Stock Exchange Release
09 August 2016

NET CASH GENERATION UP 16%, ROE[1] OF 20%, SII SURPLUS OF £5.3BN

FINANCIAL HIGHLIGHTS[2]:

- **NET CASH GENERATION UP 16% TO £727M (H1 2015: £629M)**
- **ADJUSTED OPERATING PROFIT[3] UP 10% TO £822M (H1 2015: £750M)**
- **PROFIT AFTER TAX UP 22% TO £667M (H1 2015: £547M)**
- **EARNINGS PER SHARE UP 24% TO 11.27P (H1 2015: 9.11P)**
- **ADJUSTED EARNINGS PER SHARE[4] UP 14% TO 11.20P (H1 2015: 9.79P)**
- **RETURN ON EQUITY[1] 20.4% (H1 2015: 19.1%)**
- **SOLVENCY II SURPLUS OF £5.3BN (FY 2015: £5.5BN)**
- **SOLVENCY II COVERAGE RATIO OF 158%, (163% ON A SHAREHOLDER BASIS)**
- **NEW FORMULAIC APPROACH TO SETTING THE INTERIM DIVIDEND: 30% OF 2015 FULL YEAR DIVIDEND AT 4.00P PER SHARE**

BUSINESS HIGHLIGHTS:

- **LGR ANNUITY ASSETS UP 18% AT £51.0BN (H1 2015: £43.4BN)**
- **GROUP-WIDE DIRECT INVESTMENT UP 28% AT £8.0BN (H1 2015: £6.2BN)**
- **LGIM AUM UP 18% AT £841.5BN (H1 2015: £714.6BN)**

Nigel Wilson, Group Chief Executive, said:

“We have continued to execute our strategy well. Shareholders’ profit before tax grew 23% to £826m, adjusted EPS grew 14% to 11.2p, net cash generation grew by 16% to £727m and the Group delivered a 20% RoE. We have a strong balance sheet, which gives us the flexibility and capacity to invest in support of each of our businesses.

There are many different views of the outlook for economic growth, the state of financial markets and political uncertainty. We reflect this in our approach to risk management. While we cannot be immune to this uncertainty, we remain confident that we will continue to deliver attractive returns for shareholders, great value to customers and better outcomes for society. Our five long-term growth drivers, ageing populations, globalisation of asset markets, creating real assets, welfare reform and digital remain unaffected and will continue to provide many growth opportunities.”

1. Return on equity is calculated by taking annualised profit after tax attributable to equity holders of the Company (twice the half-year number), as an average of shareholders’ equity during the period, excluding a £4m profit in relation to the disposal of Suffolk Life (H1 2015: £40m impairment loss in relation to the subsequent disposals of Legal & General France and Legal & General Gulf).
2. The metrics within the Group’s financial highlights are defined in the glossary, on pages 99 to 102 to this report.
3. Adjusted operating profit is calculated as operating profit of £777m (H1 2015: £750m) before the cost of the provision in respect of the closure of our Kingswood office of £45m (H1 2015: £nil).
4. Adjusted earnings per share is calculated by dividing profit after tax, excluding the £4m profit (H1 2015: £40m loss) described in note 1, by the weighted average number of ordinary shares in issue during the period.

FINANCIAL SUMMARY

£m	H1 2016	H1 2015	Growth %
Analysis of operating profit			
Legal & General Retirement	**406**	281	**44**
Legal & General Investment Management	**171**	176	**(3)**
Legal & General Capital	**135**	115	**17**
Insurance	**138**	186	**(26)**
Savings	**49**	55	**(11)**
Legal & General America	**43**	40	**8**
Operating profit from divisions	**942**	**853**	**10**
Group debt costs	**(86)**	(75)	**(15)**
Group investment projects and expenses	**(34)**	(28)	**(21)**
Adjusted operating profit	**822**	**750**	**10**
Kingswood office closure provision	**(45)**	-	**n/a**
Operating profit	**777**	**750**	**4**
Investment and other variances (inc. minority interests)	**49**	(78)	**n/a**
Profit before tax attributable to equity holders	**826**	**672**	**23**
Operational cash generation	**655**	624	**5**
New business surplus	**72**	5	**n/a**
Net cash generation	**727**	**629**	**16**

LEGAL & GENERAL RETIREMENT (LGR)

£m	H1 2016	H1 2015	Growth %
Annuity assets (£bn)	**51.0**	43.4	**18**
of which: direct investments (£bn)	**6.2**	4.9	**27**
Annuity sales	**3,788**	1,326	**186**
Lifetime mortgage advances	**231**	37	**524**

LEGAL & GENERAL INVESTMENT MANAGEMENT (LGIM)

£bn	H1 2016	H1 2015	Growth %
LGIM total AUM[1, 2]	**841.5**	714.6	**18**
LGIM total international AUM	**151.9**	115.8	**31**
External AUM net flows	**9.6**	13.8	**(30)**
Workplace AUA	**17.3**	13.1	**32**

LEGAL & GENERAL CAPITAL (LGC)

£bn	H1 2016	H1 2015	Growth %
LGC assets	**5.9**	4.8	**23**
of which: direct investments	**1.1**	0.8	**37**

INSURANCE

£m	H1 2016	H1 2015	Growth %
UK Protection gross premiums	**815**	774	**5**
General insurance gross premiums	**156**	164	**(5)**
UK Protection new business annual premiums	**118**	119	**(1)**

SAVINGS

£bn	H1 2016	H1 2015	Growth %
Savings AUA[3]	**102.0**	110.8	**(8)**

LEGAL & GENERAL AMERICA (LGA)

$m	H1 2016	H1 2015	Growth %
LGA gross premiums[4]	**601**	588	**2**

1. LGIM total AUM includes £244.0bn (H1 2015: £208.1bn) of derivative overlay assets associated with the Solutions business.
2. LGIM AUM includes £51.0bn (H1 2015: £43.4bn) managed on behalf of LGR and £31.5bn (H1 2015: £34.0bn) managed on behalf of Savings.
3. Savings AUA as at 30 June 2015 included £8.3bn in respect of Suffolk Life, a business which was disposed of in H1 2016, and £2.8bn in respect of Legal & General International (Ireland), a business which was disposed of in H2 2015.
4. LGA gross premiums excludes $65m (H1 2015: $nil) of US pension risk transfer business which is reported within LGR.

COMMENTARY ON H1 FINANCIAL PERFORMANCE

INCOME STATEMENT

Adjusted operating profit increased 10% to £822m (H1 2015: £750m).

LGR delivered a 44% growth in operating profit, to £406m (H1 2015: £281m), driven by strong back book performance feeding through to operational cash generation of £205m (H1 2015: £171m) and strong front book activity generating new business surplus of £79m (H1 2015: £22m). Refinements to the valuation methodology for longevity swaps resulted in a £58m one off benefit to operating profit. Longevity experience in the period was also positive compared to our best estimate assumption.

LGIM operating profit fell by 3% to £171m (H1 2015: £176m). Management fee revenues were up 4% to £337m (H1 2015: £324m) but transactional revenues were lower at £16m (H1 2015: £23m), driven by fewer property transactions. The average monthly closing assets under management (AUM) for the six months was £784.1bn (H1 2015: £715.2bn). There was a significant appreciation in asset values towards the end of June, which increased the H1 2016 closing AUM to £841.5bn (H1 2015: £714.6bn).

Insurance operating profit fell by £48m to £138m (H1 2015: £186m) primarily as a consequence of a c.£40m lower expected release from the UK Protection back book, adverse mortality experience of £18m (H1 2015: £5m positive), mainly in our Group Protection business, and the introduction of the annual Flood Re levy for our General Insurance business of £9m, the cost of which was expensed in H1 2016. H1 2015 operating profit also included £7m operating profit from Legal & General France, which was disposed of on 31st December 2015. These impacts were partially offset by improved new business surplus and a £31m positive assumption change following a review of the prudence held for renewal expenses.

The LGC operating profit increased by 17% to £135m (H1 2015: £115m), driven by the operating businesses within our LGC direct investments portfolio, which delivered operating profits of £36m (H1 2015: £10m).

Operational cash generation increased 5% to £655m (H1 2015: £624m)

Operational cash generation has increased broadly in line with the guidance we previously issued. LGR delivered a £34m increase in operational cash generation to £205m (H1 2015: £171m) resulting from a higher expected release following assessment of the prudence held within our reserves.

Net cash generation increased 16% to £727m (H1 2015: £629m)

New business surplus increased to £72m (H1 2015: £5m). LGR delivered new business surplus of £79m (H1 2015: £22m) resulting from significantly higher annuity sales of £3.8bn (H1 2015: £1.3bn). Bulk annuity sales were £3.6bn including a £2.9bn back book annuity transaction with Aegon, for which we have retained the longevity risk. In H1 2016 we reinsured £444m of longevity risk in relation to new business.

Insurance delivered new business surplus of £7m (H1 2015: £nil) reflecting higher levels of efficiency on an increasing premium base. Total UK Retail and Group protection premiums increased 5% to £815m (H1 2015: £774m).

Shareholders' profit before tax increased 23% to £826m (H1 2015: £672m), including Group investment variances of £58m (H1 2015: £(29)m).

We manage our exposure to interest rate and foreign exchange at a legal entity and Group level. At a divisional level however, profit before tax has been impacted by reductions in interest rates and movements in foreign exchange. Specifically:

Insurance profit before tax reduced to £46m (H1 2015: £138m), with negative investment variance of £(92)m (H1 2015: £(48)m) following a c.1% reduction in UK government bond yields, impacting the discount rate used to calculate the reserves for our UK Protection liabilities;

LGR profit before tax benefitted from a £63m (H1 2015: £11m) positive investment variance arising from active management of the assets in the annuity fund; and

LGC profit before tax benefitted from a positive investment variance of £60m (H1 2015: £(4)m) primarily driven by foreign exchange gains, particularly on un-hedged US dollar denominated investments.

BALANCE SHEET

Capital

The Group's Solvency II surplus at the half year was estimated at £5.3bn, representing a coverage ratio of 158% (FY 2015: surplus of £5.5bn, coverage ratio of 169%). This is stated after recalculation of Transitional Measures for Technical Provisions.

Eligible own funds were £14.3bn (FY 2015: £13.5bn), the solvency capital requirement (SCR) was £9.0bn (FY 2015: £8.0bn) resulting in a surplus of £5.3bn (FY 2015: £5.5bn).

Eligible own funds increased by £0.8bn reflecting surplus generated net of investment movements in H1 2016 and positive management actions offset by the payment of the 2015 final dividend of £592m. Management actions included removing eligibility restrictions on assets held in reassurance collateral accounts where the specific trust structure had made the surplus assets ineligible under the Solvency II rules, the treatment of which is awaiting regulatory approval. In addition we have reviewed the provision for specific items, including bulk purchase annuity data loading and Solvency II allowing for negative reserves. The SCR increased by £1.0bn from year-end 2015, largely driven by the fall in risk free rates.

On a shareholder basis, adjusting for the Own Funds and SCR of the With-profits fund, the Group's Solvency II coverage ratio was 163% with eligible own funds of £13.7bn and SCR of £8.4bn.

Overall, our Solvency II balance sheet has demonstrated its resilience to recent market volatility, including that caused by the market reaction to the EU Referendum outcome, just before 30th June 2016.

The Group remains focussed on delivering appropriate returns on the capital we choose to deploy. We estimate, using a Solvency II cost of capital, that LGR will deliver a 10.2% new business margin and our UK insurance business an 11.1% new business margin for the business we have written in H1 2016.

The Group's economic capital surplus was £8.1bn (FY 2015: £7.6bn), representing a coverage ratio of 235% (FY 2015: 230%). Eligible own funds was £14.0bn (FY 2015: £13.5bn) and the economic capital requirement was £5.9bn (FY 2015: £5.9bn).

Asset portfolio

Shareholder investment exposure arises mainly in the LGR and LGC investment portfolios. Our largest exposure within the shareholder investment portfolio is to credit assets.

Our global credit team keeps our portfolios under continuous review and in recent months has actively de-risked the credit component of Eligible Own Funds as well as LGR's £47.9bn 'A minus' rated bond portfolio. This has included selling sub-investment grade credit and reducing our exposure to European banks' subordinated debt. The portfolio is well diversified by sector and by geography.

Elsewhere in the shareholder investment portfolio there is £2.5bn of property, of which 94% is fully let and a further 4% is property under development. The vast majority of the Group's property assets are held for their income characteristics as opposed to capital appreciation.

DIVIDEND

The Board adopted a progressive dividend policy in March 2016 reflecting the Group's expected medium term underlying business growth, including net cash generation and operating earnings. There is no change to this dividend policy.

For this interim dividend and going forward the Board has decided to adopt a formulaic approach to setting the interim dividend, being 30% of the prior year full year dividend. We have therefore declared an interim dividend of 4.00p per share.

OUTLOOK

The Group's strategy is aligned to, what we believe to be, five established long term growth drivers: ageing populations; globalisation of asset markets; creating real assets; welfare reform; and digital. There are a range of different views amongst market commentators regarding the potential impacts of the recent EU referendum result on the wider economy, and this in turn has created greater market volatility which, we expect to continue for some time. Although no business model can be immunised against slowing global economic activity, the opportunities available to the Group should remain largely unchanged and we will strive to execute our strategy successfully to deliver profitable growth.

International demand for pension risk transfer solutions remains strong and is expected to continue for many years. In the UK alone, we are currently quoting on over £13bn of buy-in and buy-out deals and over £16bn of longevity deals. We will remain disciplined in the deployment of our capital, selecting the opportunities that deliver the best return on capital across annuity and longevity transactions. Our self-manufacturing and wider asset management capabilities, together with deep understanding and management of longevity risk, mean we anticipate being able to provide effective solutions for our clients.

The lifetime mortgage market grew 24% in H1 2016 to £934m and is on track to exceed £2bn for the first time in 2016. We are targeting to write up to £500m of lifetime mortgages new business in 2016, which would represent approximately 25% of the market.

LGIM had a good first half against the backdrop of challenging investment markets, with £9.6bn of external net inflows. It is well positioned to handle the uncertain economic and political environment that lies ahead, and continuing fee pressure in asset management markets. LGIM is focused on serving its clients and providing innovative risk management solutions and thereby delivering growth and diversification in its chosen markets.

LGC will invest further shareholder capital in housing; infrastructure and SME finance, where we expect there to be attractive returns. In the wider context, it also provides wider benefit to the Group with improved access to additional assets and fee earning opportunities.

We intend to switch a larger proportion of assets within both LGR and LGC from traded assets to direct investments, with a medium term target of £15bn.

LEGAL & GENERAL RETIREMENT

FINANCIAL HIGHLIGHTS £m	H1 2016	H1 2015
Operational cash generation	**205**	171
New business surplus	**79**	22
Net cash generation	**284**	**193**
Experience variances, assumption changes, tax and non-cash movements	**122**	88
Operating profit	**406**	**281**
Profit Before Tax	**469**	**292**
Back book acquisitions	**2,944**	-
UK bulk annuities	**641**	1,146
International bulk annuities	**45**	-
Individual annuity single premiums	**158**	180
Lifetime mortgage advances	**231**	37
Total LGR new business	**4,019**	**1,363**
Annuity net inflows (£bn)	**2.6**	0.2
Total annuity assets (£bn)	**51.0**	**43.4**
Longevity insurance gross premiums	**161**	**164**

RECORD PROFITS

LGR profitability increased on all measures.

Operational cash generation increased to £205m (H1 2015: £171m), benefitting from increased releases of prudential margins as we continue to refine our assessment of best estimate reserves.

Net cash generation increased to £284m (H1 2015: £193m) with new business surplus of £79m (H1 2015: £22m) reflecting higher levels of new business and a 10.2% new business margin on SII capital. The net cash generation benefited in particular from the Aegon back book acquisition, for which we have retained the longevity risk.

Operating profit increased to £406m (H1 2015: £281m) including a £58m one-off benefit from a change in 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. This is now consistent with the approach used for other product lines across the Group.

ONGOING CREDIT AND ASSET MANAGEMENT

Credit portfolio management

LGR's £51.0bn asset portfolio backing its IFRS liabilities is well diversified. We hold £2.7bn of credit default reserves (2015: £2.2bn) against these assets. Within the £47.9bn bond portfolio, just over 2/3rds of the portfolio is A-rated or better (67%), 30% BBB-rated and 3% sub-investment grade. The bond portfolio has 4.7% in Banks, 4.7% in Oil & Gas and 3.9% 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 £6.2bn, (H1 2015: £4.9bn) with a further £440m in lifetime mortgages. 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.

DIVERSE NEW BUSINESS OPPORTUNITIES

The global demographic trend of ageing populations is here to stay. 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. One such consequence is the demise of private sector defined benefit pensions globally and its associated need for a managed run-off. Another consequence is more individuals aiming for financial security in retirement and a need to accumulate wealth, and then access this wealth flexibly in retirement. Our new business themes of Global Pension Risk Transfer and Individual Retirement Choices are there to meet these two substantial and growing needs.

Global Pension Risk Transfer

We completed £686m of buy-ins and buy-outs in the first half of 2016, and a further £750m buy-in with the ICI Pension Fund on 5th July. The £686m included £250m in June alone and a $65m US bulk annuity deal in February.

The UK private sector defined benefit market is estimated at £2 trillion and the UK market pipeline for pension risk transfer remains strong. We are currently quoting on over £13bn of buy-in and buy-out deals and over £16bn of longevity deals. Whilst lower real yields increase the average pension fund deficit, the post referendum outcome for pension funds has varied meaningfully depending 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 at least 50% of the interest rate and inflation risk has been removed from the UK private sector defined benefit system.

Furthermore, pension funds are looking to de-risk in steps that can include tranches of pensioner buy-ins, top-slicing, medically underwritten bulk annuities 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 strategy in the US. The market pipeline of deals is substantial, we continue to quote diligently and build our experience in this market. Our reinsurance hub, L&G Re, A+-rated, in a Solvency II equivalent regime, and with registered reinsurer status in the Netherlands, allows us to participate as a reinsurer in European pension risk transfer market. We are quoting on several deals and are looking to build on last year's new business.

Individual Retirement Choices

We remain committed to the individual annuity market and wrote £158m in H1 2016, down 12% from the £180m written in H1 2015. 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 Legal & General's individual annuity volumes by approximately 50%.

Lifetime mortgage lending was £231m in H1 2016 (H1 2015: £37m). The lifetime mortgage market grew 24% in H1 2016 to over £900m and is on track to exceed £2bn for the first time in 2016. The number of people over 60 years old is expected to grow by 6.3 million in the next 20 years. This fact coupled with an estimated £1.4 trillion of housing equity currently owned by the over 65s in the UK, makes the long-term growth characteristics of this market strong.

In July 2016 we signed a 5 year agreement with Santander to offer Lifetime Mortgages to their customers. We anticipate that this will result in an additional £100m of lifetime mortgages per annum.

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 and bulk annuity providers. We participated in this consolidation in May with the acquisition of a £2.9bn back book of individual annuities from Aegon. In July we agreed a five year distribution agreement with Aegon to offer Legal & General annuities to Aegon customers from October 2016. The partnership is expected to generate around £200m of individual annuity sales in the first 12 months. We remain interested in further consolidation opportunities.

LEGAL & GENERAL INVESTMENT MANAGEMENT

FINANCIAL HIGHLIGHTS £m	H1 2016	H1 2015
Management fee revenue	**337**	324
Transactional revenue	**16**	23
Total revenue	**353**	**347**
Total costs	**(179)**	(168)
Asset management operating profit	**174**	**179**
Workplace operating profit	**(3)**	**(3)**
Total operating profit	**171**	176
Net cash generation	**134**	**138**
Cost:income ratio[1] (%)	**50**	48
External net flows (£bn)	**9.6**	13.8
Internal net flows (£bn)	**0.3**	(1.0)
Total net flows (£bn)	**9.9**	**12.8**
Of which international (£bn)	**6.7**	5.4

£bn	H1 2016	H1 2015
Assets under management, including overlay assets[2]	**841.5**	714.6
Advisory assets	**11.6**	11.3
Total assets	**853.1**	**725.9**
Of which:		
- International assets under management, including overlay assets[2]	**151.9**	115.8
- International advisory assets	**11.6**	11.3
- Total international assets	**163.5**	**127.1**
Assets under administration – Workplace Savings	**17.3**	**13.1**

1. Excluding Workplace Savings and recoverable market data costs which are treated as a cost of sale.
2. 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.

RESILIENCE IN CHALLENGING MARKETS

The business environment in the first half of 2016 has been challenging, given political and economic uncertainty and volatile market conditions. Against this backdrop, LGIM performed robustly in the first half of 2016, with operating profit down 3% to £171m (H1 2015: £176m). External net flows remained positive at £9.6bn (H1 2015: £13.8bn), contributing to 18% growth in AUM to £841.5bn (H1 2015: £714.6bn). Management fee revenues were up 4% to £337m, although transactional revenues were lower at £16m, driven by fewer property transactions.

LGIM continued its prudent investment across the business, with a focus on the areas that will provide growth and diversification in the future, resulting in a cost income ratio of 50%. The International business had strong net inflows of £6.7bn (H1 2015: £5.4bn), with positive flows in the US, Europe, the Gulf and Asia. The retail business performed strongly in a difficult market for investors, with external net inflows of £0.7bn (H1 2015: £0.3bn) and increased market share. In Workplace Savings, the operating loss was £3m (H1 2015: loss of £3m), as LGIM incurred acquisition costs to take on large pension schemes.

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 1 January 2016	**274.3**	**106.8**	**338.2**	**18.3**	**8.5**	**746.1**	**10.5**	**756.6**
External inflows	17.6	3.5	6.6	0.8	-	28.5		28.5
External outflows	(16.0)	(2.2)	(6.6)	(0.7)	(0.1)	(25.6)		(25.6)
Overlay / advisory net flows	-	-	6.7	-	-	6.7	(0.3)	6.4
External net flows	**1.6**	**1.3**	**6.7**	**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	**1.2**	**2.0**	**6.6**	**0.2**	**(0.1)**	**9.9**	**(0.3)**	**9.6**
Cash management movements	-	(0.6)	-	-	-	(0.6)	-	(0.6)
Market and other movements	24.9	17.6	44.3	(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**

Total AUM increased 18% to £841.5bn (H1 2015: £714.6bn). Total external net inflows of £9.6bn (H1 2015: £13.8bn) were good in the context of political and economic uncertainty, and a difficult market. The strength of flows across our main product lines and channels reinforces the importance of diversifying our business, and illustrates the breadth of LGIM's investment capabilities.

LGIM's liability-driven investment (LDI) and Multi-asset businesses have continued to grow over H1 2016. LGIM was the largest single beneficiary of a 25% increase in LDI mandates in 2015 and remains the UK market leader with a 44% share, according to the 2016 KPMG LDI survey. LGIM continues to gain market share in pooled LDI, which is the fastest-growing segment of the market. Solutions net inflows, including LDI and multi-asset products, were £6.7bn (H1 2015: £12.3bn).

Index external net inflows of £1.6bn (H1 2015: £1.2bn outflow) were driven by the continued international diversification of this business, with net inflows of £5.7bn (H1 2015: £2.9bn) from the US, Europe, the Gulf and Asia.

Net external inflows into Active Fixed Income of £1.3bn (H1 2015: £2.3bn) were driven primarily by institutional clients in all our main regions.

The Retail business has performed strongly in an extremely difficult period with external net inflows of £0.7bn (H1 2015: £0.3bn), and it continues to gain market share. LGIM was second in net retail sales in Q2 2016, in what was a difficult quarter for the fund management industry (Pridham report). AUM increased to £21.4bn (H1 2015: £18.9bn).

The Real Assets business has been impacted by the uncertainty caused by the referendum, leading to fewer transactions in the property market. LGIM has been able to keep its funds open during this period of significant volatility. External net inflows were £0.1bn (H1 2015: £0.4bn), with AUM of £18.4bn (H1 2015: £16.7bn).

OVER TWO MILLION CUSTOMERS IN WORKPLACE PENSIONS

LGIM has continued to build its defined contribution (DC) client base, winning schemes from across the market on both its investment only and workplace platforms. The total number of clients on its workplace platform now exceeds two million, in nearly 7,000 schemes. Net inflows were £0.8bn (H1 2015: £1.0bn) and total assets increased by 16% to £49.8bn (H1 2015: £42.8bn). LGIM has acquired a minority stake in Smart Pension, a fintech business, which will expand our presence in the SME market.

INTERNATIONAL EXPANSION CONTINUES

LGIM experienced strong net inflows of £6.7bn (H1 2015: £5.4bn) in its international businesses. Total International AUM was £151.9bn, a 31% increase on H1 2015: £115.8bn. Net inflows in the US business were £3.1bn (H1 2015: £4.8bn), with new defined benefit (DB) and DC mandates. The business continues to build its LDI and fixed-income capabilities, and growth in Index is accelerating. In the Gulf, inflows were £1.6bn (H1 2015: £0.9bn) as we deepened our existing client relationships. In Europe, net inflows were £1.5bn, driven by strong interest in our fixed income and multi-asset products. In Asia, LGIM strengthened its presence in the Japanese market, with inflows from our partnership with Meiji Yasuda and the signing of a second co-operation agreement with Nikko Asset Management. Asian net inflows for the period were £0.5bn (H1 2015: £0.1bn outflow).

LEGAL & GENERAL CAPITAL

FINANCIAL HIGHLIGHTS £m	H1 2016	H1 2015
Operational cash generation	**113**	92
Operating profit from:		
UK Housing	**39**	15
Infrastructure	**24**	15
SME finance	**5**	2
Direct investment operating profit	**68**	**32**
Traded investment portfolio	**59**	79
Treasury assets	**8**	4
Total operating profit	**135**	**115**
Profit before tax	**195**	**111**

DIRECT INVESTMENT PORTFOLIO £m	H1 2016	H1 2015
UK Housing	**377**	**322**
Infrastructure	**506**	**379**
SME Finance	**181**	**77**
	1,064	**778**
TRADED PORTFOLIO[1] £m		
Equities	**1,630**	1,598
Fixed income	**499**	808
Multi-asset	**472**	221
Cash	**1,232**	755
	3,833	**3,382**
LGC investment portfolio	**4,897**	**4,160**
Treasury assets at holding company £m	**1,021**	621
TOTAL	**5,918**	**4,781**

1. LGC traded portfolio includes holdings in consolidated funds, which include net non-financial receivables and payables of £15m (H1 2015: £nil), which are reported separately in the Group's consolidated financial statements.

CORE UK TRENDS DRIVING DIRECT INVESTMENT STRATEGY

The direct investment portfolio delivered operating profit of £68m (H1 2015: £32m).

Operating profit is calculated on an actual profit before tax basis or a smoothed IRR basis dependent on the category and stage of maturity of the investment. Direct investments from our operating business, such as CALA Homes, are recognised as our share of PBT, delivered £36m, representing 53% of direct investment operating profit (H1 2015: £10m, 31%).

The past six months has seen LGC continue to perform strongly, with considerable further investment in core sectors. Driven by long term social and economic trends, LGC invests in enterprises which contribute to UK growth with a focus on Housing, Infrastructure and SME finance. LGC targets attractive risk-adjusted returns for the Group whilst creating longer-term investment opportunities for other parts of Legal & General and institutional investors.

Housing operating profit increase to £39m in H1 2016 (H1 2015: £15m)

CALA Homes delivered another year of strong performance, recording record revenues and profits. Private completions were up c.8% with private average selling price up c.6%. Strong levels of forward private reservations provide Cala with good visibility as the Group heads into the new financial year.

LGC launched a £600m **build-to-rent** JV with PGGM in early 2016 which now has three seed assets in Walthamstow, Bristol and Salford to build a total of 830 homes. Further sites are currently being targeted to support the growth of this platform. LGC continued to focus on realising the potential of its bank of **strategic land,** including a 250-acre site at Crowthorne with a GDV of approximately £450m where work has started to build c.1,000 new homes. LGC also launched its **modular homes** business which seeks to modernise home building, and opened a new facility outside Leeds. Fit-out of the factory continues and interest in the product is strong.

Infrastructure, operating profit increase to £24m in H1 2016 (H1 2015: £15m)

Infrastructure includes urban regeneration and clean energy asset classes. During the period, plans were submitted to double the size of MediaCityUK (Salford) over the next decade, including up to ten new buildings with a GDV of more than £1bn. To date, the Lexicon (Bracknell) has signed several retail leases in a £200m scheme, bringing space let by floor area to 64% ahead of a 2017 opening. New tenancies have been completed at Thorpe Park (Leeds), including an agreement with Next during the period and further signings with M&S Simply Food and Arcadia post Brexit. In Cardiff, 97% of One Central Square has been let at the site adjacent to BBC Wales' new building which was acquired by LGR in 2015. Overall, property valuations held up in the period.

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

In clean energy, LGC's investment in NTR onshore wind fund reached final close in February at €246m, with new commitments made by the Ireland Strategic Investment Fund and Strathclyde Pension Fund. During the period, NTR managed the successful project financing of two of the Fund's wind farm projects, and acquired new sites to construct a further 27 MW capacity, bringing the total generating capacity for the fund to 82.5 MW.

Going forward, LGC continues to seek partnerships with local developers and stakeholders across the UK's towns and cities, and maximise its partnership with the Regeneration Investment Organisation (RIO), whilst maintaining discipline over return on investment requirements.

SME Finance operating profit increase to £5m in H1 2016 (H1 2015: £2m)

Since the period ended, **Pemberton** has invested 78% of the committed capital from its inaugural European Mid-Market Debt Fund, a fund which is targeting €1-1.5bn and will hold the final close in the next three months. The business continues to perform strongly.

TRADED PORTFOLIO

LGC's traded investment portfolio delivered operating profit of £59m (H1 2015: £79m). Treasury assets contributed a further £8m (H1 2015: £4m) to operating profit.

Investment variance on the traded investment portfolio and treasury assets was £77m (H1 2015: £(7)m), resulting in a combined profit before tax from traded assets of £144m (H1 2015: £76m).

The traded book holds a diversified set of exposures across equities, fixed income, multi-asset funds and cash. Overall the book performed above assumed returns over the half year period, benefiting from further global yield compression in the fixed income book. The portfolio also benefited from a currency translation effect on foreign holdings 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 derivatives trades and cash awaiting longer term investment. In addition, Group Treasury holds cash and near cash investments to cover a range of uses including working capital, imminent known cash flows and collateral to cover derivatives.

INSURANCE

FINANCIAL HIGHLIGHTS £m	H1 2016	H1 2015
Operational cash generation	**159**	161
New business surplus	**7**	-
Net cash generation	**166**	**161**
Experience variances, assumption changes, tax and non-cash movements	**(28)**	25
Operating profit	**138**	**186**
Profit before tax	**46**	**138**
UK Protection new business annual premiums	**118**	119
Retail Protection gross premiums	**582**	545
Group Protection gross premiums	**233**	229
General Insurance gross premiums	**156**	164
Total UK gross premiums	**971**	**938**

SUSTAINED NET CASH GENERATION

Operational cash generation reduced by 2% to £159m (H1 2015: £161m). This included £48m (H1 2015: £18m) of dividends received from Legal & General Netherlands as we continue to optimise the efficiency of our balance sheet. This additional £30m is not expected to repeat in H2 2016. UK Protection operational cash generation was lower at £80m (H1 2015: £112m) following changes to the modelling for reinsurance contracts in 2015, to ensure sufficient prudence is being held in later years.

New business surplus was £7m (H1 2015: £nil) as we maintain a disciplined focus on cost management and benefitted from further scale efficiencies.

CONTINUED GROWTH IN PREMIUM INCOME

Retail Protection gross premium income increased 7% to £582m (H1 2015: £545m) with new business annual premium of £82m (H1 2015: £79m). We remain a 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 £16m, representing 14% growth on H1 2015 and now accounts for 20% of new business APE (H1 2015: £14m, 18% of new business APE). Group Protection gross premium was £233m (H1 2015: £229m) with new business of £36m (H1 2015: £40m).

General Insurance gross premiums reduced to £156m (H1 2014: £164m) as we maintained pricing discipline in a competitive market. Our direct business delivered GWP of £54m in H1 2016, representing 15% growth on H1 2015 and now accounts for 35% of gross premiums (H1 2015: £47m, 29% of gross premiums).

Legal & General Mortgage Club facilitated £26bn of mortgages in H1 2016 (H1 2015: £20bn) through strong partnerships with top lenders and over 9,000 mortgage brokers. As the largest participant in the intermediated mortgage market in the UK, we are now involved in one in five of all UK mortgage transactions. Legal & General Surveying Services continues to deliver a strong performance, completing over 250k surveys (H1 2015: c.240k).

OPERATING PROFIT IMPACTED BY ADVERSE GROUP LIFE MORTALITY

Insurance operating profit fell by £48m to £138m (H1 2015: £186m) as a consequence of a £40m lower expected release from the UK Protection back book and adverse mortality experience of £18m (H1 2015: £5m positive), mainly arising in our Group Protection business. Our General Insurance operating profit was £31m (H1 2015: £38m), despite the impact of the flash floods in June, which cost c.£5m and the introduction of the annual Flood Re levy of £9m, which added 6% to the H1 combined operating ratio.

These impacts were partially offset by a £31m positive assumption change following a review of the prudence held for UK protection renewal expenses. H1 2015 operating profit also included £7m operating profit from Legal & General France, which was disposed of on 31st December 2015.

PROFIT BEFORE TAX IMPACTED BY INTEREST RATES

Insurance profit before tax reduced to £46m (H1 2015: £138m), as a result of negative investment variance of £(92)m (H1 2015: £(48)m) following a c.1% reduction in UK government bond yields, which impacted the discount rate used to calculate the reserves for our UK Protection liabilities.

SAVINGS

FINANCIAL HIGHLIGHTS £m	H1 2016	H1 2015
Operational cash generation	**51**	67
New business strain	**(3)**	(5)
Net cash generation	**48**	**62**
Experience variances, assumption changes, tax and non-cash movements	**1**	(7)
Operating profit	**49**	**55**
Profit before tax	**53**	**35**

Operational cash generation reduced to £51m (H1 2015: £67m) as we continue to manage the reducing contribution from our declining mature savings business. Net cash generation was £14m lower at £48m (H1 2015: £62m), with new business strain of £3m (H1 2015: £5m) as we reduce the cost base associated with this business.

Operating profit remains strong at £49m (H1 2015 : £55m). The introduction of robotics has increased automation and we continue to enhance our digital offering to provide more flexibility for our customers.

On the 15th January 2016 the Group announced the sale of Suffolk Life to Curtis Banks Group for £45m, which completed on 25th May 2016. In H1 2016 and 2015 Suffolk Life contributed £nil to operational cash, net cash generation and operating profit.

PLATFORM ASSETS GROW

Assets under administration	Platforms £bn	Mature Retail Savings £bn	Consol Adj £bn	Total Savings excluding Suffolk Life £bn	Suffolk Life £bn
At 1 January 2016	**76.9**	**29.6**	**(6.8)**	**99.7**	**8.6**
Gross inflows	2.2	0.5	(0.2)	2.5	0.5
Gross outflows	(2.9)	(1.8)	0.3	(4.4)	(0.3)
Net flows	**(0.7)**	**(1.3)**	**0.1**	**(1.9)**	**0.2**
Market and other movements	1.3	1.1	-	2.4	-
Disposal of Suffolk Life	-	-	1.8	**1.8**	(8.8)
At 30 June 2016	**77.5**	**29.4**	**(4.9)**	**102.0**	**-**

Our Platforms business net flows of £(0.7)bn (H1 2015: £1.1bn). Assets under administration (AUA) increased to £77.5bn (H1 2015: £74.6bn).

Whilst our platform pension AUA has grown in H1 2016, we have seen outflows increase mainly through partial encashment as customers withdraw money for income and other purposes. In Mature Savings, assets were £29.4bn (H1 2015: £34.8bn). Mature Savings net outflows have improved year on year due to improved retention of our books and in our With-Profits business due to the reducing maturity profile of some products, particularly Endowments.

FREEDOM AND CHOICE

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 approximately 90%, or 27,000 customers, electing to take cash payments. Our average payment size is £11k. This compares to approximately 60% of customers taking cash before the reform legislation was announced.

LEGAL & GENERAL AMERICA

FINANCIAL HIGHLIGHTS $m	H1 2016	H1 2015
Operational cash generation	**88**	80
Operating profit	**62**	61
Gross premium income	**601**	588
New business sales (APE)	**41**	62

IMPROVED CASH GENERATION

Operational cash generation increased by 10% to $88m (H1 2015: $80m). This represents the dividends paid by Legal & General America (LGA) to the Group and reflects the focus of LGA to deliver operational cash generation.

Operating profit was $62m (H1 2015: $61m) in spite of the ongoing low interest rate environment reflecting continued growth in premium revenue.

Gross premium revenue increased 2% to $601m (H1 2015: $588m) and continues to benefit from strong relationships with the brokerage general agents, (BGAs), who distribute term assurance in the US market. LGA is the 10th largest provider of term life assurance, by annual premium equivalent, in the US and remains the 3rd largest provider through the key distribution channel of BGAs. LGA now has 1.22m policies (H1 2015: 1.18m).

NEW BUSINESS FOCUS ON MARGIN IMPROVEMENT

New business volumes were $41m (H1 2015: $62m). LGA continues to focus on increasing margins and sustaining strong cash generation to the Group. New business volumes for H2 2016 are expected to be broadly consistent with H2 2015 of $44m.

FACILITATING US PENSION RISK TRANSFER (PRT) BUSINESS

LGA is important to the expansion of the Group in the US and will continue to provide the regulatory balance sheet, administrative services and payments to annuitants for LGR America and back office support for LGIM America.

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 (FY 2015: £3.1bn). There is also a further £0.4bn (FY 2015: £0.5bn) of operational borrowings including £0.2bn (FY 2015: £0.6bn) of non-recourse borrowings.

Group debt costs of £86m (H1 2015: £75m) reflect an average cost of debt of 5.4% per annum (H1 2015: 5.1% per annum) on average nominal value of debt balances of £3.2bn (H1 2015: £3.0bn).

TAXATION - EFFECTIVE TAX RATE OF 19.2%

Equity holders' Effective Tax Rate (%)	H1 2016	H1 2015
Equity holders' total Effective Tax Rate	**19.2**	18.6
Annualised rate of UK corporation tax	**20.00**	20.25

In H1 2016, the Group's effective tax rate remained slightly below the UK corporation tax rate due to a number of differences between the measurement of accounting profit and taxable profits.

Trading losses within Legal & General Pensions Limited, which previously benefitted both LGR and Insurance, were fully utilised in 2015.

OPERATIONAL AND NET CASH GENERATION

The table below is set out in the format of the operational cash generation guidance for 2016 given at the time of the 2015 results announcement. Net cash generation increased by 16%. This includes the full year ordinary dividend of $88m from LGA which was received in Q1 2016.

£m	H1 2016	H1 2015	Updated 2016 FY guidance
LGR	**205**	171	
Insurance excluding General Insurance	**134**	131	
Savings	**51**	67	
LGA	**61**	52	
LGC	**113**	92	
Sub-total (on which we provide guidance)	**564**	**513**	**+ c.5%**
LGIM	**145**	150	
General Insurance	**25**	30	
Operational cash generation from divisions	**734**	**693**	
Group debt costs	**(69)**	(60)	
Other costs	**(10)**	(9)	
Total operational cash generation	**655**	**624**	
New business surplus	**72**	5	
Net cash generation	**727**	**629**	

The revised operational cash generation guidance above, for FY 2016, reflects a higher proportion of cash and cash equivalents assets in the LGC portfolio than anticipated at the time of our FY 2015 results.

CASH GENERATION AND EARNINGS

The table below highlights the linkage between the operational and net cash generation of the business, and the profit of the Group.

£m	Op Cash Gen	Strain	Net Cash Gen	Variances and other	Profit after tax	Tax	Profit before tax
LGR	**205**	**79**	**284**	**50**	**334**	**72**	**406**
LGIM	**145**	**(11)**	**134**	**-**	**134**	**37**	**171**
- LGIM (excluding Workplace)	136	-	136	**-**	**136**	38	174
- Workplace Savings	9	(11)	(2)	**-**	**(2)**	(1)	(3)
LGC	**113**	**-**	**113**	**-**	**113**	**22**	**135**
Insurance	**159**	**7**	**166**	**(56)**	**110**	**28**	**138**
Savings	**51**	**(3)**	**48**	**(9)**	**39**	**10**	**49**
LGA	**61**	**-**	**61**	**(43)**	**18**	**25**	**43**
Operating profit from divisions	**734**	**72**	**806**	**(58)**	**748**	**194**	**942**
Group debt and other costs	(79)	-	(79)	**(17)**	**(96)**	**(24)**	(120)
Adjusted operating profit	**655**	**72**	**727**	**(75)**	**652**	**170**	**822**
Kingswood closure costs	-	-	-	(36)	(36)	(9)	(45)
Operating profit	**655**	**72**	**727**	**(111)**	**616**	**161**	**777**
Investment and other variances	-	-	-	**51**	**51**	**(2)**	49
Total	**655**	**72**	**727**	**(60)**	**667**	**159**	**826**
Per share	**10.95**		**12.21**		**11.21**		
Dividend per share			**4.00**		**4.00**		

SOLVENCY II

As at 30 June 2016 the Group had an estimated Solvency II surplus of £5.3bn over its Solvency capital requirement, corresponding to a Solvency II coverage ratio of 158%.

Capital (£bn) [1]	H1 2016	FY 2015
Group capital resources	**14.3**	13.5
Group capital resources requirements	**(9.0)**	(8.0)
Surplus	**5.3**	**5.5**
SCR Coverage ratio (%)	**158%**	**169%**

1. Solvency II position on a proforma basis as at 30 June 2016 and before the accrual of the interim dividend.

Analysis of movement from 1 January to 30 June 2016 (£bn)	Solvency II surplus
Solvency II surplus as at 1 January 2016	**5.5**
Operating experience expected release	0.5
Operating experience new business	-
Market movements	(0.6)
Other capital movements	0.5
Dividends declared in the period	(0.6)
Solvency II surplus as at 30 June 2016	**5.3**

When stated on a shareholder basis, excluding the SCR attributable to our With-Profits fund of £651m from both the Group's eligible own funds and the SCR, the Group's coverage ratio increases to 163%.

ESTIMATED SOLVENCY II NEW BUSINESS CONTRIBUTION

Following our decision to discontinue European Embedded Value reporting, we committed to provide the market with a replacement measure of new business profitability under the new Solvency II regime.

The "Solvency II Value Metric" provides a measure of the value created in the business allowing for the run-off of Solvency II capital. The Value Metric essentially follows the principles of the EEV, but assumes profit emergence based on a Solvency II basis instead of the previous Solvency I Pillar 1 regime. Other methodologies are unchanged.

Management estimates of the value of new business and the margin as at H1 2016 are shown below:

	PVNBP	Contribution from new business	Margin %
LGR[1] (£m)	**3,743**	**382**	**10.2**
UK Insurance Total (£m)	**727**	**81**	**11.1**
- Individual protection	*565*	*69*	*12.2*
- Workplace health and protection	*162*	*12*	*7.4*
LGA ($m)	**435**	**54**	**12.4**

1. UK annuity business.

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

Risk margin	**3.5%**
Risk free rate	
- UK	**1.1%**
- US	**1.3%**
Risk discount rate (net of tax)	
- UK	**4.6%**
- US	**4.8%**
Long term rate of return on non-profit annuities in LGR	**3.2%**

All 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.

ECONOMIC CAPITAL

Economic capital is the amount of capital that the Board believes the Group needs to hold, over and above its liabilities, in order to meet the Group's strategic objectives. Our Economic Capital model is not subject to review or approval by the Prudential Regulatory Authority (PRA).

As at 30 June 2016 Legal & General Group had an economic capital surplus of £8.1bn (FY 2015: £7.6bn), corresponding to an economic capital coverage ratio of 235% (FY 2015: 230%).

Eligible own funds increased by £0.5bn to £14.0bn (FY 2015: £13.5bn). The economic capital requirement was £5.9bn (FY 2015: £5.9bn).

Capital (£bn)	H1 2016	2015
Eligible own funds	**14.0**	13.5
Economic capital requirement	**(5.9)**	(5.9)
Economic capital surplus	**8.1**	**7.6**
Coverage ratio (%)	**235**	**230**

Analysis of movement from 1 January to 30 June 2016 (£bn)	Economic Capital surplus
Economic solvency position as at 1 January 2016	**7.6**
Operating experience expected release	**0.5**
Operating experience new business	**0.2**
Market movements	**0.1**
Other capital movements	**0.3**
Dividends declared in the period	**(0.6)**
Economic solvency position as at 30 June 2016	**8.1**

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 result in the need to recalibrate these assumptions reducing 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 in the way that products are priced, reducing profitability and future earnings.	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. 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 are 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. To mitigate these risks we remain focused on developing a comprehensive understanding of longevity science and continue to evolve and develop our underwriting capabilities for protection business. Our selective use of reinsurance also acts to reduce the impacts of these risk factors.
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, while broader economic conditions can impact the purchase and the retention of retail financial services products, impacting profitability.	During the first half of 2016, we have seen volatility in financial markets as they have responded to uncertainties in the global economy and more recently to the outcome of 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 on-going uncertainty for financial markets and the broader UK economy in which we operate; with potential for asset price shifts should markets reappraise their value in the light of uncertainties. Whilst the monetary policies of leading economies now look set to remain loose, with a further sustained period of low interest rates, potential exists for renewed financial stress in Europe driven by political uncertainty and residual weaknesses in the Euro currency banking systems. Broader geo-political events also have potential to cause shocks to financial markets, with on-going illiquidity in bond markets having potential to exaggerate the impacts of any significant market corrections. Overall, we seek as part of our business planning activity to model a broad range of economic and financial market scenarios so as to ensure our strategies remain resilient; however, it is not possible to completely remove risk from external market and economic factors.

In dealing with issuers of debt and other types of counterparty the group is exposed to the risk of financial loss. A systemic default event within the corporate sector, or a major sovereign debt event, could result in dislocation of bond markets, significantly widening credit spreads with consequential impacts on the value of our bond portfolios, and may result in default of even strongly rated issuers of debt, exposing us to financial loss. We are also exposed to banking, money market and reinsurance counterparties, and settlement, custody and other bespoke business services, a failure of which could expose us to both financial loss and operational disruption of our business processes. 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.	Any deterioration in economic conditions inherently increases default risks, which in turn may impact our Solvency II balance sheet surplus. Current risk factors include the changing global economic outlook with uncertainties following the UK referendum on EU membership potentially exacerbating down side risks, a renewed banking crisis within the Euro zone area and default on debt linked to commodity markets. We continue to 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 traded 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. We continue to diversify the asset classes backing our annuities business, investing in real assets and property lending investments, continuing to be highly selective in the counterparties with which we will deal. 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 our required reserves for future liabilities. Regulation defines the overall framework for the design, marketing, taxation and distribution of our products; and the prudential capital that we hold. Significant changes in legislation or regulation may increase our cost base, reduce our future revenues and impact profitability or require us to hold more capital. The prominence of the risk increases where change is implemented without prior engagement with the sector. The nature of long-term business can also result in some changes in regulation, and the re-interpretation of regulation over time, having a retrospective effect on our in-force books of business, impacting the 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 UCITS V, MIFID II and PRIIPS. While over the longer term, "Brexit" will potentially lead to a re-writing of some elements of the financial services legislation applicable to UK businesses, until the UK formally exits the EU and the UK Government legislates otherwise, EU derived legislation will remain in force. In negotiating an exit from the EU, there is also the risk that proposals have unintended consequences for the operation of the UK financial services sector. With regard to existing UK regulation, alongside the PRA ensuring the effective operation of Solvency II and an on-going requirement upon Legal & General to ensure compliance with the new regulatory framework, the FCA continues to focus on its approach to consumer regulation, and there remain challenges in ensuring that regulatory interpretation of rules is proportionate and cost effective and align with businesses that are becoming increasingly digital. The FCA programme of thematic reviews of industry practices may also lead to additional business remediation costs, and we cannot completely eliminate the risk that historic accepted practices may be reappraised by regulators, resulting in sanction against the Group. We remain vigilant to the impacts of future legislative and regulatory change, internally preparing our businesses for known factors, and externally seeking to engage with government and regulatory bodies in the UK and Europe so as to develop outcomes that meet the needs of all stakeholders.
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.	We are executing a digital strategy, using platforms that allow for growth and high scale. 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. We recognise there is potential for entry into our markets by scale overseas competitors who may have lower return on capital requirements and be unconstrained by Solvency II.

A material failure in our business processes may result in unanticipated financial loss or reputation damage. We have constructed our framework of internal controls to minimise the risk of unanticipated financial loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage.	Our plans for growth together with the regulatory change agenda 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. 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.
The financial services sector is increasingly becoming a target of 'cyber crime'. As we and our business partners increasingly digitalise our businesses, we are inherently exposed to the risk that third parties may seek to disrupt our online business operations, steal customer data or perpetrate acts of fraud using digital media. A significant cyber event could result in reputational damage and financial loss.	The financial services sector remains a target for those who seek to exploit perceived vulnerabilities in IT systems. Potential threats continue to evolve but include denial of service attacks, network intrusions to steal data for the furtherance of financial crime, and the electronic diversion of funds. We are focused on maintaining a robust and secure IT environment. Working with our business partners, we seek to ensure the security of our systems with proactive responses to emerging threats. However, the evolving nature of cyber threats means that residual risks will always remain.

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

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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/results.cfm.

A presentation to analysts and fund managers will take place at 10.00am 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/results2016.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

2016 Financial Calendar	Date
Ex-dividend date	**18th August 2016**
Record date	**19th August 2016**
Payment date of 2016 interim dividend	**22nd September 2016**

DEFINITIONS

Definitions are included in the Glossary on pages 99 to 102 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.

GOING CONCERN STATEMENT

The Group's business activities, together with the factors likely to affect its future development, performance and position in the current economic climate are set out in this Interim Management Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Results. Principal risks and uncertainties, including the additional market uncertainty caused by the UK decision to exit the EU, are detailed on pages 19 to 21. In addition, the financial statements include, amongst other things, notes on the Group's objectives, polices and process for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risk.

In the period leading up the EU referendum and the days subsequent there has been significant market uncertainty and volatility. The Group manages and monitors its capital with various stresses built in to understand the expected impact of market downturns. These stresses do not give rise to any material uncertainties over the ability of the Group to continue as a going concern and therefore, based upon the available information, the directors consider that the Group has the plans and resources to manage its business risks successfully as it has a diverse range of business and remains financially strong.

Having reassessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the interim financial information.

DIRECTOR'S RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge that:

i. The consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union;

ii. The interim management report includes a fair review of the information required by DTR 4.2.7, namely an indication of important events that have occurred during the first six months of the financial year and their impact on the consolidated interim financial statements, as well as a description of the principal risks and uncertainties faced by the company and the undertakings included in the consolidation taken as a whole for the remaining six months of the financial year;

iii. The interim management report includes, as required by DTR 4.2.8, a fair review of material related party transactions that have taken place in the first six months of the financial year and any material changes in the related party transactions described in the last Annual Report and Accounts; and

iv. The directors of Legal & General Group Plc are listed in the Legal & General Group Plc Annual Report and Accounts for 31 December 2015, with the exception of John Stewart who retired as non-executive director and chair on 1 June 2016 and Olaf Swantee who retired as non-executive director on 26 May 2016. Lesley Knox joined the Board as non-executive director on 1 June 2016 and Philip Broadley joined the Board as non-executive director on 8 July 2016. A list of current directors is maintained on the Legal & General Group Plc website: legalandgeneralgroup.com.

By order of the Board

Nigel Wilson	Mark Gregory
Group Chief Executive	Group Chief Financial Officer
8 August 2016	8 August 2016

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IFRS and Operational Cash Generation

Operating profit

For the six months ended 30 June 2016

	Notes	**30.06.16 £m**	30.06.15 £m	Full year 31.12.15 £m
From continuing operations				
Legal & General Retirement (LGR)	2.02	**406**	281	641
Legal & General Investment Management (LGIM)	2.03	**171**	176	355
Legal & General Capital (LGC)	2.05	**135**	115	233
Insurance	2.02	**138**	186	283
Savings	2.02	**49**	55	107
Legal & General America (LGA)		**43**	40	83
Operating profit from divisions		**942**	853	1,702
Group debt costs[1]		**(86)**	(75)	(153)
Group investment projects and expenses[2]	2.06	**(34)**	(28)	(86)
Adjusted operating profit		**822**	750	1,463
Kingswood office closure costs		**(45)**	-	(8)
Operating profit		**777**	750	1,455
Investment and other variances	2.07	**50**	(86)	(119)
(Losses)/gains on non-controlling interests		**(1)**	8	19
Profit before tax attributable to equity holders		**826**	672	1,355
Tax expense attributable to equity holders of the company	2.14	**(159)**	(125)	(261)
Profit for the period		**667**	547	1,094
Profit attributable to equity holders of the company		**668**	539	1,075
		p	p	p
Earnings per share[3]	2.10	**11.27**	9.11	18.16
Diluted earnings per share[3]	2.10	**11.23**	9.05	18.04

1. Group debt costs exclude interest on non recourse financing.
2. Group investment projects and expenses in H1 16 include restructuring costs of £16m (H1 15: £9m; FY 15: £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.

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 the IFRS profit before tax on its trading businesses and medium term expected investment return (less expenses) on its other group invested assets, using assumptions applied to the average balance of group invested assets (including interest bearing intra-group balances).

Insurance represents business in retail protection, group protection, general insurance, networks and Legal & General Netherlands (LGN). Insurance comparatives include Legal & General France (LGF), which was sold during 2015.

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

The LGA segment comprises protection business written in the USA.

During 2016, changes have been made to the organisational structure. The advised sales and India businesses have transferred to Insurance from Savings, and Investment Discounts On Line Limited (the IDOL) has been transferred to LGR from Insurance. Comparatives have been amended accordingly. The impact of this reclassification has been to increase LGR H1 15 operating profit by £1m (FY 15: increase by £2m), increase Savings H1 15 operating profit by £5m (FY 15: increase by £8m) and reduce Insurance H1 15 operating profit by £6m (FY 15: reduce 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 Operational Cash Generation

2.01 Reconciliation of operational cash generation to operating profit before tax

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

For the six months ended 30 June 2016	Operational cash generation[1] £m	New business surplus/ (strain) £m	Net cash generation £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other[2] £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	**205**	**79**	**284**	**(11)**	**48**	**13**	**-**	**334**	**72**	**406**
LGIM	**145**	**(11)**	**134**	**1**	**-**	**(1)**	**-**	**134**	**37**	**171**
- LGIM excluding Workplace Savings	136	-	136	-	-	-	-	136	38	174
- Workplace Savings	9	(11)	(2)	1	-	(1)	-	(2)	(1)	(3)
LGC	**113**	**-**	**113**	**-**	**-**	**-**	**-**	**113**	**22**	**135**
Insurance	**159**	**7**	**166**	**(16)**	**17**	**(13)**	**(44)**	**110**	**28**	**138**
Savings	**51**	**(3)**	**48**	**-**	**5**	**(14)**	**-**	**39**	**10**	**49**
LGA	**61**	**-**	**61**	**-**	**-**	**-**	**(43)**	**18**	**25**	**43**
Total from divisions	**734**	**72**	**806**	**(26)**	**70**	**(15)**	**(87)**	**748**	**194**	**942**
Group debt costs	**(69)**	**-**	**(69)**	**-**	**-**	**-**	**-**	**(69)**	**(17)**	**(86)**
Group investment projects and expenses	**(10)**	**-**	**(10)**	**-**	**-**	**-**	**(17)**	**(27)**	**(7)**	**(34)**
Adjusted total	**655**	**72**	**727**	**(26)**	**70**	**(15)**	**(104)**	**652**	**170**	**822**
Kingswood office closure costs[3]	**-**	**-**	**-**	**-**	**-**	**-**	**(36)**	**(36)**	**(9)**	**(45)**
Total	**655**	**72**	**727**	**(26)**	**70**	**(15)**	**(140)**	**616**	**161**	**777**

1. Operational cash generation includes dividends remitted from LGN of £48m (H1 15: £18m; FY 15: £28m) within the Insurance line and LGA of £61m (H1 15: £52m; FY 15: £54m).
2. International and other includes £13m (H1 15: £7m; FY 15: £34m) of restructuring costs (£16m before tax) (H1 15: £9m before tax; FY 15: £42m before tax) within the group investment projects and expenses line.
3. The Kingswood office closure costs reflect expenditure in relation to redundancy, rent and rates. Further costs resulting from the write-off of previously capitalised property, plant and equipment will be recognised in later periods.

Operational cash generation for LGR, LGIM, Insurance 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 operational cash generation also includes operating profit after tax from the institutional and retail investment management businesses. The Insurance operational cash generation also includes dividends remitted from LGN and operating profit after tax from general insurance and the remaining Insurance businesses. The Savings operational cash generation also includes the shareholders' share of bonuses on with-profits business and operating profit after tax from the remaining Savings businesses.

New business surplus/strain for LGR, LGIM, Insurance and Savings represents the cost of acquiring new business and setting up 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 operational cash generation for LGR, LGIM, Insurance and Savings exclude any capital held in excess of the prudent reserves from the liability calculation.

Net cash generation for LGR, LGIM, Insurance and Savings is defined as operational cash generation less new business strain.

Operational cash generation and net cash generation for LGC represents the operating profit (net of tax).

The operational cash generation for LGA represents the dividends received.

During 2016, changes have been made to the organisational structure. The advised sales and India businesses have been transferred to Insurance from Savings, and the IDOL business has been transferred to LGR from Insurance. Comparatives have been amended accordingly. The impact of this reclassification has been to increase LGR H1 15 operational cash generation by £1m (FY 15: increase by £2m), increase Savings H1 15 operational cash generation by £3m (FY 15: increase by £6m) and reduce Insurance H1 15 operational cash generation by £4m (FY 15: reduce by £8m).

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

2.01 Reconciliation of operational cash generation to operating profit before tax (continued)

For the six months ended 30 June 2015	Operational cash generation[1] £m	New business surplus/ (strain) £m	Net cash generation £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other[2] £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR[3]	171	22	193	15	37	(13)	-	232	49	281
LGIM	150	(12)	138	(2)	-	1	-	137	39	176
- LGIM excluding Workplace Savings	139	-	139	-	-	-	-	139	40	179
- Workplace Savings	11	(12)	(1)	(2)	-	1	-	(2)	(1)	(3)
LGC	92	-	92	-	-	-	-	92	23	115
Insurance[3]	161	-	161	7	2	(15)	(8)	147	39	186
Savings[3]	67	(5)	62	(1)	-	(18)	1	44	11	55
LGA	52	-	52	-	-	-	(34)	18	22	40
Total from divisions	693	5	698	19	39	(45)	(41)	670	183	853
Group debt costs	(60)	-	(60)	-	-	-	-	(60)	(15)	(75)
Group investment projects and expenses	(9)	-	(9)	-	-	-	(13)	(22)	(6)	(28)
Adjusted total	624	5	629	19	39	(45)	(54)	588	162	750
Total	624	5	629	19	39	(45)	(54)	588	162	750

1. Operational cash generation includes dividends remitted from LGN of £18m and LGF of £1m within the Insurance line and LGA of £52m.
2. International and other includes £7m of restructuring costs (£9m before tax) within the group investment projects and expenses line.
3. LGR includes the IDOL business which was previously reported in Insurance, and Insurance includes the advised sales and India businesses which were previously reflected in Savings. Comparatives have been amended accordingly.

For the year ended 31 December 2015	Operational cash generation[1] £m	New business surplus/ (strain) £m	Net cash generation £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other[2] £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR[3]	374	45	419	13	114	(20)	-	526	115	641
LGIM	303	(22)	281	(1)	1	(2)	-	279	76	355
- LGIM excluding Workplace Savings	282	-	282	-	-	-	-	282	77	359
- Workplace Savings	21	(22)	(1)	(1)	1	(2)	-	(3)	(1)	(4)
LGC	187	-	187	-	-	-	-	187	46	233
Insurance[3]	315	25	340	(14)	(45)	(46)	(11)	224	59	283
Savings[3]	125	(9)	116	(9)	-	(23)	2	86	21	107
LGA	54	-	54	-	-	-	(17)	37	46	83
Total from divisions	1,358	39	1,397	(11)	70	(91)	(26)	1,339	363	1,702
Group debt costs	(122)	-	(122)	-	-	-	-	(122)	(31)	(153)
Group investment projects and expenses	(19)	-	(19)	-	-	-	(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. Operational cash generation includes dividends remitted from LGF of £1m and LGN of £28m within the Insurance line and LGA of £54m.
2. International and other includes £34m of restructuring costs (£42m before tax) within the group investment projects and expenses line.
3. LGR includes the IDOL business which was previously reported in Insurance, and Insurance includes the advised sales and India businesses which were previously reflected in Savings. Comparatives have been amended accordingly.

IFRS and Operational Cash Generation

2.02 Analysis of LGR, Insurance and Savings operating profit

	LGR 30.06.16 £m	**Insurance 30.06.16 £m**	**Savings 30.06.16 £m**	LGR 30.06.15 £m	Insurance 30.06.15 £m	Savings 30.06.15 £m
Net cash generation	**284**	**166**	**48**	193	161	62
Experience variances						
Persistency	**-**	**1**	**-**	-	1	(4)
Mortality/Morbidity[1]	**2**	**(15)**	**-**	4	4	-
Expenses	**(7)**	**3**	**2**	-	4	-
Project and development costs	**(1)**	**(1)**	**-**	(6)	(1)	-
Other	**(5)**	**(4)**	**(2)**	17	(1)	3
Total experience variances	**(11)**	**(16)**	**-**	15	7	(1)
Changes to valuation assumptions						
Persistency	**-**	**-**	**5**	-	-	-
Mortality/Morbidity[2]	**48**	**2**	**-**	37	3	-
Expenses[3]	**-**	**25**	**-**	-	1	-
Other[4]	**-**	**(10)**	**-**	-	(2)	-
Total valuation assumption changes	**48**	**17**	**5**	37	2	-
Movement in non-cash items						
Deferred tax	**-**	**1**	**-**	-	2	-
Utilisation of brought forward trading losses	**-**	**-**	**-**	(13)	(2)	(2)
Acquisition expense tax relief [5]	**-**	**(13)**	**(2)**	-	(17)	-
Deferred Acquisition Costs (DAC)[6]	**-**	**-**	**(15)**	-	-	(27)
Deferred Income Liabilities (DIL)[6]	**-**	**-**	**6**	-	-	17
Other[7]	**13**	**(1)**	**(3)**	-	2	(6)
Total non-cash movement items	**13**	**(13)**	**(14)**	(13)	(15)	(18)
Other[8]	**-**	**(44)**	**-**	-	(8)	1
Operating profit after tax	**334**	**110**	**39**	232	147	44
Tax gross up	**72**	**28**	**10**	49	39	11
Operating profit before tax	**406**	**138**	**49**	281	186	55

1. The Insurance mortality/morbidity experience variance in 2016 reflects adverse claims experience on the group protection book of business.
2. 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 H1 15 LGR mortality/morbidity change to valuation assumptions primarily reflected a change in mortality reserving assumptions in relation to unreported deaths of deferred annuitants.
3. The Insurance expense valuation assumption change is the result of a review of the prudence within renewal expenses on our protection products.
4. The Insurance other valuation assumption change has arisen from the increase of the reinsurance counterparty reserves driven by increased reinsured exposure.
5. Net cash for Insurance and Savings recognises tax relief from prior year acquisition expenses, which are spread evenly over seven years under relevant 'I-E' tax legislation in the period the cash flows actually occur. In contrast, operating profit typically recognises the value of these future cash flows in the same period as the underlying expense as deferred tax amounts. The reconciling amounts arising from these items are included in the table above. Following the removal of new retail protection business from the 'I-E' tax regime, and the removal of commission from new insured savings business under the Retail Distribution Review at the end of 2012, no material amount of deferred tax assets arise on new acquisition expenses and the value of these future cash flows for post-2013 acquisition expenses have been reflected within net cash. The residual prior year acquisition expenses will run off predictably to 2018.
6. 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.
7. The other movement in non-cash items for LGR is primarily driven by market reference fees as a result of writing higher volumes.
8. Insurance Other in 2016 reflects the difference between the dividend (operational cash generation) remitted from LGN of £48m (H1 15: dividends remitted from LGN of £18m and LGF of £1m) and the LGN operating profit after tax (H1 15: LGN and LGF operating profit after tax).

2.02 Analysis of LGR, Insurance and Savings operating profit (continued)

	LGR Full year 31.12.15 £m	Insurance Full year 31.12.15 £m	Savings Full year 31.12.15 £m
Net cash generation	419	340	116
Experience variances			
Persistency	4	5	(2)
Mortality/Morbidity	18	(16)	-
Expenses	-	2	3
Project and development costs	(20)	(2)	(2)
Other[1]	11	(3)	(8)
Total experience variances	13	(14)	(9)
Changes to valuation assumptions			
Persistency[2]	-	48	-
Mortality/Morbidity[3]	97	(20)	-
Expenses[4]	17	27	(2)
Reinsurance modelling[5]	-	(93)	-
Other	-	(7)	2
Total valuation assumption changes	114	(45)	-
Movement in non-cash items			
Deferred tax	-	-	2
Utilisation of brought forward trading losses	(25)	(6)	-
Acquisition expense tax relief [6]	-	(30)	(4)
Deferred Acquisition Costs (DAC)[7]	-	-	(54)
Deferred Income Liabilities (DIL)[7]	-	-	39
Other	5	(10)	(6)
Total non-cash movement items	(20)	(46)	(23)
Other	-	(11)	2
Operating profit after tax	526	224	86
Tax gross up	115	59	21
Operating profit before tax	641	283	107

1. The Other LGR experience variance reflects the benefit to profit of selective longevity and asset reinsurance related to bulk annuity transactions, offset by other smaller experience variances.
2. The Insurance persistency valuation assumption change reflects continued improvement in retail protection lapse rates.
3. The mortality/morbidity valuation assumption change in LGR primarily reflects late retirement factor assumption changes and a change in mortality reserving assumptions in relation to unreported deaths of deferred annuitants. The Insurance mortality/morbidity valuation assumption change has arisen on the strengthening of the reserving basis on the Whole Life Protection product to reflect the current expectation of future mortality improvement on this business.
4. The LGR and Insurance positive expense valuation assumption changes represents the continued operational efficiency reducing the existing business cost base.
5. The reinsurance modelling for our UK protection business has been enhanced. Recent reinsurance contracts have been written on a risk premium basis (as opposed to level premium) and the model change ensures that for these treaties, sufficient prudence is being held in later years. The one-off impact reduced operating profit by £93m in 2015. This also defers a higher proportion of cash generation into later years of these reinsurance contracts.
6. Net cash for Insurance and Savings recognises tax relief from prior year acquisition expenses, which are spread evenly over seven years under relevant 'I-E' tax legislation in the period the cash flows actually occur. In contrast, operating profit typically recognises the value of these future cash flows in the same period as the underlying expense as deferred tax amounts. The reconciling amounts arising from these items are included in the table above. Following the removal of new retail protection business from the 'I-E' tax regime, and the removal of commission from new insured savings business under the Retail Distribution Review at the end of 2012, no material amount of deferred tax assets arise on new acquisition expenses and the value of these future cash flows for post-2013 acquisition expenses have been reflected within net cash. The residual prior year acquisition expenses will run off predictably to 2018.
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.

2.03 LGIM

	30.06.16 £m	30.06.15 £m	Full year 31.12.15 £m
Investment management revenue[1]	**353**	347	694
Investment management expenses[1]	**(179)**	(168)	(335)
Workplace Savings operating loss	**(3)**	(3)	(4)
Total LGIM operating profit	**171**	176	355

1. Revenue and expenses are grossed up for costs that are paid to third parties for certain fund related services provided to Index clients and are passed directly onto the clients within their fees.

2.04 General insurance operating profit and combined operating ratio

	30.06.16 £m	30.06.15 £m	Full year 31.12.15 £m
General insurance operating profit[1]	**31**	38	51
General insurance combined operating ratio (%)[2]	**85**	82	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

	30.06.16 £m	30.06.15 £m	Full year 31.12.15 £m
Direct investments	**68**	32	69
Traded portfolio including treasury operations	**67**	83	164
Total LGC operating profit	**135**	115	233

2.06 Group investment projects and expenses

	30.06.16 £m	30.06.15 £m	Full year 31.12.15 £m
Group investment projects and central expenses	**(18)**	(19)	(44)
Restructuring costs[1]	**(16)**	(9)	(42)
Total group investment projects and expenses	**(34)**	(28)	(86)

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

2.07 Investment and other variances

	30.06.16 £m	30.06.15 £m	Full year 31.12.15 £m
Investment variance[1]	**58**	(29)	(57)
M&A related[2]	**(4)**	(55)	(57)
Other[3]	**(4)**	(2)	(5)
Total Investment and other variances	**50**	(86)	(119)

1. H1 16 investment variance is positive, primarily driven by foreign exchange gains on US dollar assets, a lack of defaults on the group's bond portfolios and selective de-risking of investment portfolios, partially offset by the negative impact of rate changes during the period. The defined pension benefit scheme variance of £31m contained within this line (H1 15: £(26)m; FY 15: £(15)m) reflects the actuarial losses and gains and valuation differences arising on annuity assets held by defined benefit pension schemes that have been purchased from Legal & General Assurance Society Limited (Society). 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. H1 16 includes the £4m net gain resulting from the disposal of subsidiaries during the period (H1 15: includes the £40m impairment loss resulting from the classification of disposal groups as held for sale; FY 15: 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 six months ended 30 June 2016

	Notes	30.06.16 £m	30.06.15 £m	Full year 31.12.15 £m
Income				
Gross written premiums	4.03	**5,492**	3,170	6,321
Outward reinsurance premiums		**(719)**	(865)	(1,603)
Net change in provision for unearned premiums		**6**	14	21
Net premiums earned		**4,779**	2,319	4,739
Fees from fund management and investment contracts		**523**	564	1,139
Investment return	2.09	**36,978**	5,062	5,947
Operational income		**243**	444	876
Total income	2.09	**42,523**	8,389	12,701
Expenses				
Claims and change in insurance liabilities		**11,377**	2,090	5,080
Reinsurance recoveries		**(1,454)**	(999)	(2,466)
Net claims and change in insurance liabilities		**9,923**	1,091	2,614
Change in provisions for investment contract liabilities		**30,569**	4,958	5,615
Acquisition costs		**375**	429	838
Finance costs		**98**	91	186
Other expenses		**748**	930	1,893
Transfers (from)/to unallocated divisible surplus		**(174)**	61	141
Total expenses		**41,539**	7,560	11,287
Profit before tax		**984**	829	1,414
Tax expense attributable to policyholder returns		**(158)**	(157)	(59)
Profit before tax attributable to equity holders		**826**	672	1,355
Total tax expense		**(317)**	(282)	(320)
Tax expense attributable to policyholder returns		**158**	157	59
Tax expense attributable to equity holders	2.14	**(159)**	(125)	(261)
Profit for the period		**667**	547	1,094
Attributable to:				
Non-controlling interests	2.20	**(1)**	8	19
Equity holders of the company		**668**	539	1,075
Dividend distributions to equity holders of the company during the period	2.16	**592**	496	701
Dividend distributions to equity holders of the company proposed after the period end	2.16	**238**	205	592

		p	p	p
Earnings per share[1]	2.10	**11.27**	9.11	18.16
Diluted earnings per share[1]	2.10	**11.23**	9.05	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 six months ended 30 June 2016

	30.06.16 £m	30.06.15 £m	Full year 31.12.15 £m
Profit for the period	**667**	547	1,094
Items that will not be reclassified subsequently to profit or loss			
Actuarial (losses)/gains on defined benefit pension schemes	**(62)**	27	47
Tax on actuarial (losses)/gains on defined benefit pension schemes	**12**	(5)	(11)
Actuarial gains/(losses) on defined benefit pension schemes transferred to unallocated divisible surplus	**23**	(10)	(17)
Tax on actuarial gains/(losses) on defined benefit pension schemes transferred to unallocated divisible surplus	**(4)**	2	4
Total items that will not be reclassified to profit or loss subsequently	**(31)**	14	23
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations	**116**	(25)	25
Net change in financial investments designated as available-for-sale	**66**	(27)	(64)
Tax on net change in financial investments designated as available-for-sale	**(23)**	9	22
Total items that may be reclassified to profit or loss subsequently	**159**	(43)	(17)
Other comprehensive income/(expense) after tax	**128**	(29)	6
Total comprehensive income for the period	**795**	518	1,100
Total comprehensive income attributable to:			
Non-controlling interests	**(1)**	8	19
Equity holders of the company	**796**	510	1,081

Consolidated Balance Sheet

As at 30 June 2016

	Notes	**30.06.16 £m**	30.06.15 £m	31.12.15 £m
Assets				
Goodwill		**79**	82	83
Purchased interest in long term businesses and other intangible assets		**251**	328	292
Deferred acquisition costs		**2,007**	1,822	1,887
Investment in associates and joint ventures		**237**	207	220
Property, plant and equipment		**97**	86	92
Investment property	2.13/3.04	**8,227**	8,779	8,082
Financial investments	2.13/3.04	**397,123**	351,159	354,063
Reinsurers' share of contract liabilities		**4,955**	3,360	4,120
UK deferred tax asset	2.14	**5**	33	20
Current tax recoverable		**271**	185	236
Other assets		**10,900**	3,539	3,618
Assets of operations classified as held for sale	2.12	**-**	6,149	3,409
Cash and cash equivalents		**18,956**	19,583	20,677
Total assets		**443,108**	395,312	396,799
Equity				
Share capital	2.17	**149**	149	149
Share premium		**978**	973	976
Employee scheme treasury shares		**(32)**	(31)	(30)
Capital redemption and other reserves		**211**	98	89
Retained earnings		**5,285**	4,843	5,220
Shareholders' equity		**6,591**	6,032	6,404
Non-controlling interests	2.20	**292**	281	289
Total equity		**6,883**	6,313	6,693
Liabilities				
Participating insurance contracts		**5,864**	5,901	5,618
Participating investment contracts		**5,260**	5,093	4,912
Unallocated divisible surplus		**693**	798	893
Value of in-force non-participating contracts		**(135)**	(223)	(184)
Participating contract liabilities		**11,682**	11,569	11,239
Non-participating insurance contracts		**58,437**	49,274	49,754
Non-participating investment contracts		**300,605**	280,472	278,554
Non-participating contract liabilities		**359,042**	329,746	328,308
Core borrowings	2.18	**3,064**	2,490	3,092
Operational borrowings	2.19	**411**	645	536
Provisions	2.23	**1,205**	1,189	1,171
UK deferred tax liabilities	2.14	**206**	277	137
Overseas deferred tax liabilities	2.14	**523**	414	436
Current tax liabilities		**120**	40	95
Payables and other financial liabilities	2.15	**36,756**	18,449	22,709
Other liabilities		**617**	671	737
Net asset value attributable to unit holders		**22,599**	17,513	18,277
Liabilities of operations classified as held for sale	2.12	**-**	5,996	3,369
Total liabilities		**436,225**	388,999	390,106
Total equity and liabilities		**443,108**	395,312	396,799

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
As at 1 January 2016	**149**	**976**	**(30)**	**89**	**5,220**	**6,404**	**289**	**6,693**
Total comprehensive income/(expense) for the period	**-**	**-**	**-**	**159**	**637**	**796**	**(1)**	**795**
Options exercised under share option schemes	**-**	**2**	**-**	**-**	**-**	**2**	**-**	**2**
Net movement in employee scheme treasury shares	**-**	**-**	**(2)**	**(5)**	**(12)**	**(19)**	**-**	**(19)**
Dividends	**-**	**-**	**-**	**-**	**(592)**	**(592)**	**-**	**(592)**
Movement in third party interests	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**4**
Currency translation differences	**-**	**-**	**-**	**(32)**	**32**	**-**	**-**	**-**
As at 30 June 2016	**149**	**978**	**(32)**	**211**	**5,285**	**6,591**	**292**	**6,883**

For the six months ended 30 June 2015	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
As at 1 January 2015	149	969	(37)	117	4,830	6,028	275	6,303
Total comprehensive income/(expense) for the period	-	-	-	(43)	553	510	8	518
Options exercised under share option schemes	-	4	-	-	-	4	-	4
Net movement in employee scheme treasury shares	-	-	6	(4)	(16)	(14)	-	(14)
Dividends	-	-	-	-	(496)	(496)	-	(496)
Movement in third party interests	-	-	-	-	-	-	(2)	(2)
Currency translation differences	-	-	-	28	(28)	-	-	-
As at 30 June 2015	149	973	(31)	98	4,843	6,032	281	6,313

For the year ended 31 December 2015	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
As at 1 January 2015	149	969	(37)	117	4,830	6,028	275	6,303
Total comprehensive income/(expense) for the year	-	-	-	(17)	1,098	1,081	19	1,100
Options exercised under share option schemes	-	7	-	-	-	7	-	7
Net movement in employee scheme treasury shares	-	-	7	3	(21)	(11)	-	(11)
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

IFRS and Operational Cash Generation

Consolidated Cash Flow Statement

For the six months ended 30 June 2016

	Notes	**30.06.16 £m**	30.06.15 £m	31.12.15 £m
Cash flows from operating activities				
Profit for the period		**667**	547	1,094
Adjustments for non cash movements in net profit for the period				
Realised and unrealised (gains)/losses on financial investments and investment properties		**(31,213)**	4,236	4,077
Investment income		**(5,164)**	(4,928)	(9,760)
Interest expense		**98**	91	186
Tax expense		**317**	282	320
Other adjustments		**(7)**	(35)	(70)
Net (increase)/decrease in operational assets				
Investments held for trading or designated as fair value through profit or loss		**(1,923)**	(2,450)	1,007
Investments designated as available-for-sale		**327**	210	158
Other assets		**(7,947)**	(1,518)	(2,594)
Net increase/(decrease) in operational liabilities				
Insurance contracts		**8,921**	(784)	(1,083)
Transfer (from)/to unallocated divisible surplus		**(200)**	68	(90)
Investment contracts		**19,164**	(5,254)	(9,524)
Value of in-force non-participating contracts		**49**	(15)	24
Other liabilities		**10,674**	3,249	6,645
Cash used in operations		**(6,237)**	(6,301)	(9,610)
Interest paid		**(75)**	(129)	(186)
Interest received		**2,740**	2,413	5,286
Tax paid[1]		**(217)**	(84)	(244)
Dividends received		**2,622**	2,282	3,931
Net cash flows used in operating activities		**(1,167)**	(1,819)	(823)
Cash flows from investing activities				
Net acquisition of plant, equipment and intangibles		**(29)**	(11)	(24)
Acquisitions[2]		**-**	(5)	(5)
Disposal of subsidiaries[3]	2.11	**(340)**	34	(82)
Investment in joint ventures		**(17)**	(65)	(71)
Net cash flows from investing activities		**(386)**	(47)	(182)
Cash flows from financing activities				
Dividend distributions to ordinary equity holders of the company during the period	2.16	**(589)**	(496)	(701)
Proceeds from issue of ordinary share capital		**3**	4	7
Purchase of employee scheme shares		**2**	(7)	(8)
Proceeds from borrowings		**253**	194	697
Repayment of borrowings		**(315)**	(649)	(527)
Net cash flows used in financing activities		**(646)**	(954)	(532)
Net decrease in cash and cash equivalents		**(2,199)**	(2,820)	(1,537)
Exchange gains/(losses) on cash and cash equivalents		**89**	(65)	(106)
Cash and cash equivalents at 1 January (before reallocation of held for sale cash)		**21,066**	22,709	22,709
Cash and cash equivalents (before reallocation of held for sale cash)		**18,956**	19,824	21,066
Cash and cash equivalents classified as held for sale	2.12	**-**	(241)	(389)
Cash and cash equivalents at 30 June/31 December		**18,956**	19,583	20,677

1. Tax comprises UK corporation tax paid of £108m (H1 15: £8m; FY 15: £128m), overseas corporate taxes of £5m (H1 15: £18m; FY 15: £36m) and withholding tax of £104m (H1 15: £58m; FY 15: £80m).
2. Net cash flows from acquisitions includes cash paid of £nil (H1 15: £5m; FY 15: £5m) less cash and cash equivalents acquired of £nil (H1 15: £nil; FY 15: £nil).
3. Net cash flows from disposals includes cash received of £74m (H1 15: £nil; FY 15: £242m) less cash and cash equivalents disposed of £414m (H1 15: £nil; FY 15: £324m).

The group's Consolidated Cash Flow Statement includes all cash and cash equivalent flows, including £669m (H1 15: £541m; FY 15: £856m) relating to the with-profit fund policyholders and £15,540m (H1 15: £,16,928m; FY 15: £16,116m) relating to unit-linked policyholders.

2.08 Basis of preparation

The group's financial information for the six months ended 30 June 2016 has been prepared in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority and with IAS 34, 'Interim Financial Reporting'. The group's financial information has also been prepared in line with the accounting policies and methods of computation which the group expects to adopt for the 2016 year end. These policies are consistent with the principal accounting policies which were set out in the group's 2015 consolidated financial statements which were consistent with IFRSs issued by the International Accounting Standards Board as adopted by the European Commission for use in the European Union. Following an amendment to IAS 1 more detail is provided around the methodology of the split of policyholder and shareholder tax.

For presentation, the tax shown in the Consolidated Income Statement 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 incurs tax on policyholder investment return, in addition to the corporation tax charge charged on shareholder profit. Both types of tax are accounted for in the total tax charge in the group's Consolidated Income Statement, and 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 using equity holders' profit after tax, which is grossed up at the statutory tax rate. The balance of income tax associated with UK long term business is classified as income tax attributable to policyholders' returns.

The preparation of the interim management report 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. The economic and non-economic actuarial assumptions used to establish the liabilities in relation to insurance and investment contracts are significant. For half-year financial reporting, economic assumptions have been updated to reflect market conditions. Non-economic assumptions are consistent with those used in the 31 December 2015 financial statements except for the changes outlined in Note 2.02.

The results for the six months ended 30 June 2016 are unaudited but have been reviewed by PricewaterhouseCoopers LLP. The interim results do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The results from the full year 2015 have been taken from the group's 2015 Annual Report and Accounts. Therefore, these interim accounts should be read in conjunction with the 2015 Annual Report and Accounts that have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and adopted by the European Commission for use in the European Union. PricewaterhouseCoopers LLP reported on the 2015 financial statements and their report was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The group's 2015 Annual Report and Accounts has been filed with the Registrar of Companies.

Key technical terms and definitions

The interim management report refers to various key performance indicators, accounting standards and other technical terms. A comprehensive list of these definitions is contained within the glossary section of these interim financial statements.

Alternative performance measures

The group uses a number of alternative performance measures (APMs), including operational cash generation, net cash generation and operating profit, in the discussion of its business performance and financial position as the group believes that they provide a better indication of performance. Definitions of key APMs can be found in the glossary.

2.09 Segmental analysis

Reportable segments

The group has six reportable segments comprising LGR, LGIM, LGC, Insurance, Savings and LGA. 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 the IFRS profit before tax on its trading businesses and investment return (less expenses) on its other group invested assets. LGC and group expenses also incorporate inter-segmental eliminations, consolidated unit trusts and property partnerships managed on behalf of clients, which do not constitute a separately reportable segment.

Insurance represents business in retail protection, group protection, general insurance, networks and Legal & General Netherlands (LGN). Insurance comparatives include Legal & General France (LGF), which was sold during 2015.

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

The LGA segment represents protection business written in the USA.

During 2016, changes have been made to the organisational structure. The advised sales and India businesses have transferred to Insurance from Savings, and the IDOL business has been transferred to LGR from Insurance. Comparatives have been amended accordingly. The impact of this reclassification has been to increase LGR H1 15 operating profit by £1m (FY 15: increase by £2m), increase Savings H1 15 operating profit by £5m (FY 15: increase by £8m) and reduce Insurance H1 15 operating profit by £6m (FY 15: reduce by £10m).

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 period

For the six months ended 30 June 2016	LGR[1] £m	LGIM £m	LGC £m	Insurance[1] £m	Savings[1] £m	LGA £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	**406**	**171**	**135**	**138**	**49**	**43**	**(165)**	**777**
Investment and other variances[2]	**63**	**(8)**	**60**	**(92)**	**4**	**2**	**21**	**50**
Losses attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**(1)**
Profit/(loss) before tax attributable to equity holders	**469**	**163**	**195**	**46**	**53**	**45**	**(145)**	**826**
Tax (expense)/credit attributable to equity holders of the company	**(82)**	**(35)**	**(24)**	**(11)**	**(10)**	**(25)**	**28**	**(159)**
Profit/(loss) for the period	**387**	**128**	**171**	**35**	**43**	**20**	**(117)**	**667**

For the six months ended 30 June 2015	LGR[1] £m	LGIM £m	LGC £m	Insurance[1] £m	Savings[1] £m	LGA £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	281	176	115	186	55	40	(103)	750
Investment and other variances[2]	11	(5)	(4)	(48)	(20)	1	(21)	(86)
Gains attributable to non-controlling interests	-	-	-	-	-	-	8	8
Profit/(loss) before tax attributable to equity holders	292	171	111	138	35	41	(116)	672
Tax (expense)/credit attributable to equity holders of the company	(50)	(38)	(2)	(37)	(7)	(22)	31	(125)
Profit/(loss) for the period	242	133	109	101	28	19	(85)	547

For the year ended 31 December 2015	LGR[1] £m	LGIM £m	LGC £m	Insurance[1] £m	Savings[1] £m	LGA £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	641	355	233	283	107	83	(247)	1,455
Investment and other variances[2]	78	(20)	(116)	(39)	3	(13)	(12)	(119)
Gains attributable to non-controlling interests	-	-	-	-	-	-	19	19
Profit/(loss) before tax attributable to equity holders	719	335	117	244	110	70	(240)	1,355
Tax (expense)/credit attributable to equity holders of the company	(131)	(74)	(9)	(60)	(16)	(41)	70	(261)
Profit/(loss) for the year	588	261	108	184	94	29	(170)	1,094

1. During 2016, changes have been made to the organisational structure. The advised sales and India businesses have been transferred to Insurance from Savings, and the IDOL business has been transferred to LGR from Insurance. Comparatives have been amended accordingly. The impact of the reclassification has been to increase LGR H1 15 operating profit by £1m and profit before tax by £1m (FY 15: increase by £2m and £1m respectively), increase Savings H1 operating profit by £5m and profit before tax by £5m (FY 15: increase by £8m and £8m respectively), and reduce Insurance H1 15 operating profit by £6m and profit before tax by £6m (FY 15: reduce by £10m and £9m respectively).
2. H1 16 Investment and other variances - Insurance and Savings include the £4m net gain resulting from the disposal of subsidiaries during the period (H1 15: includes the £40m impairment loss resulting from the classification of disposal groups as held for sale; FY 15: includes the £25m net loss resulting from the disposal of subsidiary and joint venture investments during the year).

2.09 Segmental analysis (continued)
(b) Income

For the six months ended 30 June 2016	**LGR[1] £m**	**LGIM £m**	**Insurance[1] £m**	**Savings[1] £m**	**LGA £m**	**LGC and other[2] £m**	**Total £m**
Internal income	**-**	**121**	**357**	**-**	**136**	**(614)**	**-**
External income	**9,083**	**24,153**	**912**	**2,344**	**421**	**5,610**	**42,523**
Total income	**9,083**	**24,274**	**1,269**	**2,344**	**557**	**4,996**	**42,523**

For the six months ended 30 June 2015	LGR[1] £m	LGIM £m	Insurance[1] £m	Savings[1] £m	LGA £m	LGC and other[2,3] £m	Total £m
Internal income	-	43	197	-	109	(349)	-
External income[3]	571	4,752	1,169	1,711	399	(213)	8,389
Total income	571	4,795	1,366	1,711	508	(562)	8,389

For the year ended 31 December 2015	LGR[1] £m	LGIM £m	Insurance[1] £m	Savings[1] £m	LGA £m	LGC and other[2,3] £m	Total £m
Internal income	-	267	495	-	238	(1,000)	-
External income[3]	2,554	5,514	2,111	2,473	754	(704)	12,702
Total income	2,554	5,781	2,606	2,473	992	(1,704)	12,702

1. During 2016, changes have been made to the organisational structure. The advised sales and India businesses have transferred to Insurance from Savings, and the IDOL business has been transferred to LGR from Insurance. Comparatives have been amended accordingly. The impact of this reclassification has been to increase LGR H1 15 external income by £10m (FY 15: increase by £26m), reduce Savings H1 15 external income by £3m (FY 15: reduce by £5m) and reduce Insurance H1 15 external income by £7m (FY 15: reduce by £21m).
2. LGC and other includes LGC, inter-segmental eliminations and group consolidation adjustments.
3. LGC and other internal revenue includes inter-segmental eliminations previously classified as LGA (H1 15: £195m; FY 15: £441m). In addition, external revenue has been reclassified to exclude an internal transaction between LGC and other and LGA.

Total revenue includes investment return of £36,978m (H1 15: £5,062m; FY 15: £5,947m).

2.10 Earnings per share
(a) Earnings per share

	Profit after tax 30.06.16 £m	**Earnings per share[1] 30.06.16 p**	**Adjusted profit after tax 30.06.16 £m**	**Adjusted earnings per share[1,2] 30.06.16 p**	Profit after tax 30.06.15 £m	Earnings per share[1] 30.06.15 p	Adjusted profit after tax 30.06.15 £m	Adjusted earnings per share[1,2] 30.06.15 p
Operating profit after tax	**616**	**10.39**	**616**	**10.39**	588	9.94	588	9.94
Investment and other variances	**52**	**0.88**	**48**	**0.81**	(49)	(0.83)	(9)	(0.15)
Earnings per share based on profit attributable to equity holders	**668**	**11.27**	**664**	**11.20**	539	9.11	579	9.79

	Profit after tax Full year 31.12.15 £m	Earnings per share[1] Full year 31.12.15 p	Adjusted profit after tax Full year 31.12.15 £m	Adjusted earnings per share[1,2] Full year 31.12.15 p
Operating profit after tax	1,142	19.29	1,142	19.29
Investment and other variances	(67)	(1.13)	(42)	(0.71)
Earnings per share based on profit attributable to equity holders	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 excluding the net gain, £4m, resulting from the disposal of subsidiaries (H1 15: excluding the £40m impairment loss resulting from classification of disposal groups as held for sale; FY 15: excluding the £25m net loss resulting from the disposal of subsidiary and joint venture investments).

2.10 Earnings per share (continued)
(b) Diluted earnings per share

	Number of shares[1] 30.06.16 m	Profit after tax 30.06.16 £m	Earnings per share 30.06.16 p	Adjusted profit after tax 30.06.16 £m	Adjusted earnings per share[2] 30.06.16 p
Profit attributable to equity holders of the company	**5,927**	**668**	**11.27**	**664**	**11.20**
Net shares under options allocable for no further consideration	**22**	**-**	**(0.04)**	**-**	**(0.04)**
Diluted earnings per share	**5,949**	**668**	**11.23**	**664**	**11.16**

	Number of shares[1] 30.06.15 m	Profit after tax 30.06.15 £m	Earnings per share 30.06.15 p	Adjusted profit after tax 30.06.15 £m	Adjusted earnings per share[2] 30.06.15 p
Profit attributable to equity holders of the company	5,915	539	9.11	579	9.79
Net shares under options allocable for no further consideration	38	-	(0.06)	-	(0.06)
Diluted earnings per share	5,953	539	9.05	579	9.73

	Number of shares[1] 31.12.15 m	Profit after tax 31.12.15 £m	Earnings per share 31.12.15 p	Adjusted profit after tax 31.12.15 £m	Adjusted earnings per share[2] 31.12.15 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 excluding the net £4m gain, resulting from the disposal of subsidiaries (H1 15: excluding the £40m impairment loss resulting from classification of disposal groups as held for sale; FY 15: excluding £25m net loss resulting from the disposal of subsidiary and joint venture investments).

2.11 Disposals

During H1 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.

2.12 Held for sale

	30.06.16	30.06.15[1]	Full year 31.12.15[2]
	£m	£m	£m
Assets classified as held for sale			
Purchased interest in long term business and other intangible assets	**-**	-	28
DAC	**-**	71	-
Investment in associates	**-**	12	-
Property, plant and equipment	**-**	45	1
Investment property	**-**	-	1,140
Financial investments	**-**	5,601	1,801
Reinsurers' share of contract liabilities	**-**	10	39
Cash and cash equivalents	**-**	241	389
Other assets	**-**	169	11
Total assets of the disposal group	**-**	6,149	3,409
Liabilities classified as held for sale			
Insurance contract liabilities	**-**	(320)	-
Investment contract liabilities	**-**	(5,187)	(3,235)
Unallocated divisible surplus	**-**	(229)	-
Operational borrowings	**-**	-	(102)
Tax liabilities	**-**	(22)	(5)
Other liabilities	**-**	(238)	(27)
Total liabilities of the disposal group	**-**	(5,996)	(3,369)
Total net assets of the disposal group	**-**	153	40

1. At H1 15, Legal & General International (Ireland) Limited, Commercial International Life Insurance Company SAE, Legal & General Gulf BSC, and Legal & General Holdings (France) S.A. were classified as held for sale.
2. At FY 15, Suffolk Life Group Limited was classified as held for sale.

2.13 Financial investments and investment property

	30.06.16 £m	30.06.15 £m	Full year 31.12.15 £m
Equities	**176,194**	161,507	166,892
Unit trusts	**6,594**	7,303	6,021
Debt securities[1]	**197,008**	170,910	169,720
Accrued interest	**1,395**	1,393	1,456
Derivative assets[2]	**15,424**	9,625	9,509
Loans and receivables	**508**	421	465
Financial investments	**397,123**	351,159	354,063
Investment property[3]	**8,227**	8,779	8,082
Total financial investments and investment property	**405,350**	359,938	362,145

1. 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 £9,543m (H1 15: £5,819m; FY 15: £5,795m) held on behalf of unit linked policyholders.
3. Detailed analysis of investment property which shareholders are directly exposed to is disclosed in Note 4.07.

(a) Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the group's view of market assumptions in the absence of observable market information. The group utilises techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

The levels of fair value measurement bases are defined as follows:
Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: fair values measured using valuation techniques for all inputs significant to the measurement other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs).

All of the group's level 2 assets have been valued using standard market pricing sources, such as iBoxx, IDC and Bloomberg, which use mathematical modelling and multiple source validation in order to determine "consensus" prices, except for bespoke CDO and swaps holdings (see below). In normal market conditions, we would consider these market prices to be observable market prices. Following consultation with our pricing providers and a number of their contributing brokers, we have considered that these prices are not from a suitably active market and have classified them as level 2.

CDOs are valued using an external valuation based on observable market inputs, which include CDX and iTraxx index tranches and CDS spreads on underlying reference entities. This valuation is then validated against the internal valuation. Accordingly, these assets have also been classified in level 2.

There have been no significant transfers between level 1 and level 2 for the period ended 30 June 2016 (30 June 2015: £nil; 31 December 2015: £nil).

The table on the following page presents the group's assets by IFRS 13 hierarchy levels:

2.13 Financial investments and investment property (continued)
(a) Fair value hierarchy (continued)

For the six months ended 30 June 2016	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	**2,331**	**2,025**	**-**	**306**
Debt securities	**4,789**	**2,071**	**2,361**	**357**
Accrued interest	**33**	**15**	**15**	**3**
Derivative assets	**62**	**6**	**56**	**-**
Investment property	**200**	**-**	**-**	**200**
Non profit non-unit linked				
Equity securities	**56**	**52**	**4**	**-**
Debt securities	**47,436**	**6,998**	**36,995**	**3,443**
Accrued interest	**496**	**38**	**453**	**5**
Derivative assets	**5,661**	**325**	**5,326**	**10**
Investment property	**2,257**	**-**	**-**	**2,257**
With-profits				
Equity securities	**3,607**	**3,382**	**1**	**224**
Debt securities	**7,054**	**3,660**	**3,384**	**10**
Accrued interest	**69**	**29**	**40**	**-**
Derivative assets	**158**	**40**	**118**	**-**
Investment property	**920**	**-**	**-**	**920**
Unit linked				
Equity securities	**176,794**	**173,351**	**3,062**	**381**
Debt securities	**137,729**	**96,007**	**41,722**	**-**
Accrued interest	**797**	**291**	**506**	**-**
Derivative assets	**9,543**	**225**	**9,318**	**-**
Investment property	**4,850**	**-**	**-**	**4,850**
Total financial investments and investment property at fair value[1]	**404,842**	**288,515**	**103,361**	**12,966**

1. This table excludes loans and receivables of £508m, which are held at amortised cost.

2.13 Financial investments and investment property (continued)
(a) Fair value hierarchy (continued)

For the six months ended 30 June 2015	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	1,932	1,681	-	251
Debt securities	4,570	1,861	2,445	264
Accrued interest	30	11	15	4
Derivative assets	87	81	6	-
Investment property	183	-	-	183
Non profit non-unit linked				
Equity securities	307	296	11	-
Debt securities	38,851	5,845	32,155	851
Accrued interest	445	32	407	6
Derivative assets	3,664	264	3,400	-
Investment property	2,037	-	-	2,037
With-profits				
Equity securities	3,596	3,084	2	510
Debt securities	6,886	3,265	3,604	17
Accrued interest	79	35	44	-
Derivative assets	55	37	18	-
Investment property	1,057	-	-	1,057
Unit linked				
Equity securities	162,975	159,401	3,331	243
Debt securities	120,603	79,895	40,701	7
Accrued interest	839	295	544	-
Derivative assets	5,819	960	4,859	-
Investment property	5,502	-	-	5,502
Total financial investments and investment property at fair value[1]	359,517	257,043	91,542	10,932

1. This table excludes loans and receivables of £421m, which are held at amortised cost.

2.13 Financial investments and investment property (continued)
(a) Fair value hierarchy (continued)

For the year ended 31 December 2015	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	1,923	1,663	-	260
Debt securities	4,516	1,966	2,188	362
Accrued interest	32	16	14	2
Derivative assets	36	13	23	-
Investment property	190	-	-	190
Non profit non-unit linked				
Equity securities	149	138	11	-
Debt securities	38,888	5,174	32,646	1,068
Accrued interest	465	34	426	5
Derivative assets	3,640	74	3,566	-
Investment property	2,157	-	-	2,157
With-profits				
Equity securities	3,365	3,002	6	357
Debt securities	6,385	3,029	3,343	13
Accrued interest	69	24	45	-
Derivative assets	38	11	27	-
Investment property	930	-	-	930
Unit linked				
Equity securities	167,476	164,118	3,112	246
Debt securities	119,931	82,388	37,537	6
Accrued interest	890	310	580	-
Derivative assets	5,795	332	5,463	-
Investment property	4,805	-	-	4,805
Total financial investments and investment property at fair value[1]	361,680	262,292	88,987	10,401

1. This table excludes loans and receivables of £465m, which are held at amortised cost.

2.13 Financial investments and investment property (continued)
(b) Assets measured at fair value based on level 3

Level 3 assets where internal models are used, represent a small proportion of assets to which shareholders are exposed. These comprise property, unquoted equities, untraded debt securities and securities where the broker methodology is unknown. Unquoted equities include suspended securities and investments in private equity and property vehicles. Untraded debt securities include private placements, commercial real estate loans and lifetime mortgages.

In many situations, inputs used to measure the fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, the group determines the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. As a result, both observable and unobservable inputs may be used in the determination of fair values that the group has classified within level 3.

The group determines the fair values of certain financial assets and liabilities based on quoted market prices, where available. The group also determines fair value based on estimated future cash flows discounted at the appropriate current market rate. As appropriate, fair values reflect adjustments for counterparty credit quality, the group's credit standing, liquidity and risk margins on unobservable inputs.

Where quoted market prices are not available, fair value estimates are made at a point in time, based on relevant market data, as well as the best information about the individual financial instrument. Illiquid market conditions have resulted in inactive markets for certain of the group's financial instruments. As a result, there is generally no or limited observable market data for these assets and liabilities. Fair value estimates for financial instruments deemed to be in an illiquid market are based on judgments regarding current economic conditions, liquidity discounts, currency, credit and interest rate risks, loss experience and other factors. These fair values are estimates and involve considerable uncertainty and variability as a result of the inputs selected and may differ significantly from the values that would have been used had a ready market existed, and the differences could be material. As a result, such calculated fair value estimates may not be realisable in an immediate sale or settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique could significantly affect these fair value estimates.

Fair values are subject to a control framework designed to ensure that input variables and outputs are assessed independent of the risk taker. These inputs and outputs are reviewed and approved by a valuation committee and validated independently as appropriate.

The group’s policy is to re-assess categorisation of financial assets at the end of each reporting period and to recognise transfers between levels at that point in time.

2.13 Financial investments and investment property (continued)
(b) Assets measured at fair value based on level 3 (continued)

	Equity securities 30.06.16 £m	Other financial invest-ments[1] 30.06.16 £m	Investment property 30.06.16 £m	Total 30.06.16 £m	Equity securities 30.06.15 £m	Other financial invest-ments[1] 30.06.15 £m	Investment property 30.06.15 £m	Total 30.06.15 £m
As at 1 January	**863**	**1,456**	**8,082**	**10,401**	1,142	1,243	8,152	10,537
Total gains or (losses) for the period recognised in profit:								
- in other comprehensive income	**-**	**15**	**-**	**15**	-	-	-	-
- realised and unrealised gains or (losses)[2]	**9**	**269**	**(51)**	**227**	97	(21)	226	302
Purchases / Additions	**260**	**586**	**283**	**1,129**	26	164	512	702
Improvements	**-**	**-**	**-**	**-**	-	-	63	63
Sales / Disposals	**(244)**	**(112)**	**(87)**	**(443)**	(140)	(105)	(174)	(419)
Transfers into level 3[3]	**26**	**1,670**	**-**	**1,696**	12	5	-	17
Transfers out of level 3[3]	**(3)**	**(56)**	**-**	**(59)**	(126)	(144)	-	(270)
Other	**-**	**-**	**-**	**-**	(7)	7	-	-
As at 30 June	**911**	**3,828**	**8,227**	**12,966**	1,004	1,149	8,779	10,932

1. Other financial investments comprise debt securities, lifetime mortgages and derivative assets.
2. The realised and unrealised gains and losses have been recognised in investment return in the Consolidated Income Statement.
3. The group holds regular discussions with its pricing providers to determine whether transfers between levels of the fair value hierarchy have occurred. The above transfers occurred as a result of this process. In 2016, transfers into level 3 included £1,670m of commercial real estate loans, which were previously classified as level 2.

	Equity securities Full year 31.12.15 £m	Other financial invest-ments[1] Full year 31.12.15 £m	Investment property Full year 31.12.15 £m	Total Full year 31.12.15 £m
As at 1 January	1,142	1,243	8,152	10,537
Total gains or (losses) for the year recognised in profit:				
- in other comprehensive income	-	(12)	-	(12)
- realised and unrealised gains or (losses)[2]	110	(10)	486	586
Purchases / Additions	68	394	1,061	1,523
Sales / Disposals	(246)	(234)	(482)	(962)
Transfers into level 3[3]	66	76	-	142
Transfers out of level 3[3]	(260)	-	-	(260)
Transfers to held for sale[4]	(17)	(1)	(1,135)	(1,153)
As at 31 December	863	1,456	8,082	10,401

1. Other financial investments comprise debt securities, lifetime mortgages and derivative assets.
2. The realised and unrealised gains and losses have been recognised in investment return in the Consolidated Income Statement.
3. The group holds regular discussion with its pricing providers to determine whether transfers between levels of the fair value hierarchy have occurred. The above transfers occurred as result of this process.
4. The Suffolk Life Group was sold in May 2016 and therefore was classified as held for sale at 31 December 2015.

2.13 Financial investments and investment property (continued)
(c) Effect of changes in significant unobservable inputs to reasonably possible alternative assumptions on level 3 assets

Fair values of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the level 3 financial instruments carried at fair value as at the balance sheet date, the valuation basis, main assumptions used in the valuation of these instruments and reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

			Reasonably possible alternative assumptions	
For the six months ended 30 June 2016 **Financial instruments and investment property**	**Main assumptions**	**Current fair value £m**	**Increase in fair value £m**	**Decrease in fair value £m**
Assets				
Shareholder				
- Private equity investment vehicles[1]	Price earnings multiple	**16**	**1**	**(1)**
- Unquoted investments in property vehicles[2]	Property yield	**283**	**1**	**(2)**
- Asset backed securities	Cash flows; expected defaults	**2**	**-**	**-**
- Untraded and other debt securities[3]	Cash flows; expected defaults	**358**	**2**	**(2)**
- Unquoted and other securities[3]	Cash flows; expected defaults	**7**	**-**	**-**
- Investment property[2]	Property yield	**200**	**10**	**(20)**
Non profit non-linked				
- Lifetime mortgage loans	Market spreads; LTVs	**440**	**8**	**(7)**
- Untraded and other debt securities[3]	Cash flows; expected defaults	**1,197**	**-**	**-**
- Commercial real estate loans	Cash flows; expected defaults	**1,811**	**32**	**(32)**
- Investment property[2,4]	Cash flows; property yield	**2,257**	**56**	**(113)**
- Other	Cash flows	**10**	**-**	**-**
With-profits				
- Private equity investment vehicles[1]	Price earnings multiple	**17**	**-**	**-**
- Unquoted investments in property vehicles[2]	Property yield	**207**	**13**	**(25)**
- Untraded and other debt securities[3]	Cash flows; expected defaults	**10**	**-**	**-**
- Investment property[2]	Property yield	**920**	**47**	**(92)**
Unit linked				
- Private equity investment vehicles[1]	Price earnings multiple	**1**	**-**	**-**
- Unquoted investments in property vehicles[2]	Property yield	**369**	**19**	**(38)**
- Suspended securities	Estimated recoverable amount	**11**	**-**	**-**
- Investment property[2]	Property yield	**4,850**	**247**	**(485)**
Total		**12,966**	**436**	**(817)**

1. Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined using alternative price earnings multiples.
2. Unquoted investments in property vehicles and direct holdings in investment property are valued using valuations provided by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. Reasonably possible alternative valuations have been determined using alternative yields.
3. No reasonably possible increases or decreases in fair values have been given for securities where the broker methodology is unknown.
4. The sensitivity of the non profit non-linked property to reasonably possible alternative assumptions is primarily driven by the vacant property value at the end of the lease, which represents only a partial component of the overall valuation calculation. The properties are primarily let to investment grade tenants on long-term leases and as a consequence of this, the cash flows received from these leases are deemed less sensitive to market fluctuation by the group.

2.13 Financial investments and investment property (continued)
(c) Effect of changes in significant unobservable inputs to reasonably possible alternative assumptions on level 3 assets (continued)

For the six months ended 30 June 2015 Financial instruments and investment property	Main assumptions	Current fair value £m	Reasonably possible alternative assumptions Increase in fair value £m	 Decrease in fair value £m
Assets				
Shareholder				
- Private equity investment vehicles[1]	Price earnings multiple	15	1	(1)
- Unquoted investments in property vehicles[2]	Property yield	137	7	(7)
- Untraded and other debt securities[3]	Cash flows; expected defaults	268	13	(13)
- Unquoted and other securities[3]	Cash flows; expected defaults	99	3	(3)
- Investment property[2]	Property yield	183	9	(9)
Non profit non-linked				
- Asset backed securities	Cash flows; expected defaults	725	36	(36)
- Untraded and other debt securities[3]	Cash flows; expected defaults	3	-	-
- Unquoted and other securities[3]	Cash flows; expected defaults	129	6	(6)
- Investment property[2]	Property yield	2,037	102	(102)
With-profits				
- Private equity investment vehicles[1]	Price earnings multiple	140	8	(8)
- Asset backed securities	Cash flows; expected defaults	5	-	-
- Unquoted and other securities[3]	Cash flows; expected defaults	379	19	(19)
- Other		3	-	-
- Investment property[2]	Property yield	1,057	53	(53)
Unit linked				
- Unquoted investments in property vehicles[2]	Property yield	37	2	(2)
- Suspended securities	Estimated recoverable amount	11	1	(1)
- Asset backed securities	Cash flows; expected defaults	4	-	-
- Untraded and other debt securities[3]	Cash flows; expected defaults	2	-	-
- Unquoted and other securities[3]	Cash flows; expected defaults	196	22	(22)
- Investment property[2]	Property yield	5,502	276	(276)
Total		10,932	558	(558)

1. Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined using alternative price earnings multiples.
2. Unquoted investments in property vehicles and direct holdings in investment property are valued using valuations provided by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. Reasonably possible alternative valuations have been determined using alternative yields.
3. No reasonably possible increases or decreases in fair values have been given for securities where the broker methodology is unknown.

2.13 Financial investments and investment property (continued)
(c) Effect of changes in significant unobservable inputs to reasonably possible alternative assumptions on level 3 assets (continued)

For the year ended 31 December 2015 Financial instruments and investment property	Main assumptions	Current fair value £m	Reasonably possible alternative assumptions Increase in fair value £m	Reasonably possible alternative assumptions Decrease in fair value £m
Assets				
Shareholder				
Private equity investment vehicles[1]	Price earnings multiple	9	1	(1)
Unquoted investments in property vehicles[2]	Property yield	244	11	(11)
Untraded and other debt securities[3]	Cash flows; expected defaults	364	1	(1)
Unquoted and other securities[3]	Cash flows; expected defaults	7	-	-
Investment property[2]	Property yield	190	9	(9)
Non profit non-linked				
Lifetime mortgage loans	Market spreads; LTVs	206	5	(7)
Untraded and other debt securities[3]	Cash flows; expected defaults	867	-	-
Investment property[2]	Property yield	2,157	110	(110)
With-profits				
Private equity investment vehicles[1]	Price earnings multiple	11	1	(1)
Unquoted investments in property vehicles[2]	Property yield	346	21	(21)
Untraded and other debt securities[3]	Cash flows; expected defaults	13	-	-
Investment property[2]	Property yield	930	47	(47)
Unit linked				
Private equity investment vehicles[1]	Price earnings multiple	8	-	-
Unquoted investments in property vehicles[2]	Property yield	133	8	(8)
Untraded and other debt securities[3]	Cash flows; expected defaults	6	-	-
Unquoted and other securities[3]	Cash flows; expected defaults	105	5	(5)
Investment property[2]	Property yield	4,805	243	(243)
Total		10,401	462	(464)

1. Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined using alternative price earnings multiples.
2. Unquoted investments in property vehicles and direct holdings in investment property are valued using valuations provided by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. Reasonably possible alternative valuations have been determined using alternative yields.
3. No reasonably possible increases or decreases in fair values have been given for securities where the broker methodology is unknown.

2.14 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:

	30.06.16 £m	30.06.15 £m	Full year 31.12.15 £m
Profit before tax attributable to equity holders	**826**	672	1,355
Tax calculated at 20.00% (H1 15: 20.25%; FY 15: 20.25%)	**165**	136	274
Effects of:			
Adjustments in respect of prior years	**-**	-	(5)
Income not subject to tax, such as dividends	**(5)**	(3)	(11)
Higher rate of tax on profits taxed overseas	**4**	10	16
Additional allowances/non-deductible expenses	**2**	(4)	(4)
Impact of reduction in UK corporate tax rate to 18% from 2020 on deferred tax balances[1]	**(2)**	-	1
Differences between taxable and accounting investment gains	**(5)**	(11)	(10)
Other	**-**	(3)	-
Tax attributable to equity holders	**159**	125	261
Equity holders' effective tax rate[2]	**19.2%**	18.6%	19.3%

1. The impact of future corporation tax reductions announced in March 2016 has not been included in the Half Year 2016 results. The impact will be included in the FY 16 results when permitted under IAS 12.
2. Equity holders' effective tax rate is calculated by dividing the tax attributable to equity holders over profit before tax attributable to equity holders. Please refer to note 2.08 for detail on the methodology of the split of policyholder and equity holders' tax.

2.14 Tax (continued)
(b) Deferred Tax

(i) UK deferred tax (liabilities)/assets	**30.06.16 £m**	30.06.15 £m	Full year 31.12.15 £m
Realised and unrealised gains on investments	**(172)**	(256)	(146)
Excess of depreciation over capital allowances	**14**	17	18
Management expenses	**62**	89	74
Deferred acquisition expenses	**(48)**	(56)	(51)
Difference between the tax and accounting value of insurance contracts	**(125)**	(126)	(83)
Accounting provisions	**4**	16	8
Trading losses	**7**	10	6
Pension fund deficit	**71**	85	72
Purchased interest in long term business	**(14)**	(23)	(15)
Net UK deferred tax liabilities	**(201)**	(244)	(117)
Presented on the Consolidated Balance Sheet as:			
UK deferred tax asset	**5**	33	20
UK deferred tax liability	**(206)**	(277)	(137)
Net UK deferred liabilities[1]	**(201)**	(244)	(117)
(ii) Overseas deferred tax (liabilities)/assets			
Realised and unrealised gains on investments	**(38)**	(32)	(8)
Deferred acquisition expenses	**(344)**	(284)	(308)
Difference between the tax and accounting value of insurance contracts	**(180)**	(234)	(241)
Accounting provisions	**(33)**	(19)	(27)
Trading losses	**81**	164	159
Pension fund deficit	**-**	2	-
Purchased interest in long term business	**(11)**	(11)	(11)
Excess of depreciation over capital allowances	**2**	-	-
Net Overseas deferred tax liabilities	**(523)**	(414)	(436)

1. On the Consolidated Balance Sheet the net UK deferred tax liability has been split between an asset of £5m and a liability of £206m where the relevant items cannot be offset.

2.15 Payables and other financial liabilities

	30.06.16 £m	30.06.15 £m	Full year 31.12.15 £m
Derivative liabilities	**15,473**	5,806	8,047
Repurchase agreements[1]	**17,295**	9,532	13,343
Other[2]	**3,988**	3,111	1,319
Payables and other financial liabilities	**36,756**	18,449	22,709

1. The repurchase agreements are presented gross, however they and their related assets are subject to master netting arrangements.
2. Other financial liabilities include net variation margins on derivative contracts, which are maintained daily. Included within the variation margins are collateral held and pledged of £8m and £979m respectively (H1 15: £384m and £20m; FY 15: £94m and £50m). Other also includes the present value of future commission costs which have contingent settlement provisions of £175m (H1 15: £182m; FY 15: £175m).

Fair value hierarchy

As at 30 June 2016	**Total £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Amortised cost £m**
Derivative liabilities	**15,473**	**5,519**	**9,954**	**-**	**-**
Repurchase agreements	**17,295**	**-**	**-**	**-**	**17,295**
Other	**3,988**	**522**	**14**	**174**	**3,278**
Payables and other financial liabilities	**36,756**	**6,041**	**9,968**	**174**	**20,573**

As at 30 June 2015	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	5,806	843	4,963	-	-
Repurchase agreements	9,532	-	-	-	9,532
Other	3,111	260	14	184	2,653
Payables and other financial liabilities	18,449	1,103	4,977	184	12,185

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

Future commission costs are modelled using expected cash flows, incorporating expected future persistency. They have therefore been classified as level 3 liabilities. The entire movement in the balance has been reflected in the Consolidated Income Statement during the period. A reasonably possible alternative persistency assumption would have the effect of increasing/decreasing the liability by £4m (H1 15: £6m; FY 15: £6m).

Significant transfers between levels

There have been no significant transfers between levels 1, 2 and 3 for the period ended 30 June 2016 (H1 15 and FY 15: No significant transfers between levels 1, 2 and 3).

2.16 Dividends

	Dividend 30.06.16 £m	**Per share[1] 30.06.16 p**	Dividend[1] 30.06.15 £m	Per share[1] 30.06.15 p	Dividend 31.12.15 £m	Per share[1] 31.12.15 p
Ordinary share dividends paid in the period:						
- Prior year final dividend	**592**	**9.95**	496	8.35	496	8.35
- Current year interim dividend	**-**	**-**	-	-	205	3.45
	592	**9.95**	496	8.35	701	11.80
Ordinary share dividend proposed[2]	**238**	**4.00**	205	3.45	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 on the Consolidated Balance Sheet.

2.17 Share capital

	Number of shares 30.06.16	Number of shares 30.06.15	Number of shares Full year 31.12.15
As at 1 January	**5,948,788,480**	5,942,070,229	5,942,070,229
Options exercised under share option schemes:			
- Savings related share option scheme	**3,465,839**	3,704,493	6,718,251
As at 30 June / 31 December	**5,952,254,319**	5,945,774,722	5,948,788,480

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.

2.18 Core Borrowings

	Carrying amount 30.06.16 £m	Fair value 30.06.16 £m	Carrying amount 30.06.15 £m	Fair value 30.06.15 £m	Carrying amount Full year 31.12.15 £m	Fair value Full year 31.12.15 £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities (Tier 1)	**626**	**615**	647	634	637	631
5.875% Sterling undated subordinated notes (Tier 2)	**412**	**412**	414	423	413	426
10% Sterling subordinated notes 2041 (Tier 2)	**310**	**392**	310	394	310	398
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**534**	588	622	589	570
5.375% Sterling subordinated notes 2045 (Tier 2)	**602**	**607**	-	-	602	611
Client fund holdings of group debt[1]	**(33)**	**(32)**	(28)	(29)	(26)	(27)
Total subordinated borrowings	**2,506**	**2,528**	1,931	2,044	2,525	2,609
Senior borrowings						
Sterling medium term notes 2031-2041	**602**	**801**	602	762	609	779
Client fund holdings of group debt[1]	**(44)**	**(58)**	(43)	(55)	(42)	(54)
Total senior borrowings	**558**	**743**	559	707	567	725
Total core borrowings	**3,064**	**3,271**	2,490	2,751	3,092	3,334

1. £77m (H1 15: £71m; FY15: £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.

2.19 Operational borrowings

	Carrying amount 30.06.16 £m	**Fair value 30.06.16 £m**	Carrying amount 30.06.15 £m	Fair value 30.06.15 £m	Carrying amount Full year 31.12.2015 £m	Fair value Full year 31.12.2015 £m
Short term operational borrowings						
Euro Commercial paper	**103**	**103**	41	41	15	15
Bank loans and overdrafts	**69**	**69**	7	7	2	2
Total short term operational borrowings	**172**	**172**	48	48	17	17
Non recourse borrowings						
US Dollar Triple X securitisation 2037	**-**	**-**	283	239	302	258
Suffolk Life unit linked borrowings[1]	**-**	**-**	99	99	-	-
LGV 6/LGV 7 Private Equity Fund Limited Partnership	**42**	**42**	123	123	98	98
Consolidated Property Limited Partnerships	**197**	**197**	153	153	184	184
Total non recourse borrowings	**239**	**239**	658	614	584	540
Group holding of operational borrowings[2]	**-**	**-**	(61)	(51)	(65)	(56)
Total operational borrowings	**411**	**411**	645	611	536	501

1. On 25 May 2016, the group sold Suffolk Life Group Limited to Curtis Banks Group. At FY 15, 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 short term Euro Commercial paper, bank loans and overdrafts of £172m (H1 15: £48m; FY 15: £17m).

Non recourse borrowings

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

Suffolk Life unit linked borrowings
All of these non recourse borrowings were in relation to commercial properties held within SIPP plans and the borrowings solely related to client investments. On 25 May 2016, the group sold Suffolk Life Group (SLG) to Curtis Banks Group plc.

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

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

Syndicated credit facility

As at 30 June 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 2020. No drawings were made under this facility year to date.

2.20 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 Legal & General UK Property Ungeared Fund Limited Partnership and Thorpe Park Developments Limited.

2.21 Foreign exchange rates

Principal rates of exchange used for translation are:

Period end exchange rates	**At 30.06.16**	At 30.06.15	At 31.12.15
United States Dollar	**1.34**	1.57	1.47
Euro	**1.20**	1.41	1.36

Average exchange rates	**01.01.16 - 30.06.16**	01.01.15 - 30.06.15	01.01.15 - 31.12.15
United States Dollar	**1.43**	1.52	1.53
Euro	**1.28**	1.37	1.38

2.22 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 £34m (H1 15: £54m; FY 15: £93m) for all employees.

At 30 June 2016, 30 June 2015 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:

	30.06.16 £m	30.06.15 £m	31.12.15 £m
Salaries	**2**	3	10
Social security costs	**1**	2	2
Post-employment benefits	**-**	1	1
Share-based incentive awards	**2**	2	5
Key management personnel compensation	**5**	8	18
Number of key management personnel	**16**	16	16

The group has the following related party transactions:

- Annuity contracts issued by Society for consideration of £4m (H1 15: £28m; FY 15: £105m) purchased by the group's UK defined benefit pension schemes during the period, priced on an arm's length basis;
- Investments in venture capital, property and financial investments held via collective investment vehicles.The net investments into associate investment vehicles totalled £27m during the period (H1 15: £7m; FY 15: £nil). The group received investment management fees of £1m during the period (H1 15: £1m; FY 15: £2m). Distributions from these investment vehicles to the group totalled £6m (H1 15: £7m; FY 15: £10m);
- Loans outstanding from CALA at 30 June 2016 total £63m (H1 15: £57m; FY 15: £59m);
- Further conditional commitments of £4m (H1 15: £9m; FY 15: £8m) in the equity stake in Pemberton of £12.0m (H1 15: £5.8m; FY 15: £7.0m). A commitment of £198m (H1 15: £177m; FY 15: £182m) was previously made to Pemberton's first co-mingled funds, 75% of which was drawn as at 30 June 2016;
- A 50/50 joint venture in MediaCity in the form of £61m (H1 15: £61m; FY 15: £61m) equity and £55m (H1 15: £55m; FY 15: £55m) loan notes. The loans outstanding from MediaCity total £55m as at 30 June 2016 (H1 15: £55m; FY 15: £55m);
- An 18% equity stake in NTR Wind Management Limited, an asset management company set up to manage wind farms entered into in December 2015, of £2m. The equity stake was increased to 25% and further investment of £1m was made during the year, with a commitment of a further £1.8m. The fund reached final close at its hard cap of £195m (€246m) in February 2016 and L&G Capital has committed 47.5% of the funds;
- A 50/50 joint venture in Access Development Partnership entered into in March 2016 for £23m equity for build-to-rent developments in Walthamstow, Salford and Bristol.

2.23 Pension costs

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 30 June 2016, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Society) has been estimated at £306m (H1 15: £351m; FY 15: £308m). These amounts have been recognised in the financial statements with £193m charged against shareholder equity (H1 15: £221m; FY 15: £194m) and £113m against the unallocated divisible surplus (H1 15: £130m; FY 15: £114m).

2.24 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. Legal & General (Portfolio Management Services) Limited (PMS) is currently co-operating with an investigation by FCA into Structured Deposits products issued by PMS between 2006 and 2014. PMS has responded to FCA’s requests for information and awaits FCA’s feedback. This matter is at an early stage and the probability, timing and amount of any outflows is uncertain. As matters progress, management and legal advisers will evaluate on an ongoing basis whether a provision should be recognised.

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.

Independent review report to Legal & General Group Plc

Report on the consolidated interim financial statements

Our conclusion

We have reviewed Legal & General Group Plc's consolidated interim financial statements (the "interim financial statements") in the Interim Management Statement of Legal & General Group Plc for the 6 month period ended 30 June 2016. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Consolidated Balance Sheet as at 30 June 2016;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the period then ended;
- the Consolidated Cash Flow Statement for the period then ended;
- the Condensed Consolidated Statement of Changes in Equity for the period then ended; and
- the explanatory notes to the interim financial statements (pages 27 to 60).

The interim financial statements included in the Interim Management Statement have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2.08 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the consolidated interim financial statements and the review

Our responsibilities and those of the directors

The Interim Management Statement, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Management Statement in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Management Statement based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim Management Statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
8 August 2016

a) The maintenance and integrity of the Legal & General Group Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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Asset and premium flows

3.01 Legal & General investment management total assets

For the six months ended 30 June 2016	Index £bn	Active fixed income £bn	Solutions[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	17.6	3.5	6.6	0.8	-	28.5		28.5
External outflows	(16.0)	(2.2)	(6.6)	(0.7)	(0.1)	(25.6)		(25.6)
Overlay/advisory net flows	-	-	6.7	-	-	6.7	(0.3)	6.4
External net flows[2]	**1.6**	**1.3**	**6.7**	**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	**1.2**	**2.0**	**6.6**	**0.2**	**(0.1)**	**9.9**	**(0.3)**	**9.6**
Cash management movements[3]	-	(0.6)	-	-	-	(0.6)	-	(0.6)
Market and other movements[2]	24.9	17.6	44.3	(0.1)	(0.6)	86.1	1.4	87.5
At 30 June 2016[4]	**300.4**	**125.8**	**389.1**	**18.4**	**7.8**	**841.5**	**11.6**	**853.1**
Assets attributable to:								
External						**749.8**	**11.6**	**761.4**
Internal						**91.7**	**-**	**91.7**
Assets attributable to:								
UK						**689.6**	-	**689.6**
International						**151.9**	**11.6**	**163.5**

For the six months ended 30 June 2015	Index £bn	Active fixed income £bn	Solutions[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	15.9	4.8	3.9	0.7	-	25.3		25.3
External outflows	(17.1)	(2.5)	(3.4)	(0.3)	-	(23.3)		(23.3)
Overlay/advisory net flows	-	-	11.8	-	-	11.8	(3.5)	8.3
External net flows[2]	**(1.2)**	**2.3**	**12.3**	**0.4**	**-**	**13.8**	**(3.5)**	**10.3**
Internal net flows	(0.3)	(0.8)	-	0.4	(0.3)	(1.0)	-	(1.0)
Total net flows	**(1.5)**	**1.5**	**12.3**	**0.8**	**(0.3)**	**12.8**	**(3.5)**	**9.3**
Cash management movements[3]	-	1.7	-	-	-	1.7	-	1.7
Market and other movements[2]	1.4	0.3	2.6	1.4	0.7	6.4	-	6.4
At 30 June 2015[4]	**274.7**	**106.4**	**308.2**	**16.7**	**8.6**	**714.6**	**11.3**	**725.9**
Assets attributable to:								
External						**624.8**	**11.3**	**636.1**
Internal						**89.8**	**-**	**89.8**
Assets attributable to:								
UK						**598.8**	**-**	**598.8**
International						**115.8**	**11.3**	**127.1**

1. Solutions include liability driven investments, multi-asset funds, and include £244.0bn at 30 June 2016 (30 June 2015: £208.1bn) 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 30 June 2016 was £71.0bn (30 June 2015: £48.2bn) 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. Total assets under management have been reconciled to the financial investments and investment property held on the Consolidated Balance Sheet in note 3.04.

3.01 Legal & General investment management total assets (continued)

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]	33.4	11.1	16.3	1.4	-	62.2		62.2
External outflows	(30.9)	(4.3)	(6.6)	(0.9)	-	(42.7)		(42.7)
Overlay/advisory net flows	-	-	18.2	-	-	18.2	(4.6)	13.6
External net flows[3]	**2.5**	**6.8**	**27.9**	**0.5**	**-**	**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	**1.8**	**2.6**	**27.9**	**1.4**	**(0.4)**	**33.3**	**(4.6)**	**28.7**
Cash management movements[5]	-	0.8	-	-	-	0.8	-	0.8
Market and other movements[3]	(2.3)	0.5	17.0	2.4	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 £226.2bn at 31 December 2015 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 held on the Consolidated Balance Sheet in note 3.04.

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	15.9	4.8	3.9	0.7	-	25.3		25.3
External outflows	(17.1)	(2.5)	(3.4)	(0.3)	-	(23.3)		(23.3)
Overlay/advisory net flows	-	-	11.8	-	-	11.8	(3.5)	8.3
External net flows[3]	**(1.2)**	**2.3**	**12.3**	**0.4**	**-**	**13.8**	**(3.5)**	**10.3**
Internal net flows	(0.3)	(0.8)	-	0.4	(0.3)	(1.0)	-	(1.0)
Total net flows	**(1.5)**	**1.5**	**12.3**	**0.8**	**(0.3)**	**12.8**	**(3.5)**	**9.3**
Cash management movements[5]	-	1.7	-	-	-	1.7	-	1.7
Market and other movements[3]	1.4	0.3	2.6	1.4	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[2]	17.5	6.3	12.4	0.7	-	36.9		36.9
External outflows	(13.8)	(1.8)	(3.2)	(0.6)	-	(19.4)		(19.4)
Overlay/advisory net flows	-	-	6.4	-	-	6.4	(1.1)	5.3
External net flows[3]	**3.7**	**4.5**	**15.6**	**0.1**	**-**	**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	**3.3**	**1.1**	**15.6**	**0.6**	**(0.1)**	**20.5**	**(1.1)**	**19.4**
Cash management movements[5]	-	(0.9)	-	-	-	(0.9)	-	(0.9)
Market and other movements[3]	(3.7)	0.2	14.4	1.0	-	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.

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

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

1. Total assets at 30 June 2016 include £11.6bn of advisory assets (30 June 2015: £11.3bn; 31 December 2015: £10.5bn).

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

	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]	**9.6**	23.9	13.8
Attributable to:			
International	**6.7**	4.1	5.4
UK Institutional			
- Defined contribution	**0.8**	1.9	1.0
- Defined benefit[2]	**1.4**	17.0	7.1
UK Retail	**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. External inflows in the 6 months to 31 December 2015 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 30.06.16 £bn	As at 31.12.15 £bn	As at 30.06.15 £bn
Assets under management	**841.5**	746.1	714.6
Derivative notionals	**(244.0)**	(226.2)	(208.1)
Third party assets	**(202.3)**	(157.9)	(147.6)
Derivative liabilities	**15.4**	8.0	5.8
Other[1]	**(5.2)**	(7.9)	(4.8)
Total group financial investments and investment property	**405.4**	362.1	359.9

1. Other includes assets that are managed by third parties on behalf of the group, cash and broker balances.

Asset and premium flows

3.05 Assets under administration

For the six months ended 30 June 2016	Platforms[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]	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**

For the six months ended 30 June 2015	Platforms[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
As 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	1.0
Gross outflows	(2.7)	(0.3)	(2.2)	0.4	(4.8)	(0.2)	(0.3)	(3.0)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(1.1)
Net flows	**1.1**	**0.3**	**(1.5)**	**0.2**	**0.1**	**-**	**0.9**	**-**	**(0.1)**
Market and other movements	1.6	0.3	0.3	(0.2)	2.0	(0.2)	1.1	1.2	(0.7)
At 30 June 2015	**74.6**	**8.3**	**34.8**	**(6.9)**	**110.8**	**4.2**	**13.1**	**22.5**	**43.4**

For the year ended 31 December 2015	Platforms[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. 30 June 2016 Platforms comprise £77.5bn of which £37.2bn is retail assets (30 June 2015: £37.9bn; 31 December 2015: £37.5bn) and £40.3bn (30 June 2015: £36.7bn; 31 December 2015: £39.4bn) of assets held on behalf of institutional clients.
2. Platforms AUA comprise ISAs: £20.1bn (30 June 2015: £20.0bn; 31 December 2015: £19.9bn); onshore bonds £2.8bn (30 June 2015: £3.2bn; 31 December 2015: £3.0bn); offshore bonds £0.1bn (30 June 2015: £0.1bn; 31 December 2015: £0.1bn); platform SIPPs £3.6bn (30 June 2015: £3.4bn; 31 December 2015: £3.5bn) and non-wrapped funds £49.5bn (30 June 2015: £46.7bn; 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 £1.8bn (30 June 2015: £1.8bn; 31 December 2015: £2.0bn) of LGIM unit trust assets held on our Cofunds platform and £3.4bn (30 June 2015: £3.3bn; 31 December 2015: £3.2bn) of LGIM unit trust assets held on our 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

For the year ended 31 December 2015	Platforms[2] £bn	Suffolk Life £bn	Mature Retail Savings[3] £bn	Consol-idation adjust-ment[4] £bn	Total Savings £bn	France and Nether-lands £bn	LGIM Work-place £bn	LGIM Retail Invest-ments[6] £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[5]	-	-	(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. At 31 December 2015 Platforms comprised £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. At 31 December 2015 Platforms AUA comprise ISAs: £19.9bn (30 June 2015: £20.0bn); onshore bonds £3.0bn (30 June 2015: £3.2bn); offshore bonds £0.1bn (30 June 2015: £0.1bn); platform SIPPs £3.5bn (30 June 2015: £3.4bn) and non-wrapped funds £50.4bn (30 June 2015: £46.7bn).
3. Mature Retail Savings products include with-profits products, bonds and retail pensions.
4. Consolidation adjustment represents Suffolk Life and Retail Savings assets included in the Platforms column.
5. £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.
6. At 31 December 2015 Retail Investments included £2.0bn (30 June 2015: £1.8bn) of LGIM unit trust assets held on our Cofunds platform and £3.2bn (30 June 2015: £3.3bn) of LGIM unit trust assets held on our IPS platform.

Asset and premium flows

3.07 LGR new business

	6 months to 30.06.16 £m	6 months to 31.12.15 £m	6 months to 30.06.15 £m
Bulk Purchase Annuities			
- UK	**3,585**	831	1,146
- USA	**45**	295	-
- Netherlands	**-**	145	-
Individual Annuities	**158**	147	180
Lifetime Mortgage Advances[1]	**231**	164	37
Total LGR new business	**4,019**	1,582	1,363

1. In H1 15, £12m of these advances were funded by L&G prior to the group's acquisition of New Life Home Finance Ltd.

3.08 Insurance new business annual premiums

	6 months to 30.06.16 £m	6 months to 31.12.15 £m	6 months to 30.06.15 £m
UK Retail Protection	**82**	83	79
UK Group Protection	**36**	29	40
France Protection[1]	**-**	-	30
Netherlands Protection	**2**	2	3
US Protection	**28**	29	41
Total Insurance new business	**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 30.06.16 £m	6 months to 31.12.15 £m	6 months to 30.06.15 £m
UK Retail Protection	**582**	567	545
UK Group Protection	**233**	101	229
General Insurance	**156**	173	164
France Protection[1]	**-**	83	85
Netherlands Protection	**25**	22	24
US Protection	**420**	387	386
Longevity Insurance	**161**	162	164
Total gross written premiums on insurance business	**1,577**	1,495	1,597

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

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4.01 Group regulatory capital – Solvency II Directive

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

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

The table below shows the estimated Eligible Own Funds, Solvency Capital Requirement (SCR) and Surplus own funds of the group, based on the Internal Model, Matching Adjustment and Transitional Measures on Technical Provisions (TMTP), approved by the PRA in December 2015 (together with the recalculation of TMTP approved by the PRA in July 2016).

(a) Capital position

As at 30 June 2016, the group had a Solvency II surplus of £5.3bn (FY 15: £5.5bn) over its Solvency Capital Requirement, corresponding to a coverage ratio of 158% (FY 15: 169%). The pro-forma Solvency II capital position is as follows:

	30.06.16 £bn	31.12.15 £bn
Core tier 1 own funds	**11.6**	11.3
Tier 1 subordinated liabilities	**0.6**	0.6
Tier 2 subordinated liabilities	**2.2**	2.0
Eligibility restrictions	**(0.1)**	(0.4)
Eligible Own Funds[1]	**14.3**	13.5
Solvency Capital Requirement (SCR)	**9.0**	8.0
Surplus	**5.3**	5.5
SCR coverage ratio[2]	**158%**	169%

1. Eligible Own Funds do not include an accrual for the dividend of £238m (FY 15: £592m) declared after the balance sheet date.
2. Coverage ratio is calculated on unrounded values.

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

(b) Methodology

Eligible 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. Eligible 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, and include recognition of the benefit relating to the TMTP for firms moving from the Solvency I to the Solvency II regime. The TMTP has been calculated on a basis approved by the PRA which seeks to encapsulate the difference between the total Financial Resources Requirement under the previous Solvency I regime and the new Solvency II regime.

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.

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 contribute over 95% of the group's SCR.

Firms for which the capital requirements are less material, for example Legal & General Netherlands, 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.

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

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 Eligible 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. At the half year, unaudited profits earned in the year to date have been included, allowing for any restrictions on fungibility or transferability, without allowing for any diversification with the rest of the group.

Allowance is made within the Solvency II Balance Sheet for the group's defined benefit pension scheme 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 broadly the same as those used to derive the group's IFRS disclosures. 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 14 basis point deduction to allow for a credit risk adjustment. For annuities that are eligible, the liability discount rate includes a Matching 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.

(d) Analysis of change

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

Analysis of movement in the period	Solvency II surplus £bn
Solvency II surplus as at 1 January 2016	**5.5**
Operating experience expected release[1]	**0.5**
Operating experience new business	**-**
Market movements	**(0.6)**
Other capital movements[2]	**0.5**
Dividends declared in the period	**(0.6)**
Solvency II surplus as at 30 June 2016	**5.3**

1. Release of surplus generated by in-force business.
2. Other capital movements comprise model and assumption changes, including changes to eligibility restrictions over the period.

4.01 Group regulatory capital – Solvency II Directive (continued)
(e) Reconciliation of IFRS shareholders' equity to Solvency II Eligible Own Funds

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

	30.06.16 £bn	31.12.15 £bn
IFRS shareholders' equity	**6.6**	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]	**8.2**	7.5
Add value of shareholder transfers	**0.2**	0.2
Difference in value of net deferred tax liabilities (resulting from valuation differences)	**(0.7)**	(0.5)
Other[3]	**(0.3)**	(0.2)
Eligibility restrictions[4]	**(0.1)**	(0.4)
Eligible Own Funds	**14.3**	13.5

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.
3. Reflects the 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.

The figures that appear in this note are all pre-accrual for the 2016 interim dividend of £238m (FY 15: 2015 final dividend of £592m).

(f) Sensitivity analysis

The following sensitivities are provided to give an indication of how the group's Solvency II surplus as at 30 June 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. Only key sensitivities have been updated for the half-year process, and only on a Solvency II basis.

	Impact on net of tax Solvency II capital surplus 30.06.16 £bn	**Impact on net of tax Solvency II coverage ratio 30.06.16 %**	Impact on net of tax Solvency II capital surplus 31.12.15 £bn	Impact on net of tax Solvency II coverage ratio 31.12.15 %
Credit spreads widen by 100bps assuming an escalating addition to ratings[1,2]	**(0.5)**	**(6)**	(0.6)	(8)
A worsening in our expectation of future default and downgrade to 115% of our assumed best estimate level[3]	**(0.6)**	**(9)**	(0.5)	(11)
15% fall in property markets	**(0.3)**	**(3)**	(0.3)	(3)
100bps increase in risk free rates	**0.7**	**14**	0.6	19
100bps fall in risk free rates	**(0.9)**	**(14)**	(0.4)	(11)

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. Downgrade 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.

The above sensitivity analysis does not reflect all management actions which could be taken to reduce the impacts. In practice, the group actively manages its asset and liability positions to respond to market movements. These results all allow (on an approximate basis) for the recalculation of TMTP as at 30 June 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.

(g) 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.

	30.06.16 %	31.12.15 %
Interest Rate	**3**	4
Equity	**9**	11
Property	**4**	5
Credit[1]	**54**	48
Currency	**1**	3
Inflation	**3**	2
Total Market Risk[2]	**74**	73
Counterparty Risk	**1**	1
Life Mortality	**-**	-
Life Longevity[3]	**12**	11
Life Lapse	**1**	1
Life Catastrophe	**2**	2
Non-life underwriting	**1**	1
Health underwriting	**-**	-
Expense	**-**	-
Total Insurance Risk	**16**	15
Operational Risk	**5**	5
Miscellaneous[4]	**4**	6
Total SCR	**100**	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 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 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.

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 30 June 2016, the group had an economic capital surplus of £8.1bn (H1 15: £6.4bn; FY 15: £7.6bn), corresponding to an economic capital coverage ratio of 235% (H1 15: 220%; FY 15: 230%). The economic capital position is as follows:

	30.06.16 £bn	30.06.15 £bn	31.12.15 £bn
Core tier 1 own funds	**11.2**	9.7	10.8
Tier 1 subordinated liabilities	**0.6**	0.7	0.7
Tier 2 subordinated liabilities	**2.2**	1.7	2.3
Eligibility restrictions	**-**	(0.3)	(0.3)
Eligible Own Funds[1]	**14.0**	11.8	13.5
Economic Capital Requirement (ECR)	**5.9**	5.4	5.9
Surplus	**8.1**	6.4	7.6
ECR coverage ratio[2]	**235%**	220%	230%

1. Eligible Own Funds do not include an accrual for the dividend of £238m (H1 15: £205m; FY 15: £592m) declared after the balance sheet date.
2. Coverage ratio is calculated on unrounded values.

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

(b) Methodology

Eligible 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.

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

Allowance is made within the Economic Capital Balance Sheet for the group's defined benefit pension scheme 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 broadly the same as those used to derive the group's IFRS disclosures. 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 14 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 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.

Analysis of movement in the period	**Economic Capital surplus £bn**
Economic solvency position as at 1 January 2016	**7.6**
Operating experience expected release[1]	**0.5**
Operating experience new business	**0.2**
Market movements	**0.1**
Other capital movements[2]	**0.3**
Dividends declared in the period	**(0.6)**
Economic solvency position as at 30 June 2016	**8.1**

1. Release of surplus generated by in-force business.
2. Other capital movements comprise model and assumption changes.

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 Eligible Own Funds on an Economic Capital basis.

	30.06.16 £bn	30.06.15 £bn	31.12.15 £bn
IFRS shareholders' equity	**6.6**	6.0	6.4
Remove DAC, goodwill and other intangible assets and liabilities	**(2.1)**	(2.0)	(2.0)
Add subordinated debt treated as economic available capital[1]	**2.5**	1.9	2.5
Insurance contract valuation differences[2]	**7.6**	6.2	7.0
Add value of shareholder transfers	**0.2**	0.3	0.2
Difference in value of net deferred tax liabilities (resulting from valuation differences)	**(0.6)**	(0.5)	(0.5)
Other	**(0.2)**	0.2	0.2
Eligibility restrictions[3]	**-**	(0.3)	(0.3)
Eligible Own Funds	**14.0**	11.8	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.

The figures that appear in this note are all pre-accrual for the 2016 interim dividend of £238m (H1 15: £205m; FY 15: £592m).

(f) 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.

	30.06.16 %	30.06.15 %	31.12.15 %
Interest Rate	**3**	6	4
Equity	**11**	14	13
Property	**6**	4	6
Credit[1]	**48**	44	48
Currency	**-**	2	-
Inflation	**4**	(1)	3
Total Market Risk[2]	**72**	69	74
Counterparty Risk	**2**	2	1
Life Mortality	**-**	-	-
Life Longevity[3]	**6**	9	4
Life Lapse	**4**	5	4
Life Catastrophe	**4**	3	4
Non-life underwriting	**1**	1	1
Health underwriting	**-**	1	-
Expense	**1**	1	1
Total Insurance Risk	**16**	20	14
Operational Risk	**7**	7	7
Miscellaneous[4]	**3**	2	4
Total Economic Capital Requirement	**100**	100	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.

4.02 Group Economic Capital (continued)
(g) 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 Transitional Measures on Technical Provisions (TMTP).

	30.06.16 £bn	31.12.15 £bn
Economic Capital surplus	**8.1**	7.6
Different matching adjustment[1]	**(2.2)**	(1.4)
Risk margin vs Recapitalisation cost[2]	**-**	-
Longevity calibration[3]	**(0.6)**	(0.3)
Eligibility of group own funds[4]	**(0.1)**	(0.5)
LGA on a D&A basis[5]	**0.1**	0.1
Solvency II surplus[6]	**5.3**	5.5

1. This is the difference between the Economic Matching Adjustment and the Solvency II Matching Adjustment.
2. 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 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.
3. Economic Capital and Solvency II balance sheets use different calibrations for longevity risk.
4. Deductions for regulatory restrictions in respect of fungibility and transferability restrictions. These do not apply to the Economic Capital balance sheet.
5. To ensure consistency of risk management across the group, L&G America remains within the Internal Model for Economic Capital purposes.
6. There are also differences in the valuation of with-profits business and the group pension scheme 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 six months ended 30 June 2016	PVNBP £m	Contri-bution from new business[2] £m	Margin %
LGR – UK annuity business	**3,743**	**382**	**10.2**
UK Insurance Total	**727**	**81**	**11.1**
- Retail protection	565	69	12.2
- Group protection	162	12	7.4
LGA[3]	**325**	**40**	**12.4**
	4,795	**503**	**10.5**

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 $435m and a contribution from new business of $54m.

(b) Assumptions

The key economic assumptions as at 30 June 2016 are as follows:

	%
Risk margin	**3.5**
Risk free rate	
- UK	**1.1**
- US	**1.3**
Risk discount rate (net of tax)	
- UK	**4.6**
- US	**4.8**
Long-term rate of return on non profit annuities in LGR	**3.2**

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. Using the previous methodology the risk free rate as at 30 June 2016 (for both the UK and the US) would be 1.5% and the risk discount rate would be 5.0%.

All other economic and non-economic assumptions and methodologies that would have a material impact on the margin for these contracts are unchanged from those used for the European Embedded Value reporting at end 2015 other than the cost of currency hedging which has been updated to reflect current market conditions and hedging activity in light of Solvency II. 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 securities are calculated net of an allowance for default risk which takes account of the credit rating and the outstanding term of the securities. The allowance for corporate defaults within the new business contribution is based on a level rate deduction from the expected returns for the overall annuities portfolio of 20bps.

- 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 planned future reductions in corporation tax to 19% from 1 April 2017 and 18% 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 18%.

US, covered business profits are also grossed up using the long term corporate tax rates i.e. 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, the Insurance Division 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.

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

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 known 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 (30 June 2016: 14bps for UK and 10bps 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.

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 18.4%.

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	**30.06.16 £bn**	30.06.15 £bn	31.12.15 £bn
PVNBP	4.03(a)	**4.8**		
Effect of capitalisation factor		**(0.9)**		
New business premiums from selected lines		**3.9**		
Other[1]		**0.3**		
Total LGR, Insurance and LGA new business	3.07/ 3.08	**4.2**	1.6	3.3
Annualisation impact of regular premium long-term business		**(0.1)**	(0.1)	(0.2)
IFRS gross written premiums from existing long-term insurance business		**1.3**	1.3	2.6
IFRS gross written premiums from Savings business		**0.1**	0.2	0.5
Deposit accounting for lifetime mortgage advances		**(0.2)**	-	(0.2)
General insurance gross written premiums	3.09	**0.2**	0.2	0.3
Total gross written premiums		**5.5**	3.2	6.3

1. Other principally includes annuity sales in the US and lifetime mortgage advances.

4.04 Investment portfolio

	Market value 30.06.16 £m	Market value 30.06.15 £m	Market value 31.12.15 £m
Worldwide total assets	**846,140**	717,034	747,944
Client and policyholder assets	**(766,397)**	(649,882)	(679,831)
Non-unit linked with-profits assets	**(12,478)**	(12,216)	(11,644)
Investments to which shareholders are directly exposed	**67,265**	54,936	56,469

Analysed by investment class:

	Note	LGR investments 30.06.16 £m	Other non profit insurance investments 30.06.16 £m	LGC investments[1] 30.06.16 £m	Other shareholder investments 30.06.16 £m	Total 30.06.16 £m	Total 30.06.15 £m	Total 31.12.15 £m
Equities		**56**	**-**	**2,350**	**188**	**2,594**	2,409	2,252
Bonds	4.06	**47,908**	**2,505**	**1,651**	**666**	**52,730**	43,917	43,916
Derivative assets[2]		**5,661**	**-**	**62**	**-**	**5,723**	3,730	3,663
Property	4.07	**2,257**	**-**	**196**	**4**	**2,457**	2,220	2,347
Cash, cash equivalents, loans & receivables		**878**	**556**	**1,313**	**504**	**3,251**	2,527	4,168
Financial investments		**56,760**	**3,061**	**5,572**	**1,362**	**66,755**	54,803	56,346
Other assets[3]		**157**	**-**	**331**	**22**	**510**	133	123
Total investments		**56,917**	**3,061**	**5,903**	**1,384**	**67,265**	54,936	56,469

1. Equity investments include a total of £323m in respect of CALA Group Limited, Peel Media Holdings Limited (MediaCityUK) and NTR Wind Management Ltd (30 June 2015: £280m; 31 December 2015: £295m).
2. Derivative assets are shown gross of derivative liabilities of £5.0bn (HY15: £2.0bn; FY15: £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 £464m (HY15: £nil; FY15: £82m).

Capital and Investments

4.05 Direct Investments
(a) Analysed by asset class

	Direct[1, 2] Investments 30.06.16 £m	**Traded[3] securities 30.06.16 £m**	**Total 30.06.16 £m**	Direct[1, 2] Investments 30.06.15 £m	Traded[3] securities 30.06.15 £m	Total 30.06.15 £m	Direct[1, 2] Investments 31.12.15 £m	Traded[3] securities 31.12.15 £m	Total 31.12.15 £m
Equities	**508**	**2,086**	**2,594**	410	1,999	2,409	432	1,820	2,252
Bonds	**4,474**	**48,256**	**52,730**	3,050	40,867	43,917	3,722	40,194	43,916
Derivative assets	**-**	**5,723**	**5,723**	-	3,730	3,730	-	3,663	3,663
Property	**2,457**	**-**	**2,457**	2,220	-	2,220	2,347	-	2,347
Cash, cash equivalents, loans & receivables	**466**	**2,785**	**3,251**	380	2,147	2,527	425	3,743	4,168
Other assets	**46**	**464**	**510**	133	-	133	41	82	123
	7,951	**59,314**	**67,265**	6,193	48,743	54,936	6,967	49,420	56,469

1. Direct Investments constitute an agreement with another party and represent an exposure to untraded and often less volatile assets. Direct Investments 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.

(b) Analysed by segment

	LGR 30.06.16 £m	**LGC 30.06.16 £m**	**LGA 30.06.16 £m**	**Insurance 30.06.16 £m**	**Total 30.06.16 £m**
Equities	**-**	**508**	**-**	**-**	**508**
Bonds	**3,932**	**197**	**345**	**-**	**4,474**
Property	**2,257**	**196**	**-**	**4**	**2,457**
Cash, cash equivalents, loans & receivables	**20**	**117**	**329**	**-**	**466**
Other assets	**-**	**46**	**-**	**-**	**46**
	6,209	**1,064**	**674**	**4**	**7,951**

	LGR At 30.06.15 £m	LGC At 30.06.15 £m	LGA At 30.06.15 £m	Insurance At 30.06.15 £m	Total At 30.06.15 £m
Equities	-	410	-	-	410
Bonds	2,737	61	252	-	3,050
Property	2,037	180	-	3	2,220
Cash, cash equivalents, loans & receivables	-	112	268	-	380
Other assets	118	15	-	-	133
	4,892	778	520	3	6,193

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

	LGR 31.12.15 £m	LGC 31.12.15 £m	LGA 31.12.15 £m	Insurance 31.12.15 £m	Total 31.12.15 £m
Equities	-	432	-	-	432
Bonds	3,336	93	293	-	3,722
Property	2,157	186	-	4	2,347
Cash, cash equivalents, loans & receivables	-	115	310	-	425
Other assets	-	41	-	-	41
	5,493	867	603	4	6,967

(c) Movement in the period

	Carrying value 01.01.16 £m	**Additions £m**	**Disposals £m**	**Change in market value £m**	**Carrying value 30.06.16 £m**
Equities	**432**	**65**	**(9)**	**20**	**508**
Bonds	**3,722**	**580**	**(182)**	**354**	**4,474**
Property	**2,347**	**198**	**(60)**	**(28)**	**2,457**
Cash, cash equivalents, loans & receivables	**425**	**29**	**(23)**	**35**	**466**
Other assets	**41**	**3**	**-**	**2**	**46**
	6,967	**875**	**(274)**	**383**	**7,951**

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

	AAA 30.06.16 £m	AA 30.06.16 £m	A 30.06.16 £m	BBB 30.06.16 £m	BB or below 30.06.16 £m	LGR 30.06.16 £m	LGR 30.06.16 %
Sovereigns, Supras and Sub-Sovereigns	898	6,747	114	200	58	8,017	17
Banks:							
- Tier 1	-	-	-	-	21	21	-
- Tier 2 and other subordinated	-	-	159	265	-	424	1
- Senior	100	564	1,046	85	-	1,795	4
Financial Services:							
- Tier 1	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	-	31	10	-	41	-
- Senior	78	420	210	125	-	833	2
Insurance:							
- Tier 1	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	-	136	60	26	222	-
- Senior	-	15	418	184	-	617	1
Utilities	63	7	2,324	2,834	24	5,252	11
Consumer Services and Goods & Health Care	174	1,181	2,041	2,407	124	5,927	12
Technology and Telecoms	46	156	550	2,181	115	3,048	6
Industrials[1]	-	24	1,082	967	103	2,176	5
Oil and Gas	-	169	683	1,146	273	2,271	5
Property	-	579	323	969	1	1,872	4
Asset backed securities	134	745	292	95	48	1,314	3
Securitisations and debentures[2]	252	2,335	6,948	2,151	850	12,536	26
Lifetime mortgage loans[3]	-	-	-	440	-	440	1
CDOs[4]	-	722	366	14	-	1,102	2
Total £m	1,745	13,664	16,723	14,133	1,643	47,908	100
Total %	4	29	34	30	3	100	

1. Included within Industrials is a £599m exposure to Basic Resources.
2. Securitisations and debentures have been reanalysed in note 4.06(c).
3. Lifetime mortgage loans have increased in value since inception predominantly due to the accrual of interest on the loans.
4. 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 credit rating (continued)

	AAA 30.06.15 £m	AA 30.06.15 £m	A 30.06.15 £m	BBB 30.06.15 £m	BB or below 30.06.15 £m	Other 30.06.15 £m	LGR 30.06.15 £m	LGR 30.06.15 %
Sovereigns, Supras and Sub-Sovereigns	921	5,458	126	208	8	1	6,722	17
Banks:								
- Tier 1	-	-	55	6	33	-	94	-
- Tier 2 and other subordinated	41	2	231	149	11	-	434	1
- Senior	73	383	891	137	3	-	1,487	4
Financial Services:								
- Tier 1	-	4	-	-	-	-	4	-
- Tier 2 and other subordinated	4	1	43	8	-	-	56	-
- Senior	52	386	89	121	1	-	649	2
Insurance:								
- Tier 1	-	4	10	71	-	-	85	-
- Tier 2 and other subordinated	4	6	147	138	-	-	295	1
- Senior	-	49	346	138	-	-	533	1
Utilities	3	5	2,154	2,329	24	-	4,515	11
Consumer Services and Goods & Health Care	161	735	1,434	1,518	140	1	3,989	11
Technology and Telecoms	24	98	436	1,669	158	1	2,386	6
Industrials[1]	3	20	866	857	36	1	1,783	5
Oil and Gas	19	345	473	1,011	278	-	2,126	5
Property	2	364	231	814	-	2	1,413	4
Asset backed securities	296	671	197	73	33	-	1,270	3
Securitisations and debentures[2]	272	2,186	5,437	2,149	292	-	10,336	26
Lifetime mortgage loans[3]	-	-	-	38	-	-	38	-
CDOs[4]	-	537	464	54	47	-	1,102	3
Total £m	1,875	11,254	13,630	11,488	1,064	6	39,317	100
Total %	5	29	34	29	3	-	100	

1. Included within Industrials is a £507m exposure to Basic Resources.
2. Securitisations and debentures have been reanalysed in note 4.06(c).
3. Lifetime mortgage loans have increased in value since inception predominantly due to the accrual of interest on the loans.
4. 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 credit rating (continued)

	AAA 31.12.15 £m	AA 31.12.15 £m	A 31.12.15 £m	BBB 31.12.15 £m	BB or below 31.12.15 £m	LGR 31.12.15 £m	LGR 31.12.15 %
Sovereigns, Supras and Sub-Sovereigns	956	4,774	64	154	30	5,978	14
Banks:							
- Tier 1	17	35	-	-	26	78	-
- Tier 2 and other subordinated	-	-	92	138	2	232	1
- Senior	49	421	859	77	1	1,407	4
Financial Services:							
- Tier 1	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	3	33	8	4	48	-
- Senior	63	396	106	140	-	705	2
Insurance:							
- Tier 1	-	-	-	6	-	6	-
- Tier 2 and other subordinated	-	-	144	64	-	208	1
- Senior	-	14	316	118	-	448	1
Utilities	43	8	1,847	2,593	27	4,518	11
Consumer Services and Goods & Health Care	136	969	1,572	1,830	130	4,637	12
Technology and Telecoms	48	138	409	1,940	129	2,664	7
Industrials[1]	-	21	934	899	30	1,884	5
Oil and Gas	24	321	482	901	247	1,975	5
Property	-	516	269	868	-	1,653	4
Asset backed securities	123	657	167	74	38	1,059	3
Securitisations and debentures[2]	258	2,152	5,489	2,349	331	10,579	26
Lifetime mortgage loans[3]	-	-	-	207	-	207	1
CDOs[4]	-	552	469	14	47	1,082	3
Total £m	1,717	10,977	13,252	12,380	1,042	39,368	100
Total %	4	28	34	31	3	100	

1. Included within Industrials is a £455m exposure to Basic Resources.
2. Securitisations and debentures have been reanalysed in note 4.06(c).
3. Lifetime mortgage loans have increased in value since inception predominantly due to the accrual of interest on the loans.
4. 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 30.06.16 £m	US 30.06.16 £m	EU excluding UK 30.06.16 £m	Rest of the World 30.06.16 £m	LGR 30.06.16 £m
Sovereigns, Supras and Sub-Sovereigns	6,133	571	635	678	8,017
Banks	638	780	635	187	2,240
Financial Services	270	229	277	98	874
Insurance	312	481	46	-	839
Utilities	2,673	390	2,125	64	5,252
Consumer Services and Goods & Health Care	1,214	4,054	464	195	5,927
Technology and Telecoms	508	1,267	879	394	3,048
Industrials	119	1,129	323	605	2,176
Oil and Gas	181	1,106	345	639	2,271
Property	1,410	385	12	65	1,872
Asset backed securities, securitisations and debentures[1]	11,539	1,086	462	1,203	14,290
CDOs	-	-	1,031	71	1,102
Total	24,997	11,478	7,234	4,199	47,908

1. Includes lifetime mortgage loans.

	UK 30.06.15 £m	US 30.06.15 £m	EU excluding UK 30.06.15 £m	Rest of the World 30.06.15 £m	LGR 30.06.15 £m
Sovereigns, Supras and Sub-Sovereigns	4,963	519	638	602	6,722
Banks	662	795	453	105	2,015
Financial Services	186	330	140	53	709
Insurance	463	341	91	18	913
Utilities	2,347	252	1,857	59	4,515
Consumer Services and Goods & Health Care	792	2,786	336	75	3,989
Technology and Telecoms	389	973	841	183	2,386
Industrials	199	735	266	583	1,783
Oil and Gas	193	1,088	354	491	2,126
Property	1,054	316	17	26	1,413
Asset backed securities, securitisations and debentures[1]	9,013	1,075	378	1,178	11,644
CDOs	-	-	1,026	76	1,102
Total	20,261	9,210	6,397	3,449	39,317

1. Includes lifetime mortgage loans.

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

	UK 31.12.15 £m	US 31.12.15 £m	EU excluding UK 31.12.15 £m	Rest of the World 31.12.15 £m	LGR 31.12.15 £m
Sovereigns, Supras and Sub-Sovereigns	4,305	455	647	571	5,978
Banks	568	582	441	126	1,717
Financial Services	217	373	159	4	753
Insurance	337	284	41	-	662
Utilities	2,355	313	1,796	54	4,518
Consumer Services and Goods & Health Care	870	3,212	391	164	4,637
Technology and Telecoms	462	1,217	787	198	2,664
Industrials	220	854	272	538	1,884
Oil and Gas	197	995	326	457	1,975
Property	1,286	324	12	31	1,653
Asset backed securities, securitisations and debentures[1]	9,570	884	355	1,036	11,845
CDOs	-	-	1,047	35	1,082
Total	20,387	9,493	6,274	3,214	39,368

1. Includes lifetime mortgage loans.

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

	AAA 30.06.16 £m	AA 30.06.16 £m	A 30.06.16 £m	BBB 30.06.16 £m	BB or below 30.06.16 £m	Other 30.06.16 £m	Total 30.06.16 £m	Total 30.06.16 %
Sovereigns, Supras and Sub-Sovereigns	**1,549**	**7,355**	**196**	**424**	**113**	**1**	**9,638**	**18**
Banks:								
- Tier 1	**-**	**-**	**-**	**1**	**21**	**-**	**22**	**-**
- Tier 2 and other subordinated	**-**	**-**	**172**	**279**	**-**	**1**	**452**	**1**
- Senior	**207**	**865**	**1,335**	**102**	**1**	**1**	**2,511**	**5**
Financial Services:								
- Tier 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Tier 2 and other subordinated	**-**	**-**	**32**	**11**	**-**	**3**	**46**	**-**
- Senior	**85**	**504**	**259**	**161**	**2**	**2**	**1,013**	**2**
Insurance:								
- Tier 1	**-**	**-**	**1**	**-**	**-**	**-**	**1**	**-**
- Tier 2 and other subordinated	**-**	**3**	**140**	**70**	**26**	**1**	**240**	**-**
- Senior	**-**	**17**	**426**	**190**	**-**	**-**	**633**	**1**
Utilities	**64**	**16**	**2,385**	**2,931**	**36**	**40**	**5,472**	**10**
Consumer Services and Goods & Health Care	**210**	**1,218**	**2,195**	**2,630**	**207**	**11**	**6,471**	**13**
Technology and Telecoms	**58**	**185**	**614**	**2,302**	**142**	**3**	**3,304**	**6**
Industrials[1]	**-**	**34**	**1,194**	**1,125**	**158**	**5**	**2,516**	**5**
Oil and Gas	**-**	**197**	**740**	**1,241**	**323**	**2**	**2,503**	**5**
Property	**-**	**579**	**344**	**1,029**	**10**	**163**	**2,125**	**4**
Asset backed securities	**335**	**768**	**293**	**95**	**48**	**-**	**1,539**	**3**
Securitisations and debentures[2]	**309**	**2,337**	**7,011**	**2,180**	**865**	**-**	**12,702**	**24**
Lifetime mortgage loans[3]	**-**	**-**	**-**	**440**	**-**	**-**	**440**	**1**
CDOs[4]	**-**	**722**	**366**	**14**	**-**	**-**	**1,102**	**2**
Total £m	**2,817**	**14,800**	**17,703**	**15,225**	**1,952**	**233**	**52,730**	**100**
Total %	**5**	**28**	**34**	**29**	**4**	**-**	**100**	

1. Included within Industrials is a £605m exposure to Basic Resources.
2. Securitisations and debentures have been reanalysed in note 4.06(d).
3. Lifetime mortgage loans have increased in value since inception predominantly due to the accrual of interest on the loans.
4. 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 credit rating (continued)

	AAA 30.06.15 £m	AA 30.06.15 £m	A 30.06.15 £m	BBB 30.06.15 £m	BB or below 30.06.15 £m	Other 30.06.15 £m	Total 30.06.15 £m	Total 30.06.15 %
Sovereigns, Supras and Sub-Sovereigns	1,485	5,928	181	399	42	8	8,043	18
Banks:								
- Tier 1	-	-	55	9	33	-	97	-
- Tier 2 and other subordinated	133	4	248	183	14	1	583	1
- Senior	271	511	1,031	168	8	1	1,990	5
Financial Services:								
- Tier 1	-	4	-	-	-	-	4	-
- Tier 2 and other subordinated	10	5	51	14	1	-	81	-
- Senior	70	418	176	186	9	1	860	2
Insurance:								
- Tier 1	-	4	10	72	-	-	86	-
- Tier 2 and other subordinated	9	15	149	150	2	1	326	1
- Senior	1	89	359	146	-	-	595	1
Utilities	7	18	2,235	2,423	33	2	4,718	11
Consumer Services and Goods & Health Care	211	817	1,636	1,714	209	5	4,592	10
Technology and Telecoms	44	137	512	1,755	189	3	2,640	6
Industrials[1]	9	28	1,011	1,023	77	4	2,152	5
Oil and Gas	28	381	512	1,097	312	2	2,332	5
Property	4	367	243	866	11	64	1,555	4
Asset backed securities	670	706	201	75	34	-	1,686	4
Securitisations and debentures[2]	274	2,199	5,505	2,154	305	-	10,437	24
Lifetime mortgage loans[3]	-	-	-	38	-	-	38	-
CDOs[4]	-	537	464	54	47	-	1,102	3
Total £m	3,226	12,168	14,579	12,526	1,326	92	43,917	100
Total %	7	28	33	29	3	-	100	

1. Included within Industrials is a £520m exposure to Basic Resources.
2. Securitisations and debentures have been reanalysed in note 4.06(d).
3. Lifetime mortgage loans have increased in value since inception predominantly due to the accrual of interest on the loans.
4. 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 credit rating (continued)

	AAA 31.12.15 £m	AA 31.12.15 £m	A 31.12.15 £m	BBB 31.12.15 £m	BB or below 31.12.15 £m	Other 31.12.15 £m	Total 31.12.15 £m	Total 31.12.15 %
Sovereigns, Supras and Sub-Sovereigns	1,981	5,022	112	367	62	5	7,549	17
Banks:								
- Tier 1	68	139	5	10	26	-	248	1
- Tier 2 and other subordinated	22	-	100	146	3	1	272	1
- Senior	105	721	992	98	3	1	1,920	4
Financial Services:								
- Tier 1	-	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	3	38	16	-	1	58	-
- Senior	65	415	172	198	7	-	857	2
Insurance:								
- Tier 1	-	-	-	6	-	-	6	-
- Tier 2 and other subordinated	-	3	146	68	1	1	219	-
- Senior	1	18	326	126	-	-	471	1
Utilities	42	17	1,900	2,677	42	13	4,691	11
Consumer Services and Goods & Health Care	170	1,004	1,707	1,993	210	4	5,088	12
Technology and Telecoms	61	169	472	2,027	151	1	2,881	7
Industrials[1]	-	38	1,039	1,075	67	2	2,221	5
Oil and Gas	27	342	517	958	280	1	2,125	5
Property	-	516	287	912	9	81	1,805	4
Asset backed securities	511	672	164	74	42	-	1,463	3
Securitisations and debentures[2]	281	2,157	5,602	2,370	343	-	10,753	25
Lifetime mortgage loans[3]	-	-	-	207	-	-	207	-
CDOs[4]	-	552	469	14	47	-	1,082	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. Included within Industrials is a £455m exposure to Basic Resources.
2. Securitisations and debentures have been reanalysed in note 4.06(d).
3. Lifetime mortgage loans have increased in value since inception predominantly due to the accrual of interest on the loans.
4. 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 30.06.16 £m	US 30.06.16 £m	EU excluding UK 30.06.16 £m	Rest of the World 30.06.16 £m	Total 30.06.16 £m
Sovereigns, Supras and Sub-Sovereigns	**6,503**	**881**	**1,398**	**856**	**9,638**
Banks	**676**	**941**	**935**	**433**	**2,985**
Financial Services	**279**	**287**	**293**	**200**	**1,059**
Insurance	**322**	**497**	**55**	**-**	**874**
Utilities	**2,723**	**474**	**2,206**	**69**	**5,472**
Consumer Services and Goods & Health Care	**1,261**	**4,446**	**535**	**229**	**6,471**
Technology and Telecoms	**521**	**1,419**	**942**	**422**	**3,304**
Industrials	**153**	**1,354**	**374**	**635**	**2,516**
Oil and Gas	**205**	**1,202**	**404**	**692**	**2,503**
Property	**1,575**	**459**	**22**	**69**	**2,125**
Asset backed securities, securitisations and debentures[1]	**11,586**	**1,394**	**478**	**1,223**	**14,681**
CDOs	**-**	**-**	**1,031**	**71**	**1,102**
Total	**25,804**	**13,354**	**8,673**	**4,899**	**52,730**

1. Includes lifetime mortgage loans.

	UK 30.06.15 £m	US 30.06.15 £m	EU excluding UK 30.06.15 £m	Rest of the World 30.06.15 £m	Total 30.06.15 £m
Sovereigns, Supras and Sub-Sovereigns	5,309	735	1,271	728	8,043
Banks	757	925	687	301	2,670
Financial Services	200	443	212	90	945
Insurance	486	399	102	20	1,007
Utilities	2,365	344	1,933	76	4,718
Consumer Services and Goods & Health Care	861	3,221	392	118	4,592
Technology and Telecoms	405	1,147	884	204	2,640
Industrials	247	952	331	622	2,152
Oil and Gas	208	1,186	399	539	2,332
Property	1,129	369	22	35	1,555
Asset backed securities, securitisations and debentures[1]	9,081	1,515	388	1,177	12,161
CDOs	-	-	1,026	76	1,102
Total	21,048	11,236	7,647	3,986	43,917

1. Includes lifetime mortgage loans.

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

	UK 31.12.15 £m	US 31.12.15 £m	EU excluding UK 31.12.15 £m	Rest of the World 31.12.15 £m	Total 31.12.15 £m
Sovereigns, Supras and Sub-Sovereigns	4,665	775	1,374	735	7,549
Banks	674	703	655	408	2,440
Financial Services	227	460	208	20	915
Insurance	343	305	47	1	696
Utilities	2,376	387	1,859	69	4,691
Consumer Services and Goods & Health Care	904	3,565	428	191	5,088
Technology and Telecoms	468	1,377	822	214	2,881
Industrials	257	1,064	330	570	2,221
Oil and Gas	206	1,060	357	502	2,125
Property	1,375	374	19	37	1,805
Asset backed securities, securitisations and debentures[1]	9,578	1,440	364	1,041	12,423
CDOs	-	-	1,047	35	1,082
Total	21,073	11,510	7,510	3,823	43,916

1. Includes lifetime mortgage loans.

4.06 Bond portfolio summary (continued)
(c) Analysis of LGR securitisations and debentures

	AAA 30.06.16 £m	AA 30.06.16 £m	A 30.06.16 £m	BBB 30.06.16 £m	BB or below 30.06.16 £m	LGR 30.06.16 £m	LGR 30.06.15 £m	LGR 31.12.15 £m
Sovereigns, Supras and Sub-Sovereigns	-	743	5	-	-	748	702	682
Financial Services	-	636	1,392	249	150	2,427	2,145	2,166
Insurance	-	43	106	-	-	149	110	130
Utilities	-	103	1,797	129	-	2,029	1,722	1,765
Consumer Services and Goods & Health Care	-	-	286	69	21	376	408	355
Technology and Telecoms	-	-	-	-	-	-	1	1
Industrials	-	43	455	300	5	803	700	711
Oil and Gas	-	-	14	32	19	65	64	65
Property	-	204	586	1	-	791	411	402
Infrastructure / PFI / Social housing	-	186	664	715	64	1,629	1,259	1,232
Covered Bonds[1]	251	2	-	16	-	269	285	273
Whole Business Securitised	-	67	390	345	105	907	847	624
Commercial Property Backed Bonds	-	188	505	14	464	1,171	679	1,092
Secured Bonds[2]	1	120	748	281	22	1,172	1,003	949
Other	-	-	-	-	-	-	-	132
Total	252	2,335	6,948	2,151	850	12,536	10,336	10,579

1. Covered bonds are typically issued by banks and are secured on pools of residential mortgages.
2. Secured bonds are typically issued by Special Purpose Vehicles and are secured on various assets and/or cashflows within the issuer's business.

(d) Analysis of total group securitisations and debentures

	AAA 30.06.16 £m	**AA 30.06.16 £m**	**A 30.06.16 £m**	**BBB 30.06.16 £m**	**BB or below 30.06.16 £m**	**Total 30.06.16 £m**	Total 30.06.15 £m	Total 31.12.15 £m
Sovereigns, Supras and Sub-Sovereigns	**-**	**743**	**5**	**-**	**-**	**748**	702	682
Financial Services	**-**	**636**	**1,392**	**249**	**150**	**2,427**	2,145	2,166
Insurance	**-**	**43**	**106**	**-**	**-**	**149**	114	132
Utilities	**-**	**103**	**1,799**	**130**	**-**	**2,032**	1,727	1,768
Consumer Services and Goods & Health Care	**-**	**-**	**332**	**86**	**24**	**442**	410	416
Technology and Telecoms	**-**	**-**	**-**	**-**	**-**	**-**	1	1
Industrials	**-**	**43**	**456**	**300**	**6**	**805**	701	711
Oil and Gas	**-**	**-**	**14**	**32**	**19**	**65**	64	65
Property	**-**	**204**	**586**	**1**	**-**	**791**	411	403
Infrastructure / PFI / Social housing	**-**	**186**	**667**	**715**	**64**	**1,632**	1,259	1,234
Covered Bonds[1]	**307**	**2**	**-**	**16**	**-**	**325**	286	279
Whole Business Securitised	**-**	**67**	**390**	**347**	**105**	**909**	847	626
Commercial Property Backed Bonds	**-**	**189**	**505**	**14**	**464**	**1,172**	679	1,092
Secured Bonds[2]	**1**	**121**	**749**	**289**	**33**	**1,193**	1,034	959
Other	**1**	**-**	**10**	**1**	**-**	**12**	57	219
Total	**309**	**2,337**	**7,011**	**2,180**	**865**	**12,702**	10,437	10,753

1. Covered bonds are typically issued by banks and are secured on pools of residential mortgages.
2. Secured bonds are typically issued by Special Purpose Vehicles and are secured on various assets and/or cashflows within the issuer's business.

4.06 Bond portfolio summary (continued)

(e) LGR and total group analysed by credit rating

	Externally rated 30.06.16 £m	Internally rated[1] 30.06.16 £m	LGR 30.06.16 £m	**Externally rated 30.06.16 £m**	**Internally rated[1] 30.06.16 £m**	**Total 30.06.16 £m**
AAA	1,737	8	1,745	**2,809**	**8**	**2,817**
AA	11,964	1,700	13,664	**13,096**	**1,704**	**14,800**
A	14,422	2,301	16,723	**15,325**	**2,378**	**17,703**
BBB	12,496	1,637	14,133	**13,372**	**1,853**	**15,225**
BB or below	1,102	541	1,643	**1,348**	**604**	**1,952**
Other	-	-	-	**233**	**-**	**233**
	41,721	6,187	47,908	**46,183**	**6,547**	**52,730**

1. Where external ratings are not available an internal rating has been used where it is practicable to do so.

	Externally rated 30.06.15 £m	Internally rated[1] 30.06.15 £m	LGR 30.06.15 £m	Externally rated 30.06.15 £m	Internally rated[1] 30.06.15 £m	Total 30.06.15 £m
AAA	1,870	5	1,875	3,149	77	3,226
AA	9,763	1,491	11,254	10,605	1,563	12,168
A	11,996	1,634	13,630	12,915	1,664	14,579
BBB	10,268	1,220	11,488	11,133	1,393	12,526
BB or below	1,008	56	1,064	1,233	93	1,326
Other	-	6	6	-	92	92
	34,905	4,412	39,317	39,035	4,882	43,917

1. Where external ratings are not available an internal rating has been used where it is practicable to do so.

	Externally rated 31.12.15 £m	Internally rated[1] 31.12.15 £m	LGR 31.12.15 £m	Externally rated 31.12.15 £m	Internally rated[1] 31.12.15 £m	Total 31.12.15 £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

1. Where external ratings are not available an internal rating has been used where it is practicable to do so.

4.07 Property analysis
Group property Direct Investments by status

	LGR[1] At 30.06.16 £m	LGC At 30.06.16 £m	Insurance At 30.06.16 £m	Total At 30.06.16 £m	%
Fully let	**2,257**	**58**	**4**	**2,319**	**94**
Part let	**-**	**-**	**-**	**-**	**-**
Development	**-**	**95**	**-**	**95**	**4**
Land	**-**	**43**	**-**	**43**	**2**
	2,257	**196**	**4**	**2,457**	**100**

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

	LGR[1] At 30.06.15 £m	LGC At 30.06.15 £m	Insurance At 30.06.15 £m	Total At 30.06.15 £m	%
Fully let	2,037	30	3	2,070	93
Part let	-	-	-	-	-
Development	-	108	-	108	5
Land	-	42	-	42	2
	2,037	180	3	2,220	100

1. The fully let LGR property includes £1.7bn let to investment grade tenants.

	LGR[1] At 31.12.15 £m	LGC At 31.12.15 £m	Insurance At 31.12.15 £m	Total At 31.12.15 £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.

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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.

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.

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.

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)

Measures that are not defined by an accounting or regulatory standard, but used by the group to give shareholders a better understanding of the underlying performance of the group. All APMs defined within this glossary are marked with an asterisk.

Annualised return on equity*

Calculated by taking annualised profit after tax attributable to equity holders of the company, excluding gains and losses associated with held for sale and completed business disposals, as a percentage of the average shareholders' capital employed, being an average of the opening and closing shareholders' equity during the period.

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.

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

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.

* Represents an alternative performance measure.

Glossary

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.

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.

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.

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 cash generation*

Net cash generation is defined as operational cash generation plus new business surplus/(strain).

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.

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.

* Represents an alternative performance measure.

Operational cash generation*

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.

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 profits (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.

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.

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.

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 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 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.

* Represents an alternative performance measure

SCR coverage ratio (shareholder basis)*

In order to represent a shareholder view of group solvency on a regulatory basis, the capital requirement in relation to the ring-fenced LGAS With-profits fund is excluded from both Eligible Own Funds and the SCR in the calculation of the SCR coverage ratio.

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.

* Represents an alternative performance measure.