annuitant base mortality	**(0.2)**	**(2)**
1% increase in annuitant base mortality	**0.2**	**2**
Substantially reduced Risk Margin[5]	**0.1**	**1**

1. The spread sensitivity applies to Legal & General's corporate bond (and similar) holdings, with no change in the firm's long term default expectations.
2. The stress for AA bonds is twice that for AAA bonds, for A bonds it is three times, for BBB four times and so on, such that the weighted average spread stress for the portfolio is 100bps.
3. Credit migration stress covers the cost of an immediate big letter downgrade on c.20% of annuity portfolio bonds, or 3 times level expected in the next 12 months.
4. In the interest rate down stress negative rates are allowed, i.e. there is no floor at zero.
5. This represents a reduction of two-thirds in Risk Margin and subsequent recalculation of Estimated TMTP.

The above sensitivity analysis does not reflect all management actions which could be taken to reduce the impacts. In practice, the group actively manages its asset and liability positions to respond to market movements. These results all allow (on an approximate basis) for the recalculation of Estimated TMTP as at 31 December 2016 where the impact of the stress would cause this to change materially.

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

4.01 Group regulatory capital – Solvency II Directive (continued)

(h) Analysis of Group Solvency Capital Requirement

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

	2016 %
Interest Rate	1
Equity	4
Property	4
Credit[1]	40
Currency	1
Inflation	3
Total Market Risk[2]	53
Counterparty Risk	1
Life Mortality	(1)
Life Longevity[3]	33
Life Lapse	2
Life Catastrophe	2
Non-life underwriting	1
Expense	1
Total Insurance Risk	38
Operational Risk	5
Miscellaneous[4]	3
Total SCR	100

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

4.02 Group Economic Capital

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

Further explanation of the underlying methodology and assumptions is set out in the sections below.

Legal & General maintains a risk-based capital model that is used to calculate the group's Economic Capital balance sheet and support the management of risk within the group. This modelling framework, suitably adjusted for regulatory constraints, also meets the needs of the Solvency II regime. Our Economic Capital model has not been reviewed by the Prudential Regulatory Authority (PRA), nor will it be.

Solvency II has elements which are considered to be inconsistent with the group's definition of Economic Capital, so there are differences between the two balance sheets. A reconciliation between the two bases is provided in section 4.02(g).

(a) Capital position

As at 31 December 2016, the group had an Economic Capital surplus of £8.3bn (2015: £7.6bn), corresponding to an Economic Capital coverage ratio of 230% (2015: 230%). The Economic Capital position is as follows:

	2016 £bn	2015 £bn
Core tier 1 Own Funds	11.9	10.8
Tier 1 subordinated liabilities	0.6	0.7
Tier 2 subordinated liabilities	2.1	2.3
Eligibility restrictions	-	(0.3)
Own Funds[1]	**14.6**	13.5
Economic Capital Requirement (ECR)[2]	(6.3)	(5.9)
Surplus	**8.3**	7.6
ECR coverage ratio[3]	**230%**	230%

1. Economic Capital Own Funds do not include an accrual for the dividend of £616m (2015: £592m) declared after the balance sheet date.
2. The ECR is not subject to audit.
3. Coverage ratio is calculated on unrounded values.

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

(b) Methodology

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

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

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

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

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

All material insurance firms, including Legal & General Assurance Society Limited, Legal & General Insurance Limited, Legal & General Assurance (Pensions Management) Limited (LGIM's insurance subsidiary) and Legal & General America (LGA) are incorporated into the group's Economic Capital model assessment of required capital, assuming diversification of the risks between the different firms within the group and between the risks to which they are exposed. These firms, as well as the non-EEA insurance firm (Legal and General Reinsurance Company Limited based in Bermuda) contribute over 90% of the group's ECR.

Firms for which the capital requirements are less material, are valued on the Solvency II Standard Formula basis. Non-insurance firms are included using their current regulatory surplus, without allowing for any diversification with the rest of the group.

The group completed the sale of Cofunds in January 2017 and has announced the sale of Legal & General Netherlands (subject to regulatory approval). The Economic Capital result as at 31 December 2016 does not reflect the expected impacts of these sales.

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

4.02 Group Economic Capital (continued)
(c) Assumptions

The calculation of the Economic Capital balance sheet and associated capital requirement requires a number of assumptions, including:

(i) assumptions required to derive the present value of best estimate liability cash flows. Non-market assumptions are consistent with those used to derive the group's IFRS disclosures, but with the removal of any prudence margins. Future investment returns and discount rates are based on market data where a deep and liquid market exists or using appropriate estimation techniques where this is not the case. The risk-free rates used to discount liabilities are market swap rates, with a 17 basis point deduction to allow for a credit risk adjustment;

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

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

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

For annuities the liability discount rate includes an Economic Matching Adjustment, which is derived using the same approach as the Solvency II matching adjustment, but any constraints we consider economically artificial, such as capping the yield on assets with a credit rating below BBB and any ineligibility of certain assets and liabilities, have not been applied. The Economic Matching Adjustment was 146bps after allowing for future defaults and downgrades totalling 61bps.

The other key assumption relating to the annuity business is the assumption of longevity. As for IFRS, Legal & General models base mortality and future improvement of mortality separately. For our Economic Capital assessment we believe it is appropriate to ensure that the balance sheet makes sufficient allowance to meet the 1-in-200 stress to longevity over the run-off of the liabilities rather than just over a 1 year timeframe as required by Solvency II.

(d) Analysis of change

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

	31.12.16 surplus £bn
Operational Surplus Generation[1]	0.8
New Business Surplus	0.5
Net Surplus Generation	**1.3**
Dividends paid[2]	(0.8)
Operating variances[3]	-
Market Movements[4]	0.2
Total Surplus (after dividends)	**0.7**

1. Release of surplus generated by in-force business. It may include management actions which at the start of the year could have been reasonably expected to take place. For 2016, no management actions were included which impacted the Economic Capital balance sheet.
2. Dividends paid are the amounts from the declarations at year-end 2015 and HY2016.
3. Operating variances comprise of model and assumption changes and changes in asset mix across the group (with corresponding increase in Economic Capital Requirement).
4. Market Movements is the impact of market movements over the year and changes to future economic assumptions. It includes the capital impact of investment portfolio changes implemented by LGC.

4.02 Group Economic Capital (continued)
(e) Reconciliation of IFRS shareholders' equity to Economic Capital Eligible Own Funds

The table below gives a reconciliation of the group's IFRS shareholders' equity to the Own Funds on an Economic Capital basis.

	2016 £bn	2015 £bn
IFRS shareholders' equity	**6.9**	6.4
Remove DAC, goodwill and other intangible assets and liabilities	**(2.1)**	(2.0)
Add subordinated debt treated as available capital[1]	**2.5**	2.5
Insurance contract valuation differences[2]	**7.9**	7.0
Add value of shareholder transfers	**0.2**	0.2
Difference in value of net deferred tax liabilities (resulting from valuation differences)	**(0.5)**	(0.5)
Other	**(0.3)**	0.2
Eligibility restrictions[3]	**-**	(0.3)
Own Funds[4]	**14.6**	13.5

1. Treated as available capital on the Economic Capital balance sheet as the liabilities are subordinate to policyholder claims.
2. Differences in the measurement of liabilities between IFRS and Economic Capital, offset by the inclusion of the recapitalisation cost.
3. Relating to the Own Funds of US captive reassurers and the UK with-profits fund.
4. Own Funds do not include an accrual for the dividend of £616m (2015: £592m) declared after the balance sheet date.

(f) Sensitivity analysis

The following sensitivities are provided to give an indication of how the group's Economic Capital surplus as at 31 December 2016 would have changed in a variety of adverse events. These are all independent stresses to a single risk. In practice the balance sheet is impacted by combinations of stresses and the combined impact can be larger than adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse stresses will happen together.

	Impact on net of tax capital surplus 2016 £bn	Impact on economic capital coverage ratio 2016 %
Credit spreads widen by 100bps assuming a level addition to all ratings[1]	**0.2**	**9**
Credit spreads widen by 100bps assuming an escalating addition to ratings[1,2]	**0.1**	**6**
Credit migration	**(0.6)**	**(10)**
20% fall in equity markets	**(0.4)**	**(5)**
40% fall in equity markets	**(0.8)**	**(10)**
20% rise in equity markets	**0.5**	**5**
15% fall in property markets	**(0.2)**	**(3)**
100bps increase in risk free rates	**0.6**	**21**
50bps fall in risk free rates[3]	**(0.3)**	**(11)**
1% reduction in annuitant base mortality	**(0.2)**	**(3)**
1% increase in annuitant base mortality	**0.2**	**3**

1. All spread sensitivities apply to Legal & General's corporate bond (and similar) holdings, with no change in the firm's long term default expectations.
2. The stress for AA bonds is twice that for AAA bonds, for A bonds it is three times, for BBB four times and so on, such that the weighted average spread stress for the portfolio is 100bps.
3. In the interest rate down stress negative rates are allowed, i.e. there is no floor at zero.

The above sensitivity analysis does not reflect management actions which could be taken to reduce the impacts. In practice, the group actively manages its asset and liability positions to respond to market movements.

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

4.02 Group Economic Capital (continued)
(g) Analysis of Group Economic Capital Requirement

The table below shows a breakdown of the group's Economic Capital Requirement by risk type. The split is shown after the effects of diversification.

	2016 %
Interest Rate	**2**
Equity	**10**
Property	**6**
Credit[1]	**45**
Currency	**1**
Inflation	**2**
Total Market Risk[2]	**66**
Counterparty Risk	**2**
Life Longevity[3]	**14**
Life Lapse	**3**
Life Catastrophe	**5**
Non-life underwriting	**1**
Expense	**1**
Total Insurance Risk	**24**
Operational Risk	**9**
Miscellaneous[4]	**(1)**
Total ECR	**100**

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

(h) Reconciliation from Economic Capital surplus to Solvency II surplus

The Economic Capital position does not reflect regulatory constraints. The regulatory constraints imposed by the Solvency II regime result in a lower surplus. The table below provides an analysis of the key differences between the two bases. The Solvency II results are reported net of Estimated TMTP.

	2016 £bn	2015 £bn
Economic Capital surplus	**8.3**	7.6
LGA on a D&A basis[1]	**0.1**	0.1
Different annuity capital requirements[2]	**(2.6)**	(1.7)
Risk margin vs. Recapitalisation cost[3]	**-**	-
Eligibility of group Own Funds[4]	**(0.1)**	(0.5)
Solvency II surplus[5]	**5.7**	5.5

1. To ensure consistency of risk management across the group, L&G America remains within the Internal Model for Economic Capital purposes.
2. This includes the difference between the Economic Matching Adjustment and the Solvency II Matching Adjustment as well as the fact that Economic Capital and Solvency II balance sheets use different calibrations for longevity risk.
3. The Risk Margin represents the amount a third party insurance company would require to take on the obligations of a given insurance company. It is equal to the cost of capital on the SCR necessary to support insurance risks that cannot be hedged over the lifetime of the business. This is presented net of Estimated TMTP. The recapitalisation cost is an equivalent measure under Economic Capital, but represents the cost of recapitalising the balance sheet following a stress event. It also removes elements of Solvency II specifications that are, in Legal & General's view, uneconomic.
4. Deductions for regulatory restrictions in respect of fungibility and transferability restrictions. These do not apply to the Economic Capital balance sheet.
5. There are also differences in the valuation of with-profits business and the group pension schemes that have lower order impacts on the difference between the surpluses.

4.03 Estimated Solvency II new business contribution

(a) New business by product[1]

For the year ended 31 December 2016	PVNBP £m	Contribution from new business[2] £m	Margin %
LGR - UK annuity business	**6,661**	**693**	**10.4**
UK Insurance Total	**1,466**	**153**	**10.4**
- Retail protection	1,255	139	11.1
- Group protection	211	14	6.6
LGA[3]	**631**	**78**	**12.4**

1. Selected lines of business only.
2. The contribution from new business is defined as the present value at the point of sale of expected future Solvency II surplus emerging from new business written in the period using the risk discount rate applicable at the end of the reporting period.
3. In local currency, LGA reflects PVNBP of $855m and a contribution from new business of $106m.

(b) Assumptions

The key economic assumptions as at 31 December 2016 are as follows:

	%
Risk Margin	**3.1**
Risk free rate	
- UK	**1.7**
- US	**2.1**
Risk discount rate (net of tax)	
- UK	**4.8**
- US	**5.2**
Long-term rate of return on non-profit annuities in LGR	**3.1**

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

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

- The assumed future pre-tax returns on fixed interest and RPI linked securities are set by reference to the portfolio yield on the relevant backing assets held at market value at the end of the reporting period. The calculated return takes account of derivatives and other credit instruments in the investment portfolio. The returns on fixed and index-linked assets are calculated net of an allowance for default risk which takes account of the credit rating and the outstanding term of the assets. The allowance for corporate and other unapproved credit asset defaults within the new business contribution is based on a level rate deduction from the expected returns for the overall annuities portfolio of 19bps.

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

Tax

The profits on the new business are calculated on an after tax basis and are grossed up by the notional attributed tax rate. For the UK, the after tax basis assumes the annualised current rate of 20% and subsequent enacted future reductions in corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020 onwards. The tax rate used for grossing up is the long term corporate tax rate in the territory concerned, which for the UK is 17%.

US covered business profits are also grossed up using the long term corporate tax rate of 35%.

4.03 Estimated Solvency II new business contribution (continued)
(c) Methodology

Basis of preparation

The group is required to comply with the requirements established by the EU Solvency II Directive. Consequently, a Solvency II value reporting framework, which incorporates a best estimate of cash flows in relation to insurance assets and liabilities, has replaced EEV reporting in the management information used internally to measure and monitor capital resources. Solvency II new business contribution reflects the portion of Solvency II value added by new business written in 2016, recognising that the statutory solvency in the UK is now on a Solvency II basis. It has been calculated in a manner consistent with European Embedded Value (EEV) principles.

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

Description of methodology

The objective of the Solvency II new business contribution is to provide shareholders with information on the long term contribution of new business written in 2016.

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

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

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

LGA is consolidated into the group solvency balance sheet on a US Statutory solvency basis. Therefore, the LGA margin is largely unchanged from the EEV basis, where new business profitability was also based on the US Statutory solvency basis. Intra-group reinsurance arrangements are in place between the US and UK businesses, and it is expected that these arrangements will be periodically extended to cover recent new business. LGA new business premiums and contribution reflect the groupwide expected impact of LGA directly-written business (i.e. looks through any intra-group reinsurance arrangements).

Comparison to EEV new business contribution

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

Projection assumptions

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

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

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

Tax

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

Risk discount rate

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

The risk free rates have been based on a swap curve net of the EIOPA-specified Credit Risk Adjustment (31 December 2016: 17bps for UK and 15bps for US).

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

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

4.03 Estimated Solvency II new business contribution (continued)
(c) Methodology (continued)

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

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

(d) PVNBP to gross written premium reconciliation

	Notes	**2016 £bn**	2015 £bn
PVNBP	4.03(a)	**8.8**	
Effect of capitalisation factor		**(1.8)**	
New business premiums from selected lines		**7.0**	
Other[1]		**1.9**	
Total LGR, Insurance and LGA new business	3.07/3.08	**8.9**	3.3
Annualisation impact of regular premium long-term business		**(0.1)**	(0.2)
IFRS gross written premiums from existing long-term insurance business		**2.5**	2.6
IFRS gross written premiums from Savings business		**0.2**	0.5
Deposit accounting for lifetime mortgage advances		**(0.6)**	(0.2)
General Insurance gross written premiums	3.09	**0.3**	0.3
Future premiums on longevity swap new business		**(0.9)**	-
Total gross written premiums		**10.3**	6.3

1. Other principally includes annuity sales in the US, lifetime mortgage advances and discounted future cash flows on longevity swap new business.

4.04 Investment portfolio

	Market value 2016 £m	Market value 2015 £m
Worldwide total assets	**903,886**	747,944
Client and policyholder assets[1]	**(821,978)**	(679,831)
Non-unit linked with-profits assets	**(11,924)**	(11,644)
Investments to which shareholders are directly exposed	**69,984**	56,469

1. Prior year figures for client and policyholder assets have been restated to include £82m of reverse repurchase agreements. The total investments to which shareholders are directly exposed to has increased to reflect the change.

Analysed by investment class:

	Note	LGR investments 2016 £m	Other non profit insurance investments 2016 £m	LGC investments[1] 2016 £m	Other shareholder investments 2016 £m	Total 2016 £m	Total 2015 £m
Equities[1]		**393**	**-**	**2,034**	**131**	**2,558**	2,252
Bonds	4.06	**49,470**	**1,769**	**1,689**	**435**	**53,363**	43,916
Derivative assets[2]		**4,611**	**-**	**82**	**-**	**4,693**	3,663
Property	4.07	**2,442**	**-**	**162**	**-**	**2,604**	2,347
Cash, cash equivalents, loans & receivables		**1,589**	**544**	**2,194**	**524**	**4,851**	4,168
Financial investments		**58,505**	**2,313**	**6,161**	**1,090**	**68,069**	56,346
Other assets[3]		**1,883**	**-**	**32**		**1,915**	123
Total investments		**60,388**	**2,313**	**6,193**	**1,090**	**69,984**	56,469

1. Equity investments include a total of £237m (2015: £180m) in respect of CALA Group Limited, Peel Media Holdings Limited (MediaCityUK), NTR Wind Management Ltd and Access Development Partnership, the latter being acquired in 2016.

2. Derivative assets are shown gross of derivative liabilities of £2.9bn (2015: £2.7bn). Exposures arise from the use of derivatives for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management.

3. Other assets include reverse repurchase agreements of £1,883m (2015: £82m).

4.05 Direct Investments
(a) Analysed by asset class

	Direct[1, 2] Investments 2016 £m	Traded[3] securities 2016 £m	Total 2016 £m	Direct[1, 2] Investments 2015 £m	Traded[3] securities 2015 £m	Total 2015 £m
Equities	**595**	**1,963**	**2,558**	432	1,820	2,252
Bonds[4]	**6,256**	**47,107**	**53,363**	3,929	39,987	43,916
Derivative assets	**-**	**4,693**	**4,693**	-	3,663	3,663
Property	**2,604**	**-**	**2,604**	2,347	-	2,347
Cash, cash equivalents, loans & receivables	**518**	**4,333**	**4,851**	425	3,743	4,168
Other assets	**32**	**1,883**	**1,915**	41	82[5]	123
	10,005	**59,979**	**69,984**	7,174	49,295	56,469

1. Direct investments, which generally constitute an agreement with another party, represent an exposure to untraded and often less volatile asset classes. Direct investments also include physical assets, bilateral loans and private equity, but exclude hedge funds.
2. A further breakdown of property is provided in note 4.07.
3. Traded securities are defined by exclusion. If an instrument is not a Direct Investment, then it is classed as a traded security.
4. Direct Investment bonds now include lifetime mortgages of £852m. Prior year figures have been adjusted, showing an increase of £207m in Direct Investments bonds.
5. 2015 traded securities now include £82m of reverse repurchase agreements.

(b) Analysed by segment

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

1. Direct Investments bonds now include lifetime mortgages of £852m. Prior year figures have been adjusted, showing an increase of £207m in Direct Investments bonds.
2. A further breakdown of property is provided in note 4.07.

4.05 Direct Investments (continued)
(b) Analysed by segment (continued)

	LGR 2015 £m	LGC 2015 £m	LGI (US) 2015 £m	LGI (UK and Other) 2015 £m	Total 2015 £m
Equities	-	432	-	-	432
Bonds[1]	3,543	93	293	-	3,929
Property[2]	2,157	186	-	4	2,347
Cash, cash equivalents, loans & receivables	-	115	310	-	425
Other assets	-	41	-	-	41
	5,700	867	603	4	7,174

1. Direct Investments bonds now include lifetime mortgages of £852m. Prior year figures have been adjusted, showing an increase of £207m in Direct Investments bonds.
2. A further breakdown of property is provided in note 4.07.

(c) Movement in the period

	Carrying value 01.01.16 £m	**Additions £m**	**Disposals[1] £m**	**Change in market value £m**	**Carrying value 31.12.16 £m**
Equities	**432**	**202**	**(74)**	**35**	**595**
Bonds	**3,929**	**2,121**	**(286)**	**492**	**6,256**
Property	**2,347**	**596**	**(328)**	**(11)**	**2,604**
Cash, cash equivalents, loans & receivables	**425**	**60**	**(33)**	**66**	**518**
Other assets	**41**	**6**	**-**	**(15)**	**32**
	7,174	**2,985**	**(721)**	**567**	**10,005**

1. Disposals include £91m of assets transferred to held for sale.

4.06 Bond portfolio summary
(a) LGR analysed by sector
Sectors analysed by credit rating

	AAA 2016 £m	AA 2016 £m	A 2016 £m	BBB 2016 £m	BB or below 2016 £m	LGR 2016 £m	LGR 2016 %
Sovereigns, Supras and Sub-Sovereigns	888	9,874	285	230	34	11,311	23
Banks:							
- Tier 1	-	-	-	-	12	12	-
- Tier 2 and other subordinated	211	49	61	41	-	362	1
- Senior	6	330	1,019	58	-	1,413	3
- Covered	259	-	16	-	-	275	1
Financial Services:							
- Tier 1	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	-	13	11	-	24	-
- Senior	-	458	171	155	-	784	2
Insurance:							
- Tier 1	-	-	-	1	-	1	-
- Tier 2 and other subordinated	-	45	3	68	-	116	-
- Senior	8	88	485	76	-	657	1
Consumer Services and Goods:							
- Cyclical	-	387	1,088	1,755	164	3,394	7
- Non-cyclical	260	647	1,380	1,290	116	3,693	7
- Health care	3	12	16	10	-	41	-
Infrastructure:							
- Social	-	346	3,161	675	148	4,330	9
- Economic	-	-	873	1,313	45	2,231	5
Technology and Telecoms	57	202	610	2,104	84	3,057	6
Industrials	-	142	741	362	37	1,282	3
Utilities	-	101	4,903	3,142	12	8,158	16
Energy	-	171	617	1,134	211	2,133	4
Commodities	-	-	304	475	77	856	2
Oil and Gas	-	111	32	53	-	196	-
Property	-	278	99	339	-	716	1
Property backed securities	-	305	628	1,063	48	2,044	4
Structured finance ABS / RMBS / CMBS / Other	121	671	572	46	49	1,459	3
Lifetime mortgage loans	388	322	91	51	-	852	2
CDOs[1]	-	-	59	14	-	73	-
Total £m	2,201	14,539	17,227	14,466	1,037	49,470	100
Total %	4	30	35	29	2	100	

1. In October 2016 the Lagoon CDOs were restructured effectively unwinding the levered super senior swaps. As the notes are now unlevered they have been reclassified to reflect the nature of the exposure.

4.06 Bond portfolio summary (continued)
(a) LGR analysed by sector (continued)
Sectors analysed by credit rating (continued)

	AAA 2015 £m	AA 2015 £m	A 2015 £m	BBB 2015 £m	BB or below 2015 £m	LGR 2015 £m	LGR 2015 %
Sovereigns, Supras and Sub-Sovereigns	1,041	6,396	275	206	31	7,949	21
Banks:							
- Tier 1	-	-	-	5	30	35	-
- Tier 2 and other subordinated	-	-	91	137	-	228	1
- Senior	25	296	869	111	-	1,301	3
- Covered	258	-	-	15	-	273	1
Financial Services:							
- Tier 1	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	3	45	7	-	55	-
- Senior	-	360	200	246	4	810	2
Insurance:							
- Tier 1	-	-	-	6	-	6	-
- Tier 2 and other subordinated	-	-	93	103	-	196	-
- Senior	-	70	422	76	-	568	1
Consumer Services and Goods:							
- Cyclical	-	292	582	1,475	141	2,490	6
- Non-cyclical	198	489	1,205	939	100	2,931	7
- Health care	2	1	24	3	-	30	-
Infrastructure:							
- Social	-	518	2,086	412	131	3,147	8
- Economic	-	-	729	735	19	1,483	4
Technology and Telecoms	47	137	404	1,991	110	2,689	7
Industrials	-	82	504	345	28	959	2
Utilities	-	76	3,886	2,681	28	6,671	17
Energy	22	315	471	897	268	1,973	5
Commodities	-	-	262	361	23	646	2
Oil and Gas	1	6	15	4	-	26	-
Property	-	257	93	343	-	693	2
Property backed securities	-	414	291	989	12	1,706	4
Structured finance ABS / RMBS / CMBS / Other	123	713	237	72	70	1,215	3
Lifetime mortgage loans	-	-	-	207	-	207	1
CDOs[1]	-	552	468	14	47	1,081	3
Total £m	1,717	10,977	13,252	12,380	1,042	39,368	100
Total %	4	28	34	31	3	100	

1. The underlying reference portfolio has had no reference entity defaults during the period . The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the reference portfolio, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses. The CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the counterparty valuation.

4.06 Bond portfolio summary (continued)
(a) LGR analysed by sector (continued)
Sectors analysed by domicile

	UK 2016 £m	US 2016 £m	EU excluding UK 2016 £m	Rest of the World 2016 £m	LGR 2016 £m
Sovereigns, Supras and Sub-Sovereigns	9,071	782	950	508	11,311
Banks	816	682	388	176	2,062
Financial Services	389	76	342	1	808
Insurance	176	528	15	55	774
Consumer Services and Goods:					
- Cyclical	783	2,229	255	127	3,394
- Non-cyclical	1,059	2,420	201	13	3,693
- Health care	4	36	1	-	41
Infrastructure:					
- Social	4,158	137	-	35	4,330
- Economic	1,934	74	-	223	2,231
Technology and Telecoms	582	1,306	745	424	3,057
Industrials	148	656	301	177	1,282
Utilities	3,673	1,191	2,387	907	8,158
Energy	176	1,030	303	624	2,133
Commodities	16	290	27	523	856
Oil and Gas	8	43	120	25	196
Property	709	7	-	-	716
Property backed securities	1,629	340	17	58	2,044
Structured finance ABS / RMBS / CMBS / Other	1,016	50	375	18	1,459
Lifetime mortgages	852	-	-	-	852
CDOs[1]	-	-	-	73	73
Total	27,199	11,877	6,427	3,967	49,470

1. In October 2016 the Lagoon CDOs were restructured effectively unwinding the levered super senior swaps. As the notes are now unlevered they have been reclassified to reflect the nature of the exposure.

4.06 Bond portfolio summary (continued)
(a) LGR analysed by sector (continued)
Sectors analysed by domicile (continued)

	UK 2015 £m	US 2015 £m	EU excluding UK 2015 £m	Rest of the World 2015 £m	LGR 2015 £m
Sovereigns, Supras and Sub-Sovereigns	5,845	557	955	592	7,949
Banks	872	594	243	128	1,837
Financial Services	382	281	198	4	865
Insurance	277	380	40	73	770
Consumer Services and Goods:					
- Cyclical	593	1,556	156	185	2,490
- Non-cyclical	905	1,824	138	64	2,931
- Health care	3	26	1	-	30
Infrastructure:	-	-	-	-	
- Social	3,065	66	-	16	3,147
- Economic	1,348	29	-	106	1,483
Technology and Telecoms	506	1,200	786	197	2,689
Industrials	139	469	244	107	959
Utilities	3,024	974	1,902	771	6,671
Energy	194	983	325	471	1,973
Commodities	21	187	13	425	646
Oil and Gas	3	14	4	5	26
Property	689	4	-	-	693
Property backed securities	1,342	320	12	32	1,706
Structured finance ABS / RMBS / CMBS / Other	972	29	211	3	1,215
Lifetime mortgages	207	-	-	-	207
CDOs[1]	-	-	1,046	35	1,081
Total	20,387	9,493	6,274	3,214	39,368

1. The underlying reference portfolio has had no reference entity defaults during the period . The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the reference portfolio, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses. The CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the counterparty valuation.

4.06 Bond portfolio summary (continued)
(b) Total group analysed by sector
Sectors analysed by credit rating

	AAA 2016 £m	AA 2016 £m	A 2016 £m	BBB 2016 £m	BB or below 2016 £m	Other 2016 £m	Total 2016 £m	Total 2016 %
Sovereigns, Supras and Sub-Sovereigns	**1,115**	**10,216**	**370**	**394**	**102**	**-**	**12,197**	**23**
Banks:								
- Tier 1	**-**	**-**	**-**	**1**	**12**	**-**	**13**	**-**
- Tier 2 and other subordinated	**210**	**49**	**73**	**54**	**1**	**-**	**387**	**1**
- Senior	**15**	**687**	**1,388**	**128**	**12**	**-**	**2,230**	**4**
- Covered	**259**	**-**	**16**	**-**	**-**	**-**	**275**	**1**
Financial Services:								
- Tier 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Tier 2 and other subordinated	**-**	**-**	**13**	**18**	**-**	**-**	**31**	**-**
- Senior	**-**	**468**	**193**	**174**	**3**	**112**	**950**	**2**
Insurance:								
- Tier 1	**-**	**-**	**2**	**4**	**-**	**-**	**6**	**-**
- Tier 2 and other subordinated	**-**	**48**	**8**	**72**	**1**	**-**	**129**	**-**
- Senior	**29**	**88**	**495**	**80**	**-**	**-**	**692**	**1**
Consumer Services and Goods:								
- Cyclical	**-**	**403**	**1,167**	**1,808**	**244**	**-**	**3,622**	**7**
- Non-cyclical	**300**	**665**	**1,454**	**1,391**	**152**	**-**	**3,962**	**7**
- Health Care	**3**	**29**	**46**	**44**	**4**	**-**	**126**	**-**
Infrastructure:								
- Social	**-**	**346**	**3,164**	**675**	**148**	**-**	**4,333**	**8**
- Economic	**-**	**-**	**903**	**1,318**	**45**	**-**	**2,266**	**4**
Technology and Telecoms	**73**	**238**	**662**	**2,162**	**122**	**-**	**3,257**	**6**
Industrials	**-**	**146**	**840**	**487**	**107**	**-**	**1,580**	**3**
Utilities	**-**	**108**	**4,967**	**3,193**	**28**	**-**	**8,296**	**16**
Energy	**-**	**174**	**619**	**1,156**	**240**	**-**	**2,189**	**4**
Commodities	**-**	**-**	**313**	**478**	**98**	**-**	**889**	**2**
Oil and Gas	**-**	**120**	**69**	**111**	**39**	**-**	**339**	**1**
Property	**-**	**278**	**109**	**394**	**6**	**-**	**787**	**1**
Property backed securities	**-**	**305**	**628**	**1,066**	**53**	**-**	**2,052**	**4**
Structured finance ABS / RMBS / CMBS / Other	**341**	**729**	**617**	**90**	**53**	**-**	**1,830**	**3**
Lifetime mortgage loans	**388**	**322**	**91**	**51**	**-**	**-**	**852**	**2**
CDOs[1]	**-**	**-**	**59**	**14**	**-**	**-**	**73**	**-**
Total £m	**2,733**	**15,419**	**18,266**	**15,363**	**1,470**	**112**	**53,363**	**100**
Total %	**5**	**29**	**34**	**29**	**3**	**-**	**100**	

1. In October 2016 the Lagoon CDOs were restructured effectively unwinding the levered super senior swaps. As the notes are now unlevered they have been reclassified to reflect the nature of the exposure.

4.06 Bond portfolio summary (continued)
(b) Total group analysed by sector (continued)
Sectors analysed by credit rating (continued)

	AAA 2015 £m	AA 2015 £m	A 2015 £m	BBB 2015 £m	BB or below 2015 £m	Other 2015 £m	Total 2015 £m	Total 2015 %
Sovereigns, Supras and Sub-Sovereigns	2,069	6,645	324	420	63	6	9,527	23
Banks:								
- Tier 1	-	-	-	5	30	-	35	-
- Tier 2 and other subordinated	-	-	102	148	1	1	252	1
- Senior	97	698	1,004	140	11	1	1,951	4
- Covered	311	-	-	15	-	-	326	1
Financial Services:								
- Tier 1	-	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	3	51	8	-	-	62	-
- Senior	1	380	267	309	7	80	1,044	2
Insurance:								
- Tier 1	-	-	-	6	-	-	6	-
- Tier 2 and other subordinated	-	3	93	105	1	1	203	-
- Senior	1	76	435	85	-	-	597	1
Consumer Services and Goods:								
- Cyclical	-	304	661	1,521	191	-	2,677	6
- Non-cyclical	231	506	1,259	1,055	125	3	3,179	7
- Health care	4	8	68	22	9	-	111	-
Infrastructure:								
- Social	-	519	2,089	413	131	-	3,152	7
- Economic	-	-	729	737	19	14	1,499	3
Technology and Telecoms	61	169	467	2,077	135	1	2,910	7
Industrials	-	99	600	514	66	1	1,280	3
Utilities	1	83	3,939	2,767	39	1	6,830	17
Energy	24	318	472	913	283	-	2,010	5
Commodities	-	-	270	365	23	-	658	1
Oil and Gas	4	24	48	44	19	1	140	-
Property	-	257	111	386	7	1	762	2
Property backed securities	-	414	292	990	15	-	1,711	4
Structured finance ABS / RMBS / CMBS / Other	530	730	299	76	71	-	1,706	4
Lifetime mortgage loans	-	-	-	207	-	-	207	-
CDOs[1]	-	552	468	14	47	-	1,081	2
Total £m	3,334	11,788	14,048	13,342	1,293	111	43,916	100
Total %	8	27	32	30	3	-	100	

1. The underlying reference portfolio has had no reference entity defaults during the period. The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the reference portfolio, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses. The CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the market valuation.

4.06 Bond portfolio summary (continued)
(b) Total group analysed by sector (continued)
Sectors analysed by domicile

	UK 2016 £m	US 2016 £m	EU excluding UK 2016 £m	Rest of the World 2016 £m	Total 2016 £m
Sovereigns, Supras and Sub-Sovereigns	**9,362**	**1,038**	**1,068**	**729**	**12,197**
Banks	**1,141**	**810**	**457**	**497**	**2,905**
Financial Services	**502**	**125**	**353**	**1**	**981**
Insurance	**189**	**566**	**18**	**54**	**827**
Consumer Services and Goods:					
- Cyclical	**795**	**2,410**	**272**	**145**	**3,622**
- Non-cyclical	**1,073**	**2,653**	**209**	**27**	**3,962**
- Health care	**18**	**102**	**6**	**-**	**126**
Infrastructure:					
- Social	**4,161**	**137**	**-**	**35**	**4,333**
- Economic	**1,937**	**102**	**1**	**226**	**2,266**
Technology and Telecoms	**588**	**1,468**	**753**	**448**	**3,257**
Industrials	**166**	**904**	**312**	**198**	**1,580**
Utilities	**3,687**	**1,293**	**2,401**	**915**	**8,296**
Energy	**178**	**1,044**	**321**	**646**	**2,189**
Commodities	**16**	**292**	**33**	**548**	**889**
Oil and Gas	**13**	**128**	**144**	**54**	**339**
Property	**709**	**71**	**4**	**3**	**787**
Property backed securities	**1,631**	**345**	**17**	**59**	**2,052**
Structured Finance ABS / RMBS / CMBS / Other	**1,020**	**323**	**469**	**18**	**1,830**
Lifetime mortgages	**852**	**-**	**-**	**-**	**852**
CDOs[1]	**-**	**-**	**-**	**73**	**73**
Total	**28,038**	**13,811**	**6,838**	**4,676**	**53,363**

1. In October 2016 the Lagoon CDOs were restructured effectively unwinding the levered super senior swaps. As the notes are now unlevered they have been reclassified to reflect the nature of the exposure.

4.06 Bond portfolio summary (continued)
(b) Total group analysed by sector (continued)
Sectors analysed by domicile (continued)

	UK 2015 £m	US 2015 £m	EU excluding UK 2015 £m	Rest of the World 2015 £m	Total 2015 £m
Sovereigns, Supras and Sub-Sovereigns	6,200	878	1,696	753	9,527
Banks	979	710	455	420	2,564
Financial Services	472	368	252	14	1,106
Insurance	282	404	45	75	806
Consumer Services and Goods					
- Cyclical	595	1,724	158	200	2,677
- Non-cyclical	926	2,007	169	77	3,179
- Health care	16	90	4	1	111
Infrastructure					
- Social	3,068	67	-	17	3,152
- Economic	1,363	29	-	107	1,499
Technology and Telecoms	513	1,361	822	214	2,910
Industrials	175	678	301	126	1,280
Utilities	3,033	1,049	1,964	784	6,830
Energy	195	993	337	485	2,010
Commodities	22	187	12	437	658
Oil and Gas	11	71	22	36	140
Property	699	52	7	4	762
Property backed securities	1,342	324	11	34	1,711
Structured finance ABS / RMBS / CMBS / Other	975	518	209	4	1,706
Lifetime mortgage loans	207	-	-	-	207
CDOs[1]	-	-	1,046	35	1,081
Total	21,073	11,510	7,510	3,823	43,916

1. The underlying reference portfolio has had no reference entity defaults during the period. The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the reference portfolio, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses. The CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the market valuation.

4.06 Bond portfolio summary (continued)
(c) LGR and total group analysed by credit rating

	Externally rated 2016 £m	Internally rated[1] 2016 £m	LGR 2016 £m	**Externally rated 2016 £m**	**Internally rated[1] 2016 £m**	**Total Group 2016 £m**
AAA	1,813	388	2,201	**2,345**	**388**	**2,733**
AA	13,303	1,236	14,539	**13,916**	**1,503**	**15,419**
A	14,454	2,773	17,227	**15,384**	**2,882**	**18,266**
BBB	12,405	2,061	14,466	**13,068**	**2,295**	**15,363**
BB or below	960	77	1,037	**1,322**	**148**	**1,470**
Other	-	-	-	**-**	**112**	**112**
	42,935	6,535	49,470	**46,035**	**7,328**	**53,363**

	Externally rated 2015 £m	Internally rated[1] 2015 £m	LGR 2015 £m	Externally rated 2015 £m	Internally rated[1] 2015 £m	Total Group 2015 £m
AAA	1,711	6	1,717	3,326	8	3,334
AA	9,426	1,551	10,977	10,234	1,554	11,788
A	11,349	1,903	13,252	12,084	1,964	14,048
BBB	10,721	1,659	12,380	11,497	1,845	13,342
BB or below	1,022	20	1,042	1,221	72	1,293
Other	-	-	-	-	111	111
	34,229	5,139	39,368	38,362	5,554	43,916

4.07 Property analysis
Property exposure within Direct Investments

Group property Direct Investments by status

	LGR[1] At 2016 £m	LGC At 2016 £m	LGI (UK and Other) At 2016 £m	Total At 2016 £m	%
Fully let	**2,442**	**16**	**-**	**2,458**	**94**
Part let	**-**	**-**	**-**	**-**	**-**
Development	**-**	**101**	**-**	**101**	**4**
Land	**-**	**45**	**-**	**45**	**2**
	2,442	**162**	**-**	**2,604**	**100**

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

	LGR[1] At 2015 £m	LGC At 2015 £m	LGI (UK and Other) At 2015 £m	Total At 2015 £m	%
Fully let	2,157	25	4	2,186	93
Part let	-	-	-	-	-
Development	-	118	-	118	5
Land	-	43	-	43	2
	2,157	186	4	2,347	100

1. The fully let LGR property includes £1.9bn let to investment grade tenants.

Glossary

Adjusted earnings per share*

Calculated by dividing profit after tax from continuing operations, attributable to equity holders of the company, excluding recognised gains and losses associated with held for sale and completed business disposals, by the weighted average number of ordinary shares in issue during the period, excluding employee scheme treasury shares. Excluding the impact of anticipated and completed disposals provides an indication of the earnings per share from ongoing operations.

Adjusted return on equity*

ROE measures the return earned by shareholders on shareholder capital retained within the business. Adjusted ROE is calculated as IFRS profit after tax divided by average IFRS shareholders' funds excluding recognised gains and losses associated with held for sale and completed business disposals. Excluding the impact of anticipated and completed disposals provides an indication of the return on equity from ongoing operations.

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.

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. Services provided in respect of assets under administration are of an administrative nature, including safekeeping, collecting investment income, settling purchase and sales transactions and record keeping.

Assets under management (AUM)*

The total amount of money investors have trusted to our fund managers to invest across our investment products i.e. these are funds which are managed by our fund managers on behalf of investors.

Backbook acquisition

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

Bundled DC solution

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

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.

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 LGA on this basis.

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.

Glossary

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.

Euro Commercial paper

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

General insurance combined operating ratio

The combined ratio is calculated as the sum of incurred losses and expenses divided by earned premium.

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.

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.

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.

Long dated debt

Debt issued in either subordinated or senior format which forms part of the Group's core borrowings.

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.

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

Overlay assets

Overlay assets are derivative assets that are managed alongside the physical assets held by LGIM. These instruments include interest rate swaps, inflation swaps, equity futures and options. These are typically used to hedge risks associated with pension scheme assets during the derisking stage of the pension life cycle.

Pension risk transfer (PRT)

PRT represents bulk annuities bought by entities that run final salary pension schemes to reduce their responsibilities by closing the schemes to new members and passing the assets and obligations to insurance providers.

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.

Recapitalisation Cost*

An additional liability required in the L&G 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 and Legal & General Netherlands. 2015 included dividends remitted from Legal & General France, which was disposed of on 31 December 2015. Release from operations was previously referred to as pperational 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.

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.

Glossary

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.

SCR (shareholder view basis)

In order to present a shareholder view of group SCR the Solvency capital requirement of LGAS With-profits fund and defined benefit final salary pension scheme is excluded from SCR.

SCR coverage ratio

The Eligible Own Funds on a regulatory basis divided by the Solvency Capital Requirement (SCR). This represents the number of times that the SCR is covered by Eligible Own Funds.

SCR coverage ratio (proforma basis)

The proforma basis solvency II coverage incorporates the estimated impacts of a recalculation of the Transitional Measures for Technical Provisions recalculated based on end 2016 economic conditions, changes during 2016 to the Internal Model and Matching Adjustment and management's updated Solvency I basis. The proforma basis does not reflect the regulatory capital position as at 31 December 2016. This will be made public in May 2017.

SCR coverage ratio (shareholder view basis)*

In order to represent a shareholder view of group solvency position, the capital requirement in relation to the ring-fenced LGAS With-profits fund and our defined benefit pension schemes is excluded from both Eligible Own Funds and the SCR in the calculation of the SCR coverage ratio. The shareholder view basis does not reflect the regulatory capital position as at 31 December 2016. This will be made public in May 2017.

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.