Legal & General Group plc
Annual Report and Accounts

2014

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We delivered on our strategy and improved our performance for all our financial KPIs.

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Five global macro trends drive our strategy and focus us on success.

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Our progress on strategy
How we combine market leadership with helping people achieve financial security.

Legal & General

A POSITIVE FUTURE FOR ALL

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

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Strategic Report

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Group chief executive Q&A
Nigel gives us his insights on how we reward our shareholders and build a better society.

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Our progress on strategy
How being socially and economically useful is no barrier to achieving market leadership.

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Chief financial officer Q&A
Mark describes how we manage to keep on delivering financial success.

For an online version of our annual report and accounts please visit our website: legalandgeneralgroup.com The report is also available as an iPad app. You can download it from Apple's 'App Store'.

Chairman's statement

Delivering growth through social responsibility.

We have a special culture at Legal & General which inspires our people to help our customers and our communities, as well as striving to deliver financial success. In 2014, I took pride in the financial success we achieved in tough trading conditions, as well as knowing that we continued to fulfil our commitments to build a better society.

Our performance

Profit before tax increased by 8% to £1,238 million (2013: £1,144 million) with earnings per share at 16.70p (2013: 15.20p). Our total shareholder return is 300% over five years and 184% over three years, making us the best five-year performer among our global peers in the life sector. We're proposing a full year dividend for 2014 of 11.25p. That's 21% higher than in 2013. We have a progressive dividend policy which recognises that Solvency II has not yet been finalised. Should our Solvency II surplus be no lower than Solvency I, we intend to return up to two thirds of our cash flow to shareholders, whilst retaining at least one third in 2015 to reinvest in the business. Our dividend policy is described on page 39.

A clear strategy for success

Our strategy is built with our customers and our contribution to society at its heart. It's aligned to the long-term global macro trends which affect us all and the clarity and relevance of this strategy helps our employees deliver success.

World class leadership

We're developing ambitious, inspiring leaders who have high expectations in terms of performance and results. Our Leadership Academy uses leading providers and offers us exciting and innovative opportunities. This year we've launched a new initiative, 50/50 by 2020, aligned to our goal to progress and develop talented women and become a more diverse and inclusive organisation for all our employees.

Recent Board changes

The Board leads Legal & General's governance function. We describe in pages 56 to 101 of this report how its performance remained effective throughout 2014. I'd like to record my appreciation to John Pollock, our CEO for LGAS, who's retiring after serving for 11 years on the Board and for 35 years at Legal & General. I would also like to thank Mike Fairey who left the Board in 2014 and welcome Olaf Swantee, Richard Meddings and Carolyn Bradley, who bring us significant new skills and experience.

Commitment to society

We play an important role in society, with responsibility for £709 billion of total assets, across the globe. In the UK, we look after the savings or provide protection for around one in six adults. Our commitment extends beyond our own customers to our communities and to society as a whole and I would especially like to commend our work on helping people suffering from stroke and mental health issues and our actions to improve housing for the elderly.

Positioned for growth

The Board are confident that our financial strength, our strategic ambition and our talented people position us well to succeed and grow in future years, even though economic uncertainty and market volatility are likely to remain issues for the foreseeable future. I would encourage shareholders to find out more about what makes us successful in this report. I hope to see as many of you as possible at our annual general meeting in May.

John Stewart
Chairman

Key information for shareholders

Full year dividend
11.25p
(2013: 9.30p)

Final dividend
8.35p
To be paid on 4 June 2015 (2013: 6.90p). Our dividend policy is described on page 39

Annual general meeting
2015
11am on Thursday 21 May 2015, at the Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ

Fast read

£ Key measure in the remuneration of executives

GROUP PERFORMANCE

KEY PERFORMANCE INDICATORS

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

Operating Profit

£1,275m

(2013: £1,158m)

See page 44 for a full breakdown of operating profit

Earnings Per Share (EPS)

16.70p

(2013: 15.20p)

Net Cash Generation

£1,104m

(2013: £1,002m)

See page 42 for a full breakdown of net cash generation

Full Year Dividend

11.25p

(2013: 9.30p)

IFRS Profit Before Tax*

£1,238m

(2013: £1,144m)

*IFRS profit before tax attributable to equity holders

Total Shareholder Return (TSR)

184%

(2013: 171%)

Over the three-year period ended 31 December 2014

Return On Equity

16.9%

(2013: 16.1%)

Worldwide Employee Engagement Index*

77%

(2013: 77%)

*This worldwide index replaces the UK engagement index used in previous years

OTHER GROUP INFORMATION

We include measures here which have not been determined to be KPIs by the Group Board, but which we use in deciding executive remuneration or other measures which we believe are integral to the group's performance.

Economic Capital Surplus

£7.0bn

(2013: £6.9bn)

Figures are pre-accrual of proposed final dividend

Economic Capital Coverage Ratio

229%

(2013: 251%)

Standard & Poor's Financial Strength

AA-

(2013: AA-)

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

Our businesses work together to provide financial security for customers.

Business structure

We're reporting our 2014 results split between five businesses: LGAS, LGR, LGIM, LGC and LGA.

From 1 January 2015, LGAS has been replaced by two new segments. 'Insurance', covers retail protection, group protection, general insurance, France and the Netherlands. 'Savings' comprises 'Digital Savings' including our Cofunds and Suffolk Life businesses, as well as our 'Mature Savings' business. LGIM now includes our corporate pensions business.

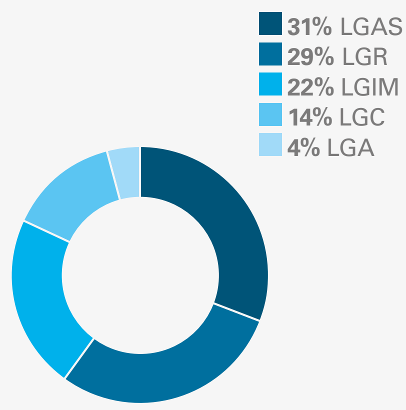
Our reporting focuses on success across the group rather than segmental reporting. Making use of synergies of resources and objectives is fundamental to our success.

In future, our half year results and full year results will reflect this new operating structure.

FURTHER READING
Synergies – pages 13
Strategies – pages 8-12
Financial review – pages 40-47

Operating profit by business segment

£1,483m*



* 2014 operating profit of £1,275m includes £1,483m from divisions, less £208m from group level investment projects, interest and expenses.

Legal & General Assurance Society (LGAS)

In 2014, LGAS was responsible for retail protection, group protection, general insurance, corporate pensions, individual pensions and platforms.

From 2015 LGAS will be replaced by two new segments:

LGAS Insurance

Our Insurance business covers 1.8 million people in group protection schemes, over 3.8 million individual protection customers and 1.5 million general insurance customers.

LGAS Savings

Our savings business has assets of £124 billion, including around £72 billion of assets held on the Cofunds platform.

LGAS Insurance gross written premiums

£2,008m

(2013: £1,923m)

LGAS Savings assets under administration (AUA)

£124bn*

(2013: £113bn)

*This includes workplace savings assets.

Legal & General Retirement (LGR)

We have around 1 million customers and £44 billion of assets. Our corporate business, with £29 billion of assets, helps companies de-risk corporate pension schemes with buy out, buy-in and longevity insurance arrangements. Our individual retirement business helps turn customers' pension savings into retirement income.

LGR annuities single premiums

£6,578m

(2013: £4,089m)

Legal & General Investment Management (LGIM)

Our asset management business with £709 billion of total assets, manages investments on behalf of institutional and retail customers. We are the largest manager of UK pension fund assets, with over 3,000 schemes and have a growing international footprint. From 2015, LGIM is additionally responsible for managing the majority of our workplace pensions business, helping over 1.2 million people save for retirement.

LGIM total assets

£709bn

(2013: £612bn)

Legal & General Capital (LGC)

Our purpose is increasing the risk adjusted returns on the group's £57 billion principal balance sheet. Increasingly, we seek out attractive direct investments which have a long investment horizon. In this way we can leverage the benefits of the group's solvency margin.

LGC total shareholder assets

£57.2bn

(2013: £43.7bn)

Legal & General America (LGA)

We're a top three US protection provider. We have over 1 million customers and wrote over $1.1 billion in premiums in 2014. We focus on providing term life protection products to individuals through concentrating on underwriting expertise and excellence in customer service.

LGA gross written premiums

£678m

(2013: £654m)

Five macro trends drive our strategy

OUR FOCUS, STRATEGIC RESPONSE AND PROGRESS

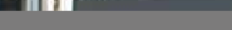
MACRO	EVIDENCE	OUR STRATEGIC AIMS
Ageing populations	**The world is getting greyer** By 2030 there could be 20 million over 60s in the UK (27% of the population).	**Maintaining global leadership in pensions derisking and providing a suite of retirement income products**
Welfare reform	**The cost of welfare payments** Despite an austerity programme, the UK state deficit for 2014 stood at £97 billion.	**Helping people achieve security affordably through insurance and workplace pensions**
Retrenching banks	**Fast money, Slow money** The UK needs to build at least 250,000 homes a year to meet the nation's housing demand.	**Using 'slow money' to become the UK leader in direct investments, including housing**
Globalisation of asset markets	**Homogenous asset markets** The combined North American and Asian investment markets are eight times bigger than the UK's.	**Building a world class international asset management business**
Digital lifestyles	**The connected world** 52% of all internet traffic to retail websites is now via smartphones or tablets.	**Achieving market leadership in digital provision of insurance, retail investments and personal pensions**

Progress

- Our £3 billion ICI transaction was the UK's largest bulk annuity deal
- We increased our international assets to £129 billion
- We wrote £1.4 billion of UK protection premiums
- We've now invested £5.7 billion into direct investments, including urban regeneration schemes in Canning Town and Salford
- We invested £252 million with 'Places for People' to build 7,000 new homes
- We increased our workplace pensions assets to £11 billion

Priorities

- Further developing our pension risk transfer capabilities
- Continuing the international expansion of our investment management business
- Progressing our digital strategy
- Agreeing an appropriate Solvency II regulatory capital position with the Prudential Regulation Authority (PRA)
- Growing our direct investment business
- Building a market leading defined contribution UK pensions business



PROGRESS

£44bn
Annuity assets

44%
Market share of the UK liability driven investment fund (LDI) solutions market

1.2m
People saving in workplace pensions

1.8m
Group protection members and 3.7 million retail protection customers

£5.7bn
Invested to date into direct investments, including infrastructure projects

£252m
Invested into 'Places for People', the largest direct investment into affordable housing

£129bn
International assets

26%
Growth in 2014 LDI assets, including the US

See pages 14-17 for more details on LDI solutions

£72bn
Platform assets

80%
Retail protection policies accepted and processed using information collected online

1 Our strategy is focused upon providing financial responses to the global megatrends that affect people's lives.

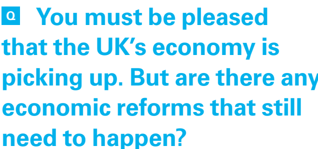
Group chief executive

Nigel Wilson became group chief executive in 2012, having joined Legal & General in 2009 as chief financial officer. His full biography is on page 58.

Group chief executive Nigel Wilson joined Legal & General at the height of the financial crisis in 2009, taking over the group chief executive role in 2012. Under his stewardship, the company has achieved consistent growth in assets and earnings.

Q Nigel, what kind of performance has Legal & General delivered to your shareholders since 2009?

A I'm really excited and proud about what we've achieved. We've built market leading positions in life protection, workplace savings, digital fund platforms, bulk annuities and pension fund management. We've consistently grown cash, giving our shareholders a 300% return over this time, making us the top performer from all major life insurers across the globe. In the last five years we've nearly trebled our dividend payments, with 2014's full year dividend 21% higher than 2013.



Q You must be pleased that the UK's economy is picking up. But are there any economic reforms that still need to happen?

A There's now been seven successive quarters of GDP growth. But the global economy is still fragile and we need to be ready for new shocks. We're still recovering from the financial crisis. Real incomes are around 10% lower than in 2008. The annual deficit between state spending and tax revenue is just below £100 billion. We need to cut the deficit and invest in real jobs that pay real wages. I admire William Beveridge for his 1946 welfare reforms. But we need a renewed framework, sharing the costs between the state and the insurance industry to deliver affordable solutions for as many people as possible.

Q There's been a lot in the media about you putting money into rebuilding Britain. Why are you doing this?

A We need to invest our shareholder and customer funds for long periods of time, getting a return on our 'slow money' over 30, 40 or even 50 years. Investing in Britain's infrastructure can give us long-term growth and make us economically and socially useful to society. We intend to

put £15 billion into direct investments, including UK infrastructure and housing, with £5.7 billion already invested. We aim to be a catalyst for other investors.

Q You said last year that pensions auto-enrolment was a great success. Is the pensions crisis finally over?

A We've made a really good start. We now have 1.2 million people in workplace pension schemes and over £11 billion in assets under administration. But contribution levels need to rise and there is a strong case for reforming the current system of pensions tax relief, as over two thirds of relief goes to the wealthy.

Q Can your investment management business adapt with the move away from defined benefit (DB) pensions and do you need to diversify?

A We're already developing a strategy to respond to global macro trends. The move away from DB pensions is inevitable. Our investment management business is seeing outflows from DB schemes. So we're expanding internationally, having around 450% growth in overseas assets since 2009. We help companies with DB pension schemes de-risk their investments by more closely matching assets and liabilities. Ultimately we can also take over responsibility for paying pensions through our bulk annuity plans.

Q How have you coped with the unexpected changes which the Chancellor made to the way people can take retirement income?

A We needed to be resilient and seek ways to replace the loss in revenue from individual annuities. Bulk annuities now comprise over 90% of all annuity sales and annuity sales increased by 61% in 2014. Our £3 billion transaction with ICI was the UK's largest ever bulk deal. We're also well placed to help people with personal pensions invest their pension pots.

Q What worries do you have about the future?

A There are some signs that the global economy is picking up. But at the same time significant risks still exist, with considerable worries over the fragility of the Eurozone. Markets don't like uncertainty. Future elections in the UK, Europe and the US could all make the unstable background worse. However, our business model has proved to be resilient in the past. The changing political background could create further regulatory issues for us, so we need to work closely with future governments.

Q We hear a lot about the digital revolution. Are your customers benefiting?

A We want to help our 10 million protection, savings and investments customers manage their accounts digitally. For example: we already own the UK's biggest digital investment platform with around £72 billion of assets; our retail protection business, with over £1bn of premiums in 2014, now benefits from over 80% 'straight through processing'; our increasingly digital general insurance direct sales grew by 29% and we have introduced a new online digital workplace pensions proposition for SMEs. John Pollock, CEO of LGAS, who is retiring at the AGM after 35 years, has been a keen and effective driver of our digital programme. I'd like to thank him for these and all his other contributions as he passes the digital baton to the next generation of senior managers. ■

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

"We're building a business that is growing organically based upon a simple strategy that taps into five key macro trends. We engage our employees by placing customers at the heart of our business. My role is to provide energy and direction and create a powerful leadership team."

Macro trends

Five big themes driving strategy

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AGEING POPULATION

The world is getting greyer

Baby boomers born just after the war are now in their late 60s. Looking forward to 2030, 20 million people, or 27% of the UK population will be over 60. On average, 72% of UK men currently aged 60 and 80% of women, could reach their 80th birthday. Most corporate (DB) pension schemes are currently in a deficit position.

Our response is to help de–risk corporate pension schemes through our innovative product solutions. We're also developing new ways to help people manage their retirement income.

WELFARE REFORMS

The state of welfare

Angela Merkel, the German Chancellor, pointed out that Europe today accounts for just over 7% of the world's population but has to finance 50% of global social spending. The UK government still has an annual deficit between income and expenditure of just under £100 billion, despite five years of austerity. In the 2013-2014 tax year the UK spent £47 billion on sickness and disability benefits and £5 billion on unemployment benefits. Real wages have fallen by around 10% since 2008, generating less tax revenue to fund welfare payments.

Our aim is to help people supplement state provision with affordable insurance and pension benefits. We want to encourage people to take responsibility for their own provision with pensions auto-enrolment and greater take-up of insurance.

RETRENCHING BANKS

Fast money, Slow money

Before the financial crisis banks invested widely in the UK's infrastructure. Now that's no longer the case and the nation is suffering from under investment. The shortage is especially severe in housing, where Shelter's CEO, Campbell Robb said: "We're building less than half of the 250,000 homes needed each year just to keep up with demand."

Our response is to use our 'slow money' to invest in long term infrastructure, like housing, student homes, care homes and urban regeneration.

GLOBALISATION OF ASSET MARKETS

Global markets

According to PwC's 'Asset Management 2020' report, global assets under management (AUM) could increase by 2020, from $64 trillion now to around $102 trillion. We have the opportunity of building scale in the estimated $33 trillion North American markets. Important growth areas internationally are likely to be passive funds and emerging markets such as Asia and the Middle East.

Our response is to diversify our business using our home-grown skills to expand in the US, Europe, Asia and other emerging markets.

DIGITAL LIFESTYLE

Connecting the world

The UK is a global leader in embracing digital technology. 73% of UK adults are online on a daily basis and 57% use tablets or smartphones to access the internet. 93% of adults in the UK personally use a mobile phone and mobiles account for 52% of all traffic to UK retail websites, so it's no surprise that 32% of consumers buy via their mobile at least once a month.

Our response is to build digital platforms for investments, workplace pensions and protection creating the infrastructure for customers to engage with us throughout life in any digital medium they choose.

FURTHER READING ON OUR RESPONSE TO MARKET TRENDS
Starts on page 14

Political background

There are significant potential political risks, with the next five years being a time of likely change. Elections are due in the UK, Europe and the US in the next two years. A referendum on the UK's withdrawal from the EU remains a distinct possibility. Further devolution of powers away from Westminster is likely. We're also aware of the risk of deterioration of geo-political stability, especially in the Middle East and eastern Europe.

Economic overview

Our two main markets are the UK and the US. Over the last year, global economic data has been mixed. The UK economy saw steady growth, driven by the services sector. The US economy rebounded strongly during 2014 and economic indicators continue to signal a broad based upturn in activity. Looking forward, the fundamentals for the world economy have improved, which increases the chance of a period of stronger growth. Inflation is expected to remain low through 2015, but central banks in the US and UK are signalling an eventual shift towards a tightening of monetary policy, the full effects of which are difficult to predict. Continued weakness in the Eurozone and political risks, present a degree of uncertainty for a sustained UK recovery.

Regulatory pressures

The regulatory landscape is still challenging for financial services. In the UK the FCA and PRA are still evolving distinct approaches to regulation. The PRA is committed to implementation of Solvency II on 1 January 2016, but there is material uncertainty over the practical outcome. (See page 53 :'Risk based capital model'). The EU structure of harmonising directives across Europe threatens to limit UK regulators' ability to introduce more proportionate regulation. In particular, the Markets in Financial Instruments Directive 2 (MIFID 2) and Packaged Retail products affect our investment management business.

What we do

Our business is to manage all types of risks. Two key areas of risk are longevity/mortality risk and investment risk.

Understanding these risks allows us to deliver three distinctive types of products and services: Protection, Retirement and Investment management.

We deliver these products and services through our businesses, which work together to help our customers.

The synergies created by working together drive our success.

3.8m
UK retail protection customers

1.8m
Group protection members

1.2m
People saving for retirement in workplace pension schemes

1.0m
People relying on us for lifetime pension income

3,000
UK pension schemes where we manage the investments

PRODUCTS AND SERVICES

Protection

Retirement

Investment

OUR BUSINESSES	WHAT WE DO FOR OUR CUSTOMERS
LGAS Insurance **Legal & General America (LGA)**	**Protects employees and individuals by providing monetary assistance and peace of mind** For example, we cover our customers' financial risks from events such as death, disability, sickness and loss of property.
Legal & General Investment Management (LGIM) **Legal & General Retirement (LGR)** **LGAS Savings**	**Helps employees and individuals enjoy a regular retirement income** For example, we take on the responsibility to pay pensions for companies or provide regular retirement income for individuals.
Legal & General Investment Management (LGIM) **Legal & General Capital (LGC)** **LGAS Savings**	**Provides solutions to help pension schemes, institutions and individuals manage their investments** For example, we help pension schemes manage their investment funds through a range of asset classes also providing attractive funds for retail investors.

ECONOMICALLY AND SOCIALLY USEFUL PRODUCTS AND SERVICES

- Allowing individuals to maximise their retirement income
- Helping companies de-risk their pension liabilities
- Helping families when the bread winner dies or suffers from long term sickness or disability
- Helping employees save for retirement
- Helping companies protect their employees and their families following death and sickness
- Helping people protect their homes and possessions
- Investing in UK infrastructure

Helping customers across the housing market

Step 1

We help people move into new homes through our mortgage network

LGAS Insurance

Our mortgage network was set up in 2004 following the success of our mortgage club. Ten years later our network instigated £40 billion of new mortgages, helping financial advisers and mortgage advisers source the right mortgage products for their customers by negotiating attractive mortgage deals. Our mortgage club is now responsible for almost one third of all business coming through the UK intermediary channel.

Step 2

We insure people's homes and possessions

LGAS Insurance

In 2014 we paid out over £150 million in household insurance claims. Our customers hold over 1.4 million household insurance policies and have come to us through various channels. Customers can choose to buy through banks, building societies, brokers and members of our mortgage network. We're also one of the UK's fastest growing online insurance providers, either through our own website or through comparison sites.

Step 3

We provide insurance cover to ensure the mortgage can be paid off in the event of death or critical illness

LGAS Insurance

We're the UK's market leader in providing life assurance and critical illness cover to protect people and their families. We have relationships with building societies covering 85% of their members and have arrangements with banks, such as Barclays and TSB, to protect their customers and their mortgages.

Step 4

We help to finance the building of new homes by investing our 'slow money' into housing projects

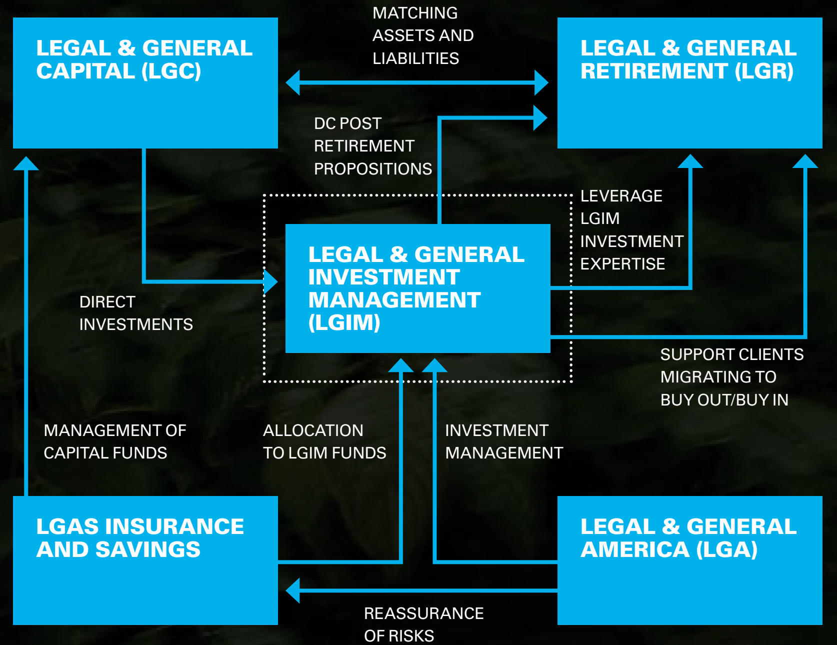
Legal & General Capital (LGC)

Legal & General Investment Management (LGIM)

We've put over £5.7 billion into direct investments, including UK infrastructure projects in housing, ranging from social housing to the private rented sector and modern homes for families. We also help communities through our investments into student accommodation, care homes and urban regeneration. This is 'slow money', where we need to invest for the long term, matching liabilities and improving the risk-adjusted returns on the group's principal balance sheet.

Maximising synergies across the group

This chart shows how our businesses work together



Investment experts

We're one of the UK's largest asset managers and are building our expertise as a global investor. We manage £709 billion in assets for more than 3,000 institutional clients. Our investment expertise covers a wide spectrum of asset classes including equities, fixed income, commercial property and cash. Our capabilities range from index-tracking and active strategies to liquidity management and liability-based risk management solutions.

Longevity and mortality experts

We're recognised as a leading longevity and mortality expert. We're committed to continually developing this expertise. We're associated with a number of external longevity science institutions. We collaborate with University College London on population ageing, where we sponsor two undergraduates.

We also support the Longevity Science Advisory Panel (LSAP), an independent panel of leading authorities who are experts on longevity issues.

Housing experts

Our expertise in the housing market helps people in every area of housing. We recognise that there's a desperate shortage of quality housing. We use our knowledge to partner with organisations such as Shelter to help develop government policy. We're involved in several areas of homebuilding, financing the building of social housing, private-renting, home-ownership, for students and for the elderly. Our mortgage and surveying businesses help people find the right home and a suitable home loan. Our Insurance business provides cover for life, critical illness, sickness and unemployment, as well as protecting buildings and contents.

AGEING POPULATIONS

OUR STRATEGY:
Helping DB pension schemes de-risk their liabilities.

Businesses key to our response are highlighted.

Legal & General Retirement (LGR)

Legal & General Investment Management (LGIM)

Legal & General Capital (LGC)

Legal & General America (LGA)

LGAS Insurance and Savings

The world is getting greyer

Our businesses work together to help pension schemes build more secure futures

The legacy of DB pension schemes

The key objective for the trustees of defined benefit (DB) pension schemes in the UK is to pay benefits on time and in full. Pension schemes invest contributions from employers and employees, to close any funding deficits and pay out pensions. In the UK, the total deficit of DB schemes covered by the Pensions Protection Fund reached £266.3 billion at the end of December 2014. Pension deficits arise primarily due to increasing longevity, falling interest rates, increasing inflation and falling equity volumes.

Difficult choices to make

In the UK, just three FTSE 100 companies now have DB schemes open to new members. There's a continuing trend for schemes to close and be replaced by defined contribution (DC) schemes, which means that we are seeing fund outflows from our DB business. UK DB pension schemes are increasingly moving to de-risk their investment strategies wherever possible and consider two eventual outcomes. They can adopt a low-risk 'self-sufficient' investment strategy, focusing upon paying benefits and generating a modest return. Alternatively, they can consider a buyout strategy, where scheme liabilities and risk are transferred to an insurance company.

> **"We can help clients diversify assets, match liabilities and move to buyout, all under one roof."**
>
> **Mark Zinkula, CEO, LGIM**

Our derisking solutions

As an investment manager and as an insurance company we can help our clients navigate their journey to the eventual outcome. We offer a wide range of growth investment strategies which can help close the funding gap and de-risk investment strategies, which ultimately target the 'endgame'. Our investment management team and our bulk annuity team work closely with trustees and employee benefit consultants so that we can understand our customers' objectives and help them achieve them.

Leading the market in liability driven investments (LDI)

We've built up a market leading position in LDI, accounting for 44% of the UK DB market. For the second year running, KPMG have calculated that we are the largest LDI manager in the UK across both pooled and segregated mandates. This is testament to our commitment to providing UK pension schemes with investment solutions that support them throughout their derisking journey. ▶

> **"We help scheme trustees to pay pensions on time and in full."**

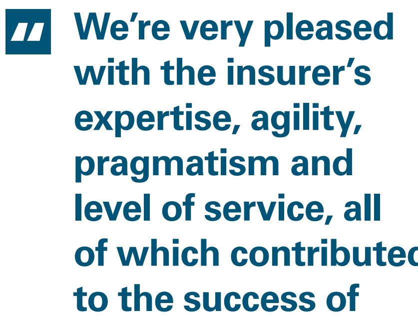
Helping wider society

The policies that we write also benefit wider UK society. Around 35% of all bulk annuity premiums we received in 2014 have been invested in direct investments. These investments have a wider social benefit as well as providing us with secure investment opportunities.

35%
Approximate percentage of bulk annuity premiums received in 2014, allocated to direct investments

In 2014, we continued to innovate, focusing on three main areas:

- Enabling a broader range of schemes to access LDI solutions and manage their risks
- Enabling a liability aware approach to credit investing
- Supporting schemes in preparing for the next stage of LDI



"We're very pleased with the insurer's expertise, agility, pragmatism and level of service, all of which contributed to the success of this buyout."

Neil Marchuk, Chair of the TRW Trustee Board, talking about Legal & General's TRW transaction.

We've launched Buyout Aware funds which are specifically designed for pension schemes targeting a buyout 'endgame'.

The reforms in the March 2014 budget changed the landscape of the annuity market. Our individual annuity sales fell from £1.3 billion in 2013 to £0.6 billion in 2014. Although we are receiving considerably lower revenue and earnings from individual annuities, the overall impact on our business is limited for two major reasons: Firstly, in 2014 individual annuities only represented 33% of annuity sales. We replaced reduced volumes of individual annuity sales with significantly higher bulk annuity transactions; Secondly, we've developed solutions that enable people at retirement, after receiving suitable guidance, to invest their pension pots using our longstanding expertise in both retirement income products and investment management. Our new post retirement plans enable consumers to access their retirement savings and take income in ways which offer a greater degree of flexibility.

A record year for bulk annuities

In 2014, our bulk annuity sales doubled in size to a record £5.9 billion. We believe that this will make us the largest provider of bulk annuities in 2014. As well as writing the UK's largest ever buyout (£2.5 billion TRW pension scheme) and largest ever buy-in (£3.0 billion ICI pension fund), we wrote further significant transactions with Ofcom (£50 million), Unilever (£129 million) and Enterprise Inns (£35 million). These were significant as they included a number of innovative features demonstrating our ability to deliver better solutions to our customers. We also carried out more than 40 smaller transactions for a total of £186 million.

The wide range of derisking choices we offer pension schemes:

- We have a strong focus on equity index funds, with £275 billion of equity index assets under management
- Our multi-asset growth and fixed income funds support clients' growth strategies
- Our market leading LDI proposition offers risk management strategies and hedging tools
- Buyout plans secure annuity policies on behalf of scheme members, taking the pension scheme liability off the corporate balance sheet
- Buy-in plans insure all payments due from the scheme to a subset of the scheme's members. The pension liability remains on the company's balance sheet
- Longevity insurance covers the financial risk of pensioners surviving longer than previously anticipated.

Key information

DB pension liabilities

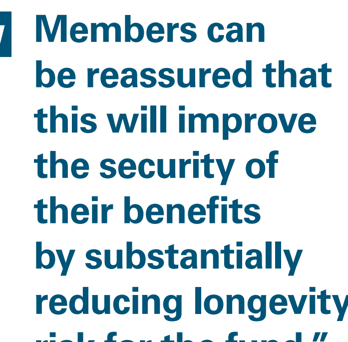
£1.7tn

Estimate of UK DB pension liabilities on a full buyout basis

Market insight

97%

Of FTSE 100 defined benefit schemes closed to new members



"Members can be reassured that this will improve the security of their benefits by substantially reducing longevity risk for the fund."

David Gee, Chairman of Trustees for the ICI Pension Fund

ICI: The UK's biggest bulk buy-in transaction

This £3.0 billion buy-in reduced risk and enhanced security for a significant section of ICI's pensioners. We were chosen for our covenant strength and ability to work with the fund's trustee to ensure a smooth transition of assets ■

TRW £2.5bn buyout

The UK's largest ever pension buyout

In November 2014 we announced a £2.5bn buyout with the TRW Pension Scheme covering 22,000 of the scheme's pensioners, confirming our position as the leading insurer in tailored derisking solutions for larger schemes.

Not only was this the largest buyout transaction in the UK to date, but it also incorporated a number of innovative elements that were included as part of an integrated, broader risk management strategy for the scheme.

In particular, a pension increase exchange offer was made to over 15,000 pensioner members as part of the buyout process.

The project required close collaboration between the scheme's trustees, the sponsoring employer and both our bulk annuity business and Legal & General Investment Management.

MANAGING THE RISKS

When we write annuities we have to estimate people's life expectancy. We call this longevity risk. Longevity and credit, the risk of default by the issuers of bonds used to back our annuity liabilities, continue to be the most significant risks in our retirement business and the largest on our group balance sheet. As well as our capabilities to evaluate and price for longevity, we actively use reinsurance to manage aggregate exposures. Our credit experts in LGIM manage the exposures to credit risk.

FURTHER READING
lgim.com/uk/en/solutions/defined-benefit

The state of welfare

We can deliver better outcomes to people, by stimulating greater ownership of protection and savings products.

WELFARE REFORM

OUR STRATEGY:
Providing financial security and helping society.

Businesses key to our response are highlighted in blue.

LGAS Insurance and Savings

Legal & General Retirement (LGR)

Legal & General Investment Management (LGIM)

Legal & General Capital (LGC)

Legal & General America (LGA)

We could benefit from modernising the welfare state

William Beveridge's original framework for the welfare state was one of the 20th century's greatest social reforms

At the heart of these reforms laid down by the post-war Labour government, were contributory benefits set at a basic level through the collection of National Insurance, to tackle the five giants of: want, disease, ignorance, idleness and squalor. These five 'wants' are still relevant in the 21st century. However, affording comprehensive benefits can be difficult given that the UK's deficit is almost £100 billion, close to 6% of GDP. That's twice the 3% of GDP limit that applies to Eurozone member states.

Providing affordable security to help society

The government hasn't been able to reduce spending on education and health and debt interest payments are hardly falling, so the government has sought cuts from welfare. Yet the cost of welfare will rise rapidly in the future, largely as a result of age related costs. Our 'deadline to the breadline' research shows us that the average working age household has just the equivalent of ▶

Financial hardship

36%

UK households with no strategy in place to cope with financial hardship.

Understanding stress in the workplace

Industry research has shown that managing mental health is the top health issue for 32% of employees and a TUC survey found that stress is the UK's No.1 safety concern.

We work together with mental health charities such as ReThink and Business in the Community to increase understanding.

Because mental illness is the cause of almost 30% of our group income protection claims, we've developed a personalised, comprehensive and effective programme of support for people with mental illness. In 2014, we invested £4.6 million in rehabilitation treatment. The result was that 78.5% of the mental health related absences notified to us resulted in people returning to work within the deferred period.

14 days' savings if earnings dry up. Affordable private insurance can help supplement welfare and redundancy payments.

Our protection expertise

We're the UK's biggest provider of life insurance, being the clear market leader in the individual market and a major player in the corporate market. In the corporate market, we not only provide employees' dependants with vital cover, but we also help employers to provide an income in the event of sickness or disability.

Growing retail protection

We grew our share of the individual protection market in 2014 to just below 25% by the end of the third quarter, making us larger than the next two companies combined. New business grew by 11% to £165m. Reasons for our success are simple. Our scale means that unit costs can be lower, to the benefit of our customers. Our expertise in underwriting means that 80% of applications in 2014 were accepted automatically. And our distribution strength means we have arrangements with UK building societies covering 85% of their members, as well as a longstanding relationship with Barclays and new partnerships with Direct Line and TSB. Our service continues to be excellent, with 96% of our customers making a life or critical illness claim scoring us more than eight out of ten for 'customer ease'. We've also received industry awards for service from key industry bodies such as Moneyfacts and Lifesearch.

What would you say to your younger self?

Our multimedia advertising campaign aimed to inspire people to take action to protect their families, with life insurance. The success of the campaign goes way beyond the large number of new customers we acquired. We were able to reach out to younger people, inspiring them to think about the importance of life insurance, while making them aware of the our brand. By engaging people and building awareness of our brand, we're positioning ourselves to grow our future digital and direct businesses.

Synergies in corporate

We now have a 20% market share of new auto-enrolled members. Auto-enrolment has had major spin-offs for our group protection business. We now have 650,000 people who are in both a workplace savings and group protection scheme, a 13% increase over 2013. This means that we are now providing pensions or protection for 54% of FTSE 100 companies.

Auto-enrolment is on track to be a huge success for the UK, with up to 11 million employees due to save for retirement for the first time.

"We aim to use our scale in insurance and workplace pensions to deliver benefits to customers."

Making auto-enrolment even more successful

2014 was a successful year for our workplace pensions business. We've seen a 36% increase in our member numbers and have exceeded £11 billion in assets under administration. Two of the reasons for our success are our scale, where our unit costs have fallen by 60% over the last three years, and our ability to offer employers online documentation. We've developed online propositions for small and medium sized businesses. This has helped us maintain momentum despite most larger companies setting up schemes in 2012 and 2013. Employers value the ability to manage governance through our well regarded master trust and we're benefiting from employers who want investment only platforms ■

MANAGING THE RISKS

Writing protection business means we have to make assumptions about how long people will live, how healthy they will be and events that could give a higher rate of claims than we'd normally expect. We call these mortality, morbidity and catastrophe risks. We price our protection products to take account of these risks using reinsurance to manage significant exposures.

FURTHER READING
legalandgeneral.com/insurance

What would you say to your younger self?

Inspiring people to protect their lives

In 2014, we asked the nation: "What would you say to your younger self?" We ran two campaigns using billboards, radio, press, direct mail and online advertising and backed this up with activity on Twitter and Facebook. The response was overwhelming and touched a chord with people across the country. Two poignant social media posts were:

We were delighted that our Facebook posts reached over 800,000 people and that we generated 4,000 tweets. But we were even more pleased that at the time of the campaign we saw an increase in new customers taking out protection policies. In 2014, we completed around 458,000 protection policies through all distribution channels, with total new premiums up 11% to £165 million.

Inspiring people to buy life insurance

39%

Growth in direct protection completions in 2014 compared to 2013

Fast money, slow money

RETRENCHING BANKS

OUR STRATEGY:
Pursue direct investment opportunities.

Businesses key to our response are highlighted in blue.

Legal & General Retirement (LGR)

Legal & General Investment Management (LGIM)

Legal & General Capital (LGC)

Legal & General America (LGA)

LGAS Insurance and Savings

Why investing slow money is important to us

Our long term funds, especially our £44 billion annuity book, can invest money over a very long time horizon, sometimes as much as 30, 40 or 50 years. This provides us with an opportunity to increase the returns on shareholder assets. This shareholder capital is currently invested mainly in traded assets such as equities, cash and bonds. However, there's significant scope to move this solvency margin into higher returning long term investments as we build our direct investment capability.

Rebuilding Britain and getting the economy moving

Our strategy is to gain attractive returns by investing in sectors vacated in recent years by banks, hedge funds and private equity. Areas such as housing and urban regeneration have the potential to give us stable revenues and good long term returns. This also supports competitive pricing for our customers and enables us to be economically and socially useful by providing infrastructure funds to rebuild Britain. Many regions outside London and the south need new investments in homes and infrastructure, creating new jobs and stimulating local business growth.

Rebuilding Canning Town

Our participation in the English Cities Fund (EcF) has enabled 650 new one and two bedroom apartments to be built in Canning Town as part of a wider £3.7 billion urban regeneration plan. The 'Rathbone Market' project is a flagship project which delivers new homes in a mix of tenures, including affordable homes.

> **"Legal & General... has a range of initiatives across the country, working in partnership in public and private, to help rejuvenation."**

Lord Heseltine, July 2014

Overcoming Britain's housing crisis

The UK has neglected house building since 1979, falling from post-war highs of 400,000 a year to barely 125,000 homes a year. Campbell Robb, CEO of Shelter, said when submitting their entry for the Wolfson Economics Prize: "soaring prices and years of rock-bottom house building have pushed the housing market to crisis point." We need to free up more land for building and invest in all housing sectors. Young people are squeezed out of the market and want more affordable homes, young families need good quality housing to rent or buy, key workers, especially in London, need low-cost accommodation and elderly people want smaller specialist homes, when their physical health declines in later years.

Our work with Places for People and CALA Homes

Our £252 million Places for People investment enabling 7,000 more new homes to be built over the next seven years, is the largest direct investment made by an institutional investor into the affordable housing sector. David Cowans, Group CEO of Places for People said: "The scale of under supply in housing and the need to invest in infrastructure ▶

across the UK is central to our determination to develop partnerships with investors like Legal & General".Our 46.5% owned joint venture company, CALA Homes became a top ten UK house builder with the acquisition of Banner Homes in March 2014 and is targeting £800 million of sales by the end of the 2016 calendar year.

Bridging the north-south divide
The north of Britain needs investment through 'slow money' to avoid missing out on the economic recovery. Because big successful cities drive economic growth, we need to get our cities rebuilt and regenerated. Greater local decision-making will enable investment in projects that provide a platform for growth. We also need to invest in skills, especially in the high tech sector and improve transport infrastructure. Greatly improved rail transport and better airports outside London and Manchester will stimulate local economies. Our future strategic aim is to invest more of our slow money in projects outside London and the south.

> **"This investment from Legal & General is proof that Salford is a successful, growing city. It's another example of a successful regeneration scheme, which will benefit Salford and its residents."**
>
> **Ian Stewart, City Mayor of Salford**

Creating better student accommodation
The National Union of Students says that: "more than three-quarters of students live in poor accommodation". To help solve these problems we're already funding a pipeline of over 17,600 housing units for students, investing over a billion pounds in places such as Greenwich, Aberystwyth and Hertfordshire. Our 1,014 unit, £90 million Mayflower Plaza development for the University of Southampton opened in 2014 and means that students enjoy high quality housing in a city centre site, with good access to transport links. It also frees up homes for families elsewhere in the city.

Regenerating Salford
Our work with English Cities Fund

We've invested our 'slow money' into English Cities Fund and worked with local councils in Salford, Liverpool, Wakefield, Plymouth and Canning Town to regenerate some of the UK's most important city centre sites. In Salford, our investment is part of a partnership that will create around 11,000 new jobs, 2.37 million square feet of commercial space, 849 new homes and 390 hotel rooms. New homes, jobs, offices, retail and leisure space and improved infrastructure, like the delivery of the Ordsall Chord, will create a sustainable transport hub in Salford Central Station and will support the city going forward. The 97-home Vimto Gardens development, was built on vacant land around Salford Central Station and the riverbank opposite Manchester's successful business district of Spinningfields. The north has sometimes lost out on any economic recovery. So we're playing a meaningful role in bringing about major regeneration and helping to bridge the north-south divide.

"From 2004 to 2013, for every 12 jobs created in the south, one was created elsewhere."

Centre for Cities, Cities Outlook 2015

£15bn

Direct investment programme with £5.7 billion invested to date

Aberdeen International Business Park: £127m investment, 335,000 square feet of office space

Transport and logistics: £320m, maturities to 30 years

Places for People: £252m acquiring 4,000 homes, building 7,000 houses, 50-year lease

English Cities Fund schemes in Liverpool, Plymouth, Canning Town, Salford and Wakefield: over 5.4m square feet of mixed-used space, brownfield land

CALA Homes: £210m investment (47% stake), further £200m for Banner Homes

Royal Liverpool University Hospital: £429m rebuild

Hyde Housing Association: £102m investment, 15-year facility

Thames Valley Housing: £40m, 25-year facility enabling 500 affordable homes

Methodist Care Homes: £70m investment, 30-year lease

Sentinel Housing Association: private placement (registered social housing provider in Hampshire)

University of Southampton: £93m, 1,104 beds, 40-year income

Investing in care homes

A recent report from Demos estimated that retired people own £1.3 trillion of the UK's housing equity, with a projection that 3.5 million of them want to move to more suitable smaller homes to free up income or improve their quality of life. While the government wants to enable more elderly people to stay in their own homes as long as possible, we also want to help elderly people who need a greater level of support by helping establish better quality care homes. We've invested around £220 million in the care home sector, acquiring units let to Care UK and Methodist Homes ■

MANAGING THE RISKS

Long-term investment in infrastructure through commercial lending inherently exposes us to the risk of loan default. We have over the years, through Legal & General Property, built significant expertise in property markets, and combined with our credit capability, we are able to assess the risks of each transaction and the quality of security that we may take.

FURTHER READING
legalandgeneralgroup.com

Global markets

As the largest manager of UK pension fund assets, we're using our expertise and scale to expand internationally.

GLOBALISATION OF ASSET MARKETS

OUR STRATEGY:
Expand our global footprint.

Businesses key to our response are highlighted in blue.

Legal & General Retirement (LGR)

Legal & General Investment Management (LGIM)

Legal & General Capital (LGC)

Legal & General America (LGA)

LGAS Insurance and Savings

Becoming a global investment manager

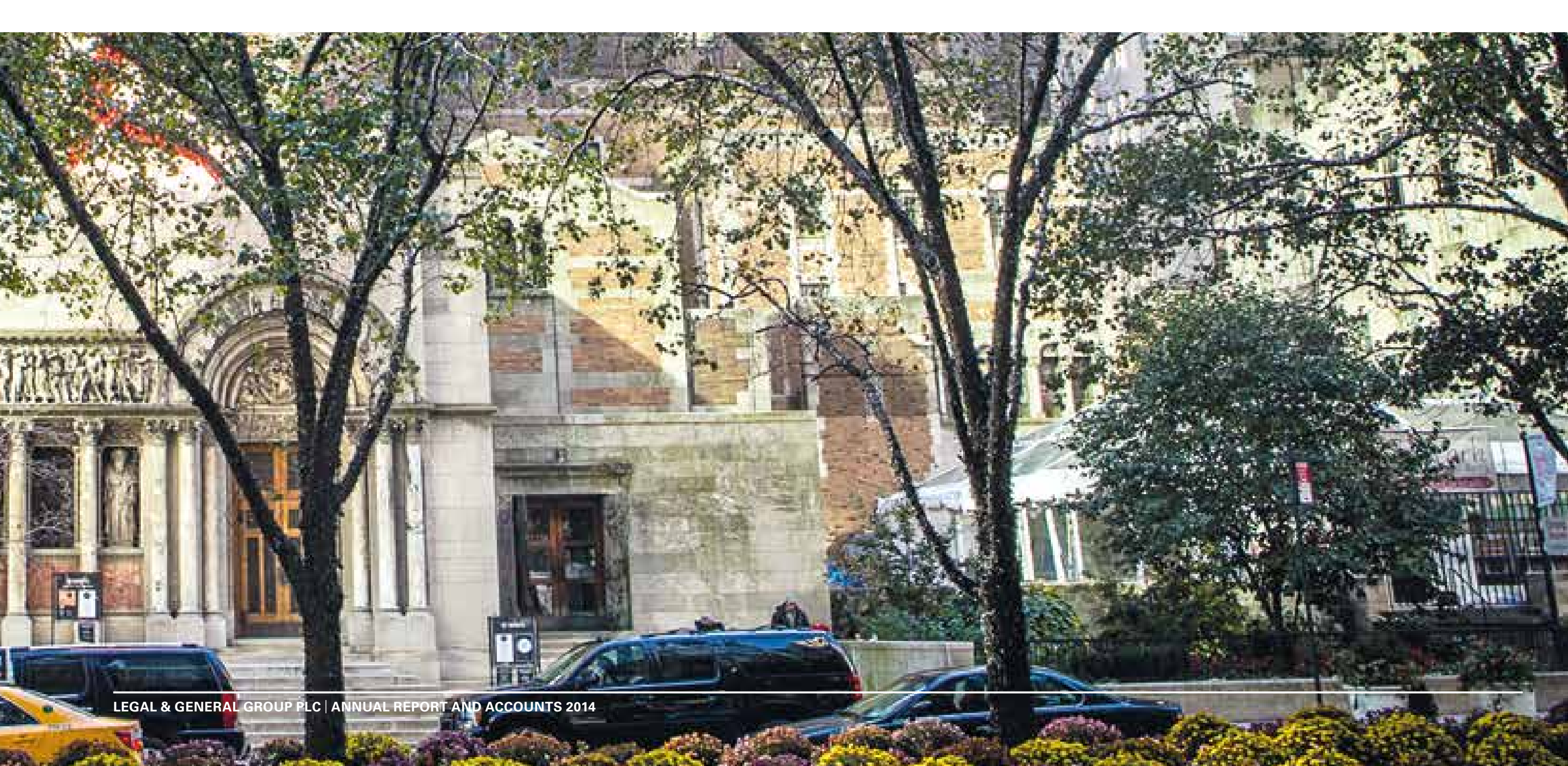
We're making strides in our ambition to be a global investment manager

The decline in DB pensions in the UK has posed challenges for our UK fund management business and we saw fund outflows from our traditional DB business in 2014. With £709 billion of total assets, we're one of the UK's leading asset management companies. We have expertise in global fixed income markets and are at the forefront of developments in liability driven risk management solutions for DB pension schemes.

> **"Global investable assets for the asset management industry could increase to more than $100 trillion by 2020."**
>
> **Asset Management 2020, 'A Brave New World', PwC, 2014**

That means we can use our expertise to expand further into international markets, not only helping international DB schemes derisk their assets, but gearing up for growth in DC and index assets and managing international sovereign wealth funds.

The US business had a successful 2014, with another record year of fund inflows. We are entering our next phase of growth in the US, as we go into the DC market, build index capabilities and expand our fixed interest product and distribution strategy. ▶



Building an Asian presence

PwC's Asset Management 2020 report forecasts that by 2020 Asia could account for 16% of global funds under management, with assets in the whole Asia Pacific region projected to grow from $7.7 trillion to $16.2 trillion.

We're building a presence in Asia from our Hong Kong office, which is strategically positioned to benefit from the expected growth in the Asian region. In December 2014, we obtained a Type 9 regulatory asset management licence.

Accelerating growth in the US

In the UK, 72% of pension assets are still in DB. However, the US has moved to DC more quickly, with 58% of all assets now held in DC schemes. Our purchase of Global Index Advisors Inc. (GIA) in May 2014 gave us the opportunity to start creating scale and distribution strength in the $6 trillion US DC market. In October 2014, we finalised the transition of our North American equity index assets to the US, where our team is now managing an additional $60 billion of index assets. This builds upon our existing LDI and active fixed income capabilities with DC and index growth strategies.

Opportunities in Asia and the Gulf

In Asia, we're still on a journey to establish our presence in the region. In April we won our first Asian index clients, with two index mandates totalling $1.4 billion in assets. We're developing our sales and marketing team in Hong Kong and late in 2014 we obtained a Type 9 licence from the Hong Kong regulator.

In the Gulf, although we saw lower levels of fund flows we're successfully expanding our range of mandates and deepening relationships with our clients ■

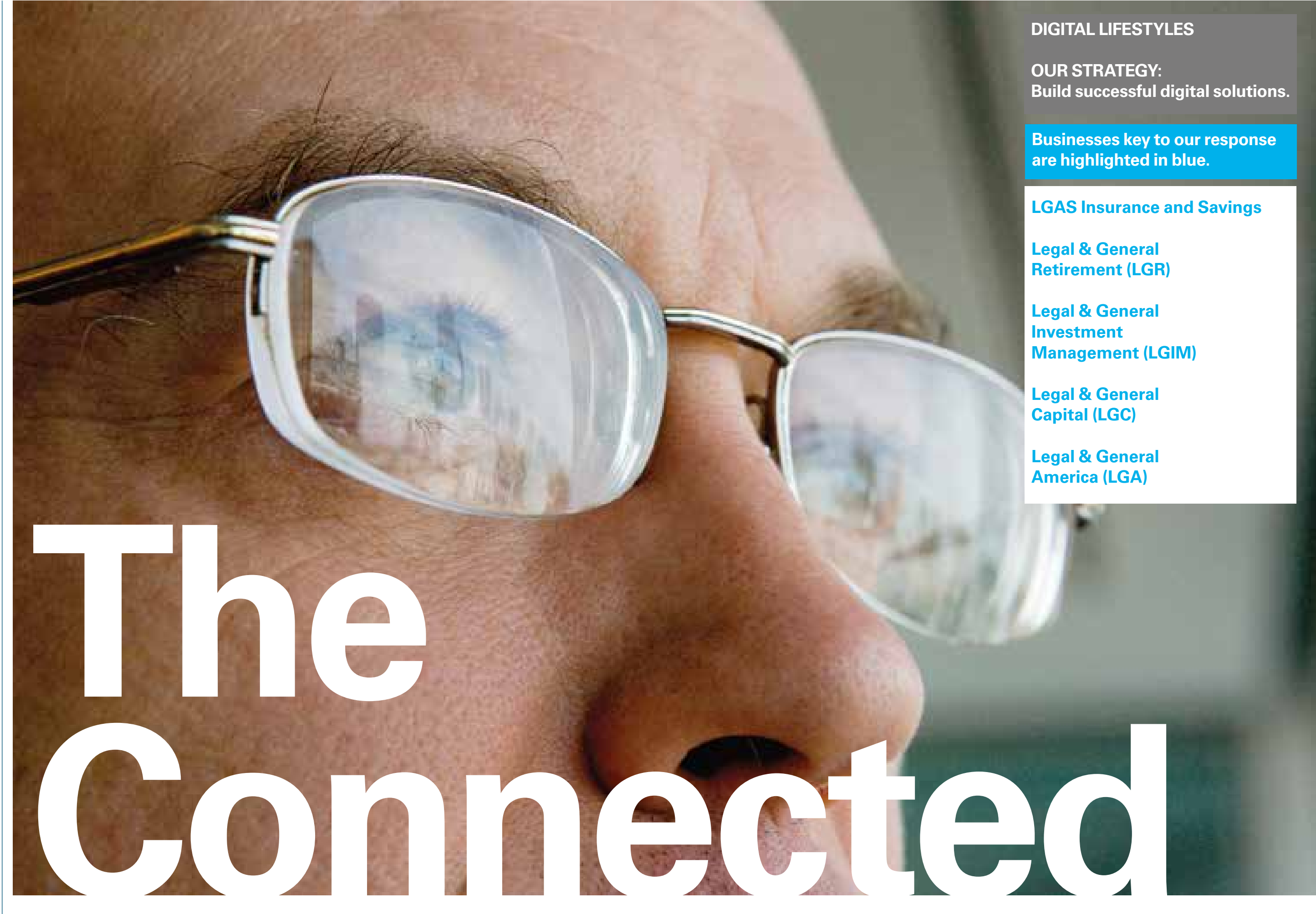
MANAGING THE RISKS

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

FURTHER READING
lgim.com/global

Derisking pension schemes across the globe

Although derisking is still at an early stage in many countries, global liabilities on a buyout basis are estimated to be around $10 trillion. There are over $2 trillion of DB pensions assets in the Netherlands and Canada, two countries where less than 5% of funds are held in DC schemes. The US still has over $7 trillion of assets in DB schemes. We're continuing to explore opportunities in the global derisking market. In the US especially, where pension scheme liabilities for the 100 biggest companies reached over $1.8 trillion at the end of 2014, companies and employee benefit consultants are increasingly looking to leverage our differentiated LDI capability.



DIGITAL LIFESTYLES

OUR STRATEGY:
Build successful digital solutions.

Businesses key to our response are highlighted in blue.

- LGAS Insurance and Savings
- Legal & General Retirement (LGR)
- Legal & General Investment Management (LGIM)
- Legal & General Capital (LGC)
- Legal & General America (LGA)

The Connected World

The number of mobile phone subscriptions worldwide is approaching the global population, almost seven billion by the end of 2014, corresponding to a 96% penetration rate.

Using mobile solutions to reach out to people

Many UK insurance groups have seen their traditional savings markets shrink

The retail distribution review and banks retreating from offering mass-market advice have changed the landscape for insurers. However, the revolution in people using phones and tablets to access the internet can help us. Buying financial services products through mobile devices is slowly becoming more common. Our focus is not just on sales but making it easier for people to engage with our brand, research our products, manage product holdings and communicate with us digitally. ▶

Our products in India aim to expand financial inclusion and promote a culture of saving.

Using mobility to engage new customers

We've been working closely with Vodafone to drive innovation in the way that we engage customers. Changes in consumer behaviour and developments in mobile technology provide us with an opportunity to offer simple, affordable and easily accessible services to customers previously out of reach. Both Legal & General and Vodafone are committed to developing socially useful services; our strategic partnership offers a fantastic opportunity for both organisations to combine expertise and deliver a new model for financial services that helps millions of customers, both abroad and in the UK, to protect their families and finances.

vodafone

Our journey to digital engagement with customers

We have existing online strengths in retail protection, household insurance and digital fund platforms. In 2014, we

Our goal is to be the UK market leader for online life insurance, pensions and investment platforms."

sought to enhance our digital capabilities in other product areas by taking steps to improve the way that savings customers can manage their investments online and change their personal information. We are very much alive to the risks of cyber threats. However, we need to achieve much more digitally and have taken action to strengthen our experience in digital with a number of key appointments, including a chief marketing officer, with responsibilities for growing out digital capabilities, and appointments at non-executive director level.

The UK's biggest digital platform

We own the UK's largest digital investment platform, with around £72 billion of assets. It's been a challenging year for Cofunds, with continued regulatory changes associated with the retail distribution review. We've worked hard to ensure that we provide a competitive charging structure for investors and adhere to the regulator's new legislation for transparency of charges ■

MANAGING THE RISKS

In an increasingly digital world of inter-connected systems, the types of risk exposure will continue to evolve. We're alive to cyber threats, risks to our customers' data, the potential for reputational damage and financial loss. We work closely with our IT business partners to manage new threats as they emerge as well as ensuring our broader IT infrastructure is appropriately scaled to support our plans for growth.

Low cost insurance for low income families in India

Much of the financial activity of low income households is driven by three needs: managing cashflow; coping with risk; and raising lump sums. Saving can help meet these needs, but irregular income can make it hard to establish a regular pattern. During 2014, our Indian joint venture company, IndiaFirst launched its 'CSC Shubhlabh Plan' which helps to address these issues by combining a low premium savings plan with life cover. In case of emergency, customers can partially withdraw from their account after five years. The product's significant social purpose is that it helps protect people from financial shocks, expands financial inclusion and promotes a culture of saving. The entire proposal and acceptance process is carried out on IndiaFirst's digital platform with policies being issued within three minutes. We now aim to make other simple life products available on customers' own mobile phones ■

Progress on strategy

STRATEGIC RESPONSE TO TRENDS

TRENDS	PROGRESS ON STRATEGIC RESPONSES
Ageing populations	**Helping DB pension schemes de-risk their liabilities** We can help pension schemes in every stage of the derisking journey. In 2014, we wrote the UK's biggest buyout and largest buy-in transactions and have a 44% share of the UK LDI market.
Welfare reform	**Helping our customers achieve security affordably through protection and workplace pensions** We're the UK's biggest provider of individual life protection, protecting over five million people and are one of the market leaders in workplace pensions, with £11 billion assets under administration.
Retrenching banks	**Using our 'slow money' to rebuild Britain through direct investments** We've committed to a long term goal of investing £15 billion into direct investments such as infrastructure developments in housing, care homes, hospitals, transport and regeneration of our cities. To date we've invested £5.7 billion of 'slow money'.
Globalisation of asset markets	**Building a world-class asset management business** We've been using our expertise in the UK to expand into US, Gulf and Asian markets. We have now achieved £129 billion in international assets.
Digital lifestyles	**Building successful digital solutions** We're implementing our strategy to use digital technology to help people achieve financial security with online insurance, pensions and investment solutions.

Progress on strategy

We've built success by responding to macro trends

Our strategy is based upon five macro trends: ageing populations; globalisation of asset markets; welfare reform; bank retrenchment; and digital connectivity.

By tapping into these macro trends our businesses have built success, which benefits our customers, our shareholders and society.

IN RESPONSE TO
AGEING POPULATIONS

Helping DB pension schemes de-risk their liabilities

- Remained the UK's market leader for liability driven investments (LDI). A 2014 KPMG report said we have a 44% market share
- Helped the TRW pension de-risk its liabilities, by moving through LDI to a £2.5 billion buyout, the UK's biggest ever contract of this type
- Wrote the UK's biggest buy-in plan with a £3 billion contract with ICI

Global leadership
We participate in every facet of the derisking journey, from managing investment risk, to liability driven investment to using bulk annuities for buy outs and buy-ins.

Market prospects
Our strategy helps us overcome the impact of outflows from our DB pensions investment management business. Our market leading position in bulk annuities gives us huge scope to benefit from the £1.7 trillion market to derisk DB pension liabilities.

"Where possible, we pool our expertise with our colleagues in LGIM to identify unique ways to manage pension scheme risk."

Kerrigan Procter, MD,
Legal & General Retirement

IN RESPONSE TO
WELFARE REFORM

Helping customers achieve security

- Built a 20% share of new auto-enrolled pensions and £11 billion in workplace pension assets
- Increased our UK protection market share to around 25%

Protection growth prospects
The maturity of the UK protection market means growth prospects may be limited. However, as state welfare funding reduces, private provision could become more important.

Rehabilitation benefits everyone
Our Group Income Protection rehabilitation service helps scheme members, employers, society and our shareholders. Employees get fast access to rehabilitation services from leading specialists and almost 80% of long term absentees return to work before a typical six month deferred period. This reduces the length of claims, increases profitability and prevents people falling back on state benefits

IN RESPONSE TO
RETRENCHING BANKS

Using our slow money to rebuild Britain through direct investments

- £5.7 billion of direct investments already put into infrastructure projects
- Supporting the building of new homes to help Britain overcome its housing crisis

Urban regeneration

Our partnership with the English Cities Fund has helped fund regeneration schemes in Liverpool, London – Canning Town, Salford and Wakefield, creating 3,000 new housing units.

Future activities

We're continuing to fund regeneration and infrastructure projects. CALA, our jointly owned housebuilder is targeting £800 million of sales by the end of 2016.

7,000

New homes to be built by 'Places for People'

£15bn

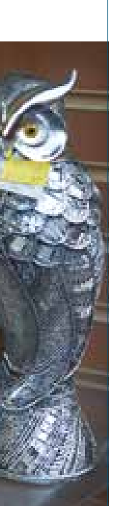
Commitment to invest in UK infrastructure

£1bn

Invested in new student accommodation, some with 60-year maturities

£220m

Invested into the care home sector



IN RESPONSE TO
GLOBALISATION OF ASSET MARKETS

We aim to build a world class asset management business

- Increasing international assets with £129 billion invested to date
- Our US business continues to grow in LDI and active fixed income strategies

International growth prospects

Our strategy enables us to offset the outflows we're seeing from DB pensions funds in the UK. 2014 saw us expand our overseas business. We're using our expertise in the UK to build our US business, based in Chicago. We already have expertise in LDI and active fixed interest and we're entering the DC market and building index capabilities. Going forward, we're looking to widen our product and distribution reach.

FURTHER READING
lgima.com

IN RESPONSE TO
DIGITAL LIFESTYLES

Building successful digital solutions

- Our investment fund platform is the UK's largest, with around £72 billion in assets under administration
- Our new 'Online Scheme Setup' self-serve facility allows small and medium size enterprises (SMEs) to set up their own auto-enrolment pension scheme

> **"Our vision is to make it simple for people to achieve financial confidence through digital media."**

Dominic Collins, Chief Marketing Officer, Legal & General

Future prospects

We've made some progress in developing digital capabilities, but further work is needed to offset the managed decline of the contribution from mature savings products.

Acting responsibly

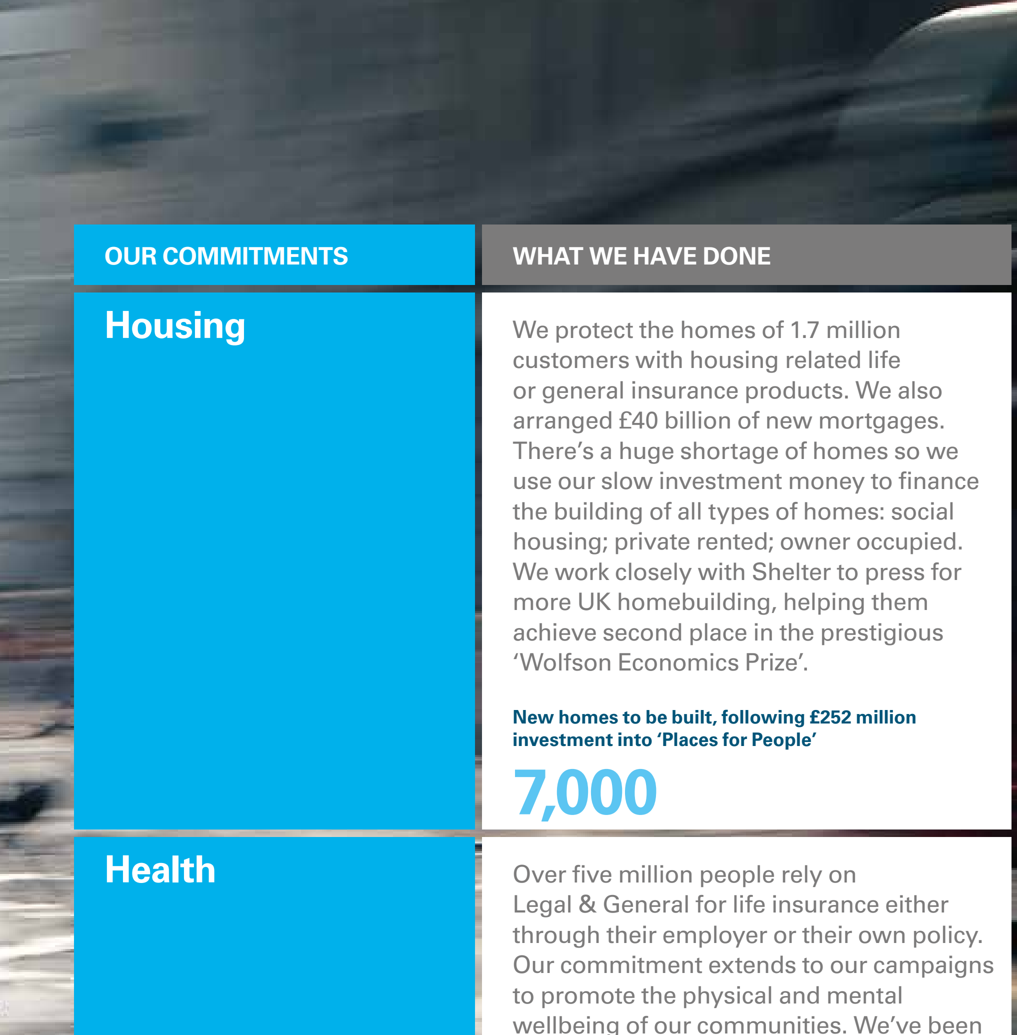
We want to be economically and socially useful by helping our customers achieve financial security and by improving the lives of people in wider society who may not have enough financial resources to own our products.

Acting responsibly touches our business in every way and means that we:

- Seek to provide our customers with good value, fair and transparent products that help them protect their loved ones or enable them to save for their future happiness
- Aim to improve the lives of customers and people in wider society through our campaigns for housing, health and wellbeing and dignity in later life
- Ensure that the companies where our customers' money is invested behave responsibly and ethically
- Help society through paying our tax responsibly
- Ensure that we are environmentally sustainable and that we act ethically towards our employees and business partners

For further details on how we carry out our commitments to broader society, please read our corporate and social responsibility report.

FURTHER READING
legalandgeneralgroup.com/csr



OUR COMMITMENTS	WHAT WE HAVE DONE
Housing	We protect the homes of 1.7 million customers with housing related life or general insurance products. We also arranged £40 billion of new mortgages. There's a huge shortage of homes so we use our slow investment money to finance the building of all types of homes: social housing; private rented; owner occupied. We work closely with Shelter to press for more UK homebuilding, helping them achieve second place in the prestigious 'Wolfson Economics Prize'. **New homes to be built, following £252 million investment into 'Places for People'** **7,000**
Health	Over five million people rely on Legal & General for life insurance either through their employer or their own policy. Our commitment extends to our campaigns to promote the physical and mental wellbeing of our communities. We've been active with mental health charities such as 'Re-Think' and have introduced cognitive behaviour therapy to help employees in our protection schemes recover from stress. **Amounts paid in death claims** **£680m** (2013: £604m)
Income in retirement	We're helping over 1.2 million people save for retirement in workplace pension schemes and over one million customers rely on us for lifetime pension income. We also work with organisations such as the Elderly Accommodation Counsel and Age UK to improve the lives of retired people. We've also been active in investing in care homes, with around £220 million put into care homes to date. **Annuity assets** **£44bn** (2013: £34bn)

Diversity

We're committed to all forms of diversity and want to see greater equality of opportunity to further the careers of our employees. We also want to ensure that our Board reflects diversity of background and management skills. Gender diversity is a key issue, where we're committed to help talented women progress their careers. Our 50/50 by 2020 network raises awareness of gender diversity and is a fairness test to help us check our progress to a more balanced workforce in 2020. This especially means supporting women both before and after maternity leave to help them drive their careers forward into senior management roles.

Director	Female	Male
Directors	3	10
Senior managers	9	33
Future leaders	21	23
Employees	3,536	3,710

Employee Engagement

We're one of the 'Sunday Times' 25 Best Big Companies to Work for', having received recognition in February 2014, reaching 19th position in their Top 25 listing. In 2014 our worldwide employee engagement index stood at 77%. This index measures the level of employee commitment to our goals and success. We surveyed all worldwide employees for the first time, including our Indian joint venture, IndiaFirst.

Our 'Wellbeing' campaign continued in 2014 with our employees being motivated to understand the importance of healthy choices in their own lives and to help improve the health of our communities.

Our UK employees participated in charitable work, making donations through our matching schemes, including Give As You Earn. In 2014 during work time, our employees contributed over 2,000 volunteering days to community and charity projects and donated over £3 million to community investment campaigns.

Environmental sustainability

We are a services based business and use natural resources to run our business. Our Group Environment Committee is responsible for managing our views on climate change and managing environmental impacts across the group.

Our strategy is to build resilience and do more each year to use fewer natural resources. Our key commitments are to:

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

Our CSR report has further detail of our commitments and our achievements.

Action on stroke

In May 2014, our employees worked with the Stroke Association on 'Action on Stroke Month'. We focused on 'mini-strokes' (transient ischaemic attacks – TIAs), which are often dismissed as 'funny turns' rather than a warning sign of a stroke. Duncan Finch, executive MD for Insurance, said: "Stroke is one of the major health issues that can affect our customers. By working with the UK's leading stroke charity, we can help improve our understanding of the impact of stroke."

Yvonne, 56, who benefited from the Stroke Association's befriending scheme.

Our commitment as an 'Active Investor' to raising standards of corporate governance

As one of Europe's largest institutional asset managers and a major global investor we're committed to ensuring that companies align their interests with those of their shareholders. Our focus is on maximising value for our clients by improving the performance of the companies we invest in. We're integrated in all aspects of ESG (Environment, Social, Governance) and believe that this comprehensive approach achieves the best results.

We focus on a wide range of issues that are crucial to the effectiveness of companies. Our areas of focus in 2014 were:

- Board diversity. We campaign for greater female representation and seek to ensure that boards have a diverse mix of skills and experience.
- Executive pay. Rewards should be aligned with long term performance. Ultimately we can vote against the re-election of directors.
- US engagement in the technology sector, on topics such as human rights in the supply chain and corporate reputation
- Better board independence on Japanese listed companies
- Corporate reporting. We want to improve the way companies report key issues such as risks, strategy and executive remuneration
- Auditor independence. We want to see mandatory auditor rotation.
- UK listed mining companies and the sustainability issues impacting UK listed mining companies
- Investor Forum. We work with other investors to understand key issues
- Cyber security. To raise the issue to the Board level.

Vulnerable customers

Our business is to provide safety nets for our customers beyond what's given through state provision. And because we deal with people when they are going through tough times, such as family death, long term sickness and loss of income, we know how vulnerable this can make them.

Our commitment to being economically and socially useful means we seek to provide financial services for those social groups that have traditionally been less likely to buy financial services products.

We've taken two approaches in 2014 to helping vulnerable customers:

1. We've sought to be socially inclusive when positioning products such as UK protection and auto-enrolled pensions so that they are accessible to less affluent people.
2. We've provided our front line employees with training from not-for-profit experts so they can better understand how to deal with people with the biggest vulnerabilities.
See legalandgeneralgroup.com/csr

Tax matters

Grace Stevens,
director of group tax at Legal & General

We aim for our tax affairs to be transparent and sustainable in the long term. Our tax policy is clear about what we will and won't do and we are rated as 'low risk' by HMRC. We're committed to tax transparency. As part of this commitment we talk to NGOs about their tax responsibility agenda, our own tax position and our approach to tax in our role as a significant investor in other companies. Our tax strategy can be found on our group website, investor.legalandgeneral.com.

How our business is taxed

We're subject to various taxes including corporate, employment and property taxes. Corporate income tax is paid on profits. We generate profits where we have real economic activity – capital which we need to write the business and people to run it.

Most of the entities in our group are taxed on their 'normal' trading profit. As an insurance group, some of our businesses are subject to special tax rules. Under those rules the investment return accruing to the customer is taxed as it arises so that when the customer takes their policy benefits there's no liability for basic rate tax.

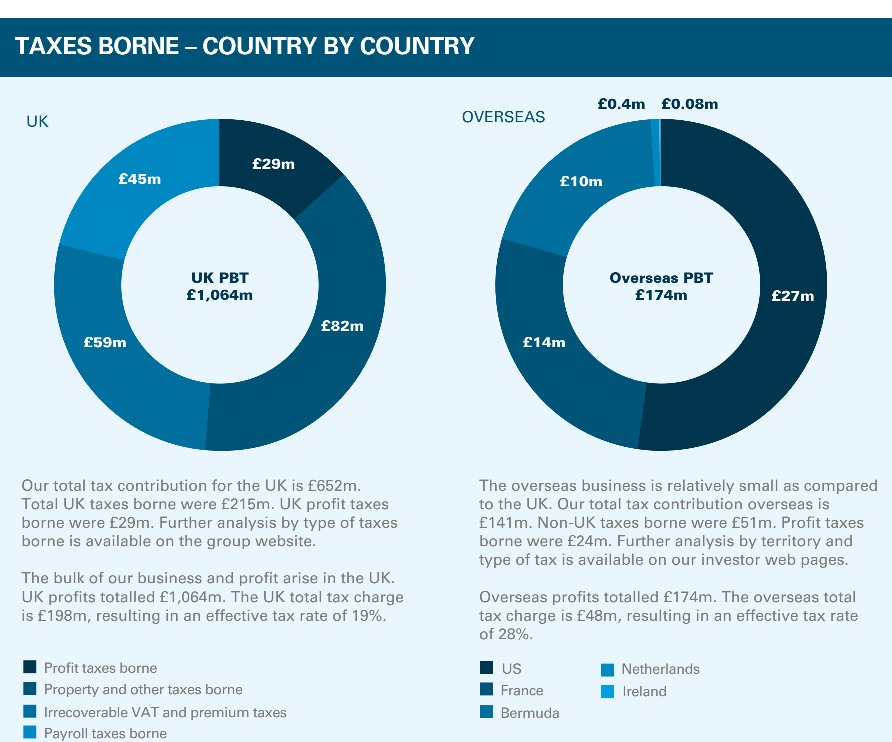
The total tax charge in the income statement therefore comprises tax on the profits the company has made from operating and tax on investment return which will be paid to policyholders at some point in the future. The charts on the right cover taxes borne by the company i.e. not tax incurred by policyholders.

Country by country reporting (CBCR)

As part of our commitment to transparency, we've published the amount and type of taxes borne in each territory where we operate. Country by country data, as prescribed by the Capital Requirements Directives (CRD) IV and more detailed analysis by territory is available on our investor web pages.

Risk management and governance

With the tax landscape constantly changing, the group's tax affairs are regularly reviewed by the Board and Audit Committee. This is to ensure that we're able to identify, assess, manage and mitigate tax risk as well as being aligned with the group's business strategy and governance framework.

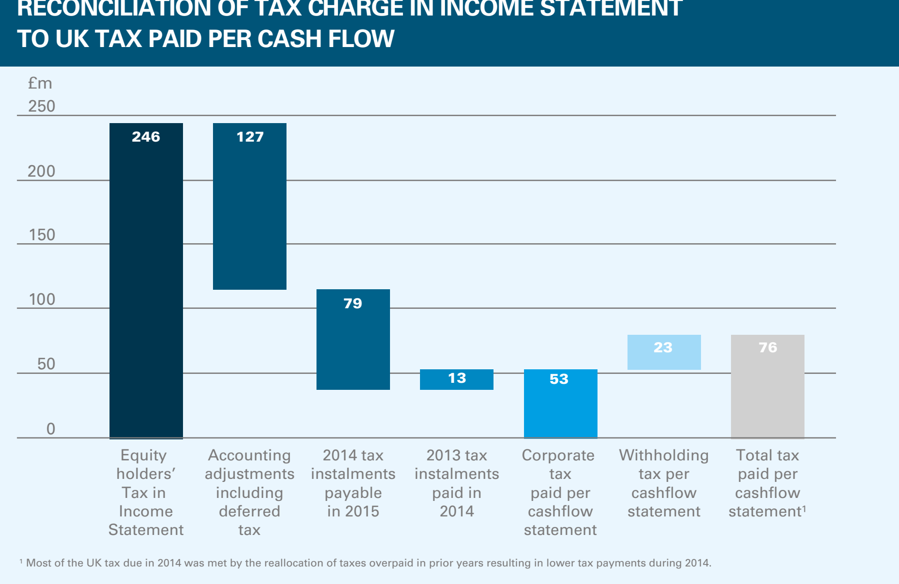


Our total tax contribution for the UK is £652m. Total UK taxes borne were £215m. UK profit taxes borne were £29m. Further analysis by type of taxes borne is available on the group website.

The bulk of our business and profit arise in the UK. UK profits totalled £1,064m. The UK total tax charge is £198m, resulting in an effective tax rate of 19%.

The overseas business is relatively small as compared to the UK. Our total tax contribution overseas is £141m. Non-UK taxes borne were £51m. Profit taxes borne were £24m. Further analysis by territory and type of tax is available on our investor web pages.

Overseas profits totalled £174m. The overseas total tax charge is £48m, resulting in an effective tax rate of 28%.



[1] Most of the UK tax due in 2014 was met by the reallocation of taxes overpaid in prior years resulting in lower tax payments during 2014.

Chief financial officer Q&A

> Once again Legal & General has produced strong results in 2014, despite much external turbulence, demonstrating our business model's resilience. I'm pleased the Board is able to recommend a full year dividend of 11.25p which is an increase of 21% on 2013."
>
> Mark Gregory,
> group chief financial officer

Mark Gregory became group chief financial officer for Legal & General in July 2013, having been a Board member since 2009. He previously successfully led our savings business.

His role is to ensure Legal & General continues to provide security for our customers and to maintain a strong balance sheet while delivering growing sustainable cash generation to support a progressive dividend for shareholders.

Q Mark, in your first full year as CFO, Legal & General has had an eventful year: what were your highlights?

A It's been both a challenging and successful year for us. Our businesses have made good progress. I'm particularly pleased with the way we've responded to some unexpected external events this year. The budget changes fundamentally reduced the size of the individual annuity market. We have responded by developing new individual retirement solutions, while at the same time exploiting our competitive advantages in the bulk annuity market. We completed £8.5 billion of total annuity transactions, more than double last year's amount. Elsewhere, LGIM manages more than $1 trillion of total assets and our LDI business overtook our passive business in terms of assets. Our workplace defined contribution AUA passed £11 billion and our UK retail protection business achieved more than £1 billion of gross premiums for the first time, although our US protection business incurred higher than expected mortality claims.

Q With operating cash up 6% and net cash generation up 10% this year, how sustainable is this going forward?

A We've delivered another good set of results. We run the business with a long term focus so while each set of annual results is important, it is the successful delivery over the long term that we focus on. The key to success is growing our stock of assets. This drives the predictability of our operating cash generation. We've maintained discipline in growing our business in areas which meet our hurdles for return on economic capital. So I believe high quality returns are sustainable going forward.

Q At last year's preliminary results the Board announced a dividend policy which aimed to reduce the net cash cover of dividend towards 1.5 times in 2015. When can we expect updated guidance?

A Progressive dividends are our primary way of rewarding shareholders. We will provide updated guidance once clarity on Solvency II has fully emerged.

Q Can we speak more about Solvency II given it goes live on 1 January 2016? How close are you to knowing what your capital requirements will be?

A Solvency II rules will permit insurers to use a risk based capital model to determine their capital requirement as an alternative to a standard formula. Models will need to calculate the amount of capital needed to survive a worse case 1-in-200 year event. This includes looking at the possible impact on our business of a combined situation when the world suffers through scenarios like the recent financial crisis, Great Depression or an epidemic like the Spanish Flu outbreak in 1919 –1920. The model that we use needs to be agreed by our regulator, the Prudential Regulation Authority (PRA). We're due to submit our formal model application in the second quarter of 2015 and the PRA then has six months within which to either approve our internal model or not. It is therefore likely to be the end of the year before we know our new regulatory capital requirements under Solvency II, which goes live on 1 January 2016.

Q Companies' tax affairs have been big news recently, what's Legal & General's tax approach?

A Our profits and therefore our tax payments arise where we employ people and take part in economic activity. Of course, we consider tax as part of our normal business decisions, risk management and governance approach. So I'm comfortable we've got the balance right. Our published tax policy is clear on what we will and won't do. We have a 'low risk' rating from HMRC and we work hard to be transparent in our tax disclosures, including providing country-by-country tax information. We have been recognised as highly commended for tax reporting in the FTSE 100 in the PwC Building Public Trust Awards 2014.

In 2014, Mark Gregory provided leadership for our 'Everyday Money' financial education programme.

Q That all sounds great Mark, but what worries do you have?

A Well, recent market volatility is a reminder of the ongoing market uncertainty that exists, and the upcoming UK election, as well as those in the US and Europe, could increase that volatility. But whilst no model can be completely immunised, we believe our strategy creates a high degree of resilience. We've been very upfront about some of the challenges facing us: like the trend in maturing UK DB schemes moving out of index funds; legacy product run off; changes to mortality assumptions; and unexpected UK-specific regulatory changes and political risks. However we work hard at mitigating these exposures. For example, we've been targeting the derisking trend by DB pension schemes, being the only provider to offer the full range of pension derisking strategies, are expanding our LGIM operations into the US, reducing our dependence on the UK market and developing a new range of individual retirement solutions aimed at providing choice to our customers who have increased freedoms post April. Our strategy is clear and focused. The challenge as always is to continue to execute it effectively. I'm proud of how well we have responded to the changes this year and have confidence in Legal & General going forward.

SUSTAINABILITY OF OUR GROWTH

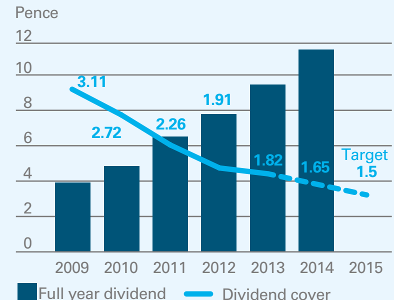
Delivering sustainable growth is a cornerstone of our strategy. Our strategy is designed to respond to the five global macro trends identified earlier (see pages 4-5), while at the same time maintaining financial and risk discipline by focusing on:

- Growth in stock of business
- Quality cash generation
- Use of return on economic capital hurdles to ensure quality new business written
- Balanced return of cash to shareholders against investment in growth

The following pages describe our performance in these areas.

PROGRESSIVE DIVIDEND POLICY

We announced new dividend guidance in 2014. Should our Solvency II surplus be no lower than Solvency I, we expect that we will move towards returning two thirds of net cash to shareholders via dividends (1.5 times cover) by the end of 2015.



We will provide updated dividend guidance when Solvency II clarity has fully emerged. The Board remains committed to a progressive dividend policy over the long term.

Guide to symbols
Key performance indicator (KPI)

Key measure in the remuneration of executives

Financial review

Strong trading performance

Gross written premiums on insurance business (GWP)
£3.0bn
(2013: £2.8bn)

Annuities single premiums
£6.6bn
(2013: £4.1bn)

LGIM total assets
£709bn
(2013: £612bn)

LGAS savings assets
£124bn
(2013: £113bn)

Gross written premiums on insurance business (GWP)

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

	2014 £m	2013 £m
UK Retail protection	1,056	990
UK Group protection	351	336
General insurance	377	375
France protection	173	168
Netherlands protection	51	54
US protection	678	654
Longevity insurance	333	212
Total GWP on insurance business	**3,019**	2,789

Annuities 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.

	2014 £m	2013 £m
Bulk purchase annuities	5,987	2,812
Individual annuities	591	1,277
Total annuities single premiums[1]	**6,578**	4,089

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

LGIM total assets

Assets represent assets under management (AUM), notional derivative positions and advisory assets. Together, these represent the total value of assets on which LGIM earns ad valorem fees.

	2014 £bn	2013 £bn
Assets under management	499	450
Overlay assets[1]	195	162
Advisory assets[1]	15	–
Total LGIM assets	**709**	612

1. See glossary on page 264 for definitions.

LGAS savings assets

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

	2014 £bn	2013 £bn
Platforms[1]	72	64
Mature retail savings[2]	36	36
Workplace	11	9
Suffolk Life	8	7
Overseas LGAS savings	4	4
Consolidation adjustment[3]	(7)	(7)
Total LGAS savings assets	**124**	113

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

BUSINESS SEGMENT

Legal & General Assurance Society (LGAS)

£2,008m
Insurance GWP
(2013: £1,923m)

£124bn
Savings assets
(2013: £113bn)

John Pollock, CEO

Retail protection extends its market leading position
Retail protection continues to hold a market leading position. GWP grew from £990 million in 2013 to £1,056 million for 2014, reflecting the advantages of our distribution footprint, underwriting excellence and highly automated systems.

Group protection GWP grew to £351 million, 4% up on 2013
We have seen continued growth in GWP from our competitive product offering and a number of new customer wins during the year.

Workplace assets exceed £11 billion
Assets are 28% up from the prior year, reflecting further auto-enrolment success and strong flows from the existing customer base. We enrolled over 300,000 new members into our Workplace pension schemes in 2014.

Platform assets up a further £8 billion
Assets are 12% up from the prior year to £72 billion, driven by positive flows across all channels (institutional, retail and bancassurance).

Legal & General Retirement (LGR)

£6,578m
Annuities single premiums
(2013: £4,089m)

Kerrigan Procter, MD

A further record breaking BPA performance
Bulk purchase annuities (BPA) single premiums of £6.6 billion were bolstered by winning the two largest bulk annuity transactions ever to be written in the UK with the ICI pension fund and TRW automotive pension scheme. BPA sales were over twice the record set last year and have more than offset reduced individual annuity sales.

Following the budget reforms, individual annuity premiums are down 54% broadly in line with our immediate expectations at the time of the budget announcement. We foresee that individual annuities will fall even further in 2015, but we have responded with a range of new, alternative individual retirement solutions, providing flexibility and choice to consumers. These include 'cash out' and 'fixed term' retirement plans and lifetime mortgages.

Legal & General Investment Management (LGIM)

£709bn
Total assets
(2013: £612bn)

Mark Zinkula, CEO

International expansion continues resulting in record assets
LGIM achieved record growth with total assets increasing by 16% to £709 billion (2013: £612 billion). International assets are £129 billion, and have quadrupled in the last four years.

Total positive net flows of £7.6 billion were achieved during 2014 despite net outflows in assets under management, in UK index funds, reflecting the derisking trend across the industry. The overall positive flows were driven by strong demand for our liability driven investment (LDI) strategies, with solutions and overlay asset flows of £21.1 billion in 2014 (2013: £15.4 billion). £11 billion of gross flows were sourced from outside the UK, particularly from the US.

Legal & General America (LGA)

£678m
GWP
(2013: £654m)

Jimmy Atkins, CEO

US sales maintained whilst delivering new pricing model
Sales have increased marginally by 4% from the prior year despite the introduction of a more refined pricing model where prices were raised at lower margin points and reduced elsewhere. This has led to a change in business mix resulting in a slight reduction in new business volumes in the second half of 2014.

LGA is the third largest provider of term assurance in the US.

Mortality claims have been higher than anticipated in 2014 and we will monitor closely to determine whether this represents the emergence of a trend or simply normal variability from one period to the next.

Sustainable returns

Net cash generation

£1,104m

(2013: £1,002m)

Operational cash generation

Operational cash generation is defined as the expected release from the in-force business for the UK non profit LGAS and LGR businesses, the shareholder's share of bonuses on with-profits business, the post-tax operating profit on other UK businesses, including an expected investment return on LGC invested assets, and dividends remitted from our international businesses.

New business strain

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

Net cash generation

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

KPI Purpose:

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

	Operational cash generation 2014 £m	New business strain 2014 £m	Net cash generation 2014 £m	Operational cash generation 2013 £m	New business strain 2013 £m	Net cash generation 2013 £m
Legal & General Assurance Society	**472**	**(48)**	**424**	474	(73)	401
Legal & General Retirement	**292**	**51**	**343**	260	33	293
Legal & General Investment Management	**262**	**–**	**262**	239	–	239
Legal & General Capital	**162**	**–**	**162**	137	–	137
Legal & General America	**46**	**–**	**46**	44	–	44
Net cash from divisions	**1,234**	**3**	**1,237**	1,154	(40)	1,114
Group investment projects, interest and expenses	**(133)**	**–**	**(133)**	(112)	–	(112)
Total[1]	**1,101**	**3**	**1,104**	1,042	(40)	1,002

1. A reconciliation from operational cash generation to operating profit is provided on page 122.

BUSINESS SEGMENT	OPERATING PROFIT
Legal & General Assurance Society LGAS net cash generation represents the expected surplus generated in the period from the in-force non profit business less the cost of acquiring new business and setting up regulatory reserves in respect of the new business, net of tax. With-profits net cash generation represents the net of tax transfer to shareholders from the with-profits business. LGAS net cash generation further includes dividends received from our businesses in France and the Netherlands and the net of tax operating profit reported in the year from our investment savings businesses, excluding non-cash movements, such as amortisation.	**£424m** (2013: £401m) Net cash generation has increased by 6%, driven by improving scale and efficiency in the workplace pensions business, higher volumes in the insurance business and the continued focus on cost management in the savings business.
Legal & General Retirement LGR net cash generation represents the expected surplus generated in the period from the in-force non profit business less the cost of acquiring new business and setting up regulatory reserves in respect of the new business, net of tax.	**£343m** (2013: £293m) Net cash generation has increased by 17%, reflecting the growth in business demonstrated by a 28% increase in assets, and a favourable new business surplus of £51 million which has benefited from disciplined pricing. Selective placement of longevity reinsurance in respect of new business also boosted net cash generation.
Legal & General Investment Management LGIM net cash generation represents the profit after tax from our managed and segregated pension business, institutional mandates, property and retail businesses. Incorporated within this segment is the net cash generation from managing internal funds.	**£262m** (2013: £239m) LGIM revenues grew by 9% in 2014, largely due to higher average assets, benefiting from favourable market performance. Combined with maintaining a very efficient cost to income ratio, this has resulted in a 10% increase in net cash generation.
Legal & General Capital Net cash generation for Legal & General Capital (LGC) represents the expected return after tax on group invested assets using medium-term expected investment returns.	**£162m** (2013: £137m) The average balance of LGC assets has grown from £4.5 billion in 2013 to £4.8 billion in 2014 with the assumed average return on assets growing from 4.1% to 4.3%. This has resulted in a 18% increase in the net cash generated.
Legal & General America Net cash generation represents dividends received by the group from LGA during the year.	**£46m** (2013: £44m) The dividend paid by LGA to group once again grew, increasing by 10% to $76 million. Adjusting for foreign exchange movements, this represents a 5% increase to £46 million.

FURTHER READING
More details of net cash generation can be found on page 122.

A growth story

Operating profit

£1,275m
(2013: £1,158m)

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

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

	Net cash generation[1] 2014 £m	Experience variances 2014 £m	Changes in valuation assumptions 2014 £m	Non-cash items and other[2] 2014 £m	Operating profit/(loss) after tax 2014 £m	Tax expense/(credit) 2014 £m	Operating profit/(loss) before tax 2014 £m
Legal & General Assurance Society	424	(18)	32	(77)	361	99	460
Legal & General Retirement	343	(13)	48	(32)	346	82	428
Legal & General Investment Management	262	–	–	–	262	74	336
Legal & General Capital	162	–	–	–	162	41	203
Legal & General America	46	–	–	(14)	32	24	56
Operating profit from divisions	1,237	(31)	80	(123)	1,163	320	1,483
Group investment projects, interest and expenses	(133)	–	–	(32)	(165)	(43)	(208)
Operating profit[3]	1,104	(31)	80	(155)	998	277	1,275

	Net cash generation[1] 2013 £m	Experience variances 2013 £m	Changes in valuation assumptions 2013 £m	Non-cash items and other[2] 2013 £m	Operating profit/(loss) after tax 2013 £m	Tax expense/(credit) 2013 £m	Operating profit/(loss) before tax 2013 £m
Legal & General Assurance Society	401	(34)	31	59	339	105	444
Legal & General Retirement	293	9	(13)	(48)	241	69	310
Legal & General Investment Management	239	–	–	–	239	65	304
Legal & General Capital	137	–	–	–	137	42	179
Legal & General America	44	–	–	14	58	34	92
Operating profit from divisions	1,114	(25)	18	(93)	1,014	315	1,329
Group investment projects, interest and expenses	(112)	–	–	(19)	(131)	(40)	(171)
Operating profit[3]	1,002	(25)	18	(112)	883	275	1,158

1. Net cash generation is defined in the glossary which starts on page 264 and further analysis is provided on page 122.
2. Investment gains and losses, profits and losses retained by international subsidiaries, certain restructuring costs (see note 2(i) on page 121) and other.
3. A reconciliation from operating profit to IFRS profit before tax is provided on page 121.

BUSINESS SEGMENT	OPERATING PROFIT
Legal & General Assurance Society Insurance operating profit includes the general insurance, retail and group protection businesses and profit from our France and Netherlands businesses. Operating profit reflects the investment returns that the business expects to make on the financial investments that back this business and on shareholder funds retained within general insurance. Savings operating profit represents the profit from the insured savings businesses (non profit investment bonds and non profit pensions, including SIPPs), the with-profits transfer and the profit from our investment savings businesses. Operating profit for the insured savings business reflects the investment returns that the business expects to make on the financial investments that back this business.	**£370m** **Insurance operating profit** (2013: £355m) Insurance operating profit has increased by 4%, benefiting from an increased contribution from our market leading retail protection business. This was partially offset by lower profits from our general insurance business following adverse weather experience in the first quarter of 2014. **£90m** **Savings operating profit** (2013: £89m) Savings operating profit has remained in line with 2013 with workplace savings losses decreasing to £(15) million (2013: £(29) million) as our auto-enrolment proposition moves towards break-even levels of assets under administration. Mature savings continues to positively contribute to LGAS operating profits.
Legal & General Retirement Operating profit from the retirement business represents the profit from individual and bulk purchase annuities and longevity insurance. This reflects the surplus released by the actual development of the business during the year and the current assessment of longer term assumptions for the future.	**£428m** (2013: £310m) LGR operating profit has increased by 38% to £428 million reflecting the continued steady profit from our back-book, favourable mortality experience compared to assumptions and £51 million of new business surplus.
Legal & General Investment Management Operating profit for the investment management division represents the operating profit before tax on our managed and segregated pension business, institutional mandates, property business, retail unit trusts and internal funds.	**£336m** (2013: £304m) LGIM operating profit was up 11% on 2013. This reflected an increase in assets, due to market returns and our growing higher margin active fixed income and property businesses. The cost to income ratio has remained steady at 48% despite investment in our business as it continues to grow.
Legal & General Capital LGC operating profit represents the expected return on group invested assets using medium-term expected investment returns, net of investment management expenses.	**£203m** (2013: £179m) LGC operating profit has grown by 13% reflecting an increase in the average balance of invested assets and changes in the portfolio mix, including our growing direct investment portfolio, driving higher assumed returns.
Legal & General America Operating profit for LGA represents the profit on our protection and universal life products written in the US. For LGA, unrealised investment returns are excluded from operating profits to align with the liability measurement under US GAAP.	**£56m** (2013: £92m) Operating profit has decreased 39% to £56 million. LGA has suffered from adverse mortality in 2014 ($46 million against assumptions), and the experience will continue to be closely monitored going forwards.

FURTHER READING
More details of net cash generation can be found on page 122.

Disciplined investment of capital

GROUP METRICS

IFRS profit before tax

£1,238m

(2013: £1,144m)

IFRS profit before tax (PBT)
PBT measures profit attributable to shareholders incorporating actual investment returns and other variances experienced during the year.

KPI purpose: PBT measures the actual distributable earnings of the group, reflecting actual returns on investments, net of investment in future groupwide capabilities and new business ventures.

Profit before tax is up 8% on 2013 due to strong operating profits including favourable new business surplus arising in our retirement business. This has more than offset the impact of equity market falls and narrowing spreads in government bonds in the group's investment portfolio in December.

Return on equity

16.9%

(2013: 16.1%)

Return on equity (ROE)
ROE measures the return earned by shareholders on shareholder capital retained within the business. ROE is calculated as IFRS profit after tax divided by average IFRS shareholders' funds.

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

The group continues to demonstrate careful use of capital across all divisions, generating a strong 16.9% return on equity, up 0.8 percentage points on 2013, reflecting a 9% rise in profit after tax in 2014.

Earnings per share

16.70p

(2013: 15.20p)

Earnings per share (EPS)
EPS is a common financial metric, which can be used to measure the profitability and strength of a company over time. It is the total shareholder profit after tax divided by the number of shares outstanding. EPS uses a weighted average of shares outstanding in the year.

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

We've delivered another year of EPS growth, driven by a 9% increase in the group profit after tax (up from £906 million in 2013 to £992 million in 2014). This has resulted in a 10% (1.50p) increase in EPS.

Full year dividend

11.25p

(2013: 9.30p)

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

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

Consistent with our dividend guidance to reduce our net cash coverage of dividend towards 1.5 times, the Board has recommended an increase of 21% in the full year dividend to 11.25p (2013: 9.30p). The cost of the full year dividend is £668 million (2013: £550 million) and is covered 1.65 times by the net cash generated.

Please refer to page 39 of this report for further details on our dividend guidance.

GROUP METRICS

Total shareholder return **184%** (2013: 171%) 	**Total shareholder return (TSR)** TSR is a measure used to compare the performance of different companies' stocks and shares over time. It combines the share price appreciation and dividends paid to show the total return to shareholders. **KPI purpose: TSR measures total return to shareholders, including dividends and share price movements over time.**	Based on TSR performance, we are in the FTSE 100 top quartile (top 15 position as at 31 December 2014) after giving investors a 184% return over a three year period. We were also one of the world's top performing life insurance companies in the FTSE Global Index during this period.
Economic capital surplus and coverage **£7.0bn** **229%** (2013: £6.9bn/251%) 	**Economic capital surplus and coverage** 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. These numbers do not represent our view of the Solvency II outcome for the group. Solvency II has elements which L&G considers to be inconsistent with the group's definition of economic capital, so there will be differences between the two balance sheets. **Purpose: Economic capital surplus and coverage are group defined capital measures used for measuring and reporting market and operational risks across the group.**	The group is in a strong capital position with a £7 billion economic capital surplus and a 229% coverage ratio. The surplus has increased since year end 2013, primarily reflecting the operating experience over the course of the year and the issuance of £600 million of Tier 2 capital in June 2014. These figures are pre-accrual of final dividends.

FURTHER READING

More details on net cash generation can be found on page 122.

Group chief risk officer Q&A

Simon Gadd was appointed group chief risk officer in January 2013, having previously led our annuities and protection businesses.

Simon's role is to ensure Legal & General has a clear understanding of the risks facing our businesses and that risk exposures are managed in line with the parameters and tolerances set by the Group Board.

Q How would you summarise Legal & General's risk profile?

A As a diverse financial services business, Legal & General is exposed to a broad range of risks. Whilst the profile of risks differs between each of our businesses, in essence our risk landscape reflects:

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

Q How does the group's risk framework help in managing these risks?

A Our risk framework, the structure of formal risk policies, reporting procedures and risk oversight activities, supports our business ambition, by enabling us to select those risks that can give us sustainable returns and to closely manage those risks that are unrewarded, and to optimise the capital that we hold so that we can deliver our strategy.

Our risk appetite is at the heart of our risk framework. It expresses the types of risk that we are prepared to be exposed to in pursuit of our business strategy, the minimum capital requirements that we wish to maintain and the degree of volatility of earnings that we will seek to avoid.

Q But risk management is not just about having the right framework?

A Alongside a formal risk framework, it is important that an organisation has the right culture. We encourage our business managers to have a respect for risk and seek to promote an environment where business managers own the risks and risk management processes associated with the activities for which they are responsible, and make decisions in the light of the impact on the entire group.

Q And what does the economic capital that you hold reflect?

A Our economic capital is our assessment of the capital that we need to hold above our liabilities in order to meet the group's strategic objectives and to ensure continued solvency. Put simply, it reflects the additional funds we consider necessary to meet future claims on our business, should for example our assumptions regarding life expectancy or investment returns prove to be incorrect. Our risk based capital model is used to calculate our economic capital requirement taking into account our material risk exposures and how those risks interact across a wide range of scenarios. Subject to PRA approval, we will also use our risk based capital model, but with regulatory constraints, to calculate capital requirements under Solvency II. Further details of our risk based capital model and economic capital are set out on page 53.

Q What are the threats currently on your radar?

A The Principal Risks and Uncertainties set out on page 54 and 55 give an overview of the more significant factors that may effect the delivery of Legal & General's strategy, our future revenues and profitability. Factors outside our control such as the performance of investment markets and broader economic outlook perhaps present the greater area of uncertainty. As we saw in the 2014 budget, changes in legislation can also impact our business model. As we continue to expand our digital propositions we must also be mindful of the range of cyber crime threats to which we may be exposed.

As part of our ongoing risk assessment processes, we seek to identify new and emerging risks, and develop strategies to ensure our exposures to risk remain within acceptable tolerances.

Our business is to manage risks

In the diagram below, we summarise the content provided on pages 50 to 55, setting out how we seek to understand and manage our risks.

UNDERSTANDING OUR RISK LANDSCAPE

The risks that are inherent in our businesses arising from:

1. The products we write
2. The investments we hold to meet our obligations
3. The environment in which we operate

RISK MANAGEMENT FRAMEWORK

Our formal framework for monitoring our risk landscape and ensuring that we are only exposed to those residual risks for which we have an appetite.

Our framework seeks to reinforce the parameters of acceptable risk taking, allowing business managers to make decisions that are consistent with our risk appetite.

RISK APPETITE

Our quantitative and qualitative expressions for the types of risk to which we are prepared to be exposed.

Alongside the minimum capital requirements that we wish to maintain and the degree of volatility of earnings we wish to avoid, we set a range of tolerances and limits for our material risk exposures.

RISK-BASED CAPITAL MODEL

Our approach to determining the amount of capital that we need to hold for the residual risks to which we are exposed.

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

Principal risks and uncertainties

Finally, we summarise our assessment of the principal risks and uncertainties, along with the associated trends and outlooks, and the steps we take to mitigate these principal risks on pages 54 to 55.

UNDERSTANDING OUR RISK LANDSCAPE

The products that we write, the investments that we hold to meet our obligations and the environment in which we operate give rise to a broad range of risks. Our risk management framework, which is described on the adjacent page, seeks to ensure that we are only exposed to those residual risks for which we have an appetite.

1. THE PRODUCTS WE WRITE

Insurance risk

Longevity, mortality and morbidity
The pricing of long term life insurance business requires assumptions to be made for future trends in the life expectancy and general health of those that we insure; with the risk that actual experience may diverge to our assumptions, requiring an increase in reserves and reducing profits.

Life catastrophe
We also make assumptions about the likelihood of catastrophic events that could cause a widespread loss of life or disability within the pool of the lives that we insure; with the risk that future events could be more extreme to those that we have assessed in determining our reserves.

Weather events
In pricing household insurance products, we make assumptions about the potential level of claims that we may receive from adverse weather events; with the risk that the actual number and severity of weather events experienced may diverge from our assumptions, resulting in a higher than expected level of claims.

Persistency (lapse)
We're exposed to the risks that acquisition costs may not be recovered from product margins if policies lapse earlier than we anticipated within our pricing assumptions.

Product expenses
Our product pricing must also take account of the future costs of product servicing, with deviations in actual costs presenting the risk of reduced product profitability.

2. THE INVESTMENTS WE HOLD

Market Risks

Investment performance
We invest in a range of investment assets including equities, bonds and property to meet the obligations from our insurance products; however, there is a risk that the income and value of these investment assets may under perform relative to required targets.

Interest rates and inflation
Interest rate movements and inflation can impact the value of the investment assets we hold to meet our obligations, as well as the value of the obligations themselves.

Currency
Fluctuations in exchange rates can vary both the value and income from investment assets denominated in foreign currencies, as well as the sterling profits and value of our overseas businesses.

Credit Risks

Bond default
We hold a significant portfolio of corporate bonds to back our annuity business. The portfolio is diversified across a range of sectors and geographies, but inherently is exposed to the risk of default resulting in financial loss.

Property direct lending counterparties
We also hold property lending and sale and leaseback investments and are inherently exposed to the risk of default by a borrower or tenant, although we seek to protect our interests by taking security over underlying property.

Banks and the issuers of financial instruments
Banking and money market counterparties, the issuers of financial instruments and the providers of settlement and custody services may default on their obligations to us, resulting in financial loss.

3. ENVIRONMENT WE OPERATE IN

Credit Risks

Reinsurance counterparties
In using reinsurance in our annuity and protection businesses, we are exposed to the risk that a reinsurer may default, impacting the payment of claims to us and requiring us to either seek alternative reinsurance arrangements, potentially on less advantageous terms or bear the reinsured risks directly.

Operational risk

People, process, systems and external events
Our business processes can be complex, with significant reliance placed upon a combination of IT systems and manual processes. We also rely upon the knowledge and expert judgement of our people. Weakness or failure in our systems and processes, the loss of key personnel, or errors and ommissions, could result in financial loss or adversely affect our customers and reputation.

Regulation and legislation
The markets in which we operate are highly regulated. Changes in regulation or legislation can require changes to our products or business processes. A breach of legislative or regulatory requirements may expose us to financial penalties, remediation costs and damage our reputation.

Liquidity risk

Contingent events
Low probability and typically extreme events that if not adequately planned for can result in unanticipated requirements for liquidity.

Collateral
Failure to hold sufficient cash or suitable liquid assets to meet collateral requirements for financial instruments, resulting in unplanned disposals of assets at excessive cost.

There are potentially material correlations between all the above risks, with a single event leading to losses on multiple risk types. These correlations are difficult to estimate though they would tend to be more acute as the underlying risk scenarios become more extreme.

An assessment of the principal risks and uncertainties that may impact our business strategy, earnings or profitability are set out on page 54 and 55. Note 8 ('asset risk'), 19 ('insurance risk') and 29 ('operational risk') to the financial statements further describe how the above risks relate to our businesses and the control techniques that we apply to manage them.

RISK MANAGEMENT FRAMEWORK

Our risk framework is designed to enable the Group Board to draw assurance that risks are being appropriately identified and managed in line with our risk appetite.

We deploy a 'three lines of defence' risk governance model, whereby business divisions are responsible for risk taking within the parameters of our risk appetite and accountable for managing risks in line with our risk policies; risk functions led by the group chief risk officer provide objective challenge and guidance on risk matters; with Group Internal Audit providing independent assurance on the effectiveness of business risk management and the overall operation of the risk framework. The core elements of our risk framework are set out below.

Risk appetite

The group's risk appetite statement sets out our overall attitude to risk, and the ranges and limits of acceptable risk taking.

The Group Board's Risk Committee leads an annual review of the group's risk appetite, assessing the continued appropriateness of our key measures and tolerances relative to the risk exposures of the group. Additionally, as part of the annual planning cycle, assessment is made of the level of risk taking proposed in the group plan and the capacity for risk taking within the overall appetite framework.

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

Risk taking authorities

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

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

Risk policies

Risk control

We set formal policies for the management of market, insurance, credit, liquidity and operational risks. The policies specify our overall strategies for ensuring each risk type is managed in line with our risk appetite and the minimum control standards that should be applied in managing our significant risk exposures.

Risk mitigation

We deploy a range of risk management techniques to manage and mitigate risks, so as to control risk exposures in line with our risk limits. For example, we use derivative instruments to hedge unrewarded risks as part of our asset liability management activity; and reinsurance programmes to transfer significant aggregations and concentrations of insurance risk exposures. Our framework of controls includes documented underwriting policies and structured delegated pricing and underwriting authorities. It also includes investment policies which take into account the nature of our liabilities, guarantees and other embedded options given to policyholders.

Risk identification and assessment

Review process

We operate a risk identification and assessment process under which all our businesses regularly consider changes in the profile of existing and emerging risks. The assessment process evaluates the risks that are inherent in our products as well as those that are presented from changes in the environments that we operate in.

Own risk solvency assessment

Our risk identification and assessment process forms part of our broader 'own risk and solvency assessment' process, our ongoing assessment of the risks to which Legal & General is exposed and an evaluation of the sufficiency of resources to sustain the business strategy over the horizon of the group plan.

Risk management information

Our risk management information framework is structured to report and support the review of ongoing and emerging risks and assess actual risk positions relative to the risk limits and targets that we set.

Risk oversight

The group chief risk officer and his team, who are independent of the business line, support the Group Board and its Risk Committee in articulating acceptable risk taking and ensuring the effective operation of our risk and capital framework. This includes ongoing assessment of the group's capital requirements to confirm that they meet regulatory solvency requirements.

The group chief risk officer also provides objective challenge and guidance on a range of risk matters to business managers, including the risks implicit in product developments, business transactions and new asset classes, and strategies for managing risks in line with the group's overall risk appetite.

Risk committees

The Group Board has ultimate responsibility for the group's risk management framework. The Group Board's Risk Committee supported by the group chief risk officer, serves as the focal point for risk management activities. Details of the operation of the Group Risk Committee are set out on page 74.

Beneath the Group Risk Committee is a structure of formal risk oversight committees providing more focused review and challenge of specific risks to the group, and reviewing the effectiveness of frameworks in place to manage those risks.

RISK APPETITE

Our risk appetite sets the ranges and limits of acceptable risk taking for the Group as a whole.

We express our overall attitude to risk using the following statements and measures

Strategy
We manage a diversified portfolio in which we accept risk in the normal course of business and aim to deliver sustainable returns on risk based capital in excess of cost of capital.

Risk appetite measure
Minimum return on equity over the planning cycle.

We have an appetite for risks we understand and are rewarded for, and which are consistent with delivery of our strategic objectives.

Risk appetite measure
Maximum economic capital to be deployed over the planning cycle.

Capital
We aim to maintain an appropriate buffer of capital resources over the minimum regulatory and economic capital requirements.

Risk appetite measure
Minimum statutory and economic capital coverage ratios.

Earnings volatility
We have a low appetite for volatility of earnings. In particular volatility arising from risks where Legal & General has more exposure than the wider market.

Risk appetite measure
Maximum acceptable variance in earnings to plan over the planning cycle.

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

Risk appetite measure
Customer and reputation risk dashboard.

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

Risk appetite metric
Minimum liquidity coverage ratio.

We further define our appetite to the specific risks to which we are exposed as follows.

Market risk
We have an appetite for market risk within our annuities and with-profits businesses, and our shareholder funds, where we are rewarded for taking exposure to the risk. In particular, we have an appetite for selected risks associated with equity, bond and property investments as the asset class may provide higher investment returns relative to the risk free rate over the medium term and enable the optimisation of risk adjusted returns.

We have limited tolerance, however for significant losses or volatility from these market risks and so we seek to set clear investment risk limits which must be adhered to by group businesses. We also have limited tolerance for significant mismatches in interest rates where asset outgoes are expected to cover liability outgoes over a long time horizon, and risks arising from fluctuations in inflation. Where hedging instruments exist, we seek to remove both these risks. Similarly, we have a limited tolerance for developed country currency risk relative to the base currency of our investment assets and will selectively hedge these currency risks.

Credit risk
We have an appetite for selected credit risk to the extent that accepting this risk enables us to optimise policyholder and group risk-adjusted returns.

In particular, we accept a degree of bond default as a necessary part of bond investments. However, we have limited tolerance for significant losses from single or interrelated counterparty failures, and therefore set credit rating based exposure limits for investment portfolios as well as limits on exposures to specific sectors and single counterparties.

We also have an appetite for property direct lending counterparty risk where we can assess the risk of default on loan repayments and the taking of the risk enables us to optimise group risk adjusted returns, including those derived through a diversification of credit risk. We have limited tolerance, however, for significant loss from the failure of property lending counterparties and require that all lending is subject to formal underwriting and secured on physical property assets.

We accept the risk of reinsurer default, where the use of reinsurance is used to support our pricing strategies for longevity, mortality, morbidity and disability risks, or is used to mitigate exposure to significant accumulations of risk. However, we have limited tolerance for significant financial loss or operational disruption from a default event and we will seek to set and monitor credit risk derived exposure limits for each reinsurance counterparty with which we do business.

We have limited tolerance for the risk of default by banking and money market counterparties, the issuers of derivative financial instruments, or the providers of settlement and custody services, and will seek to actively manage all such exposures against our defined counterparty exposure limits.

Insurance risk
We have an appetite for longevity, mortality and morbidity risk together with selected household insurance risks where we expect to add value by accepting such risks, and have the capability to assess, price for and monitor trends in the risks assumed.

We have a low tolerance for not achieving our target reward for risk as a result of policies lapsing at a faster rate than that anticipated. Similarly we have a low tolerance for negative variances on product expense assumptions. We seek to manage both these risks by investigations and monitoring experience and reflect the conclusions in our product design and reserving strategies.

We have limited tolerance for an accumulation of catastrophe risk by geographic location and will seek to use a combination of underwriting, geographic concentration limits and reassurance to manage such exposures. Similarly, we have limited tolerance for exposure to weather events and will seek to purchase excess of loss reinsurance to protect against this risk.

Operational risk
We accept a degree of exposure to operational risk where exposures arise as a result of core strategic activity, however, we have very limited appetite for large operational losses due to the likely customer impact, reputational damage and opportunity costs.

We aim to implement effective controls to reduce operational risk exposures except where the costs of such controls exceed the expected benefits.

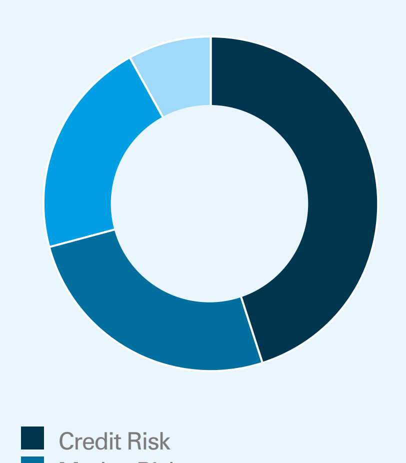
Liquidity risk
We do not seek exposure to liquidity risk, but accept that a degree of exposure will arise as a consequence of the markets in which we operate, the products that we write and through the execution of investment management strategies. However, we have no appetite to fail to meet our obligations as they fall due or to incur material losses on forced asset sales to meet obligations.

We seek to maintain at a group level sufficient liquid assets and standby facilities to meet a prudent estimate of the group's cash outflows, as identified through annual planning processes.

RISK BASED CAPITAL MODEL

Our risk based capital model seeks to ensure that the capital we hold is commensurate with the risks to which our businesses are exposed

RISK PROFILE



Our model

Our risk based capital model seeks to provide a quantitative assessment of the risks to which the group is exposed. It plays a central role in risk management across the group, through informing and influencing a proportionate response to identified risk exposures and forms part of the suite of tools that we use to evaluate our strategic plans, set risk appetite, allocate capital and evaluate product pricing. We also use our model in the assessment of significant transactions, including large bulk annuities and business acquisitions.

The key output from our risk based capital model is the generation of capital requirements calculated on an economic basis. We calibrate our model to a 99.5% value at risk confidence level over one year, equivalent to ensuring that we hold sufficient capital reserves to survive our assessment of a worse case 1-in-200 year event. The model covers the material risk exposures identified within our risk landscape where they are quantifiable.

Risk profile

Measured in terms of economic capital requirement, credit and longevity risks are the most significant risks to the group, substantially driven by our Legal & General Retirement business.

Bond default

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

Longevity

Our capital requirement for longevity risk reflects that life expectancy may improve at a much faster rate than the assumptions we have made in determining our best estimate of required reserves for longevity. We undertake extensive analysis of trends in longevity to ensure that our assessment of future rates of mortality remains appropriate, however, as set out in our assessment of principal risks and uncertainties, a dramatic advance in medical science could improve the life expectancy for the portfolio of lives that we insure.

Solvency II

Solvency II is targeted for regulatory implementation in January 2016. We have been preparing for the new capital regime for over five years, significantly enhancing our economic capital and risk framework by delivering our risk based capital model. We will be making our formal application to the PRA to use our risk based capital model as the basis for determining our regulatory capital requirement under Solvency II, in the second quarter of 2015. The success of our application will be dependent upon agreement by the PRA of our model and the calibrations for our key risks. Factors such as PRA interpretation of the matching adjustment rules are also areas of continuing uncertainty. These factors mean that we are exposed to the risk that our surplus capital is lower under Solvency II than under current rules.

SUMMARY OF ASSESSED PRINCIPAL RISKS AND UNCERTAINTIES

On pages 54 and 55, we summarise our assessment of principal risks and uncertainties, along with the associated trends and outlooks, and the steps we take to mitigate them. As with understanding our risk landscape, these can be grouped around three categories, with the majority arising from the environment in which we operate:

The products we write	The investments we hold to meet our obligations	The environment in which we operate
Reserves for long term business may require revisions as a result of changes in experience, regulation or legislation.	Investment market performance or conditions in the broader economy may adversely impact our earnings and profitability.	Changes in regulation or legislation may have a detrimental effect on our strategy.
	In dealing with issuers of debt and other types of counterparty the group is exposed to the risk of financial loss.	As a UK-based group, our earnings are influenced by the performance and perception of the UK financial services sector as a whole.
		The group may not maximise opportunities from structural and other changes within the financial services sector, adversely impacting future earnings.
		A material failure in our business processes may result in unanticipated financial loss or reputation damage.
		The financial services sector is increasingly becoming a target of 'cyber crime'.

Principal risks and uncertainties

Set out below is our assessment of current principal risks and uncertainties. A detailed review of the group's inherent risk exposures and high level control processes are set out at Notes 8, 19 and 29 of the financial statements.

RISKS AND UNCERTAINTIES	TREND AND OUTLOOK	MITIGATION
Reserves for long-term business may require revision as a result of changes in experience, regulation or legislation. The writing of long term insurance business requires the setting of assumptions for long term trends in factors such as mortality, lapse rates and persistency, valuation interest rates, expenses and credit defaults. Actual experience may result in the need to recalibrate these assumptions reducing profitability. Forced changes in reserves can also be required because of regulatory or legislative intervention in the way that products are priced, reducing profitability and future earnings.	We regularly appraise the assumptions underpinning the business that we write. In our annuities business we are, however, exposed to factors such as dramatic advances in medical science beyond those anticipated leading to unexpected changes in life expectancy. In protection business we remain inherently exposed to rates of mortality diverging from assumptions and to loss from events that cause widespread mortality/morbidity or significant policy lapse rates. As illustrated by the implementation of the EU gender neutral pricing legislation, there is also potential for legislative intervention in the pricing of insurance products irrespective of risk factors, such as age or health.	We undertake significant analysis of longevity and mortality risks to ensure an appropriate premium is charged for the risks we take on and that our reserves remain appropriate. We remain focused on developing a comprehensive understanding of annuitant mortality and we continue to evolve and develop our underwriting capabilities. The sensitivities of our business to a range of scenarios are set out on page 169. We seek to ensure that legislators understand the benefits to consumers of pricing insurance products based on the risk factors that each policy presents.
Investment market performance or conditions in the broader economy may adversely impact our earnings and profitability. The performance and liquidity of investment markets, interest rate movements and inflation impact the value of investments we hold in shareholders' funds and those to meet the obligations from insurance business. Interest rate movement and inflation can also change the value of our obligations. We use a range of techniques to manage mismatches between assets and liabilities. However, loss can still arise from adverse markets. In addition, significant falls in investment values can reduce fee income to our investment management business, while broader economic conditions can impact the purchase and the retention of retail financial services products, impacting profitability.	Whilst global investment markets have returned to pre-financial crisis levels, in the current environment there is limited resilience in financial markets for shocks, with potential for significant falls in asset values should markets reassess returns. Factors that may result in shocks include a deterioration in geo-political stability for example as a consequence of tensions in Eastern Europe and the Middle East; an abrupt change in the monetary policies of the leading economies; or a further crisis in the Euro zone. Financial markets may also reappraise asset valuations as a result of changes in the outlook for the global economy including for example, a projected period of low or negative growth amongst leading economies or a period of prolonged deflation, and in response to outcomes from elections in the UK, Europe and the US.	We model our business plans across a broad range of economic scenarios and take account of alternative economic outlooks within our overall business strategy. As part of our business plans we have sought to ensure focus upon those market segments that we expect to be resilient in projected conditions. Details of our business strategy are set out on pages 14 to 30. Sensitivities to interest rates, exposure to worldwide equity markets and currencies are set out on pages 158, 169 and 196 respectively.
In dealing with issuers of debt and other types of counterparty the group is exposed to the risk of financial loss. A systematic default event within the corporate sector, or a major sovereign debt event, could result in dislocation of bond markets, significantly widening credit spreads, 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.	Recent years have seen a narrowing of credit spreads reflecting market confidence in the issuers of investment grade bonds, and at Legal & General we have continued to experience low levels of default on our corporate bond portfolio. There remains, however, a range of factors that could trigger defaults by the issuers of debt, leading to reduced profitability or financial loss. These include a sovereign debt event or a banking crisis developing, for example in emerging markets. An economic shock or significant change in the current economic outlook may also increase potential for a supplier of business services being unable to meet their obligations to us.	We actively manage our exposure to default risks, setting counterparty selection criteria and exposure limits and hold reserves against our assessment of counterparty debt defaults. We continue to diversify the asset classes backing our annuities business, to include the use of property lending, sale and leaseback and other forms of direct investment. Exposures to credit risk are set out on page 158 and sensitivities to changes in credit spreads on page 169.

RISKS AND UNCERTAINTIES	TREND AND OUTLOOK	MITIGATION
Changes in regulation or legislation may have a detrimental effect on our strategy. Legislation and government fiscal policy influence our product design, the period of retention of products and our required reserves for future liabilities. Regulation defines the overall framework for the design, marketing and distribution of our products; and the prudential capital that we hold. Significant changes in legislation or regulation may reduce our future revenues and profitability or require us to hold more capital. The prominence of the risk increases where change is implemented without prior engagement with the sector. The nature of long term business can also result in some changes in regulation, and the re-interpretation of regulation over time, having a retrospective effect on our in-force books of business, impacting the value of embedded future profits.	The regulatory landscape continues to evolve. The Solvency II capital regime is to be implemented by the PRA on 1 January 2016; the FCA is continuing to develop its approach to consumer regulation; and we continue to see new regulation emerging from the EU. More broadly, as illustrated in the 2014 budget announcement, the sectors in which we operate remain inherently exposed to sudden changes in legislation and regulation. With regard to Solvency II, the capital that we will be required to hold will not be certain until PRA agreement of our internal model, with the risk that the final outcome results in a lower capital surplus than under Solvency I. There are also challenges in ensuring that regulatory interpretation of the new rules is proportionate and cost effective for the insurance sector. In terms of consumer regulation, there remains a need for greater regulatory certainty to providing consumer guidance and addressing the advice gap in a post Retail Distribution Review and an increasingly digital world.	We remain vigilant to the risk that future legislative and regulatory change may have unintended consequences for the sectors in which we operate. We seek to actively participate with Government and regulatory bodies in the UK and Europe to assist in the evaluation of change so as to develop outcomes that meet the needs of all stakeholders. Internally, we evaluate the impact of all legislative and regulatory change as part of our formal risk identification and assessment processes, with material matters being considered at the Group Risk Committee and the Group Board. We maintain a flexible distribution model to respond to changing market trends.
As a UK based group, our earnings are influenced by the performance and perception of the UK financial services sector as a whole. The financial crisis, subsequent investment performance and low interest rate environment, together with regulatory actions in the sector, may impact consumer attitudes to long term savings and insurance products. Regulatory actions may also lead to changes to the regulatory and legislative environment in which we operate.	As a significant participant in the long term savings and insurance markets, we are exposed to changes in consumer sentiment. We are also exposed to increased costs of regulatory compliance through regulatory and legislative responses to events in the financial services sector. Recent examples include requirements for central clearing of certain derivative instruments, which would increase the costs associated with pension savings products and annuities, respectively.	We actively manage our brand and seek to differentiate our business model from that of our competitors, focusing on our customers' needs through a diversified portfolio of risk, savings and investment businesses. We also actively engage with our regulators to support understanding of the risk drivers in the markets in which we operate, and highlight matters where we believe the industry needs to change.
The group may not maximise opportunities from structural and other changes within the financial services sector, adversely impacting future earnings. Significant changes in the markets in which we operate may require the review and realignment of elements of our business strategy. A failure to be sufficiently responsive to potential change and understand the implication to our businesses, or the incorrect execution of change may impact the achievement of our strategic objectives.	Macro trends in the markets in which we operate remain those of an ageing population; reform in the provision of state welfare; retrenchment by the banks; the globalisation of asset markets; and the increasing use of digital technologies. Responding to these trends potentially creates people and change risks, such as organisational challenges and management stretch across the range of initiatives. As set out on page 9, regulatory changes and political risks may also present complexity in delivering our responses.	As set out at pages 4 and 5, we've defined clear strategies to respond to the macro trends. We monitor as part of our ongoing risk review processes, factors that may, impact our responses to these macro trends and seek to ensure appropriate risk mitigation plans are put in place.
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 inherently will increase the profile of operational risks across our businesses. We continue to invest in our system capabilities and business processes to ensure that we meet the expectations of our customers; comply with regulatory, legal and financial reporting requirements; and mitigate the risks of loss or reputational damage from operational risk events.	Our three lines of defence risk governance model seeks to ensure that business management are actively engaged in maintaining an appropriate control environment, supported by risk functions led by the group chief risk officer, with independent assurance from Group Internal Audit. The work of the Group Audit Committee in the review of the internal control system is set out on page 70.
The financial services sector is increasingly becoming a target of 'cyber crime'. As we and our business partners increasingly digitalise our businesses, we are inherently exposed to the risk that third parties may seek to disrupt our online business operations, steal customer data or perpetrate acts of fraud using digital media. A significant cyber event could result in reputation damage and financial loss.	The financial services sector continues to see attempts by third parties to seek and exploit perceived vulnerabilities in IT systems. Potential threats include denial of service attacks, network intrusions to steal data for the furtherance of financial crime, and the electronic diversion of funds.	We're focused on maintaining a robust and secure IT environment. Working with our business partners, we seek to ensure the security of our systems with proactive responses to emerging threats, however, the evolving nature of cyber threats means that residual risks will remain. During 2014 the Group Risk Committee received an update on cyber risks and our control framework.

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Leighton's story

We helped Leighton Morris, a self-employed photographer from South Wales with a young family, rebuild his life after bowel cancer left him with no income for several months. Our critical illness policy helped him pay his mortgage and re-establish his photography business. We protect millions of people like Leighton, making sure that we're there to help them at the most difficult times of their lives.

This is how our decisions are felt by people and what they want for their lives.

WATCH THE VIDEO
legalandgeneral.com/advisercentre/protection/why-choose-us/customer-testimonials/leighton.html

Board of directors

John Stewart
Chairman

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

External appointments:
- Southern Cross Stud LLP
- The Court of the Bank of England
- Guide Dogs for the Blind (chairman)
- The Financial Reporting Council

Committee membership:
- Nominations Committee
- Corporate Governance Committee

Nigel Wilson
Group chief executive

Skills and experience:
Nigel was appointed group chief executive in 2012 having joined as group chief financial officer in 2009. Prior to joining Legal & General, Nigel was deputy chief executive and chief financial officer of United Business Media plc. Nigel was a senior independent director (SID) of The Capita Group plc and was SID/chairman of Halfords Group Plc.

Previous appointments include: McKinsey & Co, (where clients included BP, Citibank, Cadbury's, Santander, Kingfisher, Courtaulds, Whitbread and Globe Investment Trust), group commercial director of Dixons Group Plc, managing director of Stanhope Properties Plc, chief executive, Corporate, Guinness Peat Aviation (G.P.A.) and managing director, Viridian Capital.

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

Rudy Markham
Vice chairman and senior independent non-executive director

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

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

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

Mark Zinkula
Chief executive officer, LGIM

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

External appointments:
- The Investment Association

John Pollock
Chief executive officer, LGAS

Skills and experience:
John was appointed chief executive officer of LGAS on 1 July 2013. John was previously chief executive officer of the Protection and Annuities business and was appointed to the Board in December 2003, having joined Legal & General in 1980. John's former roles include: director, UK Operations; managing director, Legal & General Asia based in Sydney Australia and various posts in Customer Services and IT. John holds a BSc from Strathclyde University and is a Fellow of the Royal Geographical Society.

External appointments:
- Financial Conduct Authority Practitioner Panel (deputy chairman)
- CALA 1 Limited
- CALA Group (Holdings) Limited

Mark Gregory
Chief financial officer

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

Stuart Popham
Independent non-executive director

Skills and experience:
Stuart was appointed to the Board on 1 July 2011. Stuart has extensive legal knowledge and business acumen. He was previously the senior partner of Clifford Chance LLP from 2003–2011. He is presently vice-chairman EMEA at Citigroup. Stuart is chairman of the Royal Institute of International Affairs ('Chatham House') and was from 2008 to 2012 chairman of TheCityUK, a body created to promote financial services. Stuart sits on the Council of Birkbeck College, University of London and is a trustee of the Royal National Lifeboat Institution.

External appointments:
- Citigroup, vice chairman of EMEA Banking

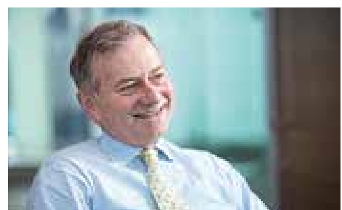
Committee membership:
- Nominations Committee
- Remuneration Committee
- Risk Committee

Julia Wilson
Independent non-executive director

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

External appointments:
- 3i Group plc

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



Lindsay Tomlinson
Independent non-executive director

Skills and experience:
Lindsay was appointed to the Board in May 2013. He has extensive investment management experience having spent a large part of his career with Barclays Global Investors (now Blackrock). He held senior executive roles including as UK CEO, pan European CEO and later becoming the firm's vice-chairman. Lindsay's former roles also include: chairman of the Code Committee of the Takeover Panel, director of the Financial Reporting Council and chairman of the Investment Management Association. He was also previously chairman of the UK's National Association of Pension Funds.

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

Olaf Swantee
Independent non-executive director

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

Committee membership:
- Nominations Committee
- Audit Committee

Lizabeth Zlatkus
Independent non-executive director

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

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

Richard Meddings
Independent non-executive director

Skills and experience:
Richard was appointed to the Board in December 2014. Richard is a qualified chartered accountant and has over 30 years of banking and financial services experience, most recently having spent 12 years on the board of Standard Chartered and almost eight years as finance director. Previously, Richard was group financial controller at Barclays and was also chief operating officer for the Wealth Management, Premium Retail and Life Assurance businesses. He has also served on the board of Woolwich as group finance director and as a non-executive director at 3i where he was the senior independent director and chair of the audit committee. He is a committee member of 'Seeing is Believing', a Standard Chartered charity, in partnership with the International Agency for the Prevention of Blindness, which raises funds to cure avoidable blindness.

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

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

Carolyn Bradley
Independent non-executive director

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

External appointments:
- Marston's PLC
- The Mentoring Foundation
- The Invicta Film Partnership No. 6 LLP

Committee membership:
- Nominations Committee
- Remuneration Committee

Geoffrey Timms
Group general counsel and company secretary

Skills and experience:
Geoffrey was appointed as group general counsel and company secretary in 2008 and has been the group's chief legal officer since 1999. Prior to joining Legal & General, Geoffrey was a solicitor with Clifford Chance.

Letter from the Chairman

> Good corporate governance is not just about following the rules and regulations. It is about how we conduct ourselves as a Board, our culture, behaviours and how we do business. In today's environment, it is evident that good governance makes sense; for us as a business and for our customers, shareholders and the wider community."
>
> **John Stewart, Chairman**

Chairman's letter

In recent years, corporate governance best practice has continued to evolve, most recently with the publication of the September 2014 edition of the UK Corporate Governance Code ('the Code'). Our business has evolved too as we continue to pursue our strategic objectives and respond to the changing regulatory environment and market uncertainty. As Chairman, it is my role to ensure that our internal governance framework keeps pace and that it remains strong and balanced in order to support the growth of the business.

This year, we have continued to develop our governance practices and embed the delegated authority framework which we implemented last year. This has resulted in more robust decision making processes and a stronger and clearer governance framework. We have once again reviewed our approach to governance and compliance with the provisions of the Code. For the year ended 31 December 2014, the September 2012 edition of the Code remained the standard against which we were required to measure ourselves. I am pleased to report that we have complied with all principles of the Code throughout the year ended 31 December 2014. In 2015, we expect to be fully compliant with all provisions of the September 2014 Code.

Board appointments and succession

A strong governance framework alone is not enough to deliver our strategy. This framework needs to be managed by an effective Board that sets the tone for the group's culture, values and ethical behaviours.

Our Board has continued to evolve in 2014. In particular, we have seen a number of non-executive director changes; Mike Fairey retired from the Board at the conclusion of the 2014 AGM in May, Olaf Swantee joined us as a non-executive director on 1 August 2014 and, most recently, we announced the appointments of Richard Meddings and Carolyn Bradley who joined the Board as non-executive directors on 1 December and 8 December respectively. We will also see change to the executive make up of our Board with John Pollock retiring from his role as a director and chief executive officer, Legal & General Assurance Society at the 2015 AGM. John's career has spanned over thirty years at Legal & General and I am extremely grateful for the excellent contribution he has made and continues to make to the Board and to Legal & General more broadly.

We have always remained conscious of the need to maintain a well balanced and diverse Board and we believe that our Board has a strong mix of individuals in terms of thought, background, experience and gender. Taking gender in particular, although we do not have a set target in respect of the number of women on our Board, we incorporate all types of diversity considerations into our thinking on the composition of the Board. We are strong believers in ensuring that we 'get the right person for the job' and that this has to be based on merit above all else.

These considerations do of course go beyond Board level and the Board remains committed to developing the pipeline of talent from within the business. The Board is regularly updated on the progress that is being made and we have a full suite of development programmes to continue to support the development of the leadership pipeline. The Legal & General 50/50 by 2020 Network, in particular, demonstrates our commitment to gender equality and making us a more diverse workplace. I am also pleased to continue to support the 30% Club and the encouraging progress that has been made in bringing more women on to FTSE 100 boards.

The Nominations Committee report on page 68 sets out in further detail the Board changes that have taken place during the year.

Shareholder engagement

As well as a strong governance framework and an effective Board, we also recognise the role our investors play in supporting the company; open, constructive and effective communication is of considerable importance to us.

Continual engagement provides our investors with an opportunity to discuss particular areas of interest and to raise any concerns. This year we have met with a number of institutional shareholders and during the early part of the year the Remuneration Committee welcomed the opportunity to consult with shareholders on our executive remuneration policy, which was put to shareholders for approval at the 2014 AGM. We believe this engagement was constructive for both us and the institutions involved and provided us with the opportunity to respond to feedback, which we believe is an important part of a two-way engagement process.

We also place great value on the engagement we have with our retail shareholders and in September Mark Gregory, chief financial officer, hosted a UK Shareholders' Association event at our head office in London. This was a well-attended event and an excellent opportunity for some of our retail shareholders to be updated on our strategy, governance and performance during the first half of the year.

The AGM also provides an effective communication forum and an opportunity for our shareholders to meet with Board members in person. I look forward to sharing with you our successes during 2014 and would encourage as many shareholders as possible to attend the AGM on 21 May 2015.

The future

As the economic and regulatory environments continue to change, governance best practice and guidance will continue to emerge. Our investment management business, as one of the largest institutional asset managers in Europe, has a key role to play in shaping the environment and leading governance best practice and is fully supportive of the principles of the UK Stewardship Code. By voting responsibly and engaging directly with companies, the LGIM governance team promotes best management practice thereby driving standards up. We are very supportive of the work carried out by LGIM and their commitment to the UK Stewardship Code and will continue to ensure that we, as a company, strive towards the highest standards and monitor and respond to new developments as they emerge.

John Stewart
Chairman

Committed to the highest standards

Our approach to good governance

We believe a sound governance framework protects and promotes the interests of all of our stakeholders and builds the foundation for trusted relationships and sound decision making. Good corporate governance is always at the forefront of what we do as a business and each year the Board undertakes a review of our corporate governance framework to ensure that our policies and procedures remain in line with best practice.

This year, we have continued to embed the revised delegated authority framework which was introduced last year and have formed a Corporate Governance Committee. This Committee is responsible for overseeing and monitoring the company's existing corporate governance framework and ensuring compliance with the UK Corporate Governance Code while promoting the highest standards of corporate governance across the company. The Committee also monitors emerging corporate governance best practice. In its initial meetings, the Committee has so far spent time considering the findings and proposed actions resulting from the 2014 Board evaluation, non-executive director training and development plans and future succession planning for executive directors.

Transparent reporting is as much a part of good governance as our procedures and policies and we are committed to reporting on our governance as clearly and effectively as possible. Further details of our governance practices and our statement of compliance with the Code are set out in more detail on the following pages.

How the Board operates

The Board is accountable for the long-term success of the company, for delivering the group's strategy and for providing leadership within a framework of effective and prudent controls. John Stewart, the Chairman, is responsible for the leadership of the Board and ensuring its effectiveness and Nigel Wilson, group chief executive, is responsible for the day-to-day management of the group. The Board believes in an open and constructive environment and the non-executive directors are encouraged to bring effective challenge to the deliberations of the Board.

Delegated authority framework

The Board operates within a clearly defined delegated authority framework. This framework was designed to assist the Board in delivering its responsibilities, to support sound decision making processes and to enhance independent oversight of internal control and risk management.

Board experience and diversity

The Board has continued to evolve during the year and we have sought to maintain a diverse Board that has an effective balance of skills, experience and personal qualities.

SKILLS	EXPERIENCE	PERSONAL QUALITIES	DIVERSITY
Our Board members come from a wide range of backgrounds including financial services, retail, technology, investment management and legal. These skills all contribute to the effectiveness of our Board and ensure that the Board is able to discharge its responsibilities effectively.	There is a broad spectrum of experience on our Board. Our Board members have undertaken various roles such as chief financial officer, chief risk officer, chief executive officer, director of strategy and technology and e-commerce director. A number of our Board members are currently executives in other companies, which brings an additional dimension to the Board. Our directors have also undertaken trustee roles and have been involved with registered charities.	Having the right balance of personal qualities on the Board is just as important as having the right skill set, as the Board is central to the culture of the company. The qualities we look for in our Board members are integrity, self-awareness, independence of mind, openness and approachability and the ability to perform as a team player.	Our Board represents diversity in many ways and we seek to incorporate diversity into our thinking on the composition of the Board. Diversity on our Board can be demonstrated through multiple perspectives, different outlooks, age, gender and nationality.

There are a number of matters which are specifically reserved for the Board's approval. These are set out in a clearly defined schedule and include, amongst others, matters relating to the group's strategic plan, risk appetite and systems of internal control and corporate governance policies. The decision making for those matters which are not reserved are delegated by the Board as follows:

- to group level committees: Group Risk Committee; Audit Committee; Remuneration Committee, Corporate Governance Committee and Nominations Committee. Each Committee's authority is set out in their terms of reference; and
- to the group CEO, with his authority being set out in a delegation schedule.

The group CEO then onward delegates decision making authority in the following ways:

- to the Group Capital Committee, which considers and approves matters such as capital allocation, new product lines, large transactions and capital investments, mergers and acquisitions transactions, direct investment and other material group wide matters that may arise;
- to the Group Corporate Responsibility and Ethics Committee, which is responsible for setting the group's social purpose; and
- to his direct reports, being the CEOs/managing directors of each business division. Each individual's authority is set out in a delegation schedule.

How the Board spent its time in 2014

The Board held eight scheduled meetings in 2014, individual attendance at which is set out in the table on page 67. The Board's agenda is set by the Chairman and time is allocated at each meeting to consider reports from the group chief executive, chief financial officer, group general counsel and company secretary and the heads of each of the following business divisions; Legal & General Retirement, Legal & General Assurance Society, Legal & General Investment Management and Legal & General Capital. These reports assist the Board in monitoring the performance of the group as a whole. The Board also dedicates a significant amount of time to considering strategic and wider group issues. Some of the key areas of focus throughout 2014 were:

Strategy

- The Board considered a schedule of material transactions at each meeting to assess whether proposed transactions are aligned with the strategic objectives of the group
- The Board debated and approved the group's five year Business Plan and considered a mid–year report from the chief risk officer in respect of progress against the plan versus risk appetite

Leadership, talent development and employees

- A 'talent and leadership' update was provided to the Board at which Board members reviewed the progress that had been made in delivering key talent objectives during 2013 and the future focus for 2014,
- The Board discussed the results of the 'What Matters' annual employee survey and considered the actions to be taken going forward in response to the results

Governance

- Action was taken to implement the delegated authority structure which was introduced in 2013. The Board considered and approved delegation schedules of key senior management
- Consideration of the progress made against the agreed actions from the 2013 Board Evaluation
- A review of the group's approach to governance and compliance with the UK Corporate Governance Code was undertaken

Stakeholders

- The Board considered the group's relationships with various stakeholder groups including shareholders and regulatory bodies
- The company's brokers presented investor feedback to the Board following the year-end results

As in previous years, the Board also held a two day off-site strategy event at which the Board considered the progress that had been made in delivering the group's strategy, the key emerging issues facing the company in continuing to deliver the strategy and the way in which these should be addressed. The Board strategy event provides the opportunity for more informal and less structured dialogue covering a broad range of strategic issues. Some of the key areas of focus for this year's agenda were:

- Digital
- Direct investments
- Risks and capital allocation
- Deccumulation – individual retirement solutions
- Organisational effectiveness and capability

Committed to the highest standards

Board and Committee performance and evaluations

Each year, the Board undertakes a review of its own performance and that of its committees. This review provides the Board with the opportunity to reflect on its activities, the quality of its decisions and allows each Board member to consider their own performance and contribution. The Board then agrees an 'action plan' based on the findings of the review and throughout the year, the Board has continued to progress the recommendations from the 2013 review. A summary of the progress made against the 2013 recommendations is shown in the table below.

This year, given the changes to the composition of the Board and the relatively short tenure of a number of non-executive directors, the Chairman determined that an internally facilitated review would be most effective and appropriate. This provided the opportunity to create tailored questionnaires, focusing in particular on those areas that had prompted the most feedback and discussion during the previous review.

In line with previous years and to ensure continuity and comparability, the directors were asked their views on a number of topics including:

- Board composition, expertise and dynamics
- Board support and processes
- Strategic oversight
- Risk management and internal control
- Succession planning and human resource management
- Priorities for change

The review concluded that the Board was effective overall while recognising the need for improvement in some areas which is set out in the table below.

Developing our people: induction and ongoing development

The group general counsel and company secretary supports the Chairman in providing tailored induction programmes for new directors and ongoing development for existing directors.

PROGRESS MADE AGAINST RECOMMENDATIONS FROM 2013 REVIEW	RECOMMENDATIONS FROM 2014 REVIEW
Board composition and expertise – The composition of the Board has been considered and reviewed in 2014 resulting in the appointment of three new non-executive directors who enhance the Board's expertise through: strong technological and digital experience; extensive financial services experience and a customer-focused background. Board packs and management information – Good progress has been made on improvements to the management information pack and this is generally a focus for continuous improvement. Overseas and off-site Board meetings – The Board has undertaken a visit to the Chicago office and visited the Cardiff office. Strategic planning – The Board held a productive two-day off-site strategy session which built on the discussions that had taken place over the course of the year both inside and outside of the boardroom. Stakeholder views – The Board places great importance on understanding the views of stakeholders and during the year, Board members invited representatives from the FCA and PRA to meet with them for an open discussion. The company's brokers have also briefed the Board on institutional shareholder feedback following the year-end results. The Chairman and SID also undertook a series of meetings with the company's significant institutional shareholders.	Board composition and expertise – In considering future appointments, the Nominations Committee should seek candidates with greater international experience, asset management expertise and those from insurance backgrounds. Strategic oversight – The Board should continue to further develop strategic options and re-visit the progress on the discussions that took place at the Strategy Day half way through the year. Succession planning – The Board should further consider succession plans for executive directors as part of the talent management sessions and should be further exposed to the succession plans for senior management and potential successors for key roles. Board dynamics – The non-executives should meet more regularly with the chief executive officer in the absence of the rest of the executive in order to further facilitate open debate and challenge. Time management – A review of the number of Board meetings should be undertaken and consideration should be given to extending the time of Board meetings to allow more time for discussion on strategic matters and to address the increasing regulatory agenda.

The induction programme is designed to ensure that a new non-executive director is fully briefed on the key areas of the business and has the information necessary to allow them to make an effective contribution to the Board.

On joining the Board, as well as being provided with detailed briefing packs, Olaf Swantee, Carolyn Bradley and Richard Meddings were provided with individual induction plans including a series of one-to-one meetings with executive management and other members of the senior management team. These briefings covered a wide range of topics including, amongst other things: an introduction to the group's governance framework; the approach to risk and compliance; capital management; the annual financial calendar and the financial reporting cycle; and an overview of the investor relations strategy. There were also a series of sessions specifically focused on understanding each of the business areas and operations and, where possible, visits to the different site locations were facilitated. The Board believes strongly in the development of its directors and continuing education is an important aspect of the Board's agenda. The following development sessions were undertaken during 2014.

> **"My induction programme has provided me with a much deeper understanding of the group's operations. Best of all, it has shown me the calibre and integrity of our staff. I have visited several of our offices and had the opportunity to meet with staff on the ground in each location. I continue to be impressed with the culture and commitment to doing what is right for the customer."**
>
> **Lizabeth Zlatkus,**
> **non-executive director**

MONTH	ACTIVITY
February	**Protection and reinsurance** Board members were invited to participate in an internally facilitated executive business awareness session focusing on the protection and reinsurance business.
May	**Management information pack** Board members were invited to participate in an internally facilitated executive business awareness session focusing on the content of the MI pack.
June	**Board visit to Chicago: LGIMA business overview** The June Board meeting took place in the Chicago office and the Board undertook a deep dive on the LGIMA business focusing on the following: US Fixed Income, US Index Funds, US Solutions and US Asset Management.
July	**Julia Wilson site visit to our Kingswood office** Julia spent a day in the Kingswood office and the visit focused on meeting with members of the finance and internal audit teams. This provided Julia with the opportunity to better understand the structure and workings of the finance teams within the group and the role they play in the group's financial reporting process.
July	**Solvency II executive business awareness** Board members were invited to participate in an internally facilitated executive business awareness session focusing in particular on credit risk and longevity risk.
October	**Lizabeth Zlatkus site visit to our Kingswood office** Lizabeth spent a day in the Kingswood office meeting with members of the LGAS senior management team who briefed her on their respective business areas. This provided Lizabeth with the opportunity to get to know the wider business better.
October	**Board visit to Cardiff office – Cardiff business overview** Board members participated in a series of training sessions with representatives from each of the business divisions focusing on the following areas: Investments; Retirement; Insurance and Corporate.

Committed to the highest standards

Compliance with the September 2012 UK Corporate Governance Code

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

A. LEADERSHIP

A1 The role of the Board
The Board met formally eight times during the year. The Board's agenda follows an annual work plan and the Board is responsible for setting the group's strategy and monitoring the performance of the group as a whole. There is a clear schedule of matters reserved for the Board and schedules of delegation, as further described on pages 62 and 63.

A2 Division of responsibilities
John Stewart, the Chairman, is responsible for leading the Board while Nigel Wilson, group chief executive, is responsible for the day-to-day management of the company within the strategy set by the Board. The role profiles for both the Chairman and group chief executive are reviewed on an annual basis.

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

A4 Non-executive directors
The Chairman encourages an open and constructive dialogue in the boardroom and the contributions made by the non-executives are highly valued. The Chairman is available to the non-executives and there are regular meetings in the absence of the executive directors. The Nominations Committee report can be found on pages 68 and 69.

B. EFFECTIVENESS

B1 The composition of the Board
The composition of the Board is reviewed regularly by the Nominations Committee. In considering the composition, the Committee is mindful of the need to maintain a well-balanced Board in terms of skills, knowledge, experience, background and perspectives.

B2 Appointments to the Board
The appointment of new directors to the Board is led by the Nominations Committee. Further details of the appointments undertaken during the year and succession planning can be found on pages 68 to 69.

B3 Commitment
Non-executive directors are advised of the time commitment expected from them on appointment. At times, this time commitment may go beyond that set out in the letter of appointment and is therefore reviewed regularly. External commitments, which may impact existing time commitments, must be agreed with the Chairman.

B4 Development
All new directors are invited to participate in a tailored and comprehensive induction programme. The Board runs a programme of ongoing development sessions, further detail of which is set out on page 65.

B5 Information and support
The Chairman, in conjunction with the company secretary, ensures that all Board members receive accurate and timely information.

B6 Evaluation
The Board and its committees undertook an internal evaluation during 2014. The last externally facilitated evaluation was in 2012. Details of the 2014 evaluation can be found on page 64.

B7 Re-election
All directors were subject to shareholder election or re-election at the 2014 AGM, as will be the case at the 2015 AGM.

Board and committee meetings attendance

Director	Appointment Date	Board (8)	Audit Committee (5)	Nominations Committee (4)	Remuneration Committee (8)	Group Risk Committee (6)	Corporate Governance Committee (1)
J Stewart	1 January 2010	8		4			1
M J Gregory	28 January 2009	8					
R Markham	4 October 2006	8		4	8	2[2]	1
J B Pollock	11 December 2003	8					
S Popham	1 July 2011	8		4	7	6	
M Fairey[1]	1 May 2011	1	0	0	5		
L Tomlinson	1 May 2013	8	5	4	8	6	
J Wilson	9 November 2011	8	5	4		6	
N D Wilson	1 September 2009	8					
M Zinkula	18 September 2012	8					
L Zlatkus	1 December 2013	8	4[3]	3		6	
O Swantee	1 August 2014	2	1	1			
R Meddings	1 December 2014	1		1	1	1	
C Bradley	8 December 2014	1		0	1		

1. Retired with effect from 21 May 2014.
2. R Markham joined the Group Risk Committee on 15 October 2014 and attended two out of a possible two meetings.
3. L Zlatkus joined the Audit Committee on 1 May 2014 and attended four out of a possible four meetings.

C. ACCOUNTABILITY

C1 Financial and business reporting
The strategic report can be located on pages 1 to 55, and this sets out the performance of the company, the business model, strategy and the risks and uncertainties relating to the company's future prospects.

C2 Risk management and internal control
The Board sets the company's risk appetite and annually reviews the effectiveness of the company's risk management and internal control systems. The activities of the Audit and Group Risk Committees, which assist the Board with its responsibilities in relation to risk setting and management, are set out on pages 70 to 75.

C3 Audit Committee and auditors
The Board has delegated a number of responsibilities to the Audit Committee which comprises four independent non-executives. The Committee is responsible for overseeing the group's financial reporting processes, internal control and risk management framework and the work undertaken by the external auditor. Regular updates are provided to the Group Board by the committee chair.

D. REMUNERATION

D1 The level and components of remuneration
The Remuneration Committee is responsible for setting the group's remuneration policy. The company aims to reward employees fairly and our remuneration philosophy seeks to link reward to performance, thereby aligning the interests of the directors and shareholders. The work of the Committee is set out on pages 76 and 77.

D2 Procedure
The Remuneration Committee is responsible for setting the remuneration for all executive directors. Details of the composition and the work of the Remuneration Committee is set out in the Directors' Remuneration Report on pages 76 and 77.

E. RELATIONS WITH SHAREHOLDERS

E1 Dialogue with shareholders
The Board seeks to actively engage with both institutional and retail shareholders and a number of meetings were held in 2014. The chairman seeks to ensure that the Board are kept appraised of shareholder views.

E2 Constructive use of the AGM
The AGM provides the Board with an important opportunity to meet with shareholders, in particular retail shareholders, who are invited to meet with the Board following the formal business of the meeting.

Nominations Committee report

> "The Nominations Committee ensures that the Board has an effective balance of skills and experience around the boardroom table and is responsible for identifying the skills required of future directors in light of the group's strategy. The Committee ensures that there is a rigorous process in place for the appointment of new directors."
>
> **John Stewart, Chairman**

The Committee and its remit

On appointment, all independent non-executive directors join the Nominations Committee and the table below sets out the current membership. In addition to the Committee members, the group chief executive and HR director may be invited to attend meetings as appropriate. In order to avoid potentially conflicting situations, a director may be requested to absent themselves from any discussions relating to his/her own re-appointment or succession.

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

The Committee has overall responsibility for leading the process for new appointments to the Board and ensuring that these appointments bring the required skills and experience to the Board. Against this backdrop, the Committee is responsible for:

- Reviewing the structure, size and composition of the Board as the company moves forward compared to its current position, and making recommendations to the Board with regard to any changes;
- Reviewing the criteria for identifying and nominating candidates based on the description of the role and capabilities required for individual appointments;
- Considering succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the company, and what skills and expertise are therefore needed by the Board in the future;
- Keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to safeguarding the continued ability of the company to compete effectively in the market place; and
- Reviewing the time commitment required from non-executive directors and assessing the non-executive directors' other significant commitments to ensure that they continue to be able to fulfil their duties effectively.

Terms of reference which set out full details of the Committee's authority can be viewed on our website.

The Committee's activities in 2014

Board composition and appointments

The Committee met four times during 2014 and focused in particular on the composition of the Board and the appointments of three new non-executive directors.

Following the retirements of three of our non-executives in 2013 and the retirement of Mike Fairey in May 2014, the Committee commenced the process to identify further non-executive directors to join the Board. The Committee considered the importance of a diverse Board and assessed the skills and competencies required for these non-executive roles with a view to identifying any gaps which could be filled to enhance the Board's future performance. The Committee identified that the Board's skill set could be strengthened with the addition of increased digital knowledge, reflecting the feedback from the 2013 Board evaluation. The Committee proceeded to produce a detailed candidate brief and engaged external search consultants Korn/Ferry Whitehead Mann, who have no other connection to the company, to undertake the search.

The Committee sought a candidate who would bring a different perspective to the Board but one whose values and ethical approach to business were aligned with the group and an individual who could bring significant technological and digital experience in order to support the group's digital strategy. On the basis of this brief, a long list of candidates was produced including candidates from a range of diverse backgrounds. Following rigorous interviews with a number of candidates, the Committee recommended the appointment of Olaf Swantee to the Board.

The Committee also continued its extensive search to find two further non-executives; one with the deep financial services and senior executive experience to succeed Mike Fairey and one with a strong consumer focused background given the customer is at the heart of our business. The Committee engaged external search consultants, JCA Group, who have no other connection to the company, to undertake this search and agreed two separate candidate briefs with them. JCA proceeded to identify long lists of candidates who met the briefs and candidates from each long list were interviewed by the Chairman, the group general counsel and the Committee, with interviews focused on testing whether the candidates had the required skills, experience and competencies for the roles as well as assessing whether the candidate would be a good cultural fit for the existing Board. Following these interviews, the Committee recommended the appointments of Richard Meddings and Carolyn Bradley to the Board, taking up their appointments on 1 and 8 December respectively. Richard was selected due to his extensive experience in the financial services industry and his recent executive experience whilst Carolyn was selected due to her customer focused background. There will also be some changes to the executive make-up of the Board following the announcement in September that John Pollock will be retiring from the company and stepping down from the Board at the 2015 AGM. After careful consideration, it was determined that there would be no direct replacement for John and in November we announced a new business and management structure for the LGAS business.

Independence

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

Diversity policy and progress made in 2014

Our approach to diversity on the Board is set out in our Board Diversity Policy and we have continued to seek to ensure that diversity, in the widest sense, remains central to our thinking on the composition of the Board. Since publishing the policy, the Board has made encouraging progress, not only in increasing the diversity on our Board but also in supporting the delivery of the talent and leadership programmes within the organisation which seek to address gender imbalance by removing barriers that prevent women from realising their potential. The table below demonstrates the progress that has been made:

KEEP UNDER REVIEW THE COMPOSITION OF THE BOARD	ENCOURAGE THE EMERGENCE OF FEMALE CANDIDATES AND CANDIDATES OF DIVERSE BACKGROUNDS	STRENGTHENING THE REPRESENTATION OF WOMEN AMONG THE NON-BOARD SENIOR MANAGEMENT CADRE
• The composition of the Board was reviewed during the year and three new non-executive directors were appointed • The Board now comprises: 23% females: 77% males • The length of tenure of the non-executives varies: 33% less than one year; 22% between one and three years; 33% between three and six years and 11% over six years • Board members come from a variety of backgrounds and have wide sector experience: 55% Financial services; 11% Digital and Technology; 11% Customer and Retail; 11% Legal; 11% Investment Management	• The Committee only engages executive search firms that are signatories to the executive search firms' Voluntary Code of Conduct – both JCA Group and Korn/Ferry Whitehead Mann are signatories to this Code • The Committee liaises with the search firm to ensure that candidate briefs include an appropriate emphasis on diversity of skills and background, independence of approach and thought • Executive search firms are encouraged to produce long lists which include female and other diverse candidates of appropriate merit	• Board members actively participate in discussions relating to talent and leadership • Board members act as mentors to individual employees who have been identified as 'future leaders' • Development of the Legal & General 50/50 by 2020 Network which aims to have a 50/50 balance of men and women right through the organisation by the year 2020

Audit Committee report

Letter from the Chairman
Dear Shareholder

I am pleased to present the Audit Committee report for the year ended 31 December 2014. This year's report focuses on the work of the Committee during 2014 including the significant accounting issues considered by the Committee which are set out on page 72.

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

There have been a number of changes to the Committee's composition during the year with the retirement of Mike Fairey and the appointments of Olaf Swantee and Liz Zlatkus adding important operational and financial experience. Maintaining a strong degree of financial literacy is a key consideration when appointing members.

All members of the Committee are independent non-executive directors and I am pleased to report that the Board and Committee's own evaluations during the year found that the Committee has the knowledge and skills to effectively fulfil its responsibilities and that its performance during the year was effective.

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

Members	
Julia Wilson	Committee member since 9 November 2011, Chair since 22 May 2013
Lindsay Tomlinson	Committee member since 31 July 2013
Lizabeth Zlatkus	Committee member since 1 May 2014
Olaf Swantee	Committee member since 8 December 2014

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

During 2014, the Committee met five times and our time was split between interim and year-end financial reporting, monitoring and reviewing internal control procedures and reviewing the effectiveness and work of both the internal and external audit functions. Another major focus of the Committee this year has been the new disclosures in relation to economic capital and the Committee has worked closely with the Group Risk Committee in reviewing the risk-based capital model and the proposed disclosure.

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

Julia Wilson
Chairman

The work of the Committee during 2014

The Committee has an annual work plan aligned with the financial reporting cycle of the company. The Committee's activities fall into three principal areas: accounting and financial reporting; internal control management; and external audit and the external auditors.

Accounting and financial reporting

The Committee reviews the half year and annual financial statement and the significant financial reporting judgements. The significant accounting issues considered in relation to the 2014 financial statements are detailed on page 72.

In conjunction with the Group Risk Committee, the Committee reviews the disclosures to be made in relation to internal control and risk management and principal risks and uncertainties. An important focus of the Committee in 2014 was assisting the Board in ensuring that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

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

We have formalised our existing year-end governance processes and procedures to assist the Committee in assessing whether the annual report and accounts, taken as a whole, is fair, balanced and understandable ('FBU') and provides the information necessary for shareholders to assess the company's performance, business model and strategy. This includes ensuring that all of those involved in the preparation of our annual report and accounts have been appropriately trained and fully briefed on the FBU requirements; internal legal verification of all factual statements, together with legal verification of descriptions used within the narrative; regular engagement and feedback with senior management on proposed content and changes and feedback from external advisors (corporate reporting specialists, remuneration and strategic reporting advisors, external auditors) to enhance the quality of our reporting. It also included a review of the use of non-GAAP measures and the use and definition of operating profit.

The Committee recommended to the Board that, when taken as a whole, the 2014 annual report and accounts is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

A major focus for the Committee this year has also been the company's new disclosures in relation to economic capital. The Committee has worked closely with the Group Risk Committee in reviewing the key assumptions and methodologies of the risk based capital model as well as the proposed disclosures.

During the year, the Committee has also kept abreast of significant and emerging accounting developments, in particular the implementation of new IFRS accounting standards from 1 January 2014 and the work being undertaken by the International Accounting Standards Board on the implementation of a new IFRS standard on accounting for insurance contracts.

Audit Committee report

Significant accounting issues

The Committee considered the following significant issues in relation to the 2014 financial statements:

The valuation interest rate is the discount rate at which annuity payments are discounted to the present date. The financial results are sensitive to changes in the valuation interest rate. The longevity assumptions estimate how long policyholders receiving annuity payments will live. The financial results are sensitive to the choice of, and changes in, the longevity assumptions.	The Committee closely monitored the matters that change the valuation interest rates and in particular: – Investment data used to calculate the yield on the assets backing the insurance liabilities; – Credit default assumptions; and – The methodology used to model the asset cash flows to calculate the internal rate of return The Committee is concerned to ensure that the investment data used for modelling insurance liabilities is correct, that credit default assumptions are appropriate and that the assumptions made in setting the credit default allowance appropriately represent the group's exposures and current market conditions. The Committee studied the results of the default provision methodology by asset type and concluded that the total provision was appropriate. The Committee also reviewed how the longevity assumptions are calculated, including the use of internal experience analyses and judgement, and the impact of future improvements to mortality (for example, due to expected medical advances) estimates using external industry studies and guidance in the UK.
The group's investment portfolio includes commercial loans, CDOs and OTC derivatives. These are significant in size and changes in estimates could result in material changes in their valuation.	The Committee is concerned to ensure that the valuation process for these investments is robust and that appropriate controls are in place to mitigate the risk that valuations are performed incorrectly. This included consideration being given to the OTC derivatives front office controls approval and authorisation processes.
The group's investment portfolio also includes more complex instruments, such as investment property, where there is no direct price from an active market and the valuation by its nature includes judgement. Further, property valuations are generally performed less frequently than for other classes of asset and some of the group's property investment transactions are unique in terms of structure and therefore can require complex accounting treatment.	The Committee has considered the processes of the group in the valuation of complex investments. In particular, the Committee has reviewed the work of internal and external audit on the control environment surrounding the valuation of investment property and monitored the delivery of process improvements.

Internal control framework

The Committee considers control environment issues, root causes and management's responses and follow up activities. It is assisted by the work of both internal audit and the external auditor.

In conjunction with the Group Risk Committee, the Committee assists the Board in ensuring the group operates within a framework of prudent and effective controls that allows risk to be identified, assessed and managed. Implementation and maintenance of the internal control systems are the responsibility of the executive directors and senior management. Where failings or weaknesses have been identified, actions have been taken to remedy these. The group's control policies and procedures, which are in accordance with Turnbull Guidance, have been in place during 2014 and up to the date this report was approved. The group's system of internal control is designed to manage rather than eliminate risk and can only provide reasonable and not absolute assurance against material loss.

During 2014, the Committee was assisted in its activities by regular reports from the group's internal audit function on their audits and assessment of the control environment. The Committee reviews the effectiveness of the group's internal audit function, including internal audit resources, plans and performance as well as how the function interacts with management. In particular, the Committee considers the alignment of the internal audit plan with the company's key risks.

A significant focus during 2014 has been the implementation of changes in response to the high standards set by the Chartered Institute of Internal Auditors (CIIA) Guidance for Internal Audit in the Financial Services sector (the CIIA Code) issued in July 2013.

The Committee oversaw the recruitment of a new chief internal auditor, and reviewed the target operating model for the company's internal audit function and recommendations for developing the function towards the CIIA Code's standards to support ongoing delivery of effective internal audit assurance.

The Committee also received and considered reports from the external auditors on their assessment of the control environment as well as reports from senior management on how they are responding to internal control recommendations made by internal audit and the external auditors.

The internal control and risk management systems cover the company's financial reporting process and the group's process for preparation of consolidated financial statements. For 2014, the Board was able to conclude, with reasonable assurance, that appropriate internal control and risk management systems were maintained throughout the year.

External auditors

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

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

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

The Chairman meets regularly with the external auditor throughout the course of the year.

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

The Committee is cognisant of the requirements governing the appointment of external auditors, notably the requirements of the Competition Commission and European legislation in relation to the mandatory re-tendering of audit services every 10 years, together with the mandatory firm rotation proposals from the European Commission.

PricewaterhouseCoopers LLP has been our external auditors for a number of years. The audit was last tendered in full in 2006 with a partial re-tender process in 2009. The current intention of the Committee is to carry out a review at an appropriate time between now and 2017 in line with the new audit tender requirements.

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

In 2014, the group spent £1.6 million on non-audit services provided by PricewaterhouseCoopers LLP. Further details can be found in Note 37 to the consolidated financial statements. This represents 28.6% of the total audit fee for 2014.

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

	2014	2013	2012
Audit and related	5.6	5.6	4.6
Other assurance	0.9	0.1	1.8
Non-assurance	0.7	1.3	1.1
Total	7.2	7.0	7.5

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

In order to maintain the objectivity of the external audit process, the Committee supports the rotation programme for audit engagement partners who are required to rotate every five years. The current audit partner commenced his engagement in 2013.

The Committee continues to consider PricewaterhouseCoopers LLP to be the appropriate audit firm for the company taking into consideration their audit effectiveness and the audit needs of the group.

Group Risk Committee report

> "The Committee enables members of the Board to spend time considering the key risks to the group, informing views on acceptable risk taking and the effectiveness of strategies for controlling risks."
>
> **Lindsay Tomlinson, Independent non-executive director**

The Committee and its remit

The Committee comprises six independent non-executive directors.

Members	
Lindsay Tomlinson	Committee member and chair since 24 July 2013
Rudy Markham	Committee member since 15 October 2014
Richard Meddings	Committee member since 1 December 2014
Stuart Popham	Committee member since 1 July 2011
Julia Wilson	Committee member since 24 July 2013
Lizabeth Zlatkus	Committee member since 26 February 2014

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

The Committee met six times during 2014. The effectiveness of the Committee during the year was reviewed as part of the internally facilitated evaluation of the Board and its Committees.

The purpose of the Committee is to assist the Board in fulfilling its responsibilities in relation to the oversight of risk within the group and to provide advice in relation to current and potential future risk exposures of the group. This includes reviewing the group's risk appetite and risk profile and assessing the effectiveness of the group's risk management framework. The group's approach to the management of risk is set out in more detail on pages 49 to 53.

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

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

Committee activities during 2014

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

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

Group chief risk officer's report

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

Alongside the group chief risk officer's report, the Committee receives regular reporting on risk appetite, comparing actual positions relative to the group's risk appetite statement, management information detailing the group's exposures to financial and operational risks, and other matters such as the nature of reports made under the group's whistleblowing policy.

Focused business and risk reviews

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

Infrastructure investment risks – a review of the investment and operational risks implicit in infrastructure as an asset class and the framework of controls to ensure that the group is only exposed to those risks within appetite.
Longevity risk management – a review of the group's approach to assessing and pricing for longevity risks arising from writing individual and bulk annuity business.
Advice risk – a review of the group's appetite for advice risk and the policies and procedures to ensure that advised sales are made in line with the group's target requirements.
Information technology and cyber risks – a review of the key risks associated with the group's IT environment and the range of threats and mitigations in respect of cyber related risks.
Interest rate risk – a review of the impacts on the group businesses of the low interest rate environment and the risks arising from increases in interest rates, together with mitigation strategies.

New and emerging risks

Monitoring new and emerging risks in a pre-emptive way is an important aspect of the group's risk management processes and the ability to react to emerging risks is essential to the achievement of the group's objectives. The Committee considers on a regular basis emerging risk themes and their significance to the group, with each meeting specifically setting time aside for an open discussion of risk factors of concern to Committee members.

Risk appetite

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

Risk based capital model

The Committee has reviewed throughout the year different aspects of the group's risk based capital model, which is used to determine the economic capital requirements for the group. This has included the review of the key assumptions and methodologies as well as the outputs of the model itself. The Committee has also considered developments of the model in anticipation of the implementation of the new Solvency II regime.

Own risk and solvency assessment (ORSA)

The ORSA is an ongoing assessment of the risks to which Legal & General is exposed and an evaluation of the sufficiency of resources to sustain the business strategy over the plan horizon.

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

Risk governance

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

Directors' report on remuneration

Introduction

Our remuneration report is organised into the following sections

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Letter from the chairman

Dear shareholder

Following the strong support received from shareholders at both individual meetings and at the last AGM, the Committee enacted the agreed changes to the policy during 2014. On behalf of the Committee, I would like to thank shareholders for their strong support and feedback over the last year.

In this year's report, we have sought to improve both the look and feel of the report. Our remuneration policy, shown in summary, remains unchanged and the recruitment and exit policy arrangements are shown in full. We have also reviewed and improved the level of disclosure around the annual variable pay arrangements for the executive directors.

When making decisions on remuneration, the Committee remains vigilant regarding the impact of any changes on the total remuneration potential for executive directors as a whole and ensures that any decisions made are consistent with the spirit and letter of the policy approved by shareholders.

Policy implementation 2014

Financial performance, measured by the key business performance indicators, is outlined on page 2 of the annual report. Legal & General delivered strong financial performance during 2014, particular highlights include: operating profit up 10% on 2013; operating cash of £1,101m; a 10% increase in Earnings per Share; and a full year dividend of 11.25p.

The Committee considered overall financial performance and personal achievements against the pre-determined targets for the executive directors and decided the following in respect of incentive awards for 2014:

Annual Variable Pay (AVP)

For performance in 2014 the committee approved awards for the executive directors of between 78% and 91% of the maximum to reflect both the financial performance of the group and the personal performance of each of the executive directors. 50% of the award is deferred into shares for three years.

Performance Share Plan (PSP)

Given Legal & General's exceptional total shareholder return performance over the three-year period to May 2014, the long term incentive award, granted in 2011 under the PSP, vested in May 2014. The Committee concluded that the performance conditions were met and the award vested in full. A detailed description of the performance assessment can be found on page 89 of the annual report.

John Pollock

As announced in 2014, John Pollock will retire and step down from the Group Board at the 2015 AGM.

- **Up to retirement** – John will continue to receive a salary of £560,000 to the end of May 2015 (pro-rated for time). He will be eligible for an AVP award 'at target level' subject to performance (pro-rated for service). Any bonus payment made in March 2016 will be subject to the policy deferral requirements (i.e. 50% will be deferred into shares for three years) and awards will be subject to malus and clawback. He will not receive a PSP award made in respect of 2015.
- **Retirement provision** – Consistent with the payments for loss of office policy, John will be a good leaver and as such his outstanding share awards will be treated in line with the good leaver provisions in the respective plan rules. A copy of the payment for loss of office policy, as approved by shareholders, is included on pages 82 – 83 of the annual report.

The Committee extends our best wishes to John on his retirement after a long and successful career at Legal & General.

Proposed plans for 2015

Base salary increase for employees

Across the UK employee population the base salary increase was on average 2.4%. The actual increases awarded to employees varied significantly in line with Legal & General's philosophy that remuneration spend should be focused on high-performing employees, and in particular those that are positioned behind the desired market reference point.

Base salary increases for Executive Directors

Both Mark Gregory and Mark Zinkula will receive a salary increase of circa 2.7%. As outlined to shareholders during the consultation last year, Nigel Wilson was appointed at a base salary level which was below the market rate, with the intention to increase his salary to a more appropriate level to reflect his experience and performance in the role over time. In line with this, the Committee made its first change to Nigel's salary last year given his strong performance in the role. Following a review of Nigel's performance in the role for 2014, his third year of CEO tenure, the Committee considered it appropriate to continue with the salary progression for Nigel, who receives an increase of 4.9% for 2015.

Time horizons

The Committee is mindful of recent comments by some shareholders regarding time horizons for long-term incentive awards. Following a review of the time horizons for long-term incentive plans in operation for the executive directors, the Committee considered that given the new PSP was only implemented in 2014, which for the first time encompasses a holding period for awards of up to five years from the date of grant, and given the updated shareholding guidelines that were put into place last year, it was not appropriate to make any further changes at this stage. However, the Committee is supportive of continuing to keep the time horizons of our long-term incentive plans under review, which we will continue to do over the course of 2015.

Malus and clawback

Following the publication of the 2014 Corporate Governance Code (the "Code"), the Committee reviewed the malus and clawback provisions in place for executive director incentive plans. Malus and clawback provisions already apply on the deferred element of the AVP and the PSP. To ensure that the group continues to comply with the Code, the Committee determined that it would be appropriate to include a clawback provision on the cash element of the AVP, which will apply to awards in respect of 2015 performance onwards. Clawback for the cash element of the AVP will apply for a four-year period from the end of the performance period and will apply at the Committee's discretion in the event of a mis-statement of financial results, personal misconduct, failure of risk management or where there is a factual error in calculating a payment.

Finally, I wanted to take this opportunity to thank Mike Fairey, who stepped down from the Remuneration Committee and the Group Board at the 2014 AGM, for all of the support and guidance he provided to the Committee over the years. I also wanted to welcome Carolyn Bradley and Richard Meddings to the Remuneration Committee, both of whom joined in December 2014.

Rudy Markham
Chairman of the Remuneration Committee

Directors' report on remuneration

Directors' remuneration policy

The directors' report on remuneration has been prepared in accordance with the requirements of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and group's (Accounts and Reports) (Amendment) Regulations 2013. It also describes the group's compliance with the UK Corporate Governance Code in relation to remuneration.

REMUNERATION PRINCIPLES

Our overall remuneration principles align to our strategy. The strategic objectives are to grow the business in several key areas: LGIM international expansion, retirement solutions, protection, direct investments and focus on the use of digital technology to enhance customer experience and deliver operational effectiveness. To deliver the growth requires a strong performance culture and our remuneration principles take this into consideration.

We also want to ensure we operate within the appropriate culture and therefore the principles support and reinforce customer outcomes, our values, behaviours and risk appetite. Our remuneration principles aim to be clear and simple and strengthen the link of reward for exceptional performance, as well as emphasise the importance of teamwork.

The principles of our remuneration policy are summarised below:

1.
The structure should be fair, simple and transparent, with targets objectively set and independently reviewed by the CRO.

2.
It should be reflective of external best practice. We should never be laggards and where appropriate we should take a leadership position.

3.
Overall remuneration should be competitively positioned and consistent with executives' experience. It should be sufficient to ensure that we can recruit and retain the best talent to support our strategy.

4.
Strong performance will be rewarded, but only if consistent with living and respecting Legal & General's values and behaviours, ensuring that we deliver results within our risk parameters and that we have desired customer outcomes (Malus and clawback will apply as appropriate).

5.
Remuneration should have a balance of reward for short term (one year or less) delivery as well as long term (three plus years) delivery.

6.
Executives' interests should be aligned to those of shareholders.

7.
Both at Board level and below, the reward structure should recognise teamwork and the proportion of an individual's reward that is linked to overall Legal & General performance as opposed to business unit performance should increase with seniority. At executive level this reinforces the collective responsibility across divisions.

The following sets out a summary of our remuneration policy. This does not replace or override the Policy Report, which was approved by shareholders at our 2014 AGM. Full details of the approved Policy can be found on our website (investor.legalandgeneral.com/results.cfm) in the 2013 Annual Report and Accounts which includes the full remuneration policy table.

We have also set out our policies on recruitment, loss of office, termination and change of control later in this section for reference.

ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY
Salary	To help recruit and retain executive directors of the calibre required to develop, lead and deliver the business strategy.	The Committee sets base salaries taking into account: • The individual's skills • Experience and performance • Scope of role • Pay and conditions elsewhere in the group • Overall business performance • Appropriate external market data in other FTSE 100 companies and a bespoke group of financial institutions	No maximum base salary is set, although increases for executive directors will normally be in line with the range of increases for other UK employees in the wider group. For 2015, base salaries have been set as follows: • Group chief executive – £860,000 • CFO – £575,000 • CEO, LGIM – £575,000 • CEO, LGAS – £560,000 (pro-rated for time)
Benefits	Benefits are provided to executive directors to attract and retain the best talent for the business and to ensure that the total package is competitive in the market.	Benefits currently provided include a car or car allowance, private medical insurance, life assurance, Group Income Protection, and insured death in service arrangements. These are all in line with our general policy for other senior employees in the UK. In line with our mobility policy, where an executive is required to re-locate additional benefits may be provided. In line with other Legal & General employees, executive directors can choose to acquire Legal & General products, and are eligible to participate in the company's voluntary benefits which they fund themselves. In addition, they are eligible to participate in the UK all-employee share plans on the same terms as other employees.	There is no maximum level for benefits as this is dependent on the individual's circumstances and the cost to the company. The maximum opportunity for participation in current all-employee share plans is in line with other employees and takes into account prevailing HMRC rules.
Pension	The policy aims to provide competitive post-retirement benefits and therefore recognise sustained contribution.	In line with other employees in the UK, executive directors currently participate in either a defined contribution pension plan, a defined benefit pension plan or receive a cash allowance in lieu of pension, or have some combination thereof. Non-UK national executives may be permitted to participate in home-country pension plans where relevant. Base salary is the only element of pensionable remuneration	• Group chief executive – Cash allowance of 15% of salary • CFO – Cash allowance of 15% of salary • CEO, LGIM – Cash allowance of 15% of salary. Part of this may be used to contribute into a US 401K pension plan. Also a member of a cash balance plan in the US • CEO, LGAS – Cash allowance of 22% of salary

Directors' report on remuneration

Directors' remuneration policy

ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY
Annual variable pay	Incentivise executive directors to achieve specific group and/or divisional, financial, strategic and personal predetermined goals, within the group's risk appetite and taking into consideration the company's culture and values, on an annual basis. The deferred proportion of AVP into shares reinforces retention and enhances alignment with shareholders.	Performance is normally assessed over a one year period against an appropriate mix of group and/or Divisional financial performance targets as well as strategic (including customer and employee measures) and personal measures. Normally, up to 80% is based on financial targets. AVP out-turns are determined by the Committee after the year end, taking into consideration performance against targets, the underlying performance of the business and individual performance. 50% of any AVP awarded is deferred in to shares with awards normally vesting after three years. Deferred shares accrue dividend equivalents. Cash payments and deferred awards subject to clawback provisions. Deferred awards also subject to malus provisions.	For 2015 the maximum opportunity is as follows: • Group chief executive – 150% of salary • CFO – 150% of salary • CEO, LGIM – 175% of salary • CEO, LGAS – For 2015 – 75% of salary, pro-rated for time The award opportunity at threshold performance is 0%, with up to 75% of base salary normally payable for target performance for the group chief executive and CFO and up to 105% of base salary payable for target performance for the CEO LGIM.
Performance share plan	Awards under the PSP are reflective of the Committee's desire that the remuneration of executives should be weighted towards the delivery of sustainable returns to shareholders over the longer term. They also enhance alignment with shareholders by focusing executives on the longer-term performance of the business.	Award of shares or options which are subject to a performance period of normally no less than three years. Subject to performance, awards are normally released in three equal tranches following the third, fourth and fifth anniversaries of the start of the performance period. For awards to be made in 2015, performance will be measured against the following criteria: • A performance matrix of earnings per share and dividends per share growth, subject to a return on equity underpin (50% of award); • Relative total shareholder return against the FTSE 100 and a bespoke group of insurance companies (50% of the award). The Remuneration Committee may reduce the final level of vesting dependent on the underlying performance of the group. Awards are subject to malus and clawback provisions.	The maximum award opportunity under the PSP is 300% of salary. For 2015, PSP awards will be made as follows: • Group chief executive – 250% of salary • CFO – 250% of salary • CEO, LGIM – 250% of salary • CEO, LGAS – For 2015 – no award 15% of the award normally vests for threshold performance increasing to 100% of the award for maximum performance.

Approach to recruitment – recruitment remuneration

STANDARD PROVISION	POLICY AND OTHER PROVISIONS
General approach	The Committee aims to attract, motivate and retain an executive director with the required expertise to develop and deliver the business strategy, while at the same time ensuring that the remuneration arrangements offered are in the best interests of both the company and its shareholders and paying no more than considered necessary to attract the right calibre of candidate to the role. In determining the appropriate remuneration arrangements on hiring a new executive director, the Committee will take into account all relevant factors including, but not limited to: • The individual's skills and relevant experience • Internal relativities • Local market practice in the jurisdiction from which candidate was recruited • Logistics and support if a relocation is required • Appropriate market data • The individual's existing remuneration package Where possible the Committee endeavours to align the remuneration arrangements of new executive directors with the remuneration outlined in the policy for other executive directors. Any such awards will be within the maximum level of variable remuneration limit set out below. Where an existing internal candidate is made an executive director, the Committee may continue to honour prior commitments made before joining the Board.
Maximum variable pay levels	The maximum level of annual variable pay and long-term incentives which may be awarded to a new executive director will be in line with the policy table i.e. 475% of base salary. This limit excludes buyout awards.
Buyout of any existing remuneration components or other arrangements	The Committee recognises that, as a consequence of regulatory changes around the globe in the financial services sector, long serving executives in the sector are likely to have accrued significant levels of deferred remuneration which may be lost on a transfer of employment. Accordingly, to aid the recruitment of a new executive director, the Committee may make awards to 'buyout' remuneration arrangements forfeited on leaving a previous employer, taking into consideration relevant factors including, but not limited to: • Form of the award • Any performance conditions attached to those awards • The vesting profile of the awards and likelihood of vesting • Relevant regulatory requirements and guidance in place in relation to 'buy-out' awards 'Buyout' awards will typically reflect the terms and the value of the arrangements foregone. Where possible the Committee will use existing share based plans to effect a buyout. However, in the event these are not an appropriate vehicle, the Remuneration Committee retains the discretion to use the Listing Rules exemption (LR 9.4.2) for the purpose of making an award to 'buyout' remuneration terms forfeited on leaving a previous employer.
Relocation and mobility	Where a new executive director has to relocate to take up the appointment, either within the UK or from overseas, practical and/or financial support may be given in relation to relocation or mobility in line with our internal policies. This may include the cost of any tax that is incurred. For appointments from overseas, home country benefits may continue to apply. Note that relocation and mobility support may also apply to the recruitment of a non-executive director (NED).
Shareholder transparency	The Committee believes that remuneration arrangements should be as transparent as possible. Therefore the Committee will make every effort to explain the rationale for the recruitment arrangements in the Directors' remuneration report following the recruitment of a new executive director.
Recruitment of non-executive directors	The Committee will normally align the remuneration arrangements for new non-executive directors with those outlined within the policy table on page 73 of the Annual Report and Accounts 2013.

Directors' report on remuneration

Directors' remuneration policy

Approach to termination – service contracts, termination and payment for loss of office

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

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

STANDARD PROVISION | **POLICY AND OTHER PROVISIONS**

Notice period and termination payments

Standard notice policy is:
12 months' notice from the company; and
12 months' notice from the executive director.

Executive directors may be required to work during the notice period or take a period of 'garden leave' or may be provided with pay in lieu of notice if not required to work the full notice period.

Payments in lieu of notice:
Our policy for new appointments is that termination payments in lieu of notice would consist solely of base salary and the cost of providing benefits for the outstanding notice period and will be subject to deductions for income tax and National Insurance as appropriate.

Any statutory requirements will be observed.

Our standard practice is to include within executive directors' contractual terms mitigation provisions as regards payments in lieu of notice.

Current executive directors:
John Pollock has a notice period of six months on either side and would be entitled to an additional six months' base salary, pension and car allowance entitlement if his employment was terminated by the company (except where termination is for gross misconduct).

Mark Gregory and Nigel Wilson have notice periods of 12 months. However, they have no entitlement to any additional contractual payment on termination of employment. Any payment in lieu of notice will consist solely of base salary and the cost of providing benefits for the outstanding notice period.

Mark Zinkula has a notice period of six months on either side. Any payment in lieu of notice will consist solely of base salary.

Contract commencement date

The dates of the executive directors' service contracts are shown in the table below:

Executive director	Contract commencement date	Continuous service date
Nigel Wilson	September 2009	September 2009
John Pollock	November 2003	September 1980
Mark Gregory	January 2009	August 1998
Mark Zinkula	September 2012	June 2008

Copies of the executive directors' service contracts are available for inspection at the company's registered office.

Expiry date

All executive directors are subject to annual re-election.

The contracts for our executive directors are rolling service contracts with no expiry date.

STANDARD PROVISION	POLICY AND OTHER PROVISIONS
Treatment of outstanding incentive award	Rights to annual variable pay, deferred annual variable pay awards and performance share awards are governed by their respective plan rules. **Annual variable pay** There is no automatic entitlement to an annual bonus in the year of cessation of employment. However, for a 'good leaver', the Committee may determine that an executive director will receive a pro-rata bonus in respect of the period of employment during the year of cessation based on an assessment of group and personal performance. **Deferred annual variable pay awards (awards made in relation to 2014 onwards)** In the event that a participant is a 'good leaver' any outstanding unvested deferred annual variable pay award will normally be released at the normal time. Where it considers it appropriate, for example in the circumstances of terminal illness, the Committee reserves the right to accelerate any payment due. 'Good leaver' circumstances are leaving due to circumstances such as death, disability, ill-health or injury, redundancy, retirement with company agreement, employing company/business ceasing to be part of the group, a transfer of the undertaking in which the participant's employment transfers to a company which is not a member of the group, or other circumstances at the Committee's discretion. For all other leavers outstanding unvested awards lapse. Awards will generally vest early on a takeover of the company, merger or other corporate reorganisation. Alternatively participants may be allowed or required to exchange their awards for new awards. Where an award vests early in these circumstances, the Committee will determine the level of vesting, having regard to the extent to which the performance condition has been satisfied to the date of vesting (subject to downwards discretion based on underlying performance) and to the fact that the award is vesting early. **Awards made prior to 2015** Subject to the leaver conditions set out above, where a participant is a 'good leaver' any outstanding unvested deferred annual variable pay award made prior to 2015 will normally be released at the date of cessation of employment. In the event of a change of control, the Committee may allow awards to vest or will determine that awards are exchanged for new awards. **PSP (awards made from 2014 onwards)** In the event that a participant is a 'good leaver' any outstanding unvested PSP award will normally be pro-rated for service from the start of the performance period to cessation and will vest based on performance to the end of the performance period. Awards will usually be released at the normal time. Where it considers it appropriate, for example in the case of terminal illness, the Committee reserves the right to accelerate any payment due. 'Good leaver' circumstances are leaving due to death, disability, ill-health or injury, redundancy, retirement with company agreement, employing company/business ceasing to be part of the group, a transfer of the undertaking in which the participant's employment transfers to a company which is not a member of the group, or any other reason at the discretion of the Committee. For all other leavers outstanding unvested awards lapse. Awards will generally vest early on a takeover of the company, merger or other corporate reorganisation. Alternatively participants may be allowed or required to exchange their awards for new awards. Where an award vests early in these circumstances, the Committee will determine the level of vesting, having regard to the extent to which the performance condition has been satisfied to the date of vesting (subject to downwards discretion based on underlying performance) and to the fact that the award is vesting early. **Legacy PSP awards** For 'good leavers', in line with the plan rules, awards made prior to 2014 will be performance tested at the date of leaving and, to the extent that performance conditions are met, the award will vest on a pro-rata basis, based on service within the performance period. Good leaver circumstances are leaving due to death, disability, ill-health, redundancy, retirement with company agreement, employing company/business ceasing to be part of the group, a transfer of the undertaking in which the participant's employment transfers to a company which is not a member of the group, or any other reason at the discretion of the Committee. For all other leavers outstanding unvested awards lapse. In the event of a change of control, PSP awards will vest to the extent that the performance conditions have been satisfied over the shortened performance period and will be time pro-rated in the same way as awards held by 'good leavers'. **Legacy LGIM LTIP Award** In the event of being a 'good leaver', the legacy LGIM LTIP awards made to Mark Zinkula prior to him becoming a Board member would be tested at the end of their normal performance periods and, to the extent that performance conditions are met, the awards will vest on a pro-rata basis, based on service within the performance period. Good leaver circumstances are leaving due to death, disability, ill-health, redundancy, retirement with company agreement, employing company/business ceasing to be part of the group or any other reason at the discretion of the Committee. For all other leavers outstanding awards lapse. In the event of a change of control, awards will vest to the extent that the performance conditions have been satisfied over the shortened performance period and will be time pro-rated. **Other awards** Other one-time share awards would vest in line with any commitments made and taking into consideration the reasons for leaving. All employee share plans will vest in line with the plan rules.
Other information	Legal fees, outplacement costs or other similar costs at the discretion of the Committee may be offered.

Annual report on remuneration

This section sets out how Legal & General's policy was implemented in 2014, and how it will be implemented in 2015. The annual report on remuneration will be subject to an advisory shareholder vote at the annual general meeting on 21 May 2015.

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

The following table shows a single total figure of remuneration for each executive director in respect of qualifying services for the 2014 financial year, together with a comparative figure for 2013.

Single figure £000s

Executive director	Salary	Benefits (b)	Pension	Annual variable pay (AVP)	Total remuneration exc. PSP/LTIPs	PSP/LTIPs	Total remuneration
2014							
Nigel Wilson	808	80	121	1,115	2,124	2,089	4,213
John Pollock	560	69	150	713	1,492	1,563	3,055
Mark Gregory	560	66	90	726	1,442	1,519	2,961
Mark Zinkula (a)	560	840	88	766	2,254	1,026	3,280
2013							
Nigel Wilson	750	66	113	873	1,802	2,270	4,072
John Pollock	509	66	97	593	1,265	1,694	2,959
Mark Gregory	509	56	77	573	1,215	1,525	2,740
Mark Zinkula (a)	510	784	80	768	2,142	643	2,785

Notes

(a) Mark Zinkula's benefits for 2014 and 2013 include the vesting of shares relating to a legacy award from when he became CEO LGIM and prior to him joining the Board. For 2014 this accounts for £418,000 of the benefits figure shown above and for 2013 this accounts for £357,000 of the benefits figure.

(b) The benefits figures for 2013 have been updated to reflect the change in calculation in relation to the SAYE. This change effected the benefits number for John Pollock only. See Benefits section below for further details.

Components of the single figure

Salary (audited)

Name	Annual base salary as at 1 January 2014	Annual base salary effective 1 March 2014	Total base salary paid in 2014
Nigel Wilson	750,000	820,000	808,333
John Pollock	560,000	560,000	560,000
Mark Gregory	560,000	560,000	560,000
Mark Zinkula	560,000	560,000	560,000

Benefits (audited)

Benefits include the elements shown in the table below.

Executive director	Car and PMI £'000	Dividends £'000 – note i	Discount on SAYE £'000 – note ii	Matching shares £'000 – note iii	Relocation assistance £'000 – note iv	Total benefits £'000
2014						
Nigel Wilson	20	59	0	1	0	80
John Pollock	20	48	0	1	0	69
Mark Gregory	20	41	4	1	0	66
Mark Zinkula	30	51	0	0	759	840
2013						
Nigel Wilson	20	45	0	1	0	66
John Pollock	20	41	4 / (12)	1	0	66
Mark Gregory	20	35	0	1	0	56
Mark Zinkula	20	43	0	0	721	784

(i) Value of all dividends received in 2014 in respect of outstanding AVP awards made under the Share Bonus Plan (SBP), unvested matching shares under the Employee Share Plan (ESP) and Group Performance Shares under the ESP.
(ii) Value of the discount at grant on SAYE options exercised in the year. The 2013 value originally disclosed was the gain on the SAYE vesting in the year, however we have revised the calculation approach upon the advice of our remuneration consultants. The numbers that appear in the column for 2013 are calculated based on the new approach. This change effected the benefits number for John Pollock only. The original figure for 2013 is also included in brackets for information.
(iii) Value of matching shares under the ESP at date of purchase and Group Performance Shares awarded in the year valued at the date of award (does not include the amounts that vested).
(iv) For Mark Zinkula, the relocation assistance includes allowances for schooling, housing and flights, associated tax resulting from his relocation package to the UK and the vesting of shares awarded to him on his appointment to CEO LGIM and prior to him joining the Board amounting to £418,000 for 2014 and £357,000 for 2013.

Pension (audited)

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

Nigel Wilson receives a cash allowance of 15% of base salary. Prior to April 2014, Mark Gregory received a pension contribution into a defined contribution plan up to the annual allowance. Any balance above the annual allowance was paid as a cash allowance. From 1 April 2014, Mark elected to opt out of the defined contribution plan and receives a cash allowance of 15% of base salary.

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

Executive director	Cash in lieu £000	Defined benefit £000	Defined contribution £000	Other/Overseas Pension £000	Total pension £000
2014					
Nigel Wilson	121	0	0	0	121
John Pollock	123	27	0	0	150
Mark Gregory	80	5	5	0	90
Mark Zinkula (a)	84	0	0	4	88
2013					
Nigel Wilson	113	0	0	0	113
John Pollock	112	–15	0	0	97
Mark Gregory	56	–3	24	0	77
Mark Zinkula (a)	76	0	0	4	80

Notes
(a) Mark Zinkula contributes to a 401K plan and participates in a non contributory US cash balance plan the values of which are included in the Other Overseas Pension value figure shown in the table above.

Annual report on remuneration

Further pension information (audited)

Executive director	Age at 31 December 2014	Accrued DB pension at 31 Dec 2014 £000	Normal retirement date	Additional value of pension on early retirement
Nigel Wilson	58	0	Age 65	0
John Pollock	56	198	Age 60	0
Mark Gregory	51	40	Age 60 in DB plan and age 65 in DC plan	0
Mark Zinkula	47	0	Age 65	0

2014 annual variable pay (AVP) awards

This reflects the total AVP awards to be paid in 2015 based on performance in the year ended 31 December 2014. The value includes both the cash element and the portion deferred into shares (50% of the award).

The executive directors' AVP awards in relation to performance during 2014 were measured against a basket of metrics and objectives. For Nigel Wilson and Mark Gregory, they were weighted between group financial objectives (80%) and other strategic personal objectives (20%). For Mark Zinkula and John Pollock they were weighted between group financial objectives (50%), divisional objectives (30%) and other strategic personal objectives (20%).

Group financial – Achievement

For 2014, AVP pay-outs as a percentage of the maximum were: Nigel Wilson 91%, John Pollock 85%, Mark Gregory 86%, Mark Zinkula 78%. The tables below illustrate performance against each of the measures.

	Weightings (as % of total AVP opportunity)				Achieved as a % of maximum			
Performance measure	Nigel Wilson	Mark Gregory	John Pollock	Mark Zinkula	Threshold	Actual achievement	Maximum (100%)	Payout % of maximum
Operating cash	16%	16%	10%	10%	£1,055m	£1,101m	£1,129m	66%
Operating profit	16%	16%	10%	10%	£1,150m	£1,275m	£1,280m	94%
Net cash	20%	20%	12.5%	12.5%	£1,035m	£1,104m	£1,105m	99%
EPS	20%	20%	12.5%	12.5%	14.6p	16.7p	16.75p	95%
RoE	8%	8%	5%	5%	14.5%	16.9%	16.6%	100%

Actual achievement

Divisional performance – Achievement

Division	Weightings (as % of total AVP opportunity) John Pollock	Mark Zinkula	Key achievements in the year	Payout (% of maximum)
LGIM	–	30%	2014 represented a strong year for LGIM, with good progress made against the stretching performance targets set by the Committee at the beginning of the year. Key highlights for 2014 include: • Profit before tax of £324m which was driven by strong revenue growth with continued investments in the business for the future • Revenues of £636m which were driven by strong growth in the solutions business and fee margin from the property and multi-asset business Given the level of performance achieved by LGIM over the year against the performance targets for the year, the Committee considered it appropriate to payout 58% of this element of the bonus for Mark Zinkula.	17.5%
LGAS	30%	–	LGAS delivered exceptional financial performance during 2014, with strong performance against all of the stretching maximum targets set by the Committee. Key highlights for 2014 include: • Profit before tax of £453m driven through positive investment variance and tight expense management; and • Net cash of £424m highlighting the continued strong business growth in most of the LGAS business Based on the level of out-performance delivered by LGAS, the Committee considered it appropriate to payout 89% of this element of the bonus for John Pollock.	26.8%

Actual targets have not been disclosed due to commercial sensitivity.

Annual report on remuneration

Strategic personal performance – Achievement

Executive director	Weightings (as % of total AVP opportunity)	Key achievements in the year	Payout (% of maximum)
Nigel Wilson	20%	2014 has been another exceptional year for Nigel in his capacity as group Chief Executive. Nigel's key achievements in the year include: • Continuing to build strong relationships with the group's shareholders and external policy makers • Thought leadership on a wider range of business and economic issues to ensure that the business is well placed for the future • Strong succession planning and talent pipeline developments • Strong personal leadership – Nigel visited a significant number of business locations during 2014 and this was reflected in strong employee engagement and leadership indices across the group	18.3%
Mark Gregory	20%	Mark Gregory has had a strong year in his first full year as group CFO. Mark's key achievements in the year include: • Building strong relationships with the group's shareholders and analysts • Strong capital management, which has meant that the business is well placed for the implementation of Solvency II • Mark is on track with the development of the operating model for finance, creating a commercial team based culture in the function. The group finance leadership index increased significantly to 82% in 2014.	14.1%
John Pollock	20%	2014 represented a solid year for John Pollock in his final full year as a group executive director. John's key achievements in the year include: • Increased customer satisfaction in LGAS demonstrated by increases in net promoter scores in critical areas • Execution of the digital transformation strategy, which has allowed the group to build both its people and technology capabilities • Significant change in LGAS was well managed and the culture of strong customer focus and delivery remained. Employee engagement levels were maintained at a level of 74%.	12.8%
Mark Zinkula	20%	2014 has been a key year for Mark Zinkula in positioning LGIM for the future. Mark's achievements in the year include: • Excellent client engagement both internally and externally: LGIM significantly improved its support to the retirement business • Significant progress was made towards enabling LGIM to deliver enhanced customer service with greater operational efficiency through the business transformation programme • Mark sponsored the development of our future leaders, playing a key role in our strategic leadership programme.	14.5%

Actual targets for the divisional and strategic personal performance elements have not been disclosed due to commercial sensitivity.

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

For 2013, AVP pay-outs as a percentage of the maximum were: Nigel Wilson 93%; John Pollock 93%; Mark Gregory 90%; and Mark Zinkula 86%.

Deferral policy

In line with our policy, 50% of all 2014 AVP awards were deferred for three years into nil cost options, subject to continued employment and clawback/malus provisions.

Executive director	Cash bonus	Deferred bonus	Total bonus*
Nigel Wilson	£557,613	£557,613	£1,115,200
John Pollock	£356,411	£356,411	£712,800
Mark Gregory	£362,959	£362,959	£725,900
Mark Zinkula	£383,030	£383,030	£766,100

*Total bonus figures have been rounded to the nearest £100.

Performance share plan (PSP) awards

Details of how the 2011 PSP award vested

The 2011 PSP award vested in full in May 2014 as Legal and General's TSR exceeded the 80th percentile of the FTSE 100 and the bespoke comparator group over the three-year performance period.

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

The results are shown below:

Grant date	Performance period	Comparator group	Legal & General's TSR	Comparator group median rank	Comparator group 80th percentile TSR performance	Legal & General's notional rank	% of award vesting against comparator group	Percentage of total award vesting
27 April 2011	27 April 2011 to 26 April 2014	FTSE 100	106.2%	48/95	19.5/95	9.2	100%	100%
		Bespoke comparator group		12/23	5.1/23	2.4	100%	

The values included in the single figure table are calculated by multiplying the number of shares vesting on 9 May 2014 by the share price on 9 May 2014 of £2.214. For 2013 100% of the maximum PSP awards granted to the executives in 2010 vested.

LGIM LTIP Award

LGIM long term incentive plan (LGIM LTIP) awards

Between March 2010 and March 2012 Mark Zinkula was granted LGIM LTIP awards as part of his remuneration as CEO LGIMA and CEO LGIM. Following his appointment as an executive director, Mark receives no further awards under this plan. Under the LGIM LTIP annual awards of notional shares in LGIM are granted to participants. The vesting of these notional shares is subject to the satisfaction of the cumulative growth in PBT condition over the three-year performance period. The value of the notional LGIM shares is delivered in cash after the end of the three-year performance period. Actual targets have not been disclosed due to commercial sensitivity. The table below shows the outcome of his 2011 award, c. 61% vested in 2014.

Executive director	Grant date	% of base salary	No. of notional shares at award	Face value at award £000	Notional share price at award £	Value at date of vest (figure shown in single figure of remuneration) £000	Notional share price at time of vest £
Mark Zinkula	28 March 2011	120%	126,850	480	3.78	418	5.44

For 2013, 100% of the maximum LGIM LTIP awards granted to Mark Zinkula in 2010 vested.

The final payment due under this plan will be made in 2015 (the March 2012 award).

Annual report on remuneration

Scheme interests awarded during the financial year (audited)

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

	Type of award	Basis of award (% of salary and face value)	% of award vesting for threshold performance	% of award vesting for maximum performance	Performance/ holding period
Nigel Wilson	Nil-cost options	250% of salary £2,050,000[1]	15%	100%	1 January 2014 to 31 December 2016. Awards are also subject to a holding period, such that awards are released in equal tranches in years 3, 4 and 5 from the start of the performance period.
John Pollock	Nil-cost options	250% of salary £1,400,000[1]	15%	100%	
Mark Gregory	Nil-cost options	250% of salary £1,400,000[1]	15%	100%	
Mark Zinkula	Nil-cost options	250% of salary £1,400,000[1]	15%	100%	

1 The number of shares awarded is calculated based on the average share price for the five days preceding the grant which was £2.3342

Awards were also made during the year under the Share Bonus Plan in respect of performance for 2013, in line with our policy 37.5% of all 2013 AVP awards were deferred into shares for three years, subject to malus provisions. The amounts deferred in respect of the 2014 bonus are set out in the deferral policy section.

Performance conditions for PSP awards granted in 2014

Financial performance condition (50% of the 2014 award)

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

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

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

TSR performance condition (50% of the 2014 award)

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

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

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

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

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

Statement of directors' shareholding and share interests

Shareholding guidelines (audited)

The group chief executive is expected to build a shareholding of 300% of base salary and the other executive directors 200% of base salary. The table below shows shareholding levels as at 31 December 2014.

	Actual share ownership as % of 2015 base salary: vested shares[1]	New guidelines on share ownership as a % of base salary[2]	Guideline met	Shares owned at 1 January 2014	Shares owned at 31 December 2014	Shares sold or acquired during the period 1 January 2015 and 27 February 2015
Nigel Wilson	841%	300%	Yes	2,751,655	2,908,234	134
John Pollock	941%	200%	Yes	1,680,766	2,119,707	134
Mark Gregory	816%	200%	Yes	1,442,056	1,886,312	133
Mark Zinkula[2]	174%	200%	On-target	100,155	402,259	0

1 Closing share price as at 31 December 2014: £2.486
2 Mark Zinkula joined the Board on 1 September 2012

Notes

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

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

Share options exercised during 2014

The following table shows all share options exercised by the executive directors during 2014.

Executive director	Type of option	Date of grant	Shares exercised	Exercise date	Share price at date of exercise £	Gain £
Nigel Wilson	PSP nil cost	27 April 2011	943,396	6 August 2014	2.32	2,188,915
John Pollock	PSP nil cost	27 April 2011	706,003	9 May 2014	2.21	1,563,091
Mark Gregory	PSP nil cost	27 April 2011	686,106	28 May 2014	2.29	1,571,217
	SAYE	17 September 2009	27,767	24 November 2014	2.44	52,063
Mark Zinkula	PSP nil cost	27 April 2011	274,442	9 May 2014	2.21	607,615

Annual report on remuneration

Statement of implementation of remuneration policy in 2015

Salary

The table below sets out any increases to base salaries that will be effective 1 March 2015.

Name	Annual base salary as at 31 December 2014	Annual base salary effective 1 March 2015	% increase
Nigel Wilson	820,000	860,000	4.9%
John Pollock	560,000	560,000	0%
Mark Gregory	560,000	575,000	2.7%
Mark Zinkula	560,000	575,000	2.7%

Both Mark Gregory and Mark Zinkula will receive a salary increase of circa 2.7%. As outlined to shareholders during the consultation last year, Nigel Wilson was appointed at a base salary level which was below the market rate, with the intention to increase his salary to a more appropriate level to reflect his experience and performance in the role over time. In line with this, the Committee made its first change to Nigel's salary last year given his strong performance in the role. Following a review of Nigel's performance in the role for 2014, his third year of CEO tenure, the Committee considered it appropriate to continue with the salary progression for Nigel, who receives an increase of 4.9% for 2015.

Benefits for 2015

Benefits for 2015 to be in line with policy, as outlined on page 79.

Annual variable pay potential (AVP) 2015

In line with our policy, for 2015 the target and maximum AVP opportunities for our executive directors will be:

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

Notes

(a) For 2015 only, given that John Pollock will remain in position until the date of the AGM, the Committee considered it appropriate to set a maximum AVP opportunity at his usual 'target' level of 75% of base salary and pro-rata for service. John's usual maximum AVP opportunity is 150% of base salary.

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

Performance share plan (PSP) 2015

For 2015, each executive director will be granted an award over nil-cost options with a face value of 250% of base salary (except for John Pollock who will not receive a PSP award in his year of cessation).

Given the level of stretch within the financial and TSR performance conditions used for the 2014 award, the Committee considered it appropriate to use the same performance conditions for the 2015 award.

See 'Performance conditions for PSP awards granted in 2014' for further details.

Non-executive directors' remuneration – 2014 (audited)

The table below shows the current fee structure and actual fees paid in 2014. The current aggregate limit for fees paid to NEDs is £1,500,000 p.a.

£000s	Base	Committee fee*	Committee Chairman	SID	Total fee 2014	Actual fee 2014	Benefits 2014 (1)	Actual fee 2013	Benefits 2013 (1)
John Stewart chairman N	340	–	–	–	340	340	1	340	0
Rudy Markham N R	65	–	30	20	115	115	0	106	0
Stuart Popham N R Ri	65	10	–	–	75	75	0	75	0.3
Julia Wilson A N Ri	65	10	30	–	105	105	0	85	0.5
Lindsay Tomlinson[2] A N R Ri	65	10	30	–	105	130	0	78	0
Lizabeth Zlatkus A N Ri	65	10	–	–	75	72	2	5	0
Olaf Swantee[3] A N	65	–	–	–	65	27	0	N/A	N/A
Richard Meddings[4] N R Ri	65	10	–	–	75	6	0	N/A	N/A
Carolyn Bradley[5] N R	65	–	–	–	65	5	0	N/A	N/A
Mike Fairey[6] A N R	65	10	–	–	75	29	0.5	75	0.1

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

* If sitting on two or more committees, excluding Nominations Committee.

Notes
1 Benefits represent expenses incurred in the performance of non-executive duties for the company that have been reimbursed or paid for directly by the company. Benefits are not included in the actual fee totals.
2 Effective 1 July 2014, Lindsay Tomlinson will receive an annual fee of £50,000 for sitting on the Board of LGIM. This is included in his actual fees for 2014.
3 Appointed 1 August 2014.
4 Appointed 8 December 2014.
5 Appointed 1 December 2014.
6 Stepped down from the Board 21 May 2014.

Shareholding requirements (audited)

NEDs are required to build up a shareholding equivalent to one times base fee. The table below shows their shareholding as at 2 January 2015, taking into account share purchases in relation to December 2014 fees, purchased on 2 January 2015.

Name	Shareholding as at 2 January 2015	Holding as a % of base fee	Met criteria of 1 x base fee	Shares purchased from 2 January 2015 to 27 February 2015
John Stewart	317,878	229%	Yes	2,896
Rudy Markham	243,843	933%	Yes	1,065
Stuart Popham	50,133	192%	Yes	611
Julia Wilson	33,078	127%	Yes	0
Lindsay Tomlinson	26,766	102%	Yes	939
Lizabeth Zlatkus	9,629	37%	On-target	669
Olaf Swantee	7,068	27%	On-target	1,262
Richard Meddings	727	3%	On-target	669
Carolyn Bradley	597	2%	On-target	580
Mike Fairey	41,136	157%	Yes	0

Annual report on remuneration

Statement of implementation of remuneration policy in 2015 – non-executive directors

The fee policy for the non-executive directors remains unchanged for 2015. Following a review of the Chairman's fee in 2014, it was agreed that this will be increased by 1.5% to £345,000. The Chairman's fee was last increased in July 2011.

Remuneration Committee

The table below shows the members and attendees of the Remuneration Committee during 2014.

Committee Members, attendees and advice

Members: during 2014 the Remuneration Committee was made up of the following NEDs:

Name	Number of Remuneration Committee meetings during 2014
Rudy Markham	8 / 8
Stuart Popham	7 / 8
Lindsay Tomlinson	8 / 8
Richard Meddings	1 / 1
Carolyn Bradley	1 / 1
Mike Fairey (until May)	5 / 5

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

At the invitation of the Remuneration Committee, a representative from Deloitte LLP also attends Committee meetings. During 2014, Deloitte principally advised the Committee on external developments affecting remuneration as well as specific matters raised by the Remuneration Committee. Deloitte were appointed by the Committee. It is the view of the Committee that the Deloitte LLP engagement team that provide remuneration advice to the Committee are independent. Deloitte are signatories to the Remuneration Consultants' Group Code of Conduct in relation to Executive Remuneration Consulting in the UK. The total fees paid to Deloitte in relation to Remuneration Committee work during 2014 were £108,000 (excluding VAT). While fee estimates are required for bespoke pieces of work, fees are generally charged based on time with hourly rates in line with the level of expertise and seniority of the adviser concerned. During the year, Deloitte also provided the Company with international tax advice, other consulting services and real estate advice.

Terms of reference

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

The Committee particularly focuses on:

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

Meetings in 2014

During 2014 the Committee met eight times and in addition had ongoing dialogue via email or telephone discussion.

Regular meetings were held to review and discuss AVP awards in relation to performance in 2014, base salary adjustments for 2015 and budgets for the company 2015 pay review. The Committee also met a number of times to discuss the review of the executive directors' remuneration structure undertaken at the beginning of 2014.

Considering risk

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

Reward Steering Committee (RSC)

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

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

Group regulatory risk and compliance function

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

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

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

Engagement with shareholders

The Committee seeks to maintain an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and any changes to the company's executive pay arrangements. During early 2014, the Remuneration Committee sought the views of the group's major shareholders on the proposed changes to executive remuneration arrangements for 2014 onwards. Following the strong support received from shareholders at both individual meetings and at the AGM, the Committee considered it appropriate to enact the proposed changes to the policy during 2014. The Committee remains committed to open dialogue with shareholders and as such will engage with shareholders as appropriate in 2015.

Statement of voting at the annual general meeting (AGM) 2014

The table below shows the voting outcomes on the Directors' Remuneration Policy and Directors' Remuneration Report at the last AGM in May 2014.

Item	For %	Against	Abstain Number
2013 directors' remuneration policy	97.62%	2.38%	–
	4,154,433,976	101,243,790	21,675,250
2013 remuneration report	98.72%	1.28%	–
	4,196,919,449	54,395,176	26,045,069

Annual report on remuneration

Remuneration for employees below board

General remuneration policy

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

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

Summary of the remuneration structure for employees below Board

ELEMENT	POLICY
Base salary	We aim to attract and retain key employees by paying salaries which deliver competitive total remuneration, taking into account market pay levels at companies of similar size, scale and scope as well as overall business performance. A key factor is also the ability, experience and performance of the individual. For 2015, base salary budgets have been set at 2.4% for all employees below Board, including LGIM. However, this does not mean a flat increase at this level for everyone.
Annual bonus	The majority of employees have a discretionary bonus scheme based on individual performance against objectives. Bonuses above a certain threshold are subject to deferral with the deferral amount increasing with the size of the bonus. Deferred awards are normally held in shares for three years. The company reserves the right to adjust deferral levels for Code staff as deemed appropriate. The group operates bespoke bonus schemes where business appropriate, however, the Remuneration Committee has ultimate discretion over all bonus plans. Separate plans operate within LGIM consistent with industry practice.
Performance share plan (PSP)	Participation in the PSP generally is extended to the senior management population but may include other employees in key roles. This includes employees in LGIM whose roles span different business divisions and whose participation encourages synergy and teamwork across the group. Typically less than 100 employees participate in total in the PSP. Participation in the plan for one year does not guarantee participation in future years. PSP awards will be made to under 100 employees during 2015. Where appropriate, grants under the PSP may also be made for new employees who join the company during the year in key roles.
Pension	All employees are given the opportunity to participate in a group pension scheme.
Shareholding requirements	The leadership group is asked to build up a voluntary shareholding of 50% of base salary.

Annual equal pay audit

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

All employee share schemes

There are approved HMRC employee share plans in operation for all UK employees including the Savings-Related Share Option Scheme (SAYE) and the Employee Share Plan (ESP). The Committee has increased the amount which may be saved under the SAYE from £250 to £375 per month from April 2015. The grant price is equal to 80% of the quoted market price of the group shares on the invitation date. Each year the Committee also considers a grant of Group Performance Shares (Freeshares) after the annual results. The Committee did not grant any awards in respect of 2014 performance (for 2013 performance 280 shares were granted).

Dilution limits

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

As at 31 December 2014, the company had 4.91% of share capital available under the 5% in 10 years limit, and 9.57% of share capital under the 10% in 10 years limit.

As at 31 December 2014, 22,452,298 shares were held by the Employee Benefit Trust to hedge outstanding awards of 40,749,876 shares for the PSP and SBP.

Other information relating to directors' remuneration

External appointments

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

External appointments held in 2014 are shown below:

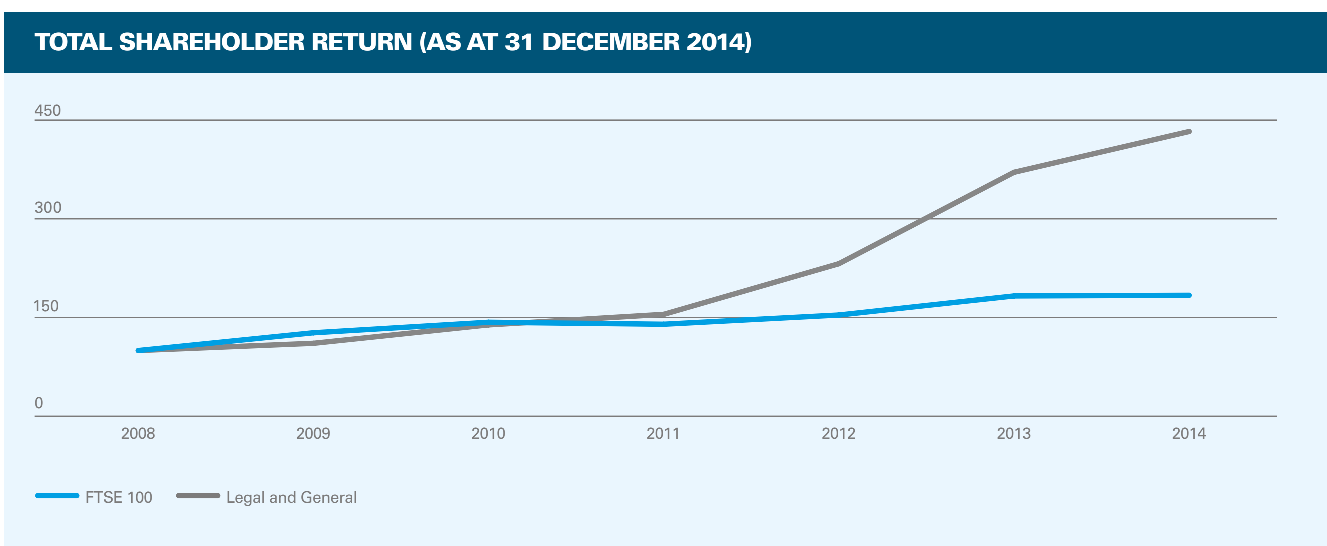
	Role and organisation	Fees
Nigel Wilson	Director of the ABI until August 2014.	Nil
John Pollock	Sat on the FCA Practitioner Panel until January 2014. Sits on the ABI Long Term Savings & Life Insurance Committee. Non-executive director of CALA 1 Limited and CALA Group (Holdings) Limited.	Nil
Mark Gregory	Director of Westdown Park Management Company Limited.	Nil
Mark Zinkula	Sat on the ABI advisory panel until August 2014. Currently on board of The Investment Association.	Nil

Annual report on remuneration

Total shareholder return (TSR)

The chart shows the value, as at 31 December 2014, of £100 investment in Legal & General shares on 31 December 2008, compared to £100 invested in the FTSE 100 on the same date. The other points plotted are the values at the intervening financial year-ends. The FTSE 100 Index was chosen as the company is a member of this index.

TOTAL SHAREHOLDER RETURN (AS AT 31 DECEMBER 2014)



Chief executive – historic remuneration information

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

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

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

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

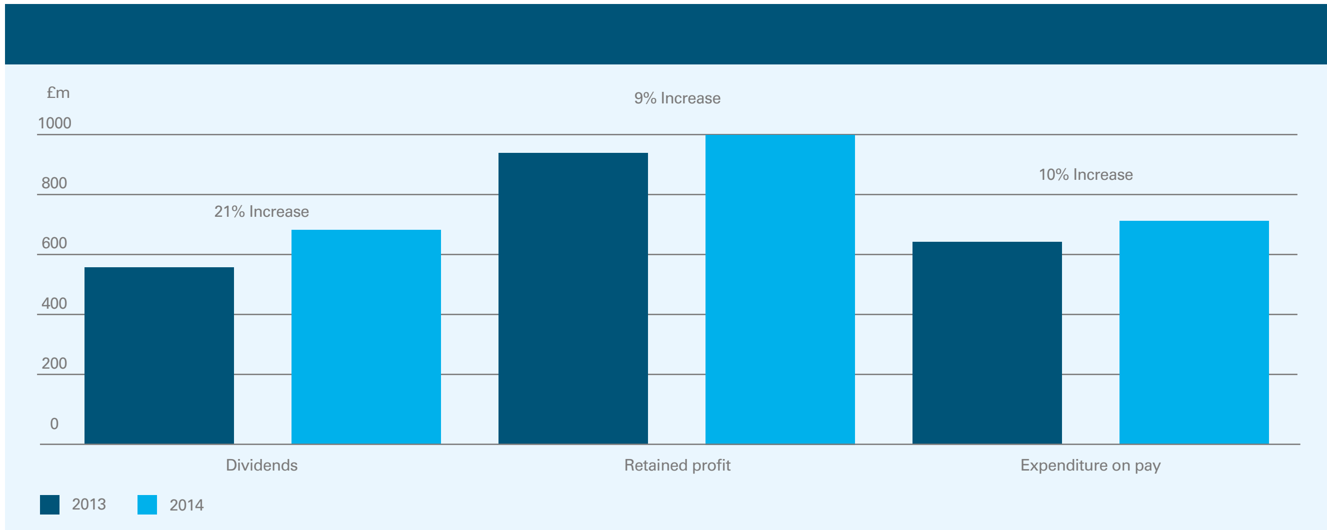
2014 over 2013

	Change to base salary %	Change to benefits %	Change in AVP %
Group chief executive	7.78%	21.04%	27.75%
Comparator group	2.62%	2.62%	11.59%

This year we have changed the comparator group from the senior UK population to the whole UK employee population. This group has been chosen because it includes a wider cross section of the group's employees. The increase in benefits for the group chief executive reflects an increase in the value of dividends received during the period. The increase in benefits for the employee comparator group relates to salary increases.

Relative importance of spend on pay

The chart below shows the relative importance of spend on pay compared to shareholder dividends and profit for the year. Profit has been shown because it is a KPI of the business. No share buy backs were made in 2013 or 2014.



Notes
The profit figure for 2013 has been restated to reflect the adoption by the group of IFRS 10, the impact is to increase the profit by £10m. The profit figures are taken from the Consolidated Income Statement. In addition, expenditure on pay includes a full year's worth of employee costs for Cofunds in 2014 versus seven months in 2013.

Annual report on remuneration

Payments to past directors (audited)
There were no payments made to past directors in 2014.

Payments for loss of office (audited)
There were no payments for loss of office made in 2014.

Total shareholding of executive directors (audited)

	Type	Owned outright/ vested shares	Subject to deferral/ holding period	Total vested and unvested shares (excludes any shares with performance conditions)	Subject to performance conditions
Nigel Wilson	Shares	2,900,680	464,764	3,365,444	0
	ESP	7,554	3,136	10,690	0
	Options	0	0	0	3,007,480
John Pollock	Shares	2,092,499	370,990	2,463,489	0
	ESP	27,208	5,862	33,070	0
	Options	0	11,029	11,029	1,859,703
Mark Gregory	Shares	1,860,319	304,644	2,164,963	0
	ESP	25,993	5,788	31,781	0
	Options	0	0	0	1,856,308
Mark Zinkula	Shares	402,259	315,372	717,631	0
	ESP	0	0	0	0
	Options	0	0	0	1,425,191

Information in relation to other outstanding awards (audited)

Performance share plan (PSP)
For information, other outstanding PSP awards are shown below. These were granted in 2012 and 2013 in line with the legacy plan.

	% of base salary	Face Value £'000	Share price at award £	Max no. of shares
Grant date 24 April 2012				
Nigel Wilson	200%	1,117	1.1783	947,949
John Pollock	200%	840	1.1783	712,871
Mark Gregory	200%	836	1.1783	709,476
Mark Zinkula[1]	80%	328	1.1783	278,359
Grant date 17 April 2013				
Nigel Wilson	200%	1,500	1.6863	889,521
John Pollock	200%	922	1.6863	547,055
Mark Gregory	200%	922	1.6863	547,055
Mark Zinkula	200%	922	1.6863	547,055

1. Mark Zinkula's award, prior to his Board appointment, was 200% of base salary split between the PSP and LGIM LTIP – see table below for LGIM LTIP details.

Awards granted in 2012 and 2013 under the PSP were subject to a TSR performance condition measured over three years, with 50% of each award subject to TSR performance relative to the FTSE 100 and 50% subject to TSR performance relative to a bespoke industry peer group.

	Max no. of shares
Additional grant to Nigel Wilson on appointment as group chief executive – follows 2012 performance period but vests on 14 August 2015	291,765

LGIM long term incentive plan (LGIM LTIP) awards

The table below shows the current outstanding awards for Mark Zinkula, which were made prior to his appointment to the Board.

Grant date	% of base salary	No. of notional shares	Face value at grant £	Notional share price at grant £	Maximum value of award on vesting £
1 March 2012[1]	120%	92,877	492,000	5.30	984,000

1. Mark Zinkula's award was 200% of base salary split between the LGIM LTIP and PSP. See above for PSP award.

Outstanding Share Bonus Plan (SBP) awards

The table below shows the shares held under the SBP and those that were awarded or vested during 2014. For Mark Zinkula, these include shares awarded when he was appointed as CEO LGIM and prior to him joining the Board. The shares awarded in 2014 relate to deferred AVP in relation to the 2013 performance year. The share price used to calculate the awards is the average of the three days preceding grant.

Grant date	Awards outstanding at 1 January 2014	Awards granted in 2014	Grant price £	Face value at grant price £	Awards vesting in 2014	Awards outstanding at 31 December 2014
Nigel Wilson	498,067	154,749	2.115	327,294	188,052	464,764
John Pollock	383,373	105,202	2.115	222,502	117,585	370,990
Mark Gregory	320,701	101,528	2.115	214,732	117,585	304,644
Mark Zinkula	400,318	136,186	2.115	288,033	221,132	315,372

Rudy Markham
Chairman of the Remuneration Committee

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Lizzie's story

Lizzie moved with her husband to a new home in the Canning Town 'Rathbone Market' development in 2014. She was able to retire to her own award-winning home, with easy access to transport and shops.

This is how our decisions are felt by people and what they want for their lives.

FURTHER READING
legalandgeneralgroup.com

Consolidated Financial Statements

The Group Consolidated Financial Statements are divided into 3 sections:

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

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

Report on the group financial statements

Our opinion

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

- give a true and fair view of the state of the group's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

Legal & General Group Plc's financial statements comprise:

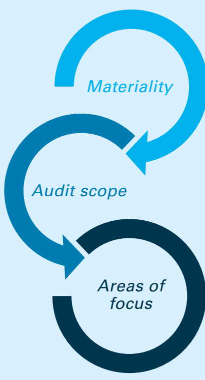
- the Consolidated Balance Sheet as at 31 December 2014;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Our audit approach

Overview



- Overall group materiality: £70 million which represents 5.5% of Operating profit before tax.
- Of the Group's 84 reporting units, we identified 30 that, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics.
- Specific audit procedures on specific balances and transactions were performed at a further 8 reporting units.
- These reporting units represent 87% of total assets, 87% of Operating profit before tax and 85% of IFRS profit after tax. We concluded that this, together with additional procedures performed at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole.
- Valuation of non-participating insurance liabilities – retirement.
- Valuation of participating and non-participating insurance liabilities – protection.
- Valuation of complex financial investments and investment property.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

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

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

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

Report on the group financial statements (continued)

<table>
<tr><th>Area of focus</th><th>How our audit addressed the area of focus</th></tr>
<tr><td colspan="2">Valuation of non-participating insurance liabilities – retirement
We focused on this area because the non-participating insurance liabilities for retirement products are significant in size and their estimation is inherently judgemental. The valuation of non-participating insurance liabilities for retirement is sensitive to:
– Valuation interest rate – the discount rate derived from the yield on the assets backing the annuity liability used in calculating the present value of annuity and benefit payments. The discount rate also includes an explicit allowance for future default and reinvestment risk on the asset portfolio; and
– Longevity – how long the policyholders receiving annuity payments are expected to live and how that might change over time.
Refer to the Audit Committee Report and Note 1 to the group financial statements for the Directors' disclosures of the basis of preparation and use of estimates and Notes 20, 21 and 22 for related accounting policies and further information on judgements and estimates.</td></tr>
<tr><td>Valuation interest rate
The valuation interest rate is particularly sensitive to:
– investment data used to calculate the yield on the assets backing the insurance liabilities;
– credit default assumptions; and
– the methodology used to model the asset cash flows to calculate the internal rate of return (IRR).</td><td>We understood and tested the group's processes for ensuring that the relevant investment data was included in the calculation of the yield on the assets and did not identify any weaknesses in these processes or controls that would cause us to change our audit approach.

We tested the completeness and accuracy of that investment data by agreeing it to the third party custodiansand to independent pricing sources.

We tested the mathematical accuracy of the IRR calculations.

On a sample basis, we tested the credit ratings used to estimate the long term default allowance back to independent third party credit rating sources. Where internally generated ratings were used, we assessed the rating model and the methodology using specialist treasury expertise and tested the inputs to third party data.

We did not identify any significant exceptions in this testing.

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

Based on the work undertaken, we found the valuation interest rate used to be appropriate.</td></tr>
<tr><td>Longevity assumptions
The estimates of the period over which an amount of annuity payments is projected using two sets of assumptions:
– current ("base") mortality experience calculated using the group's own data and analysis ("experience analysis") and compared to the industry base tables; and
– future improvements to mortality (for example due to expected medical advances) estimated using external industry studies, Continuous Mortality Investigation ("CMI"), and guidance in the UK.</td><td>We evaluated the design and implementation as well as tested the operating effectiveness of controls over accuracy and completeness of the data used in the experience analysis. Where applicable, we also agreed data back to underlying policyholder data.

Using our actuarial expertise, we assessed the results of the experience analysis carried out for the retirement business to determine whether they provided support for the assumptions used.

In addition we evaluated the group's choice of standard industry CMI tables and the group's base life expectancy data compared to the industry base tables.

We compared the annuitant longevity assumptions with those adopted by other insurers using our own independent industry benchmarking survey.

Having performed our work we found the assumptions used in the models to be appropriate. We found that the methodologies and models used are in line with the prior year and industry standards, whilst reflecting the nature of the group's Retirement business.</td></tr>
<tr><td colspan="2">Valuation of participating and non-participating insurance liabilities – protection
We focused on this area because the participating and non-participating insurance liabilities for protection products in the UK are significant in size and their estimation is inherently judgemental. The valuation of insurance liabilities for protection is sensitive to:
– persistency – the rate at which policies are retained over time and therefore continue to contribute premium income; and
– mortality and morbidity – the rate at which policyholders die or suffer critical illness.
Refer to the Audit Committee Report and Note 1 to the group financial statements for the Directors' disclosures of the basis of preparation and use of estimates and Notes 20, 21 and 22 for related accounting policies and further information on judgements and estimates.</td></tr>
<tr><td>Persistency assumptions
The rate at which policyholders cease protection products is projected using the group's historical experience and assumptions ("experience analysis") about future changes to policyholder behaviour.</td><td>Using our actuarial expertise, we assessed the results of the experience analysis carried out by the group for the protection business to determine whether they provided support for the assumptions used. In undertaking our assessment we took account of the potential for future changes in experience arising from regulatory changes, including the Retail Distribution Review, auto-enrolment and, more recently, by the Finance Act 2014.

We evaluated the design and implementation as well as testing the operating effectiveness of controls over accuracy and completeness of the data used in the experience analysis and found them to be effective. We also agreed data back to policy documentation and claims history.

We compared the Directors' persistency assumptions with those adopted by other insurers using our own independent industry benchmarking survey.

Persistency assumptions are inherently subjective, particularly in light of recent regulatory changes. However, we found that the assumptions used were reasonable in the context of the group's products.</td></tr>
</table>

Mortality and morbidity assumptions
The estimates of the amount and timing of benefit payments is projected using current ("base") mortality and morbidity experience calculated using the group's own data and analysis ("experience analysis").

Under IFRS, the setting of margins for adverse deviation are judgemental. The group uses an established methodology to set the margin in accordance with the UK regulatory rules for insurance provisions.

We evaluated the design and implementation as well as tested the operating effectiveness of controls over accuracy and completeness of the data used in the experience analysis and found them to be effective. We also agreed actuarial data back to underlying policyholder data.

We obtained the experience analysis performed by the protection business to determine whether they provided support for the assumptions used.

We compared the group's mortality and morbidity assumptions including margins with those adopted by other insurers using our own independent industry benchmarking survey

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

Valuation of complex financial investments and investment property
The group's financial and property investments enable it to support its insurance liabilities and meet regulatory capital requirements, as well as providing returns on shareholder assets (the assets available for distribution to shareholders after taking account of policyholder liabilities, including associated guarantees, options and bonuses).

Most of the group's financial investments are valued by reference to prices on active markets. However, some are priced by reference to market data and/or valuation models. They vary in complexity depending on the nature of the investments. Investments that are complex to value and require the use of significant judgement include:
– commercial loans;
– collateralised debt obligations ("CDOs"); and
– over-the-counter ("OTC") derivatives.

The group's property portfolio is significant and involves a number of complex investment transactions including social housing projects, sale-and-leaseback transactions and asset based loans. Due to the size of the group's property portfolio and the judgement involved in property valuations, the likelihood of misstatements is heightened.

Refer to the Audit Committee Report and Note 1 to the group financial statements for the Directors' disclosures of the basis of preparation and use of estimates and Note 13 for related accounting policies and further information on judgements and estimates for investment risks.

Commercial loans, CDOs and OTC derivatives
We focused on the valuation of commercial loans, CDOs and OTC derivatives because they are significant in size and changes in estimates could result in material changes in their valuation.

Key estimates used in the valuation models reflect observable data such as forward interest rates, foreign exchange rates and forward inflation rate curves, as well as unobservable inputs such as future cash flows and expected defaults.

We also focused on the disclosure related to these complex financial instruments, which is extensive.

We assessed the investment valuation processes and tested controls in place over the valuation of all investments. We did not identify any defective controls.
For commercial loans, we:
– tested the calculation in the discounted cash flow models for accuracy;
– agreed the factual inputs to underlying contracts;
– compared the market observable inputs to published data; and,
– tested the non market observable inputs to calculations or supporting documents to check they were in line with our expectations.

For OTC derivatives, we:
– validated the outstanding positions to direct feeds from the counterparties or where not available requested confirmations directly from the counterparties;
– where confirmations were not received, we performed alternative procedures including tracing the positions to trade tickets;
– obtained copies of the pricing methodology;
– agreed market observable inputs to external sources;
– tested that the models used by management were consistently applied and in line with our expectations for models used to value these types of investments; and
– independently re-priced a sample using our internal valuations experts.

We did not identify any material exceptions in our testing and all models tested were found to be in line with our expectations.
For CDO investments, we:
– obtained independent confirmation from the counterparties for all outstanding positions and associated collateral;
– re-priced the collateral to independent external third party sources;
– read the report from and met with the Directors' external valuation expert to understand their objectivity, qualifications, approach, and their findings; and
– compared the internal price, the counterparty price and Directors' expert's price and investigated differences over a tolerance based on the component materiality.

We did not identify any material exceptions in our testing of the confirmations, the collateral, or the comparison of different estimates of the prices.

We checked that the disclosures of the complex investments were compliant with IFRSs, and found that they were.

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

Report on the group financial statements (continued)

Investment property We focused on this area because the valuation of investment property, by its nature, involves judgement. Furthermore, property valuations are generally performed less frequently than for other classes of asset. Some of the group's property investment transactions are unique in terms of structure and therefore can require complex accounting treatments. Key judgements involved in the valuation of investment property are: – expected changes in market rents; – occupancy rates; and – future management and maintenance expenses.	On a sample basis, we used our real estate valuation experts to read the property valuation reports from and meet with the Directors' external valuation experts to understand their objectivity, qualifications, approach, and their findings. We compared the data inputs and assumptions used in the valuation models to underlying lease agreements and industry data as applicable. We compared the key judgements on changes in rent, occupancy rates and expense to underlying lease agreements (for contractual rent changes), historical trends and forecast economic and property market data reflective current economic conditions. We did not identify any material exceptions during our testing. For the sample, we used our relevant expertise to asses whether the valuation methodology was consistent with those used in the prior year and commonly used in the investment property industry for the type of property being valued. We found the models used and the valuations adopted to be appropriate for the group's investment properties. We agreed the valuations recognised to the Directors' external valuation experts reports.

How we tailored the audit scope

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

The group is reported in five reportable segments: Legal & General Assurance Society (LGAS), Legal & General Retirement (LGR), Legal & General Investment Management (LGIM), Legal & General America (LGA) and Legal & General Capital (LGC). These segments are disaggregated into reporting units. The group's financial statements are a consolidation of these reporting units. In establishing the overall approach to the group audit, we determined the type of work that needed to be performed on reporting units by us, as the group engagement team, or component audit teams within PwC UK, from other PwC network firms and non PwC firms operating under our instructions.

Of the group's 84 reporting units, we identified 30 that, in our view, required an audit of their complete financial information, either due to their size or risk. Specific audit procedures on specific balances and transactions were performed on a further 8 reporting units. Additional procedures were performed at a group level over expenses. This gave us 87% coverage over total assets, 87% of Operating profit before tax, and 85% of IFRS profit after tax. We concluded that this gave us the evidence we needed for our opinion on the group financial statements as a whole.

Materiality

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

Overall group materiality	£70 million (2013: £70 million).
How we determined it	Based on our professional judgement, we determined materiality for the financial statements as a whole of £70 million which represents 5.5% of Operating profit before tax (2013: 7.5%).
Rationale for benchmark applied	We concluded that Operating profit before tax was the most relevant benchmark because it reflects the underlying profit of the business. While this is not an IFRS measure of profit, it is reconciled to IFRS profit before tax in the financial statements and is one of the key metrics used by the group in running its business. Whilst overall materiality was assessed with reference to Operating profit before tax, we compared our materiality level against other relevant benchmarks, such as total assets, total revenue and IFRS profit before tax in order to ensure the materiality benchmark selected was appropriate for our audit.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £3.5 million (2013: £3.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on page 60-101 and 258-261 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
• information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report arising from this responsibility.
• the statement given by the Directors on page 261, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's performance, business model and strategy is materially inconsistent with our knowledge of the group acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• the section of the Annual Report on page 71, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Adequacy of information and explanations received

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

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the parent company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the parent company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 261, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

Report on the group financial statements (continued)

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the parent company financial statements of Legal & General Group Plc for the year ended 31 December 2014 and on the information in the Directors' Remuneration Report that is described as having been audited.

Andrew Kail (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 March 2015

(a) The maintenance and integrity of the Legal & General Group Plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PRIMARY STATEMENTS AND PERFORMANCE

Consolidated Income Statement

For the year ended 31 December 2014	Notes	2014 £m	2013[1] £m
Revenue			
Gross written premiums	33(iv)	**10,168**	6,162
Outward reinsurance premiums	33(iv)	**(1,122)**	(874)
Net change in provision for unearned premiums		**1**	(18)
Net premiums earned		**9,047**	5,270
Fees from fund management and investment contracts	33(v)	**1,085**	1,040
Investment return	34	**40,639**	32,234
Operational income	3	**746**	720
Total revenue		**51,517**	39,264
Expenses			
Claims and change in insurance liabilities		**15,071**	5,767
Reinsurance recoveries		**(975)**	(1,113)
Net claims and change in insurance liabilities	35	**14,096**	4,654
Change in provisions for investment contract liabilities	23(ii)	**33,385**	30,458
Acquisition costs	11	**873**	855
Finance costs	26(ii)	**183**	166
Other expenses	3	**1,748**	1,694
Transfers (from)/to unallocated divisible surplus	24	**(181)**	112
Total expenses		**50,104**	37,939
Profit before tax		**1,413**	1,325
Tax expense attributable to policyholder returns	36(i)	**(175)**	(181)
Profit before tax attributable to equity holders		**1,238**	1,144
Total tax expense		**(421)**	(419)
Tax expense attributable to policyholder returns	36(i)	**175**	181
Tax expense attributable to equity holders	36(i)	**(246)**	(238)
Profit for the year		**992**	906
Attributable to:			
Non-controlling interests		**7**	13
Equity holders of the Company		**985**	893
Dividend distributions to equity holders of the Company during the year	4	**580**	479
Dividend distributions to equity holders of the Company proposed after the year end	4	**496**	408
		p	p
Earnings per share			
Based on profit attributable to equity holders of the Company	5	**16.70**	15.20
Diluted earnings per share			
Based on profit attributable to equity holders of the Company	5	**16.54**	15.00

1. The Consolidated Income Statement has been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1. The impact is to increase the profit for the year by £10m for 2013.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014	Notes	2014 £m	2013[1] £m
Profit for the year		**992**	906
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses on defined benefit pension schemes	27(ii)	**(94)**	(145)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	27(ii)	**38**	49
Total items that will not be reclassified to profit or loss subsequently		**(56)**	(96)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations		**12**	(16)
Net change in financial investments designated as available-for-sale		**26**	(88)
Total items that may be reclassified to profit or loss subsequently		**38**	(104)
Other comprehensive expense after tax		**(18)**	(200)
Total comprehensive income for the year		**974**	706
Total comprehensive income attributable to:			
Non-controlling interests		**7**	13
Equity holders of the Company		**967**	693

1. The Consolidated Statement of Comprehensive Income has been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1. The impact is to increase the total comprehensive income for the year by £10m for 2013.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

Consolidated Balance Sheet

As at 31 December 2014	Notes	2014 £m	2013[1] £m
Assets			
Goodwill	31	**79**	73
Purchased interest in long term businesses and other intangible assets	10	**342**	308
Deferred acquisition costs	11	**1,936**	1,880
Investment in associates and joint ventures	48	**149**	101
Property, plant and equipment	12	**146**	129
Investment property	13	**8,152**	6,377
Financial investments	13	**360,614**	334,540
Reinsurers' share of contract liabilities	22(i)/23(i)	**2,906**	2,897
UK deferred tax asset	36(iv)	**54**	82
Current tax recoverable	36(v)	**217**	310
Other assets	16	**2,249**	2,121
Cash and cash equivalents	15	**22,709**	17,454
Total assets		**399,553**	366,272
Equity			
Share capital	40(i)	**149**	148
Share premium	40(i)	**969**	959
Employee scheme treasury shares	40(ii)	**(37)**	(39)
Capital redemption and other reserves		**117**	57
Retained earnings		**4,830**	4,517
Shareholders' equity		**6,028**	5,642
Non-controlling interests	41	**275**	265
Total equity		**6,303**	5,907
Liabilities			
Participating insurance contracts	22	**6,579**	6,972
Participating investment contracts	23	**7,667**	7,493
Unallocated divisible surplus	24	**983**	1,221
Value of in-force non-participating contracts	25	**(208)**	(248)
Participating contract liabilities		**15,021**	15,438
Non-participating insurance contracts	22	**49,876**	40,273
Non-participating investment contracts	23	**288,558**	278,754
Non-participating contract liabilities		**338,434**	319,027
Core borrowings	26	**2,977**	2,453
Operational borrowings	26	**715**	775
Provisions	27	**1,247**	1,128
UK deferred tax liabilities	36(iv)	**180**	–
Overseas deferred tax liabilities	36(iv)	**434**	362
Current tax liabilities	36(v)	**9**	14
Payables and other financial liabilities	28	**16,131**	9,305
Other liabilities	42	**963**	1,045
Net asset value attributable to unit holders	13(v)	**17,139**	10,818
Total liabilities		**393,250**	360,365
Total equity and liabilities		**399,553**	366,272

1. The Consolidated Balance Sheet has been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1. The impact is to increase the total equity by £207m for 2013.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

Consolidated Balance Sheet (continued)

The notes on pages 118 to 224 form an integral part of these financial statements.

The financial statements on pages 111 to 224 and the supplementary financial statements on pages 225 to 244 were approved by the board of directors on 3 March 2015 and were signed on their behalf by:

John Stewart	**Nigel Wilson**	**Mark Gregory**
Chairman	Group Chief Executive	Group Chief Financial Officer

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
As at 1 January 2014	**148**	**959**	**(39)**	**57**	**4,517**	**5,642**	**265**	**5,907**
Profit for the year	–	–	–	–	985	985	7	992
Exchange differences on translation of overseas operations	–	–	–	12	–	12	–	12
Actuarial losses on defined benefit pension schemes	–	–	–	–	(94)	(94)	–	(94)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	–	–	–	–	38	38	–	38
Net change in financial investments designated as available-for-sale	–	–	–	26	–	26	–	26
Total comprehensive income for the year	–	–	–	38	929	967	7	974
Options exercised under share option schemes:								
– Executive share option schemes	–	–	–	–	–	–	–	–
– Savings related share option scheme	1	10	–	–	–	11	–	11
Shares purchased	–	–	(7)	–	–	(7)	–	(7)
Shares vested	–	–	9	(17)	–	(8)	–	(8)
Employee scheme treasury shares:								
– Value of employee services	–	–	–	20	–	20	–	20
Share scheme transfers to retained earnings	–	–	–	–	(17)	(17)	–	(17)
Dividends	–	–	–	–	(580)	(580)	–	(580)
Movement in third party interests	–	–	–	–	–	–	3	3
Currency translation differences	–	–	–	19	(19)	–	–	–
As at 31 December 2014	**149**	**969**	**(37)**	**117**	**4,830**	**6,028**	**275**	**6,303**

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

For the year ended 31 December 2013	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[1]	Total equity £m
As at 1 January 2013	**148**	**956**	**(43)**	**153**	**4,227**	**5,441**	**178**	**5,619**
Profit for the year	–	–	–	–	893	893	13	906
Exchange differences on translation of overseas operations	–	–	–	(16)	–	(16)	–	(16)
Actuarial losses on defined benefit pension schemes	–	–	–	–	(145)	(145)	–	(145)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	–	–	–	–	49	49	–	49
Net change in financial investments designated as available-for-sale	–	–	–	(88)	–	(88)	–	(88)
Total comprehensive income/(expense) for the year	–	–	–	(104)	797	693	13	706
Options exercised under share option schemes:								
– Executive share option schemes	–	1	–	–	–	1	–	1
– Savings related share option scheme	–	2	–	–	–	2	–	2
Shares purchased	–	–	(12)	–	–	(12)	–	(12)
Shares vested	–	–	16	(19)	–	(3)	–	(3)
Employee scheme treasury shares:								
– Value of employee services	–	–	–	28	–	28	–	28
Share scheme transfers to retained earnings	–	–	–	–	(29)	(29)	–	(29)
Dividends	–	–	–	–	(479)	(479)	–	(479)
Movement in third party interests	–	–	–	–	–	–	74	74
Currency translation differences	–	–	–	(1)	1	–	–	–
As at 31 December 2013	**148**	**959**	**(39)**	**57**	**4,517**	**5,642**	**265**	**5,907**

1. The Consolidated Statement of Changes in Equity has been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1. The impact is to increase the total equity by £207m for 2013.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

Consolidated Cash Flow Statement

For the year ended 31 December 2014	Note	2014 £m	2013[1] £m
Cash flows from operating activities			
Profit for the year		**992**	906
Adjustments for non cash movements in net profit for the year			
Realised and unrealised gains on financial investments and investment properties		**(30,851)**	(21,456)
Investment income		**(9,205)**	(9,504)
Interest expense		**183**	166
Tax expense		**421**	419
Other adjustments		**87**	98
Net (increase)/decrease in operational assets			
Investments held for trading or designated as fair value through profit or loss		**5,931**	1,952
Investments designated as available-for-sale		**225**	60
Other assets		**(151)**	547
Net increase/(decrease) in operational liabilities			
Insurance contracts		**9,228**	1,384
Transfer (from)/to unallocated divisible surplus		**(222)**	63
Investment contracts		**10,156**	13,835
Value of in-force non-participating contracts		**40**	(6)
Other liabilities		**9,811**	3,883
Cash generated used in operations		**(3,355)**	(7,653)
Interest paid		**(203)**	(169)
Interest received		**4,857**	4,981
Tax paid[2]		**(76)**	(287)
Dividends received		**4,264**	4,497
Net cash flows generated from operating activities		**5,487**	1,369
Cash flows from investing activities			
Net acquisition of plant, equipment and intangibles		**(80)**	(48)
Acquisitions (net of cash acquired)[3]		**(38)**	(97)
Disposal of subsidiaries		**56**	–
Investment in joint ventures		**(77)**	(68)
Net cash flows from investing activities		**(139)**	(213)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the Company during the year		**(580)**	(479)
Proceeds from issue of ordinary share capital		**11**	3
Purchase of employee scheme shares		**(2)**	(4)
Proceeds from borrowings		**674**	1,231
Repayment of borrowings		**(181)**	(1,115)
Net cash flows used in financing activities		**(78)**	(364)
Net increase in cash and cash equivalents		**5,270**	792
Exchange losses on cash and cash equivalents		**(15)**	–
Cash and cash equivalents at 1 January		**17,454**	16,662
Cash and cash equivalents at 31 December	15	**22,709**	17,454

1. The Consolidated Cash Flow Statement has been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.
2. Tax comprises UK corporation tax paid of £29m (2013: £133m), overseas corporate taxes of £24m (2013: £6m) and withholding tax of £23m (2013: £148m).
3. Net cash flows from acquisitions includes cash paid of £38m (2013: £287m) less cash and cash equivalents acquired of £nil (2013: £190m).

The group's Consolidated Cash Flow Statement includes all cash and cash equivalent flows, including those relating to the UK long-term fund policyholders.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

1 Basis of preparation

Legal & General Group Plc, a public limited company incorporated and domiciled in the United Kingdom (UK), together with its subsidiaries, transacts life assurance and long-term savings business, fund management and most classes of general insurance and health business through its subsidiaries and associates in the UK, the United States and other countries throughout the world.

Significant accounting policies

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

The group has selected accounting policies which state fairly its financial position, financial performance and cash flows for a reporting period. The accounting policies have been consistently applied to all years presented, unless otherwise stated. Accounting policies that relate specifically to a balance or transaction are presented above the relevant numerical disclosure.

The group presents its balance sheet in order of liquidity. This is considered to be more relevant than a before and after 12 months' presentation, given the long term nature of the group's core business. However, for each asset and liability line item which combines amounts expected to be recovered or settled before and after 12 months from the balance sheet date, disclosure of the split is made by way of a note.

Financial assets and financial liabilities are disclosed gross in the balance sheet unless a legally enforceable right of offset exists and there is an intention to settle recognised amounts on a net basis. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or IFRIC interpretation, as detailed in the applicable accounting policies of the group.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. The functional currency of the group's foreign operations is the currency of the primary economic environment in which the entity operates. The assets and liabilities of all of the group's foreign operations are translated into sterling, the group's presentation currency, at the closing rate at the date of the balance sheet. The income and expenses for each income statement are translated at average exchange rates. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to a separate component of shareholders' equity.

Standards, interpretations and amendments to published standards that are not yet effective

Certain standards, amendments and interpretations to existing standards have been published which are mandatory for the group's accounting periods beginning on or after 1 January 2015 or later periods but which the group has not adopted early. Details of these are contained within Note 13 (Financial investments and Investment property) and Note 23 (Investment contract liabilities).

Use of estimates

The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the consolidated balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly. This is particularly relevant for the determination of fair values of investment property (Note 13) and unquoted and illiquid financial investments (Note 13(iv)); the estimation of deferred acquisition costs (Note 11); tax balances (Note 36); and the estimation of insurance and investment contract liabilities (Notes 22 and 23). The basis of accounting for these areas, and the significant judgements used in determining them, are outlined in the respective notes to the financial statements.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

Consolidation principles

Subsidiary undertakings

The consolidated financial statements incorporate the assets, liabilities, equity, revenues, expenses and cash flows of the Company and of its subsidiary undertakings drawn up to 31 December each year. All intra-group balances, transactions, income and expenses are eliminated in full. Subsidiaries are those entities (including special purpose entities, mutual funds and unit trusts) over which the group directly or indirectly (when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee) (Note 47). Profits or losses of subsidiary undertakings sold or acquired during the period are included in the consolidated results up to the date of disposal or from the date of gaining control. The interests of parties, other than the group, in investment vehicles, such as unit trusts, are classified as liabilities and appear as 'Net asset value attributable to unit holders' (Note 13(v)) in the Consolidated Balance Sheet.

Associates and joint ventures

The group has interests in associates and joint ventures (Note 48) which form part of an investment portfolio held through private equity partnerships, mutual funds, unit trusts and similar entities. In accordance with the choice permitted by IAS 28, 'Investments in associates', these interests have been classified as fair value through profit or loss and measured at fair value within financial investments, with changes in fair value recognised in the Consolidated Income Statement.

Associates which do not form part of an investment portfolio are initially recognised in the Consolidated Balance Sheet at cost. The carrying amount of the associate is increased or decreased to reflect the group's share of the profit or loss after the date of the acquisition.

Product classification

The group's products are classified for accounting purposes as either insurance contracts (participating and non-participating) or investment contracts (participating and non-participating). The basis of accounting for these products is outlined in Notes 22 and 23 respectively.

Fiduciary activities

Assets associated with fiduciary activities and the income arising from those assets, together with associated commitments to return such assets to customers, are not included in these consolidated financial statements. Where the group acts in a fiduciary capacity, for instance as a trustee or agent, it has no contractual rights over the assets concerned.

Foreign exchange and exchange rates

Foreign exchange gains and losses are recognised in the Consolidated Income Statement, except when recognised in equity as qualifying cash flow or net investment hedges.

The year end exchange rates at 31 December 2014 were 1.56 United States Dollar and 1.29 Euro (at 31 December 2013: 1.66 United States Dollar and 1.20 Euro).

The average exchange rates for year ended 31 December 2014 were 1.65 United States Dollar and 1.24 Euro (year ended 31 December 2013: 1.57 United States Dollar and 1.18 Euro).

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

1 Basis of preparation (continued)

Changes to accounting policy – IASB consolidation project

On 1 January 2014 the application of IFRS 10, 'Consolidated Financial Statements', IFRS 11, 'Joint Arrangements' and IFRS 12, 'Disclosures of Interests in Other Entities' became compulsory for entities reporting in the EU.

IFRS 10, 'Consolidated Financial Statements' defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. This states that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The application of IFRS 10 has resulted in the group consolidating a small number of investment vehicles which were not previously consolidated. There is no material impact on the profit reported for the year ended 31 December 2013. The effect on profit, total equity and cash flow previously reported at 31 December 2013 is shown below. A statement of consolidated financial position as at 31 December 2012 has not been presented as the effect is not material. The prior period information in the following Notes 13, 15, 16, 26, 28, 33 and 42 has been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'.

IFRS 11, 'Joint Arrangements' defines and establishes accounting principles for joint arrangements. Based on how rights and obligations are shared by parties to the arrangements, it distinguishes between two such types: joint ventures and joint operations. As all of our joint arrangements are classified as joint ventures the adoption of this Standard has no impact upon the group.

IFRS 12, 'Disclosures of Interests in Other Entities' requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities, and the effects of those interests on its financial position, financial performance and cash flows. As a result we have enhanced the disclosures we provide around our interests in subsidiaries (Note 47), associates and joint ventures (Note 48), together with providing additional information on structured entities (Note 49) which we do not consolidate.

Consolidated Income Statement	As previously reported 2013 £m	IFRS 10 Impact 2013 £m	Restated 2013 £m
Investment return	32,221	13	32,234
Finance costs	(163)	(3)	(166)
Profit for the period	896	10	906
Attributable to:			
Non-controlling interests	3	10	13
Equity holders of the Company	893	–	893
Consolidated Balance Sheet			
Assets			
Investment property	6,060	317	6,377
Financial investments	331,802	2,738	334,540
Other assets	2,115	6	2,121
Cash and cash equivalents	17,407	47	17,454
Equity			
Non-controlling interests	58	207	265
Liabilities			
Operational borrowings	704	71	775
Payables and other financial liabilities	8,931	374	9,305
Other liabilities	1,032	13	1,045
Net asset value attributable to unit holders	8,375	2,443	10,818
Consolidated Cash Flow Statement			
Net cash flows from operating activites	1,332	37	1,369
Cash and cash equivalents at 1 January	16,652	10	16,662
Cash and cash equivalents at 31 December	17,407	47	17,454

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

2 Supplementary operating profit information

(i) Reconciliation between operating profit and profit from ordinary activities after income tax

	Notes	2014 £m	2013[1] £m
From continuing operations			
Legal & General Assurance Society (LGAS)	2(iii)	**460**	444
Legal & General Retirement (LGR)	2(iii)	**428**	310
Legal & General Investment Management (LGIM)	2(v)	**336**	304
Legal & General Capital (LGC)	2(vi)	**203**	179
Legal & General America (LGA)		**56**	92
Operating profit from divisions		**1,483**	1,329
Group debt costs[2]		**(142)**	(127)
Group investment projects and expenses[3]	2(vii)	**(66)**	(44)
Operating profit		**1,275**	1,158
Investment and other variances	2(viii)	**(44)**	(27)
Gains on non-controlling interests		**7**	13
Profit before tax attributable to equity holders		**1,238**	1,144
Tax expense attributable to equity holders of the Company	36(i)	**(246)**	(238)
Profit for the year		**992**	906

1. Gains on non-controlling interests have been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. The impact is to increase gains on non-controlling interests and profit for the year by £10m for 2013. The profit attributable to equity holders remains unaffected. Further details are contained in Note 1.
2. Group debt costs exclude interest on non recourse financing.
3. Group Investment projects and expenses in 2014 include restructuring costs of £31m.

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 gives shareholders a better understanding of the underlying performance of the business in the year.

During the year the group redefined its operating profit definition, and applied this prospectively. Under the new definition, restructuring costs, while varying from year to year, are considered to be part of ongoing business activities and as such, are included within operating profit.

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

LGAS represents Insurance business (retail protection, group protection and general insurance) and Savings business (platforms, workplace, SIPPs, mature savings and with-profits). The LGAS segment also includes Legal & General France (LGF), Legal & General Netherlands (LGN) and emerging markets.

LGR represents Annuities (both individual and bulk purchase) and longevity insurance.

The LGIM segment represents institutional and retail investment management businesses.

LGC represents the medium term investment return (less expenses) on group invested assets, using assumptions applied to the average balance of group invested assets (including interest bearing intra-group balances) calculated on a monthly basis.

The LGA segment comprises protection business written in the USA.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

2 Supplementary operating profit information (continued)

(ii) Reconciliation of operational cash to operating profit before tax

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

For the year ended 31 December 2014	Operational cash generation[1] £m	New business 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
LGAS	**472**	**(48)**	**424**	**(18)**	**32**	**(70)**	**(7)**	**361**	**99**	**460**
– Insurance	332	(5)	327	(8)	24	(50)	(6)	287	83	370
– Savings	140	(43)	97	(10)	8	(20)	(1)	74	16	90
LGR	**292**	**51**	**343**	**(13)**	**48**	**(32)**	**–**	**346**	**82**	**428**
LGIM	**262**	**–**	**262**	**–**	**–**	**–**	**–**	**262**	**74**	**336**
LGC	**162**	**–**	**162**	**–**	**–**	**–**	**–**	**162**	**41**	**203**
LGA	**46**	**–**	**46**	**–**	**–**	**–**	**(14)**	**32**	**24**	**56**
Total from divisions	**1,234**	**3**	**1,237**	**(31)**	**80**	**(102)**	**(21)**	**1,163**	**320**	**1,483**
Group debt costs	**(112)**	**–**	**(112)**	**–**	**–**	**–**	**–**	**(112)**	**(30)**	**(142)**
Group investment projects and expenses	**(21)**	**–**	**(21)**	**–**	**–**	**–**	**(32)**	**(53)**	**(13)**	**(66)**
Total	**1,101**	**3**	**1,104**	**(31)**	**80**	**(102)**	**(53)**	**998**	**277**	**1,275**

1. Operational cash generation includes dividends remitted from LGF of £2m (2013: £2m) and LGN of £29m (2013: £14m) within the Insurance line and LGA of £46m (2013: £44m).
2. International and other includes £25m of restructuring costs (£31m before tax) (2013: £nil) within the group investment projects and expenses line.

Operational cash generation for LGAS and LGR represents the expected surplus generated in the year from the in-force non profit Insurance, Savings and Annuities businesses using best estimate assumptions. The LGAS operational cash generation also includes the shareholders' share of bonuses on with-profits business, dividends remitted from LGF and LGN and operating profit after tax from General Insurance and the remaining Savings businesses.

New business strain for LGAS and LGR represents the cost of acquiring new business and setting up regulatory reserves in respect of the new business for UK non profit Insurance, Savings and Annuities, net of tax. The new business strain and operational cash generation for both LGAS and LGR exclude required solvency margin from the liability calculation.

Net cash generation for LGAS and LGR is defined as operational cash generation less new business strain.

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

The operational cash generation for LGA represents the dividends received.

See Note 2(iii) for more detail on experience variances, assumption changes and non-cash items.

For the year ended 31 December 2013	Operational cash generation[1] £m	New business strain £m	Net cash generation £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other £m	Operating profit/(loss) after tax £m	Tax expense/(credit) £m	Operating profit/(loss) before tax £m
LGAS	474	(73)	401	(34)	31	(69)	10	339	105	444
– Insurance	310	(15)	295	(7)	20	(47)	10	271	84	355
– Savings	164	(58)	106	(27)	11	(22)	–	68	21	89
LGR	260	33	293	9	(13)	(48)	–	241	69	310
LGIM	239	–	239	–	–	–	–	239	65	304
LGC	137	–	137	–	–	–	–	137	42	179
LGA	44	–	44	–	–	–	14	58	34	92
Total from divisions	1,154	(40)	1,114	(25)	18	(117)	24	1,014	315	1,329
Group debt costs	(97)	–	(97)	–	–	–	–	(97)	(30)	(127)
Group investment projects and expenses	(15)	–	(15)	–	–	–	(19)	(34)	(10)	(44)
Total	1,042	(40)	1,002	(25)	18	(117)	5	883	275	1,158

1. Operational cash generation includes dividends remitted from LGF of £2m and LGN of £14m within the Insurance line and LGA of £44m.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

(iii) Analysis of LGAS and LGR operating profit

	LGAS 2014 £m	LGR 2014 £m	LGAS 2013 £m	LGR 2013 £m
Net cash generation	**424**	**343**	401	293
Experience variances				
Persistency	–	(3)	5	1
Mortality/Morbidity[1]	(5)	13	–	14
Expenses	(4)	(3)	(3)	–
BPA Loading	–	6	–	4
Project and development costs	(12)	(19)	(23)	(11)
Other	3	(7)	(13)	1
Total experience variances	**(18)**	**(13)**	(34)	9
Changes to valuation assumptions				
Persistency[2]	42	–	7	–
Mortality/Morbidity[3]	37	61	9	(13)
Expenses	15	(5)	8	–
Other[4]	(62)	(8)	7	–
Total valuation assumption changes	**32**	**48**	31	(13)
Movement in non-cash items				
Deferred tax	6	(11)	5	–
Utilisation of brought forward trading losses	(9)	(62)	(4)	(70)
Acquisition expense tax relief	(42)	–	(51)	–
Deferred Acquisition Costs (DAC)[5]	(71)	–	(63)	–
Deferred Income Liabilities (DIL)[5]	46	–	47	–
Other[6]	–	41	(3)	22
Total non-cash movement items	**(70)**	**(32)**	(69)	(48)
Other	**(7)**	**–**	10	–
Operating profit after tax	**361**	**346**	339	241
Tax gross up	**99**	**82**	105	69
Operating profit before tax	**460**	**428**	444	310

1. The mortality/morbidity experience variances in LGAS in 2014 primarily relates to adverse morbidity on one of our group protection products.
2. The persistency valuation assumption change in LGAS primarily relates to an improvement in the experience and modelling for persistency on some of our long term products.
3. The mortality/morbidity valuation assumption change in LGAS primarily relates to an improvement in the modelling for certain morbidity features on our retail protection products. The LGR mortality valuation assumption change primarily relates to the adoption of the recent CMI projection table (CMI2013) with an allowance for anticipated changes that have been incorporated into the CMI2014 model.
4. The other valuation assumption change in LGAS primarily relates to a refinement in the modelling for reinsurance on certain long term policies.
5. The DAC in LGAS 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.
6. The other non-cash items in LGR primarily relates to the elimination of intra-group future profits arising from the provision of investment management services at market referenced rates.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

2 Supplementary operating profit information (continued)

(iv) General insurance operating profit and combined operating ratio

	2014 £m	2013 £m
General insurance operating profit[1]	**59**	69
General insurance combined operating ratio (%)[2]	**87**	84

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

(v) LGIM

	2014 £m	2013 £m
Revenue	**645**	594
Expenses	**(309)**	(290)
Total LGIM operating profit	**336**	304

(vi) LGC

	2014 £m	2013 £m
Investment return	**219**	185
Expenses[1]	**(16)**	(6)
Total LGC operating profit	**203**	179

1. LGC expenses in 2014 include £10m of management expenses previously borne by the group and allocated as group expenses.

(vii) Group investment projects and expenses

	2014 £m	2013 £m
Group investment projects and central expenses	**(35)**	(44)
Restructuring costs	**(31)**	–
Total group investment projects and expenses	**(66)**	(44)

(viii) Investment and other variances

	2014 £m	2013 £m
Investment variance[1]	**(8)**	29
M&A related[2]	**(21)**	(16)
Other[3]	**(15)**	(40)
Total Investment and other variances	**(44)**	(27)

1. Investment variance is negative, primarily due to lower equity returns from shareholder funds. This has been partially offset by an increase in exposure to Direct Investments in LGR, which has enhanced the risk adjusted return, and favourable default experience.
2. M&A related includes gains, expenses and intangible amortisation relating to acquisitions and disposals.
3. Other includes new business start-up costs, closure costs and other non-investment related variance items. In 2013 Other included £17m of restructuring costs.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

(ix) Analysis of tax attributable to equity holders

	Profit/(loss) before tax[1] 2014 £m	Tax (expense)/credit 2014 £m	Profit/(loss) before tax[1] 2013[2] £m	Tax (expense)/credit 2013 £m
LGAS	**460**	**(99)**	444	(105)
LGR	**428**	**(82)**	310	(69)
LGIM	**336**	**(74)**	304	(65)
LGC	**203**	**(41)**	179	(42)
LGA	**56**	**(24)**	92	(34)
Operating profit from divisions/Tax expense on divisions	**1,483**	**(320)**	1,329	(315)
Group debt costs	**(142)**	**30**	(127)	30
Group Investment projects and expenses	**(66)**	**13**	(44)	10
Operating profit/Tax expense	**1,275**	**(277)**	1,158	(275)
Investment variances	**(44)**	**31**	(27)	40
Impact of change in UK tax rates	**–**	**–**	–	(3)
Gains on non-controlling interests	**7**	**–**	13	–
Profit for the year/Tax expense for the year	**1,238**	**(246)**	1,144	(238)

1. The Profit/(loss) before tax reflects profit/(loss) before tax attributable to equity holders.
2. The Analysis of tax attributable to equity holders has been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1. The impact is to increase the profit for the period by £10m for 2013.

The equity holders' effective tax rate for the year is 19.9% (2013: 20.8%). The group's effective tax rate remains slightly below the UK corporation tax rate due to differences between the measurement of accounting and taxable profits.

3 Other operational income and expense

Operational income comprises fee income from estate agency operations, agency fee income relating to distribution services, and revenue of £628m (2013: £600m) from consolidated private equity investments. Operational income is accounted for on an accruals basis. The total operational income for the year is £746m (2013: £720m).

Other expenses comprise:	Notes	2014 £m	2013 £m
Staff costs (including pensions and share-based payments)	38	**639**	575
Redundancy costs		**17**	22
Operating lease rentals[1]		**26**	25
Auditors' remuneration	37	**7**	7
Depreciation of plant and equipment	12	**13**	18
Amortisation of purchased interest in long term businesses and other intangibles	10	**50**	39
Reinsurance commissions		**(6)**	(6)
Direct operating expenses arising from investment properties which generate rental income		**52**	34
Expenses attributable to consolidated private equity investment vehicles		**613**	596
Other administrative expenses		**337**	384
Total other expenses		**1,748**	1,694

1. Where a significant proportion of the risks and rewards of ownership is retained by the lessor, leases are classified as operating leases. Payments made as lessees under operating leases (net of any incentives from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

4 Dividends

A dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are authorised and are no longer at the discretion of the Company.

	Dividend 2014 £m	Per share[1] 2014 p	Dividend 2013 £m	Per share[1] 2013 p
Ordinary share dividends paid in the year				
– Prior year final dividend	**408**	**6.90**	337	5.69
– Current year interim dividend	**172**	**2.90**	142	2.40
	580	**9.80**	479	8.09
Ordinary share dividend proposed[2]	**496**	**8.35**	408	6.90

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

5 Earnings per share

Earnings per share is a measure of the portion of the group's profit allocated to each outstanding share. It is calculated by dividing net income attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the year, excluding employee scheme treasury shares. For this purpose, net income is defined as the profit after tax derived from continuing operations.

For diluted earnings per share, the weighted average number of ordinary shares in issue, excluding employee scheme treasury shares, is adjusted to assume conversion of all dilutive potential ordinary shares, such as share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

A reconciliation of the earnings and weighted average number of shares used in the calculations is provided below:

(i) Earnings per share

	Profit after tax 2014 £m	Earnings per share[1] 2014 p	Profit after tax 2013 £m	Earnings per share[1] 2013 p
Operating profit	**998**	**16.92**	883	15.03
Investment and other variances	**(13)**	**(0.22)**	13	0.22
Impact of change in UK tax rates	**–**	**–**	(3)	(0.05)
Earnings per share based on profit attributable to equity holders	**985**	**16.70**	893	15.20

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

(ii) Diluted earnings per share

	Profit after tax 2014 £m	Number of shares[1] 2014 m	Earnings per share 2014 p	Profit after tax 2013 £m	Number of shares[1] 2013 m	Earnings per share 2013 p
Profit attributable to equity holders of the Company	**985**	**5,897**	**16.70**	893	5,875	15.20
Net shares under options allocable for no further consideration	**–**	**59**	**(0.16)**	–	79	(0.20)
Diluted earnings per share	**985**	**5,956**	**16.54**	893	5,954	15.00

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

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

6 New business

New business premiums reflect income arising from the sale of new contracts during the reporting period and any changes to existing contracts, which were not anticipated at the outset of the contract.

New annual premiums arise where the terms and conditions of a policy anticipate more than one premium being paid over its lifetime; new single premiums comprise all premiums which are not categorised as new annual premiums.

	Annual 2014 £m	Single 2014 £m	Annual 2013 £m	Single 2013 £m
UK Retail Protection	**165**	**–**	148	–
UK Group Protection	**65**	**–**	70	–
France (LGF)	**33**	**283**	22	264
Netherlands (LGN)	**8**	**111**	8	107
Workplace Savings	**592**	**1,061**	660	747
Platforms (Cofunds and IPS)[1]	**56**	**3,624**	43	2,452
Suffolk Life	**–**	**1,239**	–	1,330
Mature retail savings[2]	**10**	**791**	11	790
With-profits	**53**	**75**	53	80
Total LGAS	**982**	**7,184**	1,015	5,770
Retail Investments[3]	**13**	**4,018**	12	3,427
Annuities				
– Individual	**–**	**591**	–	1,277
– Bulk purchase	**–**	**5,987**	–	2,812
Total LGR[4]	**–**	**6,578**	–	4,089
US Protection	**91**	**–**	99	–
India (26% share)	**4**	**40**	5	46
Egypt (55% share)	**13**	**–**	13	–
Gulf (50% share)	**2**	**3**	2	3
Total emerging markets	**19**	**43**	20	49
Total worldwide new business	**1,105**	**17,823**	1,146	13,335

1. Platforms premiums include retail business only.
2. Includes bonds and retail pensions.
3. Includes retail unit trusts and structured products.
4. Total LGR new business excludes £nil (2013: £270m) of annual premiums in relation to longevity transactions. It is not included in the table due to the unpredictable deal flow from this type of business.

BALANCE SHEET MANAGEMENT

7 Principal Products

A significant part of the group's business involves the acceptance and management of risk.

A description of the principal products offered by the group's segments is outlined below. The group seeks to manage its exposure to risk through control techniques which ensure that the residual exposures are within acceptable tolerances agreed by the Board. The group's risk appetite framework and the methods used to monitor risk exposures can be found on pages 48-55.

Details of the risks associated with the group's principal products and the control techniques used to manage these risks can be found in Notes 8 and 19.

LGAS

LGAS business comprises retail and group protection, general insurance products, the businesses in France and Netherlands and savings products.

Protection business (retail and group)

The group offers protection products which provide mortality or morbidity benefits. They may include health, disability, critical illness and accident benefits; these additional benefits are commonly provided as supplements to main life policies but can also be sold separately. The benefit amounts would usually be specified in the policy terms. Some sickness benefits cover the policyholder's mortgage repayments and are linked to the prevailing mortgage interest rates. In addition to these benefits, some contracts may guarantee premium rates, provide guaranteed insurability benefits and offer policyholders conversion options.

General insurance

The group offers Household and Accident, Sickness and Unemployment (ASU) products:

- Household contracts provide cover in respect of policyholders' homes, investment properties, contents, personal belongings and incidental liabilities which they may incur as a property owner, occupier and individual. Exposure is normally limited to the rebuilding cost of the home, the replacement cost of belongings and a policy limit in respect of liability claims.
- Accident, Sickness and Unemployment (ASU) contracts provide cover in respect of continuing payment liabilities incurred by customers when they are unable to work as a result of accident, sickness or unemployment. They protect predominantly mortgage payments. Exposure is limited to the monthly payment level selected by the customer sufficient to cover the payment and associated costs, up to the duration limit specified in the policy, usually 12 months.

In addition, there are portfolios of Motor Insurance and Domestic Mortgage Indemnity Insurance (DMI) in run off. Since 1993, the DMI contract has included a maximum period of cover of ten years, and a cap on the maximum claim. For business accepted prior to 1993, cover is unlimited and lasts until the insured property is remortgaged or redeemed. The group also sells pet insurance products.

BALANCE SHEET MANAGEMENT (CONTINUED)

Legal & General France (LGF) and Legal & General Netherlands (LGN)

In addition to protection products, LGF and LGN also write savings business.

In LGF this includes unit linked savings, including shares of open ended investment vehicles (SICAVS), risks for which are borne by unit holders of these funds, Euro denominated funds with a 100% profit sharing clause and bank based investment accounts.

In LGN this includes unit linked and index linked savings products, bank based investment accounts and corporate pension products.

Certain savings products include an exposure to interest rate and credit risk, managed through an active asset-liability management programme.

Savings

A range of contracts are offered in a variety of different forms to meet customers' long term savings objectives. Policyholders may choose to include a number of protection benefits within their savings contracts. Typically, any guarantees under the contract would only apply on maturity or earlier death. On certain older contracts there may be provisions guaranteeing surrender benefits. Savings contracts may or may not guarantee policyholders an investment return. The contracts fall into three main types:

- Non-participating savings, pensions and endowment contracts;
- Participating savings business, comprising endowment contracts and with-profits bonds; and
- Unit linked savings contracts and collective investment savings products.

For unit linked savings contracts and collective investment savings products, there is a direct link between the investments and the obligations. The financial risk on these contracts is borne by the policyholders and therefore detailed risk disclosures have not been presented in respect of the associated assets and liabilities. Unit linked business is written in the LGAS LTF (long term fund). Collective investment business is administered by Legal & General (Portfolio Management Services) Limited.

Pensions (individual and corporate)

These are long term savings contracts through which policyholders accumulate pension benefits. Some older contracts contain a basic guaranteed benefit expressed as an amount of pension payable or a guaranteed annuity option. Other options provided by these contracts include an open market option on maturity, early retirement and late retirement. The group would generally have discretion over the terms on which the latter types of options are offered.

Endowment policies

These contracts provide a lump sum on maturity determined by the addition of annual and final bonuses over the duration of the contract. In addition, the contracts provide a minimum sum assured death benefit.

With-profits bonds

These contracts provide an investment return to the policyholder which is determined by the attribution of regular and final bonuses over the duration of the contract. In addition, the contracts provide a death benefit, typically of 101% of the value of the units allocated to the policyholder.

Participating contracts

Discretionary increases to benefits on participating contracts are allowed in one or both of annual and final bonus form. These bonuses are determined in accordance with the principles outlined in the group's Principles Practices of Financial Management (PPFM) for the management of the with-profits part of the LGAS LTF. The principles include:

- The with-profits part of the LGAS LTF will be managed with the objective of ensuring that its assets are sufficient to meet its liabilities without the need for additional capital;
- With-profits policies have no expectation of any distribution from the with-profits part of the LGAS LTF's inherited estate. The inherited estate is the excess of assets held within the LGAS LTF over and above the amount required to meet liabilities, including those which arise from the regulatory duty to treat customers fairly in settling discretionary benefits;
- Bonus rates will be smoothed so that some of the short term fluctuations in the value of the investments of the with-profits part of the LGAS LTF are not immediately reflected in payments under with-profits policies; and
- Some older participating contracts include a guaranteed minimum rate of roll up of the policyholder's fund up to the date of retirement or maturity.

BALANCE SHEET MANAGEMENT (CONTINUED)

7 Principal Products (continued)

LGAS (continued)

Participating contracts (continued)

At 30 June 2005 an assessment was made of the expected cost of guarantees and options to be paid in the future, and funds with the same value to meet these costs were allocated from the capital in the with-profits sub-fund. The value of the funds is regularly assessed and is reduced by the cost of guarantees and options paid since 1 July 2005. At each assessment point, if the value of the funds is lower than the expected cost of guarantees and options, it is possible to make deductions from or refunds to asset shares to cover the difference. It is intended to limit deductions to no more than 0.75% each year, up to a maximum of 5% per policy. In 2013 the timing of the deduction/refund was changed to be based on the period ending 30 September to ensure that in future the deduction/refund could be included in the forthcoming bonus declarations rather than delaying for a year.

Following the movement in the expected cost of guarantees and options and the value of the associated funds up to 30 September 2014, and in accordance with the Society's PPFM, a refund of 0.55% was made to asset shares. This followed a zero deduction in respect of the period from 31 December 2012 to 30 September 2013. The refund of 0.55% to asset shares has returned all outstanding past charges to policyholders.

In addition, a charge of 1.25% would be levied on all unitised with-profits policies in the February 2015 bonus investigation to adjust their asset shares in respect of unrecovered expenses on future claims so that fairness between different groups of with-profits policies can be maintained.

The distribution of surplus to shareholders depends upon the bonuses declared for the year. Typically, bonus rates are set having regard to investment returns, although the group has some discretion setting rates and would normally smooth bonuses over time. The volatility of investment returns could impact the fund's capital position and its ability to pay bonuses. If future investment conditions were less favourable than anticipated, the lower bonus levels resulting would also reduce future distributions to shareholders. Business which is written in the with-profits part of the Society LTF is managed to be self-supporting. The unallocated divisible surplus in the fund would normally be expected to absorb the impact of these investment risks. Only in extreme scenarios, where shareholders were required to provide support to the with-profits part of the Society LTF to meet its liabilities, would these risks affect equity. As part of the 2007 Society LTF restructure, the 1996 Sub-fund (£321m) was merged into the Shareholder Retained Capital (SRC). As a result, Society's Board of Directors undertook to initially maintain £500m of assets within Society to support the with-profits business. The amount of the commitment reduced to £150m at the end of 2014 and will then gradually reduce to zero at the end of 2017.

LGR

Annuity contracts

Annuity products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump sum capital payment. No surrender value is available under any of these products. Immediate and deferred annuity contracts are offered. Immediate annuities provide a regular income stream to the policyholder, purchased with a lump sum investment, where the income stream starts immediately after the purchase. The income stream from a deferred annuity is delayed until a specified future date. Bulk annuities are also offered, where the group accepts the assets and liabilities of a company pension scheme or a life fund. A small portfolio of immediate annuities has been written as participating business. Some non-participating deferred annuities sold by the group contain guaranteed cash options, predominantly minimum factors for commuting part of the annuity income into cash at the date of vesting. The value of such guaranteed options are currently immaterial. There is a block of immediate and deferred annuities within the UK non profit business with benefits linked to changes in the RPI or for a minority the CPI, but with contractual maximum or minimum increases. In particular, most of these annuities have a provision that the annuity will not reduce if RPI, or for a minority CPI, becomes negative. The total of such annuities in payment at 31 December 2014 was £524m (2013: £311m). Thus, 1% negative inflation, which was reversed in the following year, would result in a guarantee cost of approximately £5m (2013: £3m). Negative inflation sustained over a longer period would give rise to significantly greater guarantee costs. Some of these guarantee costs have been partially matched through the purchase of negative inflation hedges and limited price indexation swaps.

The group has written some deferred annuity contracts with guaranteed minimum pensions. These options expose the group to interest rate and longevity risk as the cost would be expected to increase with decreasing interest rates and improved longevity. The market consistent value of these guarantees carried in the balance sheet is £196m (2013: £140m).

Longevity insurance contracts

The group also provides longevity insurance products for company pension schemes, under which regular payments are made to the scheme reflecting their actual longevity experience, while the scheme makes an agreed set of regular payments in return. Some policies contain a guaranteed surrender value which is currently immaterial.

BALANCE SHEET MANAGEMENT (CONTINUED)

LGIM

LGIM offers both active and passive management on either a pooled or segregated basis. Assets are managed on behalf of pension funds, institutional clients, sovereign wealth clients, retails funds and subsidiary companies within the Legal & General Group. The core products are set out below.

Index Fund Management

LGIM provides a diversified range of pooled index funds, providing a wide choice and the ability to pursue specific benchmarks efficiently. In addition, segregated solutions are offered to institutional clients providing large scale customisation against established market capitalisation weighted and alternative indices.

Active Fixed Income and Liquidity Management

A range of pooled and segregated active fixed income funds. The LGIM liquidity funds offer institutional investors a solution for their cash management requirements across a range of core currencies. The liquidity funds aim to deliver competitive returns with a high level of diversification, whilst focusing on capital preservation through portfolios of high quality, liquid assets.

Solutions and Liability Driven Investment (LDI)

A range of pooled and bespoke solutions to help de-risk defined benefit pension schemes. These solutions will usually combine active or passive underlying portfolios with derivative overlays designed to meet clients' specific requirements.

Solutions also includes a range of pooled multi-asset funds for retail and institutional clients, built using LGIM's expertise in asset allocation which is informed by an in-house research capability. The underlying asset classes may be managed on an active or passive basis within LGIM. An allocation strategy service is also offered to institutional clients, which may also allocate some of the portfolio to managers other than LGIM.

Active Equity

An active equity management business comprising focused teams managing stock selection across different regions.

Property

A range of pooled or segregated real estate funds for both UK and overseas investors, offered via a mixture of pooled funds, specialist funds and partnerships. The business is based around in-house sector specialists with a dedicated research team.

LGC

Investment Strategy and Implementation

Shareholder assets, which are managed by LGC, include portfolios of equity, property, bond and other direct investments, not directly required to meet contractual obligations to policyholders. The value of, and income from, these assets is sensitive to conditions within investment markets and the broader economy. Potential volatility in returns are managed using a range of techniques, including performance benchmarks, foreign exchange hedging and limits on investment variance and, concentrations of exposures by asset type and geographic region.

Direct Investments and Structuring

Direct Investments are becoming an increasingly important part of our growth strategy. We define Direct Investments as "one off" investments made with another counterparty, for example; a loan made directly to a UK SME; a property purchased and held or an equity stake in a private company. We invest in Direct Investments for a number of reasons including when they offer better risk adjusted returns; give diversity to our traded market instruments, and where synergies arise with other parts of our business. All with the aim of increasing shareholder returns.

We currently have a sector focus on Housing, Urban Regeneration, Energy and Alternate Financing for investments made in LGC.

LGA

Protection business

Protection consists of individual term assurance, which provides death benefits over the medium to long term. The contracts have level premiums for an initial period with premiums set annually thereafter. During the initial period, there is generally an option to convert the contract to a universal life contract. After the initial period, the premium rates are not guaranteed, but cannot exceed the age-related guaranteed premium.

BALANCE SHEET MANAGEMENT (CONTINUED)

7 Principal Products (continued)

LGA (continued)

Protection business (continued)

Reinsurance is used within the protection businesses to manage exposure to large claims. These practices lead to the establishment of reinsurance assets on the group's balance sheet. Within LGA, reinsurance and securitisation is also used to provide regulatory solvency relief (including relief from regulation governing term insurance and universal life reserves).

Universal life

Universal life contracts written by LGA provide savings and death benefits over the medium to long term. The savings element has a guaranteed minimum growth rate. LGA has exposure to loss in the event that interest rates decrease and it is unable to earn enough on the underlying assets to cover the guaranteed rate. LGA is also exposed to loss should interest rates increase, as the underlying market value of assets will generally fall without a change in the surrender value. The reserves for universal life totalled $653m (£419m) at 31 December 2014 ($666m (£402m) at 31 December 2013). The guaranteed interest rates associated with those reserves ranged from 1.5% to 6%, with the majority of the policies having guaranteed rates ranging from 3% to 4% (2013: 3% to 4%).

Annuities

Immediate annuities have similar characteristics as products sold by LGR. Deferred annuity contracts written by LGA contain a provision that, at maturity, a policyholder may move the account value into an immediate annuity, at rates which are either those currently in effect, or rates guaranteed in the contract. The reserves for immediate annuities and deferred annuities totalled $10m (£6m) and $194m (£124m), respectively, at 31 December 2014 ($11m (£7m) and $193m (£117m) at 31 December 2013, respectively).

8 Asset risk

The group is exposed to the following categories of risk as a consequence of offering the principal products outlined in Note 7.

Market risk

Exposure to loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets.

Credit risk

Exposure to loss if another party fails to perform its financial obligations to the group.

Liquidity risk

The risk that the group, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

The financial risks associated with LGIM's businesses are directly borne by the investors in its funds. Therefore detailed risk disclosures have not been presented. The approach to the management of operational risks, including loss arising from trading errors, breach of fund management guidelines or valuation errors, where a breakdown in controls could lead to successful litigation against the company by one or more clients, is set out in Note 29.

The principal risks and associated controls relevant to our businesses are consistent with those identified for our UK businesses and therefore have not been repeated here.

The group seeks to manage its exposures to risk through control techniques which ensure that the residual risk exposures are within acceptable tolerances agreed by the Board. A description of the risks associated with the group's principal products in the UK and the associated control techniques is detailed below.

BALANCE SHEET MANAGEMENT (CONTINUED)

Market Risk

Principal Risks	Product	Control
Investment Performance Risk		
The group is exposed to the risk that the income from, and value of, assets held to back insurance liabilities do not perform in line with investment and product pricing assumptions leading to a potential financial loss.	Annuities and Protection	Stochastic models are used to assess the impact of a range of future return scenarios on investment values and associated liabilities in order to determine optimum portfolios of invested assets. For immediate annuities, which are sensitive to interest rate risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes in line with the value of liabilities when interest rates change.
The financial risk exposure for participating contracts is different from that for non-participating business. Greater emphasis is placed on investing to maximise future investment returns rather than matching assets to liabilities. This results in holding significant equity and property investments. Lower investment returns increase the costs associated with maturity and investment guarantees provided on these contracts.	With-profits	These risks are managed by maintaining capital sufficient to cover the consequences of mismatch under a number of adverse scenarios. In addition, different investment strategies are followed for assets backing policyholder asset shares and assets backing other participating liabilities and surplus. The former include significant equity and property holdings, whilst the latter are invested largely in fixed interest securities. The assets held are managed so as to provide a partial hedge to movements in fixed interest yields and equity markets. The methodology used to calculate the liabilities for participating contracts makes allowance for the possibility of adverse changes in investment markets on a basis consistent with the market cost of hedging the guarantees provided. The methodology also makes allowance for the cost of future discretionary benefits, guarantees and options. The value of future discretionary benefits depends on the return achieved on assets backing these contracts. The asset mix varies with investment conditions reflecting the group's investment policy, which aims to optimise returns to policyholders over time whilst limiting capital requirements for this business.
For unit linked contracts, there is a risk of volatility in asset management fee income due to the impact of interest rate and market price movements on the fair value of the assets held in the linked funds, on which investment management fees are based. There is also the risk of expense over-runs should the market depress the level of charges which could be imposed.	Unit linked	The risk is managed through maintaining a diversified range of funds in which customers may invest. The performance of linked investment funds relative to their investment objectives are subject to regular monitoring. Periodic assessment is also made of the long term profitability to the group of these funds. For some contracts the group has discretion over the level of management charges levied.
Currency Risk		
To diversify credit risk within the annuities business corporate bond portfolio, investments are held in corporate bonds denominated in Euros and US Dollars. Fluctuations in the value of, or income from, these assets relative to liabilities denominated in Sterling could result in unforeseen loss.	Annuities	To mitigate the risk of loss from currency fluctuations, currency swaps are used to hedge exposures to corporate bonds denominated in currencies other than Sterling. Hedging arrangements are placed only with strongly rated counterparties with collateral requirements being subject to regular review and reconciliation with the counterparties. It is not possible to perfectly hedge currency risk leading to some residual risk.
The balance sheet value of the group's international subsidiaries are revalued into Sterling potentially resulting in a loss to reserves.	Group and LGC	Balance sheet foreign exchange currency translation exposure in respect of the group's international subsidiaries is managed in accordance with a policy, agreed by the Group Board, which allows net foreign currency assets to be hedged through the use of derivatives.
Inflation Risk		
Inflation risk is the potential for loss as a result of relative or absolute changes in inflation rates. Annuity contracts may provide for future benefits to be paid taking account of changes in the level of inflation. Annuity contracts in payment may include an annual adjustment for movements in price indices.	Annuities	The investment strategy for annuities business takes explicit account of the effect of movements in price indices on contracted liabilities. Significant exposures that may adversely impact profitability are hedged using inflation swaps. Annuity contracts also typically provide for a cap on the annual increase in inflation linked benefits in payment. It is not possible to perfectly hedge inflation risk linked with contracted liabilities leading to some residual risk.
Interest Rate Risk		
Interest rate risk is the risk that the group is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates.	Annuities	To mitigate the risk that guarantees and commitments are not met, the group purchases financial instruments, which broadly match the expected non-participating policy benefits payable, by their nature and term. The composition of the investment portfolio is governed by the nature of the insurance or savings liabilities, the expected rate of return applicable on each class of asset and the capital available to meet the price fluctuations for each asset class, relative to the liabilities they support. Additionally, fluctuations in interest rates will vary the repayments on variable debt issued by the group.
The group is exposed to interest rate risk on the investment portfolio it maintains to meet the obligations and commitments under its non-linked insurance and investment contracts, in that the proceeds from the assets may not be sufficient to meet the group's obligations to policyholders.	Group	Asset liability matching significantly reduces the group's exposure to interest rate risk. IFRS sensitivity to interest rate changes is included in Note 21.

BALANCE SHEET MANAGEMENT (CONTINUED)

8 Asset risk (continued)

Credit Risk

Principal Risks	Product	Control
Bond Default Risk A significant portfolio of corporate bonds and commercial loans are held to back the liabilities arising from writing general insurance and annuities business. Whilst the portfolio is diversified, the asset class is inherently exposed to the risk of issuer default, with financial loss.	Annuities and General Insurance	Issuer limits are set by financial strength rating, sector and geographic region so as to limit exposure from a default event. Issuer limits are regularly reviewed to take account of changes in market conditions, sector performance and the re-assessment of financial strength by rating agencies and the group's own internal analysts. Exposures are monitored relative to limits. Financial instruments are also used to mitigate the impact of rating downgrades and defaults.
Reinsurance Counterparty Risk Exposure to insurance risk is mitigated by ceding part of the risks assumed to the reinsurance market. Default of a reinsurer would require the business to be re-brokered potentially on less advantageous terms, or for the risks to be borne directly.	Annuities and Protection	When selecting new reinsurance partners, the group considers only companies which have a minimum credit rating equivalent to A- from Standard & Poor's. For each reinsurer, exposure limits are determined based on credit ratings and projected exposure over the term of the treaty. Actual exposures are regularly monitored relative to these limits.
Property Lending Counterparty Risk As part of our asset diversification strategy, we hold property lending and sale and leaseback investments. We are inherently exposed to the risk of default by a borrower or tenant.	Annuities	Each property lending and sale and leaseback investment transaction is subject to a due diligence process to assess the credit risks implicit in the transaction and confirm that any risk of default has been appropriately mitigated. We also protect our interests through taking security over the underlying property associated with the investment transaction.
Banking Counterparty Risk The group is exposed to potential financial loss should banks or the issuers of financial instruments default on their obligations to us. We are also exposed to counterparty risks in respect of the providers of settlement and custody services.	Group and LGC	The group controls its exposures to banking counterparties and the issuers of financial instruments using a framework of counterparty limits. These limits take account of the relative financial strength of the counterparty as well as other exposures that the group may have. Limits are subject to regular review with actual exposures monitored to limits. The group has defined criteria for the selection of custody and settlement services. The financial strength of providers is regularly reviewed.

Liquidity Risk

Principal Risks	Product	Control
Contingent Event Risk Events that result in liquidity risk may include a flu pandemic or natural disaster leading to significantly higher levels of claims than would normally be expected, or extreme market conditions impacting the timing of cash flows or the ability to realise investments at a given value within a specified time frame.	Protection and General Insurance	A limited level of contingent liquidity risk is an accepted element of writing contracts of insurance. However, the group's insurance businesses seek to maintain sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may arise from contingent events. The level of required liquidity is identified using techniques including stress tests for shock events, with the profile of actual liquid assets being regularly compared to the required profile. The group's treasury function provides formal facilities to the group to cover contingent liquidity requirements arising from more extreme events and where investment assets may not be readily realisable. The level of insurance funds held in cash and other readily realisable assets at 31 December 2014 was £2.7bn (2013: £2.6bn).
Collateral Liquidity Risk Within the annuities business, the use of financial instruments to hedge default, interest rate, currency and inflation risks can require the posting of collateral with counterparties, and as such an appropriate pool of the asset types specified by counterparties must either be held or readily available.	Annuities	Liquidity requirements to meet potential collateral calls are actively managed. Typically within the overall fund of investment assets held to meet the long term liabilities arising from annuity business. £500m is held in cash and other highly liquid investment types for general liquidity purposes. As at 31 December 2014 eligible assets worth 5 times the outstanding collateral were held (using the most representative definition of collateral contained within the company's different collateral agreements).

BALANCE SHEET MANAGEMENT (CONTINUED)

Liquidity Risk Other Risks	Product	Control
Investment Liquidity Risk		
Within the with-profit fund, exposure to liquidity risk may arise if the profile of investment assets held to meet obligations to policyholders is not aligned with the maturity profile of policies, or the profile does not adequately take account of the rights of policyholders to exercise options or guarantees to specified early surrender terms or minimum rates of return.	With-profits	Liquidity risk is managed ensuring that an appropriate proportion of the fund is held in cash or other readily realisable assets to meet each tranche of maturities and anticipated early withdrawals as they fall due. Where policyholders have discretion to require early payment of policy proceeds, contractual safeguards are in place to ensure that the fund and remaining policyholders are not disadvantaged should a material number of policyholders exercise this discretion.
Non-participating savings contracts are exposed to liquidity risk in that certain asset classes in which underlying funds invest, such as property, may not be readily realisable in certain market conditions, or only realisable at a diminution of value.	Non-par savings	Liquidity risks associated with non-participating savings contracts are documented and communicated to customers within product terms and conditions. The terms also highlight that for certain asset classes such as property, the group retains the right to defer the processing of fund withdrawal requests for up to six months, should underlying assets need to be realised to meet payment requests.

The group seeks to manage its funds and liquidity requirements on a pooled basis and to ensure the group maintains sufficient liquid assets and standby facilities to meet a prudent estimate of its net cash outflows. In addition, it ensures that, even under plausible but unlikely severe conditions, the group has access to the funds necessary to cover all outgoings such as surrenders, withdrawals and maturing liabilities.

As at 31 December 2014, the group had in place a £1bn syndicated committed revolving credit facility provided by a number of its key relationship banks, £0.04bn matures in October 2017 and £0.96bn matures in October 2018.

The financial risks associated with LGIM's businesses are directly borne by the investors in its funds. Therefore detailed risk disclosures have not been presented. The approach to the management of operational risks, including loss arising from trading errors, breach of fund management guidelines or valuation errors, where a breakdown in controls could lead to successful litigation against the Company by one or more clients, is set out in Note 29.

The principal risks and associated controls relevant to our overseas businesses are consistent with those identified for our UK businesses and therefore have not been repeated here.

9 Assets analysis

The group has categorised its assets and liabilities in the following disclosure in accordance with the level of shareholder exposure to market and credit risks. The four categorisations presented are:

- **Unit linked**

For unit linked contracts, there is a direct link between the investments and the obligations. Unit linked business is written in both the Society Long term fund (LTF) and in the LTF of Legal & General Assurance (Pensions Management) Limited. The financial risk on these contracts is borne by the policyholders. The group is, therefore, not directly exposed to any market risk, currency risk or credit risk for these contracts. As a result, risk disclosures have not been presented for unit linked assets and liabilities.

- **With-profits**

Policyholders and shareholders share in the risks and returns of the with-profits part of the Society LTF. The return to shareholders on virtually all participating products is in the form of a transfer to shareholders' equity, which is analogous to a dividend from the Society LTF and is dependent upon the bonuses credited or declared on policies in that year. The bonuses are broadly based on historic and current rates of return on equity, property and fixed income securities, as well as expectations of future investment returns. With-profits also includes participating business in the LGF operation which shares similar characteristics. The with-profits classification excludes unit linked contracts.

- **Non profit non-unit linked**

Shareholders are exposed to the risk and rewards of ownership of assets backing non profit non-unit linked business held within UK LTFs, which comprise of Annuities, Protection and Non profit savings products in UK business.

- **Shareholder**

All other assets are classified as shareholder assets. Shareholders of the group are directly exposed to market and credit risk on these assets. This includes the assets and liabilities of our overseas insurance operations and general insurance.

BALANCE SHEET MANAGEMENT (CONTINUED)

9 Assets analysis (continued)

The table below presents an analysis of the balance sheet by category. All of the quantitative risk disclosures in Notes 17 and 18 have been provided using this categorisation.

As at 31 December 2014	Shareholder £m	Non profit non-unit linked £m	With-profits £m	Unit linked £m	Total £m
Assets					
Goodwill and Purchased interests in long term business	**337**	**14**	**70**	**–**	**421**
Investment in associates and joint ventures	**149**	**–**	**–**	**–**	**149**
Property, plant and equipment	**132**	**–**	**14**	**–**	**146**
Investments[1]	**9,590**	**47,379**	**15,242**	**319,264**	**391,475**
Reinsurers' share of contract liabilities	**332**	**2,238**	**(13)**	**349**	**2,906**
Other operational assets	**2,216**	**944**	**313**	**983**	**4,456**
Total assets	**12,756**	**50,575**	**15,626**	**320,596**	**399,553**
Liabilities					
Core borrowings	**3,053**	**–**	**–**	**(76)**	**2,977**
Operational borrowings	**367**	**2**	**205**	**141**	**715**
Participating contract liabilities	**–**	**14**	**14,336**	**671**	**15,021**
Non-participating contract liabilities	**2,087**	**45,786**	**404**	**290,157**	**338,434**
Other liabilities[1]	**3,318**	**3,370**	**661**	**28,754**	**36,103**
Total liabilities	**8,825**	**49,172**	**15,606**	**319,647**	**393,250**

As at 31 December 2013	Shareholder £m	Non profit non-unit linked £m	With-profits £m	Unit linked £m	Total £m
Assets					
Goodwill and Purchased interests in long term business	287	18	76	–	381
Investment in associates and joint ventures	89	–	12	–	101
Property, plant and equipment	86	31	12	–	129
Investments[1]	9,290	34,184	17,391	297,489	358,354
Reinsurers' share of contract liabilities	312	2,271	1	313	2,897
Other operational assets	2,035	975	289	1,094	4,393
Total assets[2]	12,099	37,479	17,781	298,896	366,255
Liabilities					
Core borrowings	2,513	–	–	(60)	2,453
Operational borrowings	448	2	194	131	775
Participating contract liabilities	–	15	14,847	576	15,438
Non-participating contract liabilities	2,078	34,384	2,223	280,342	319,027
Other liabilities[1]	2,742	1,716	495	17,702	22,655
Total liabilities[2]	7,781	36,117	17,759	298,691	360,348

1. For risk management purposes, bespoke consolidated CDOs are considered on a net basis. Accordingly, the table above presents derivative liabilities of £nil (2013: £17m) as a deduction to non profit non-unit linked investments and other liabilities.
2. Total assets and total liabilities have been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.

BALANCE SHEET MANAGEMENT (CONTINUED)

10 Purchased interest in long term businesses (PILTB) and other intangible assets

Portfolios of in-force insurance or investment contracts acquired either directly or through the acquisition of a subsidiary undertaking are capitalised at fair value. The value of business acquired represents the present value of anticipated future profits in acquired contracts. These amounts are amortised over the anticipated lives of the related contracts in the portfolio.

Intangible assets acquired via business combinations, such as the value of customer relationships, are recognised at fair value and are subsequently amortised over their useful life in line with the expected emergence of profit from the business. Where software costs are separately identifiable and measurable they are capitalised at cost and amortised over their expected useful life.

Purchased interest in long term businesses and other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

	PILTB insurance contracts 2014 £m	PILTB investment contracts 2014 £m	Other intangible assets 2014 £m	Total 2014 £m
Cost				
As at 1 January	**336**	**111**	**268**	**715**
Acquisition of subsidiaries	**–**	**25**	**13**	**38**
Additions	**–**	**–**	**55**	**55**
Net exchange difference	**11**	**2**	**–**	**13**
As at 31 December	**347**	**138**	**336**	**821**
Accumulated amortisation and impairment				
As at 1 January	**(308)**	**(45)**	**(54)**	**(407)**
Amortisation for the year	**(9)**	**(8)**	**(33)**	**(50)**
Impairment loss	**–**	**(7)**	**(5)**	**(12)**
Net exchange difference	**(11)**	**–**	**1**	**(10)**
As at 31 December	**(328)**	**(60)**	**(91)**	**(479)**
Net book value as at 31 December	**19**	**78**	**245**	**342**
To be amortised within 12 months				**65**
To be amortised after 12 months				**277**

	PILTB insurance contracts 2013 £m	PILTB investment contracts 2013 £m	Other intangible assets 2013 £m	Total 2013 £m
Cost				
As at 1 January	331	77	174	582
Acquisition of subsidiaries	–	34	58	92
Additions	–	–	36	36
Net exchange difference	5	–	–	5
As at 31 December	336	111	268	715
Accumulated amortisation and impairment				
As at 1 January	(303)	(38)	(30)	(371)
Amortisation for the year	(8)	(7)	(24)	(39)
Net exchange difference	3	–	–	3
As at 31 December	(308)	(45)	(54)	(407)
Net book value as at 31 December	28	66	214	308
To be amortised within 12 months				50
To be amortised after 12 months				258

BALANCE SHEET MANAGEMENT (CONTINUED)

11 Deferred acquisition costs

The group incurs costs to obtain and process new business. These are accounted for in line with the appropriate accounting standards as follows:

Long term insurance business
Acquisition costs comprise direct costs, such as initial commission, and the indirect costs of obtaining and processing new business. Acquisition costs relating to non-participating insurance contracts written outside the with-profits part of the UK Long Term Funds (LTFs) which are incurred during a financial year are deferred by use of an asset which is amortised over the period during which the costs are expected to be recoverable, and in accordance with the expected incidence of future related margins. For participating contracts, acquisition costs are charged to the income statement when incurred.

General insurance
A proportion of commission and other acquisition costs relating to unearned premiums is carried forward as deferred acquisition costs or, in respect of reinsurance outwards, as deferred income.

Investment contracts
For participating investment contracts, acquisition costs comprise direct costs such as initial commission and the indirect costs of obtaining and processing new business. These costs are charged to the income statement when incurred. For non-participating investment contracts, only directly attributable costs relating to investment management services which vary with, and are related to, securing new contracts and renewing existing contracts, are capitalised and amortised over the period during which the costs are expected to be recoverable from future revenue. All other costs are recognised as expenses when incurred.

	Insurance contracts 2014 £m	Investment contracts 2014 £m	Total 2014 £m	Insurance contracts 2013 £m	Investment contracts 2013 £m	Total 2013 £m
As at 1 January	**991**	**889**	**1,880**	906	998	1,904
Acquisition costs deferred	**275**	**9**	**284**	277	10	287
Amortisation charged to income	**(191)**	**(117)**	**(308)**	(189)	(119)	(308)
Increase/(decrease) due to currency translation	**61**	**(4)**	**57**	(18)	1	(17)
Other	**7**	**16**	**23**	15	(1)	14
As at 31 December	**1,143**	**793**	**1,936**	991	889	1,880
To be amortised within 12 months	**109**	**216**	**325**	107	141	248
To be amortised after 12 months	**1,034**	**577**	**1,611**	884	748	1,632

Of the total gross deferred acquisition costs of £1,064m (2013: £909m) relates to the LGA insurance business.

The deferred acquisition costs for reinsurance contracts are £69m (2013: £67m). The total acquisition costs incurred for the year are £873m (2013: £855m).

12 Property, plant and equipment

The initial cost of an item of plant or equipment is capitalised where it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The cost is then depreciated on a straight line basis over the item's estimated useful working life.

The current depreciation rates by class of asset are as follows:
– Asset under construction: not depreciated but tested annually for impairment
– Computer equipment: up to 4 years straight line
– Office equipment : up to 4 years straight line
– Motor vehicles: 25% in first month and straight line over the remaining 47 months
– Property: in line with economic use

BALANCE SHEET MANAGEMENT (CONTINUED)

	2014 £m	2013 £m
Cost		
As at 1 January	**221**	173
Additions	**79**	57
Exchange difference	**(2)**	–
Transfer to investment property	**(45)**	–
Disposals	**(10)**	(9)
As at 31 December	**243**	221
Depreciation		
As at 1 January	**(92)**	(81)
Provided during the year	**(13)**	(18)
Disposals	**8**	7
As at 31 December	**(97)**	(92)
Net book value as at 31 December	**146**	129

13 Financial investments and Investment property

The group holds financial investments and investment property to back insurance and investment contracts on behalf of policyholders and as group capital.

The group classifies its financial investments on initial recognition as held for trading (HFT), designated at fair value through profit or loss (FVTPL), available-for-sale (AFS) or loans and receivables. Initial recognition of financial investments is on the trade date.

The group's policy is to measure investments at FVTPL except for certain overseas assets where the related liability is valued on a passive basis (not using current information), in which case investments are classified as AFS. All derivatives other than those designated as hedges are classified as HFT.

Certain financial investments held by the group are designated as FVTPL as their performance is evaluated on a total return basis, consistent with asset performance reporting to the Group Investment and Market Risk Committee and the group's investment strategy. Assets designated as FVTPL include debt securities and equity instruments which would otherwise have been classified as AFS under IAS 39, 'Financial instruments: recognition and measurement'. Assets backing participating and non-participating policyholder liabilities outside the US are designated as FVTPL. For participating contracts the assets are managed on a fair value basis to maximise the total return to policyholders over the contract life. The group's non-participating investment contract liabilities outside of the US are measured on the basis of current information and are designated as FVTPL to avoid an accounting mismatch in the income statement.

The fair values of quoted financial investments are based on bid prices, which management believe to be representative of fair value. If the market for a financial investment is not active, the group establishes fair value by using valuation techniques such as recent arm's length transactions, consensus market pricing, reference to similar listed investments, discounted cash flow models or option pricing models.

Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which represent current best practice, developed by the Association Français des Investisseurs en Capital, the British Venture Capital Association and the European Private Equity and Venture Capital Association. The techniques used for determining fair value include earnings multiples, the price of a recent investment or a net asset basis.

Financial investments classified as HFT and FVTPL are measured at fair value with gains and losses reflected in the income statement. Transaction costs are expensed as incurred.

BALANCE SHEET MANAGEMENT (CONTINUED)

13 Financial investments and Investment property (continued)

Financial investments classified as AFS are measured at fair value with unrealised gains and losses recognised in a separate reserve within equity. Realised gains and losses, impairment losses, dividends, interest and foreign exchange movements on non-equity instruments are reflected in the income statement. Directly attributable transaction costs are included in the initial measurement of the investment.

Loans and receivables are initially measured at fair value plus acquisition costs, and subsequently measured at amortised cost using the effective interest method.

Investment property comprises land and buildings which are held for long term rental yields and capital growth. It is carried at fair value with changes in fair value recognised in the income statement within investment return.

Investment property in the UK is valued bi-annually by external chartered surveyors at open market values in accordance with the 'Appraisal and Valuation Manual' of The Royal Institution of Chartered Surveyors or using internal valuations and estimates during the intervening period. Outside the UK, valuations are produced in conjunction with external qualified professional valuers in the countries concerned. In the event of a material change in market conditions between the valuation date and balance sheet date, an internal valuation is performed and adjustments made to reflect any material changes in fair value.

Future developments

IFRS 9, 'Financial Instruments' issued in July 2014 is effective for annual periods beginning on or after 1 January 2018, subject to EU endorsement. It contains three strands. The first is a principle-based model for classification and measurement of financial instruments driven by cash flow characteristics and the business model in which an asset is held, replacing existing requirements. The second is a single expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised, and it lowers the threshold for recognition of full lifetime expected losses. Finally, IFRS 9 also introduces a substantially reformed model for hedge accounting with enhanced disclosures about risk management activities, enabling entities to better reflect these activities in their financial statements. The publication of IFRS 9 now completes the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement. The group does not intend to early adopt this Standard.

(i) Financial investments and investment property at fair value

	Note	Shareholder 2014 £m	Non profit non-unit linked 2014 £m	With-profits 2014 £m	Unit linked 2014 £m	Total 2014 £m
Financial investments at fair value designated as:						
Fair value through profit or loss		5,267	40,993	13,036	289,075	348,371
Available-for-sale		1,698	–	–	7	1,705
Held for trading		113	3,850	61	6,011	10,035
Financial investments at fair value		7,078	44,843	13,097	295,093	360,111
Loans and receivables	13(iii)	286	–	29	188	503
Total financial investments		7,364	44,843	13,126	295,281	360,614
Investment property		151	1,879	1,034	5,088	8,152
Total financial investments and investment property		7,515	46,722	14,160	300,369	368,766
Expected to be received within 12 months						45,996
Expected to be received after 12 months						322,770

BALANCE SHEET MANAGEMENT (CONTINUED)

	Note	Shareholder 2013 £m	Non profit non-unit linked 2013 £m	With-profits 2013 £m	Unit linked 2013 £m	Total 2013 £m
Financial investments at fair value designated as:						
Fair value through profit or loss		5,534	29,734	15,015	277,420	327,703
Available-for-sale		1,754	–	–	7	1,761
Held for trading		207	2,100	48	2,391	4,746
Financial investments at fair value		7,495	31,834	15,063	279,818	334,210
Loans and receivables	13(iii)	79	–	30	221	330
Total financial investments		7,574	31,834	15,093	280,039	334,540
Investment property		153	1,294	979	3,951	6,377
Total financial investments and investment property[1]		7,727	33,128	16,072	283,990	340,917
Expected to be received within 12 months						45,023
Expected to be received after 12 months						295,894

1. Total financial investments and investment property has been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.

Investment risks on unit linked assets are borne by the policyholders. The remaining risks associated with financial investments are outlined in Note 8.

Financial investments include £554m (2013: £313m) of debt securities pledged as collateral against derivative liabilities. The assets used as collateral are Treasury Gilts, Foreign Government Bonds, AAA and AA Corporate Bonds and Cash (2013: Treasury Gilts, Foreign Government Bonds, AAA Supranational Bonds and AA Corporate Bonds) having a residual maturity of over 41 years (2013: over 42 years). The group is entitled to receive all of the cash flows from the asset during the period when it is pledged as collateral. Further, there is no obligation to pay or transfer these cash flows to another entity. The group can decide to substitute an asset which is designated as collateral at any time, provided the relevant terms and conditions of the International Swap Dealers Association agreement are met.

Various bulk purchase annuity deals were undertaken throughout the year and £3,008m of Corporate Bonds and Treasury Gilts are pledged as collateral in relation to these.

Financial investments have been allocated between those expected to be settled within 12 months and after 12 months in line with the expected settlement of the backed liabilities. Assets in excess of the insurance and investment contract liabilities have been classified as expected to be settled after 12 months.

	Note	**Shareholder 2014 £m**	**Non profit non-unit linked 2014 £m**	**With-profits 2014 £m**	**Unit linked 2014 £m**	**Total 2014 £m**
Equity securities		**1,891**	**279**	**4,065**	**163,471**	**169,706**
Debt securities[1]		**5,033**	**40,238**	**8,860**	**124,635**	**178,766**
Accrued interest		**41**	**476**	**111**	**976**	**1,604**
Derivative assets	14	**113**	**3,850**	**61**	**6,011**	**10,035**
Total investments at fair value		**7,078**	**44,843**	**13,097**	**295,093**	**360,111**

	Note	Shareholder 2013 £m	Non profit non-unit linked 2013 £m	With-profits 2013 £m	Unit linked 2013 £m	Total 2013 £m
Equity securities		1,609	83	4,506	167,891	174,089
Debt securities[1]		5,624	29,251	10,357	108,510	153,742
Accrued interest		55	400	152	1,026	1,633
Derivative assets	14	207	2,100	48	2,391	4,746
Total investments at fair value[2]		7,495	31,834	15,063	279,818	334,210

1. Non profit non-unit linked debt securities includes £919m (2013: £568m) of commercial loans designated as fair value through profit and loss.
2. This has been restated to reflect the adoption by the group of IRFS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.

BALANCE SHEET MANAGEMENT (CONTINUED)

13 Financial investments and Investment property (continued)

(i) Financial investments and investment property at fair value (continued)

Non consolidated private equity investments are included within equity securities. A loss of £14m (2013: loss of £2m) has been recognised in the Consolidated Income Statement in respect of the movement in fair value of these investments.

Property investments which are held via partnerships or unit trust vehicles are also included within equity securities. A gain of £47m (2013: gain of £5m) has been recognised in the Consolidated Income Statement in respect of the movement in fair value of these investments.

Included within unit linked equity securities are £315m (2013: £306m) of debt instruments which incorporate an embedded derivative linked to the value of the group's share price.

(ii) Collateralised debt obligations (CDOs)

The group holds CDOs with a market value of £1,215m at 31 December 2014 (2013: £1,098m).

These holdings include £994m (2013: £983m) relating to four CDOs that were constructed in 2007 and 2008 in accordance with terms specified by Legal & General as part of a strategic review of the assets backing the annuity portfolio. These CDOs mature in 2017 and 2018. The group selected at outset and manages the reference portfolios underlying the CDOs to give exposure to globally diversified portfolios of investment grade corporate bonds. The group is able to substitute the constituents of the original reference portfolios with new reference assets, allowing the management of the underlying credit risk although there have been no substitutions in 2013 or 2014. A breakdown of the underlying CDO reference portfolio by sector is provided below:

Sector	2014 %	2013 %
Banks	**14**	14
Utilities	**10**	10
Consumer Services and Goods	**25**	25
Financial Services	**6**	6
Technology and Telecoms	**9**	9
Insurance	**6**	6
Industrials	**20**	20
Oil and Gas	**6**	6
Health Care	**4**	4
	100	100

The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the four CDOs, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses.

Beyond 27.5% of default losses on the reference portfolio, losses to the CDO would occur at a rate that is a multiple of the loss rate on the reference portfolio. For illustration a £200m loss could be incurred if default losses to the reference portfolios exceeded 30.4% or if 43.5% of the names in the reference portfolio defaulted, with an average 30% recovery rate. (All figures are averages across the four CDOs.)

The underlying reference portfolio has had no reference entity defaults in 2013 or 2014.

Losses are limited under the terms of the CDOs to assets and collateral invested.

These CDOs also incorporate features under which, in certain circumstances, the group can choose either to post additional cash collateral or to allow wind up of the structures. These features are dependent on the portfolios' weighted average spreads, default experience to date and time to maturity. No additional collateral was posted to any of the CDOs during 2014 (2013: £nil). During 2014, the group received £nil (2013: £nil) previously posted collateral. The amount of the cash equivalent collateral attached to CDOs during the year is £nil.

These CDOs are valued using an external valuation based on observable market inputs, which include CDX and iTraxx index tranches and CDS spreads on underlying reference entities. This is then validated against the internal valuation.

The remaining balance of CDO holdings is £221m (2013: £115m). Unit linked CDOs are excluded from the analysis as the risk is retained by the policyholders.

BALANCE SHEET MANAGEMENT (CONTINUED)

(iii) Loans and receivables

	Shareholder 2014 £m	Non profit non-unit linked 2014 £m	With-profits 2014 £m	Unit linked 2014 £m	Total 2014 £m
Deposits with credit institutions	**1**	**–**	**1**	**188**	**190**
Policy loans	**39**	**–**	**28**	**–**	**67**
Other loans[1]	**246**	**–**	**–**	**–**	**246**
Total loans and receivables	**286**	**–**	**29**	**188**	**503**

	Shareholder 2013 £m	Non profit non-unit linked 2013 £m	With-profits 2013 £m	Unit linked 2013 £m	Total 2013 £m
Deposits with credit institutions	9	–	–	221	230
Policy loans	40	–	29	–	69
Other loans[1]	30	–	1	–	31
Total loans and receivables	79	–	30	221	330

1. Other loans includes £188m (2013: £6m) of commercial mortgage loans in 2014.

There are no material differences between the carrying values reflected above and the fair values of these loans. Were these loans to be held at fair value they would fall within level 2 of the fair value hierarchy.

(iv) Fair value hierarchy

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

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

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

All of the group's level 2 assets have been valued using standard market pricing sources, such as iBoxx, IDC and Bloomberg, which use mathematical modelling and multiple source validation in order to determine "consensus" prices, except for bespoke 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. The CDOs are valued using an external valuation based on observable market inputs, which include CDX and iTRaxx index tranches and CDS spreads on underlying reference entities. This is then validated against the internal valuation. Accordingly, these assets have also been classified in level 2.

There have been no significant transfers between level 1 and level 2 in 2014 (2013: £nil).

BALANCE SHEET MANAGEMENT (CONTINUED)

13 Financial investments and Investment property (continued)

(iv) Fair value hierarchy (continued)

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

For the year ended 31 December 2014	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Shareholder					
Equity securities	1,891	1,664	1	226	–
Debt securities	5,033	1,975	2,818	240	–
Accrued interest	41	20	19	2	–
Derivative assets	113	28	85	–	–
Loans and receivables	286	–	–	–	286
Investment property	151	–	–	151	–
Non profit non-unit linked					
Equity securities	279	268	–	11	–
Debt securities	40,238	6,315	32,951	972	–
Accrued interest	476	42	427	7	–
Derivative assets	3,850	41	3,809	–	–
Loans and receivables	–	–	–	–	–
Investment property	1,879	–	–	1,879	–
With-profits					
Equity securities	4,065	3,531	14	520	–
Debt securities	8,860	4,174	4,668	18	–
Accrued interest	111	45	66	–	–
Derivative assets	61	31	30	–	–
Loans and receivables	29	–	–	–	29
Investment property	1,034	–	–	1,034	–
Unit linked					
Equity securities	163,471	157,191	5,895	385	–
Debt securities	124,635	84,287	40,344	4	–
Accrued interest	976	339	637	–	–
Derivative assets	6,011	444	5,567	–	–
Loans and receivables	188	–	–	–	188
Investment property	5,088	–	–	5,088	–
Total financial investments and investment property	**368,766**	**260,395**	**97,331**	**10,537**	**503**

BALANCE SHEET MANAGEMENT (CONTINUED)

For the year ended 31 December 2013[1]	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Shareholder					
Equity securities	1,609	1,435	28	146	–
Debt securities	5,624	2,071	3,493	60	–
Accrued interest	55	26	29	–	–
Derivative assets	207	62	145	–	–
Loans and receivables	79	–	–	–	79
Investment property	153	–	–	153	–
Non profit non-unit linked					
Equity securities	83	72	–	11	–
Debt securities	29,251	4,371	24,331	549	–
Accrued interest	400	38	358	4	–
Derivative assets	2,100	171	1,929	–	–
Loans and receivables	–	–	–	–	–
Investment property	1,294	–	–	1,294	–
With-profits					
Equity securities	4,506	3,956	19	531	–
Debt securities	10,357	4,155	6,184	18	–
Accrued interest	152	53	99	–	–
Derivative assets	48	43	5	–	–
Loans and receivables	30	–	–	–	30
Investment property	979	–	–	979	–
Unit linked					
Equity securities	167,891	164,917	2,688	286	–
Debt securities	108,510	62,400	46,108	2	–
Accrued interest	1,026	313	713	–	–
Derivative assets	2,391	625	1,766	–	–
Loans and receivables	221	–	–	–	221
Investment property	3,951	–	–	3,951	–
Total financial investments and investment property	340,917	244,708	87,895	7,984	330

1. This has been restated to reflect the adoption by the group of IFRS 10 'Consolidated Financial Statements'. Further details are contained in Note 1.

BALANCE SHEET MANAGEMENT (CONTINUED)

13 Financial investments and Investment property (continued)

(iv) Fair value hierarchy (continued)

(a) Assets measured at fair value based on level 3

Level 3 assets where internal models are used to represent a small proportion of assets to which shareholders are exposed, comprise both property and unquoted equities, the latter including investments in private equity, property vehicles and suspended securities.

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

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

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

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

	Equity securities 2014 £m	Other financial investments[1] 2014 £m	Investment property 2014 £m	Total 2014 £m	Equity securities 2013[2] £m	Other financial investments[1] 2013[2] £m	Investment property 2013[2] £m	Total 2013[2] £m
As at 1 January	**974**	**633**	**6,377**	**7,984**	891	99	5,438	6,428
Total gains or (losses) for the year recognised in profit:								
– in other comprehensive income	**–**	**9**	**–**	**9**	–	(1)	–	(1)
– realised and unrealised gains or (losses)	**71**	**99**	**668**	**838**	7	–	248	255
Purchases/Additions	**210**	**1,026**	**1,559**	**2,795**	365	397	1,306	2,068
Improvements	**–**	**–**	**20**	**20**	–	–	23	23
Sales/Disposals	**(118)**	**(531)**	**(472)**	**(1,121)**	(323)	(4)	(638)	(965)
Transfers into level 3[3]	**5**	**10**	**–**	**15**	34	143	–	177
Transfers out of level 3[3]	**–**	**(3)**	**–**	**(3)**	–	(1)	–	(1)
As at 31 December	**1,142**	**1,243**	**8,152**	**10,537**	974	633	6,377	7,984

1. Other financial investments comprise debt securities and derivative assets.
2. This has been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.
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.

BALANCE SHEET MANAGEMENT (CONTINUED)

(b) Effect on changes in significant unobservable inputs to reasonably possible alternative assumptions on level 3 assets

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

For the year ended 31 December 2014 Financial instruments and Investment property	Main assumptions	Current fair value £m	Reasonably possible alternative assumptions Increase in fair value £m	Decrease in fair value £m
Assets				
Shareholder				
– Private equity investment vehicles[1]	Price earnings multiple	**16**	**1**	**(1)**
– Unquoted investments in property vehicles[2]	Property yield; occupancy	**117**	**7**	**(7)**
– Untraded debt securities	Cash flows; expected defaults	**241**	**12**	**(12)**
– Unquoted securities	Cash flows; expected defaults	**94**	**2**	**(2)**
– Investment property[2]	Property yield; occupancy	**151**	**8**	**(8)**
Non profit non-linked				
– Asset backed securities	Cash flows; expected defaults	**497**	**25**	**(25)**
– Untraded debt securities	Cash flows; expected defaults	**281**	**14**	**(14)**
– Unquoted securities	Cash flows; expected defaults	**173**	**6**	**(6)**
– Other		**39**	**–**	**–**
– Investment property[2]	Property yield; occupancy	**1,879**	**94**	**(94)**
With-profits				
– Private equity investment vehicles[1]	Price earnings multiple	**160**	**9**	**(9)**
– Unquoted securities	Cash flows; expected defaults	**375**	**18**	**(18)**
– Other		**3**	**–**	**–**
– Investment property[2]	Property yield; occupancy	**1,034**	**52**	**(52)**
Unit linked				
– Suspended securities	Estimated recoverable amount	**7**	**–**	**–**
– Asset backed securities	Cash flows; expected defaults	**7**	**4**	**(4)**
– Untraded debt securities	Cash flows; expected defaults	**2**	**–**	**–**
– Unquoted securities	Cash flows; expected defaults	**373**	**15**	**(15)**
– Investment property[2]	Property yield; occupancy	**5,088**	**255**	**(255)**
Total		**10,537**	**522**	**(522)**

1. Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined using alternative price earnings multiples.
2. Unquoted investments in property vehicles and direct holdings in investment property are valued by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. Reasonably possible alternative valuations have been determined using alternative yield and occupancy assumptions.

BALANCE SHEET MANAGEMENT (CONTINUED)

13 Financial investments and Investment property (continued)

(iv) Fair value hierarchy (continued)

(b) Effect on changes in significant unobservable inputs to reasonably possible alternative assumptions on level 3 assets (continued)

For the year ended 31 December 2013[1] Financial instruments and Investment property	Main assumptions	Reasonably possible alternative assumptions Current fair value £m	Increase in fair value £m	Decrease in fair value £m
Assets				
Shareholder				
– Private equity investment vehicles[2]	Price earnings multiple	24	1	(1)
– Unquoted investments in property vehicles[3]	Property yield; occupancy	131	9	(9)
– Untraded debt securities	Cash flows; expected defaults	51	3	(3)
– Investment property[3]	Property yield; occupancy	153	7	(7)
Non profit non-linked				
– Untraded debt securities	Cash flows; expected defaults	162	1	(1)
– Asset backed securities	Cash flows; expected defaults	402	20	(20)
– Investment property[3]	Property yield; occupancy	1,294	65	(65)
With-profits				
– Private equity investment vehicles[2]	Price earnings multiple	213	14	(14)
– Unquoted investments in property vehicles[3]	Property yield; occupancy	336	17	(17)
– Investment property[3]	Property yield; occupancy	979	49	(49)
Unit linked				
– Unquoted investments in property vehicles[3]	Property yield; occupancy	265	13	(13)
– Suspended securities	Estimated recoverable amount	17	1	(1)
– Untraded debt securities	Cash flows; expected defaults	6	2	(2)
– Investment property[3]	Property yield; occupancy	3,951	198	(198)
Total		7,984	400	(400)

1. This has been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.
2. 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.
3. Unquoted investments in property vehicles and direct holdings in investment property are valued by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. Reasonably possible alternative valuations have been determined using alternative yield and occupancy assumptions.

(v) Net asset value attributable to unit holders

Amounts attributable to unit holders are repayable on demand and the group is responsible for ensuring there is sufficient liquidity within the corresponding asset portfolio to enable the liability to be met as it falls due.

At 31 December 2014, the level 1 net asset value attributable to unit holders is £17,139m (2013: £10,818m).

BALANCE SHEET MANAGEMENT (CONTINUED)

14 Derivative assets and liabilities

The group's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The group uses derivatives such as foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The group uses hedge accounting, provided the prescribed criteria in IAS 39 are met, to recognise the offsetting effects of changes in the fair value or cash flow of the derivative instrument and the hedged item. The group's principal uses of hedge accounting are to:

- recognise in shareholders' equity the changes in the fair value of derivatives designated as hedges of a net investment in a foreign operation. Any cumulative gains and/or losses are recognised in the Consolidated Income Statement on disposal of the foreign operation;
- defer in equity the changes in the fair value of derivatives designated as the hedge of a future cash flow attributable to a recognised asset or liability, a highly probable forecast transaction, or a firm commitment until the period in which the future transaction affects profit or loss or is no longer expected to occur; and
- hedge the fair value movements in loans due to interest rate and exchange rate fluctuations. Any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the Consolidated Income Statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Consolidated Income Statement.

The relationship between the hedging instrument and the hedged item, together with the risk management objective and strategy for undertaking the hedge transaction, are documented at the inception of the transaction. The effectiveness of the hedge is documented and monitored on an ongoing basis. Hedge accounting is only applied for highly effective hedges (between 80% and 125% effectiveness) with any ineffective portion of the gain or loss recognised in the income statement, within other expenses, in the current year.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments which do not qualify for hedge accounting are recognised immediately in the Consolidated Income Statement.

Where the risks and characteristics of derivatives embedded in other contracts are not closely related to those of the host contract and the whole contract is not carried at fair value, the derivative is separated from that host contract and measured at fair value, with fair value movements reflected within investment return, unless the embedded derivative itself meets the definition of an insurance contract.

BALANCE SHEET MANAGEMENT (CONTINUED)

14 Derivative assets and liabilities (continued)

	Contract/ notional amount 2014 £m	Fair values Assets 2014 £m	Fair values Liabilities[1] 2014 £m	Contract/ notional amount 2013 £m	Fair values Assets 2013 £m	Fair values Liabilities[1] 2013 £m
Shareholder derivatives:						
Interest rate contracts – held for trading	**1,605**	**31**	**49**	2,809	58	57
Forward foreign exchange contracts – net investment hedges	**589**	**1**	**1**	558	9	2
Forward foreign exchange contracts – held for trading	**577**	**77**	**29**	616	133	–
Equity/index derivatives – held for trading	**(324)**	**2**	**1**	(901)	3	22
Credit derivatives – held for trading	**99**	**1**	**3**	–	4	5
Other derivatives – held for trading	**83**	**1**	**1**	–	–	–
Total shareholder derivatives		**113**	**84**		207	86
Non profit non-unit linked derivatives:						
Interest rate contracts – held for trading	**22,692**	**3,615**	**1,991**	24,603	1,760	1,044
Forward foreign exchange contracts – held for trading	**–**	**41**	**149**	–	170	1
Equity/index derivatives – held for trading	**–**	**–**	**–**	48	–	–
Currency swap contracts – held for trading	**3,636**	**–**	**62**	3,750	71	–
Inflation swap contracts – held for trading	**6,387**	**118**	**475**	6,274	98	188
Credit derivatives – held for trading	**1,157**	**26**	**1**	1,411	1	5
Other derivatives – held for trading	**194**	**50**	**–**	383	–	53
Total non profit non-unit linked derivatives		**3,850**	**2,678**		2,100	1,291
With-profits derivatives:						
Interest rate contracts – held for trading	**749**	**28**	**1**	1,076	1	38
Forward foreign exchange contracts – held for trading	**–**	**9**	**20**	–	29	–
Equity/index derivatives – held for trading	**(253)**	**24**	**32**	(177)	18	27
Other derivatives – held for trading	**–**	**–**	**–**	1	–	–
Total with-profits derivatives		**61**	**53**		48	65
Unit linked derivatives:						
Interest rate contracts – held for trading	**11,576**	**5,507**	**1,669**	19,194	1,619	617
Forward foreign exchange contracts – held for trading	**–**	**387**	**269**	–	561	182
Credit derivatives – held for trading	**1,170**	**2**	**18**	1,025	11	5
Equity/index derivatives – held for trading	**3,514**	**99**	**1,498**	3,232	31	791
Other derivatives – held for trading	**19**	**6**	**–**	22	–	–
Inflation rate contracts – held for trading	**3,530**	**10**	**608**	7,394	169	82
Total unit linked derivatives		**6,011**	**4,062**		2,391	1,677
Total derivative assets and liabilities		**10,035**	**6,877**		4,746	3,119

1. Derivative liabilities are reported in the Consolidated Balance Sheet within Payables and other financial liabilities (Note 28).

The notional amounts of some derivative instruments provide a basis for comparison with instruments recognised on the Consolidated Balance Sheet. However, these amounts do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the group's exposure to credit or price risks.

BALANCE SHEET MANAGEMENT (CONTINUED)

The contractual undiscounted cash flows in relation to non-unit linked derivatives have the following maturity profile. Unit linked derivatives have not been included as shareholders are not directly exposed to liquidity risks.

		Maturity profile of undiscounted cash flows					
As at 31 December 2014	Fair values £m	Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Cash inflows							
Shareholder derivatives							
Derivative assets	113	966	–	–	–	–	966
Derivative liabilities	(84)	1,183	3	1	–	–	1,187
Non profit non-unit linked derivatives							
Derivative assets	3,850	2,214	1,701	3,828	3,642	3,877	15,262
Derivative liabilities	(2,678)	8,813	2,430	3,133	2,557	2,500	19,433
With-profits derivatives							
Derivative assets	61	406	47	70	23	1	547
Derivative liabilities	(53)	539	–	–	–	–	539
Total	1,209	14,121	4,181	7,032	6,222	6,378	37,934
Cash outflows							
Shareholder derivatives							
Derivative assets	113	(871)	–	–	–	–	(871)
Derivative liabilities	(84)	(1,226)	(9)	–	–	–	(1,235)
Non profit non-unit linked derivatives							
Derivative assets	3,850	(1,939)	(831)	(2,666)	(2,638)	(2,307)	(10,381)
Derivative liabilities	(2,678)	(9,374)	(3,300)	(3,942)	(3,054)	(2,903)	(22,573)
With-profits derivatives							
Derivative assets	61	(363)	(33)	(69)	(23)	(1)	(489)
Derivative liabilities	(53)	(591)	–	–	–	–	(591)
Total	1,209	(14,364)	(4,173)	(6,677)	(5,715)	(5,211)	(36,140)
Net shareholder derivatives cash flows		52	(6)	1	–	–	47
Net non profit non-unit linked derivatives cash flows		(286)	–	353	507	1,167	1,741
Net with-profits derivatives cash flows		(9)	14	1	–	–	6

BALANCE SHEET MANAGEMENT (CONTINUED)

14 Derivative assets and liabilities (continued)

As at 31 December 2013	Fair values £m	Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
		Maturity profile of undiscounted cash flows					
Cash inflows							
Shareholder derivatives							
Derivative assets	207	1,541	502	–	–	17	2,060
Derivative liabilities	(86)	1	–	–	–	–	1
Non profit non-unit linked derivatives							
Derivative assets	2,100	8,882	4,164	4,539	4,183	4,956	26,724
Derivative liabilities	(1,291)	213	1,189	4,002	3,657	3,549	12,610
With-profits derivatives							
Derivative assets	48	928	3	–	–	–	931
Derivative liabilities	(65)	42	49	76	27	2	196
Total	913	11,607	5,907	8,617	7,867	8,524	42,522
Cash outflows							
Shareholder derivatives							
Derivative assets	207	(1,480)	(402)	–	(19)	–	(1,901)
Derivative liabilities	(86)	(42)	(14)	–	–	–	(56)
Non profit non-unit linked derivatives							
Derivative assets	2,100	(8,469)	(3,567)	(3,782)	(3,469)	(4,107)	(23,394)
Derivative liabilities	(1,291)	(454)	(2,168)	(4,295)	(3,167)	(3,763)	(13,847)
With-profits derivatives							
Derivative assets	48	(883)	–	–	–	–	(883)
Derivative liabilities	(65)	(62)	(56)	(121)	(35)	(2)	(276)
Total	913	(11,390)	(6,207)	(8,198)	(6,690)	(7,872)	(40,357)
Net shareholder derivatives cash flows		20	86	–	(19)	17	104
Net non profit non-unit linked derivatives cash flows		172	(382)	464	1,204	635	2,093
Net with-profits derivatives cash flows		25	(4)	(45)	(8)	–	(32)

Cash inflows and outflows are presented on a net basis where the group is required to settle net or has a legally enforceable right of offset and the intention is to settle on a net basis.

Future cash flows on the floating legs of interest rate and exchange derivatives are calculated using current spot rates, which may differ from the market expectation incorporated in the fair value.

Cash flows arising from implied events covered by credit derivatives are presented in the table above on an expected basis as cash flows within one year.

Forward foreign exchange contracts – net investment hedges

The group hedges part of the foreign exchange translation exposure on its net investment in its overseas subsidiaries, using forward foreign exchange contracts. It recognises the portion of the gain or loss which is determined to be an effective hedge through reserves within shareholders' equity, along with the gain or loss on translation of the foreign subsidiaries.

Derivative contracts – held for trading

The group uses certain derivative contracts which are effective hedges of economic exposures in accordance with the group's risk management policy, but for various reasons are not designated within a formal hedge accounting relationship. Therefore, these contracts must be designated as held for trading, and gains and losses on these contracts are recognised immediately in the Consolidated Income Statement.

BALANCE SHEET MANAGEMENT (CONTINUED)

15 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, treasury bills and other short term highly liquid investments with original maturities of three months or less.

	Shareholder 2014 £m	Non profit non-unit linked[1] 2014 £m	With-profits 2014 £m	Unit linked 2014 £m	Total 2014 £m
Cash at bank and in hand	**578**	**208**	**170**	**1,079**	**2,035**
Cash equivalents	**1,497**	**449**	**912**	**17,816**	**20,674**
Cash and cash equivalents	**2,075**	**657**	**1,082**	**18,895**	**22,709**

	Shareholder 2013 £m	Non profit non-unit linked[1] 2013 £m	With-profits 2013 £m	Unit linked 2013 £m	Total 2013 £m
Cash at bank and in hand	622	151	161	994	1,928
Cash equivalents	941	922	1,158	12,505	15,526
Cash and cash equivalents[2]	1,563	1,073	1,319	13,499	17,454

1. Included within cash equivalents is £nil (2013: £384m) of collateral posted to CDOs which is not available for shareholder liquidity requirements.
2. This has been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.

16 Other assets

	Note	Total 2014 £m	Total 2013[2] £m
Reinsurance receivables		**46**	51
Receivables under finance leases	16(i)	**118**	118
Accrued interest and rent		**181**	153
Prepayments and accrued income		**478**	438
Insurance and intermediaries receivables		**354**	305
Other receivables[1]		**1,072**	1,056
Other assets		**2,249**	2,121
Due within 12 months		**2,013**	1,860
Due after 12 months		**236**	261

1. Other receivables include amounts receivable from brokers and clients for investing activities, unsettled cash and other sundry balances.
2. This has been restated to reflect the adoption by the group of IRFS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.

BALANCE SHEET MANAGEMENT (CONTINUED)

16 Other assets (continued)

(i) Receivables under finance leases

On creation of a finance lease, the leased asset is derecognised from the balance sheet and replaced with a receivable equivalent to the net investment in the lease at the balance sheet date. Finance income is recognised in the income statement on a pattern reflecting a constant periodic rate of return on the group's net investment in the lease.

The group acts as a lessor of two finance leases, which are both of 45 years duration and relate to the provision of student accommodation. The other party, as lessee, is regarded to be the economic owner of the leased assets.

The future minimum lease payments under these arrangements, together with their present value, are disclosed below:

	Total future payments 2014 £m	Unearned interest income 2014 £m	Present value 2014 £m	Total future payments 2013 £m	Unearned interest income 2013 £m	Present value 2013 £m
Not later than 1 year	**6**	**(1)**	**5**	6	(1)	5
Between 1 and 5 years	**24**	**(4)**	**20**	23	(3)	20
Later than 5 years	**265**	**(172)**	**93**	273	(180)	93
Total	**295**	**(177)**	**118**	302	(184)	118

17 Market risk

(i) Investment performance risk

(a) Equity securities

The group controls its exposure to geographic price risks by using internal country credit ratings. These ratings are based on macroeconomic data and key qualitative indicators. The latter take into account economic, social and political environments. The table below indicates the group's exposure to different equity markets around the world. Unit linked equity investments are excluded from the table as the risk is retained by the policyholder.

Exposure to worldwide equity markets	Shareholder 2014 £m	Non profit non-unit linked 2014 £m	With-profits 2014 £m	Total 2014 £m	Shareholder 2013 £m	Non profit non-unit linked 2013 £m	With-profits 2013 £m	Total 2013[1] £m
United Kingdom	**564**	**188**	**1,354**	**2,106**	570	69	1,663	2,302
North America	**327**	**16**	**713**	**1,056**	139	–	722	861
Europe	**301**	**68**	**662**	**1,031**	307	3	846	1,156
Japan	**80**	**–**	**261**	**341**	55	–	260	315
Asia Pacific	**183**	**7**	**500**	**690**	72	–	549	621
Other	**31**	**–**	**179**	**210**	55	–	109	164
Listed equities	**1,486**	**279**	**3,669**	**5,434**	1,198	72	4,149	5,419
Unlisted UK equities	**98**	**–**	**38**	**136**	23	11	43	77
Holdings in unit trusts	**307**	**–**	**358**	**665**	388	–	314	702
Total equities	**1,891**	**279**	**4,065**	**6,235**	1,609	83	4,506	6,198

1. This has been restated to reflect the adoption by the group of IRFS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.

BALANCE SHEET MANAGEMENT (CONTINUED)

(b) Debt securities

Total debt securities and accrued interest[1]	Shareholder 2014 £m	Non profit non-unit linked 2014 £m	With-profits 2014 £m	Total 2014 £m	Shareholder 2013[2] £m	Non profit non-unit linked 2013[2] £m	With-profits 2013[2] £m	Total 2013[2] £m
United Kingdom	**966**	**20,055**	**4,015**	**25,036**	1,079	13,099	4,661	18,839
USA	**2,324**	**9,515**	**919**	**12,758**	2,542	7,237	1,009	10,788
Netherlands	**272**	**1,910**	**377**	**2,559**	428	1,736	583	2,747
France	**314**	**1,412**	**1,573**	**3,299**	299	1,382	1,705	3,386
Germany	**304**	**378**	**467**	**1,149**	380	411	480	1,271
Greece	**–**	**–**	**–**	**–**	–	–	–	–
Ireland	**27**	**276**	**66**	**369**	37	234	222	493
Italy	**128**	**301**	**59**	**488**	150	636	75	861
Portugal	**10**	**1**	**–**	**11**	16	15	–	31
Spain	**48**	**212**	**58**	**318**	85	178	66	329
Russia	**18**	**19**	**4**	**41**	1	–	10	11
Rest of Europe	**307**	**1,857**	**721**	**2,885**	421	1,299	1,002	2,722
Brazil	**18**	**139**	**40**	**197**	3	83	34	120
Rest of World	**338**	**3,542**	**577**	**4,457**	238	2,610	662	3,510
CDOs	**–**	**1,120**	**95**	**1,215**	–	1,098	–	1,098
	5,074	**40,737**	**8,971**	**54,782**	5,679	30,018	10,509	46,206
Analysed as[1]								
Debt securities	**5,033**	**40,261**	**8,860**	**54,154**	5,624	29,618	10,357	45,599
Accrued interest	**41**	**476**	**111**	**628**	55	400	152	607
	5,074	**40,737**	**8,971**	**54,782**	5,679	30,018	10,509	46,206

1. For financial risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the Consolidated Balance Sheet the components of the CDOs are shown within non profit non-unit linked investments (2014: £971m; 2013: £616m), cash equivalents (2014: £nil; 2013: £384m) and derivative assets/(liabilities) (2014: £23m; 2013: £(17)m).
2. This has been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.

BALANCE SHEET MANAGEMENT (CONTINUED)

17 Market risk (continued)

(i) Investment performance risk (continued)

(c) Additional disclosures on shareholder and non profit non-unit linked debt securities exposure

	2014 £m	2014 %	2013 £m	2013 %
Sovereigns, Supras and Sub-Sovereigns	**9,249**	**20**	6,502	18
Banks:				
– Tier 1	**26**	**–**	105	–
– Tier 2 and other subordinated	**621**	**1**	698	2
– Senior	**2,221**	**5**	2,169	6
Financial Services:				
– Tier 1	**–**	**–**	5	–
– Tier 2 and other subordinated	**132**	**–**	251	1
– Senior	**1,138**	**3**	1,041	3
Insurance:				
– Tier 1	**129**	**–**	152	–
– Tier 2 and other subordinated	**375**	**1**	625	2
– Senior	**704**	**2**	552	2
Utilities	**5,824**	**13**	4,329	12
Consumer Services and Goods and Health Care	**4,726**	**10**	3,716	10
Technology and Telecoms	**2,836**	**6**	2,333	7
Industrials and Oil and Gas	**4,928**	**11**	3,626	10
Property	**2,126**	**5**	1,053	3
Asset backed securities:				
– Traditional	**1,234**	**3**	1,395	4
– Securitisations and debentures	**8,422**	**18**	6,047	17
CDOs	**1,120**	**2**	1,098	3
Total	**45,811**	**100**	35,697	100

Analysis of Sovereigns, Supras and Sub-Sovereigns	2014 £m	2013 £m
Market value by region		
United Kingdom	**6,267**	3,725
USA	**772**	664
Netherlands	**153**	194
France	**138**	220
Germany	**417**	472
Greece	**–**	–
Ireland	**8**	7
Italy	**96**	323
Portugal	**9**	16
Spain	**10**	14
Russia	**28**	1
Rest of Europe	**922**	660
Brazil	**64**	13
Rest of World	**365**	193
Total	**9,249**	6,502

BALANCE SHEET MANAGEMENT (CONTINUED)

(ii) Currency risk

The table below summarises the group's exposure to foreign currency exchange risk, in sterling. The functional currency represents the currency of the primary economic environment in which each of the group's subsidiaries operates.

As at 31 December 2014 Shareholder	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Total assets	459	1,062	21	401	10,813	12,756
Total liabilities	512	1,327	–	1	6,985	8,825
Net assets/(liabilities)	(53)	(265)	21	400	3,828	3,931
Non profit non-unit linked						
Total assets	801	11,294	–	41	38,439	50,575
Total liabilities[1]	676	10,963	–	–	37,533	49,172
Net assets/(liabilities)	125	331	–	41	906	1,403

1. For risk management purposes, bespoke consolidated CDOs are considered on a net basis. Accordingly, the table above presents derivative liabilities of £nil as a deduction to non profit non-unit linked investments and other liabilities.

With-profits	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Total assets	397	1,338	246	1,079	12,566	15,626
Total liabilities	7	608	–	27	14,964	15,606
Net assets/(liabilities)	390	730	246	1,052	(2,398)	20

As at 31 December 2013 Shareholder	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Total assets	713	92	120	298	10,876	12,099
Total liabilities	667	156	55	–	6,903	7,781
Net assets/(liabilities)	46	(64)	65	298	3,973	4,318
Non profit non-unit linked						
Total assets	677	712	–	–	36,090	37,479
Total liabilities[1]	537	487	–	–	35,093	36,117
Net assets/(liabilities)	140	225	–	–	997	1,362

1. For risk management purposes, bespoke consolidated CDOs are considered on a net basis. Accordingly, the table above presents derivative liabilities of £17m as a deduction to non profit non-unit linked investments and other liabilities.

With-profits	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Total assets	531	740	268	1,074	15,168	17,781
Total liabilities	(10)	10	2	20	17,737	17,759
Net assets/(liabilities)[2]	541	730	266	1,054	(2,569)	22

2. This has been restated to reflect the adoption by the group of IRFS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.

BALANCE SHEET MANAGEMENT (CONTINUED)

17 Market risk (continued)

(ii) Currency risk (continued)

The group's management of currency risk reduces shareholders' exposure to exchange rate fluctuations. The group's exposure to a 10% exchange movement in the US Dollar and Euro on an IFRS basis, net of hedging activities, is detailed below.

Currency sensitivity analysis

Currency sensitivity test	Impact on pre-tax profit 2014 £m	Impact on equity 2014 £m	Impact on pre-tax profit 2013 £m	Impact on equity 2013 £m
10% Euro appreciation	7	6	19	15
10% US Dollar appreciation	7	5	16	13

The credit profile of the group's assets exposed to credit risk is shown in Note 18. The credit rating bands are provided by independent rating agencies. For unrated assets, the group maintains internal ratings which are used to manage exposure to these counterparties. Unit linked assets have not been included as shareholders are not directly exposed to risk.

18 Credit risk

As at 31 December 2014	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated bespoke CDOs £m	Unrated other £m	Total £m
Shareholder									
Government securities		839	237	22	213	55	–	5	1,371
Other fixed rate securities		319	466	1,031	841	159	–	228	3,044
Variable rate securities		350	124	125	13	6	–	–	618
Total debt securities	13(i)	1,508	827	1,178	1,067	220	–	233	5,033
Accrued interest	13(i)	7	6	11	14	3	–	–	41
Loans and receivables	13(iii)	–	39	113	53	22	–	59	286
Derivative assets	14	–	6	93	–	–	–	14	113
Cash and cash equivalents	15	348	936	314	106	11	–	360	2,075
Financial assets excluding equities		1,863	1,814	1,709	1,240	256	–	666	7,548
Reinsurers' share of contract liabilities		–	139	100	–	–	–	93	332
Other assets		12	83	76	1	–	–	666	838
		1,875	2,036	1,885	1,241	256	–	1,425	8,718

BALANCE SHEET MANAGEMENT (CONTINUED)

As at 31 December 2014	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated bespoke CDOs £m	Unrated other £m	Total £m
Non profit non-unit linked									
Government securities		191	5,263	–	234	–	–	–	5,688
Other fixed rate securities		1,242	3,564	10,979	9,206	614	–	2,193	27,798
Variable rate securities[1]		479	1,449	2,074	752	5	994	1,022	6,775
Total debt securities[1]	13(i)	1,912	10,276	13,053	10,192	619	994	3,215	40,261
Accrued interest	13(i)	24	81	178	168	11	–	14	476
Loans and receivables	13(iii)	–	–	–	–	–	–	–	–
Derivative assets[1]	14	–	357	2,760	644	–	–	66	3,827
Cash and cash equivalents	15	89	336	182	–	–	–	50	657
Financial assets excluding equities		2,025	11,050	16,173	11,004	630	994	3,345	45,221
Reinsurers' share of contract liabilities		–	1,372	765	–	–	–	101	2,238
Other assets		–	11	38	2	–	–	327	378
		2,025	12,433	16,976	11,006	630	994	3,773	47,837

1. For financial risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the Consolidated Balance Sheet the components of the CDOs are shown within non profit non-unit linked investments (2014: £971m), cash equivalents (2014: £nil) and derivative assets/(liabilities) (2014: £23m).

At the year end, the group held £1,358m (2013: £953m) of collateral in respect of non-unit linked derivative assets.

	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated bespoke CDOs £m	Unrated other £m	Total £m
With-profits									
Government securities		142	3,416	55	88	5	–	2	3,708
Other fixed rate securities		1,227	929	1,323	1,346	124	–	181	5,130
Variable rate securities		–	–	7	10	–	–	5	22
Total debt securities	13(i)	1,369	4,345	1,385	1,444	129	–	188	8,860
Accrued interest	13(i)	21	44	20	25	1	–	–	111
Loans and receivables	13(iii)	–	–	1	–	–	–	28	29
Derivative assets	14	–	9	47	5	–	–	–	61
Cash and cash equivalents	15	70	419	164	–	–	–	429	1,082
Financial assets excluding equities		1,460	4,817	1,617	1,474	130	–	645	10,143
Reinsurers' share of contract liabilities		–	1	–	–	–	–	(14)	(13)
Other assets		–	–	1	–	–	–	219	220
		1,460	4,818	1,618	1,474	130	–	850	10,350

BALANCE SHEET MANAGEMENT (CONTINUED)

18 Credit risk (continued)

As at 31 December 2013[1]	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated bespoke CDOs £m	Unrated other £m	Total £m
Shareholder									
Government securities		1,050	285	17	143	43	–	23	1,561
Other fixed rate securities		344	423	1,282	969	217	–	154	3,389
Variable rate securities		360	141	152	2	8	–	11	674
Total debt securities	13(i)	1,754	849	1,451	1,114	268	–	188	5,624
Accrued interest	13(i)	12	7	16	16	3	–	1	55
Loans and receivables	13(iii)	–	14	23	–	–	–	42	79
Derivative assets	14	–	10	171	–	–	–	26	207
Cash and cash equivalents	15	160	469	620	6	1	–	307	1,563
Financial assets excluding equities		1,926	1,349	2,281	1,136	272	–	564	7,528
Reinsurers' share of contract liabilities		–	124	102	–	–	–	86	312
Other assets		17	63	49	–	–	–	602	731
		1,943	1,536	2,432	1,136	272	–	1,252	8,571
Non profit non-unit linked									
Government securities		219	3,232	4	265	–	–	–	3,720
Other fixed rate securities		914	2,746	8,544	7,224	581	–	1,377	21,386
Variable rate securities[1]		225	703	1,539	692	9	983	361	4,512
Total debt securities	13(i)	1,358	6,681	10,087	8,181	590	983	1,738	29,618
Accrued interest	13(i)	20	62	149	145	13	–	11	400
Loans and receivables	13(iii)	–	–	–	–	–	–	–	–
Derivative assets	14	–	167	1,933	–	–	–	–	2,100
Cash and cash equivalents	15	12	310	315	–	–	–	52	689
Financial assets excluding equities		1,390	7,220	12,484	8,326	603	983	1,801	32,807
Reinsurers' share of contract liabilities		–	1,482	648	–	–	–	141	2,271
Other assets		–	–	–	–	–	–	338	338
		1,390	8,702	13,132	8,326	603	983	2,280	35,416

1. For financial risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the Consolidated Balance Sheet the components of the CDOs are shown within investments (£616m), cash equivalents (£384m) and derivative liabilities (£(17)m).

As at 31 December 2013[1]	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated bespoke CDOs £m	Unrated other £m	Total £m
With-profits									
Government securities		137	3,353	43	83	15	–	2	3,633
Other fixed rate securities		1,221	1,078	1,796	1,937	129	–	516	6,677
Variable rate securities		–	–	12	5	7	–	23	47
Total debt securities	13(i)	1,358	4,431	1,851	2,025	151	–	541	10,357
Accrued interest	13(i)	24	57	29	40	1	–	1	152
Loans and receivables	13(iii)	–	–	–	–	–	–	30	30
Derivative assets	14	–	3	45	–	–	–	–	48
Cash and cash equivalents	15	205	651	452	–	–	–	11	1,319
Financial assets excluding equities		1,587	5,142	2,377	2,065	152	–	583	11,906
Reinsurers' share of contract liabilities		–	1	–	–	–	–	–	1
Other assets		32	–	1	–	–	–	156	189
		1,619	5,143	2,378	2,065	152	–	739	12,096

1. This has been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.

BALANCE SHEET MANAGEMENT (CONTINUED)

Impairment

The group reviews the carrying value of its financial assets (other than those held at FVTPL) at each balance sheet date. If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the income statement. There must be objective evidence of impairment as a result of one or more events which have occurred after the initial recognition of the asset. Impairment is only recognised if the loss event has an impact on the estimated future cash flows of assets held at amortised cost or fair value of assets classified as AFS.

Assets which are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The table below provides information regarding the carrying value of financial assets which have been impaired and the ageing analysis of financial assets which are past due but not impaired. Unit linked assets have not been included as shareholders are not exposed to the risks from unit linked policies.

Ageing of financial assets that are past due but not impaired

		Financial assets that are past due but not impaired					
As at 31 December 2014	Neither past due nor impaired £m	0-3 months £m	3-6 months £m	6 months-1 year £m	Over 1 year £m	Financial assets that have been impaired £m	Carrying value £m
Shareholder	**8,100**	**28**	**8**	**3**	**1**	**–**	**8,140**
Non profit non-unit linked[1]	**47,444**	**152**	**10**	**10**	**13**	**–**	**47,629**
With-profits	**10,125**	**50**	**1**	**2**	**2**	**–**	**10,180**

1. For risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the Consolidated Balance Sheet the components of the CDOs are shown within investments (£971m), cash equivalents (£nil) and derivative assets (£23m).

		Financial assets that are past due but not impaired					
As at 31 December 2013[2]	Neither past due nor impaired £m	0-3 months £m	3-6 months £m	6 months-1 year £m	Over 1 year £m	Financial assets that have been impaired £m	Carrying value £m
Shareholder	7,914	30	3	1	–	–	7,948
Non profit non-unit linked[1]	35,088	149	11	8	9	–	35,265
With-profits	11,915	20	–	–	–	–	11,935

1. For risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the Consolidated Balance Sheet the components of the CDOs are shown within investments (£616m), cash equivalents (£384m) and derivative liabilities (£(17)m).
2. This has been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.

BALANCE SHEET MANAGEMENT (CONTINUED)

19 Insurance risk

The group is exposed to insurance risk as a consequence of offering the principal products outlined in Note 7. Insurance risk is the exposure to loss arising from claims experience being different to that anticipated. Detailed below are the risks associated with each of the group's segments and the associated controls operated.

Principal risks	Product	Control
Longevity, Mortality and Morbidity risks		
For contracts providing death benefits, higher mortality rates would lead to an increase in claims costs. The cost of health related claims depends on both the incidence of policyholders becoming ill and the duration over which they remain ill. Higher than expected incidence or duration would increase costs over the level currently assumed in the calculation of liabilities.	Protection	The pricing of protection business is based on assumptions as to future trends in mortality and morbidity having regard to past experience. Underwriting criteria are defined setting out the risks that are unacceptable and the terms for non-standard risks presented by the lives to be insured. Extensive use of reinsurance is made within individual protection business, placing a proportion of all risks meeting prescribed criteria. Mortality and morbidity experience is compared to that assumed within the pricing basis with variances subject to actuarial investigation.
For savings contracts providing minimum assured death benefits, higher mortality rates may result in an increase in claims costs.	Savings	The pricing basis for contracts providing minimum assured death benefits include provision for future trends in mortality based on past experience. The level of mortality risk accepted within each contract is not sufficiently material to warrant formal underwriting at an individual policy level.
Older contracts containing a basic guaranteed benefit expressed as an amount of pension payable or a guaranteed annuity option, expose the group to interest rate and longevity risk. The cost of guarantees increases during periods when interest rates are low or when annuitant mortality improves faster than expected.	Pensions	The ultimate cost of basic guarantees provided on older contracts will depend on the take up rate of any option and the final form of annuity selected by the policyholder. The group has limited ability to control the take up of these options. However, the book of business itself is diminishing in size. As at 31 December 2014 the value of guarantees is estimated to be £50m (31 December 2013: £31m).
For annuity contracts, the group is exposed to the risk that mortality experience is lower than assumed; lower than expected mortality would require payments to be made for longer and increase the cost of benefits provided.	Annuities	Annuity business is priced having regard to trends in improvements in future mortality. Enhanced annuities, which are priced taking account of impairments to life expectancy, are subject to specific underwriting criteria. Certain annuitant mortality risks, including enhanced annuities, are placed with reinsurers. The group regularly reviews its mortality experience and industry projections of longevity and adjusts the pricing and valuation assumptions accordingly.
Persistency Risk		
In the early years of a policy, lapses may result in a loss to the group, as the acquisition costs associated with the contract would not have been recovered from product margins.	Protection and savings	The pricing basis for protection business includes provision for policy lapses. Following the adoption of PS06/14 in 2006 the persistency assumption for non-participating protection business allows for the expected pattern of persistency, adjusted to incorporate a margin for adverse deviation. Actual trends in policy lapse rates are monitored with adverse trends being subject to actuarial investigation. For insured contracts, terms and conditions typically include surrender deductions to mitigate the risk. In later periods, once the acquisition costs have been recouped, the effect of lapses and surrenders depends upon the relationship between the exit benefit, if any, and the liability for that contract. Exit benefits are not generally guaranteed and the group has some discretion in determining the amount of the payment. As a result, the effect on profit in later periods is expected to be broadly neutral.
Expense Risk		
In pricing long term insurance business, assumptions are made as to the future cost of product servicing. A significant adverse divergence in actual expenses experience could reduce product profitability.	Protection, Savings and Annuities	In determining pricing assumptions, account is taken of changes in price indices and the costs of employment, with stress testing used to evaluate the effect of significant deviations. Actual product servicing costs are monitored relative to the costs assumed with the product pricing basis, with variances investigated.

BALANCE SHEET MANAGEMENT (CONTINUED)

Principal Risks	Product	Control
Concentration (Catastrophe) Risk Insurance risk may be concentrated in geographic regions, altering the risk profile of the group. The most significant exposure of this type arises for group protection business, where a single event could result in a large number of related claims.	Group Protection and General Insurance	Group protection business contracts include an 'event limit' capping the total liability under the policy from a single event. Excess of loss reinsurance further mitigates loss from the exposure. For general insurance business, the risk acceptance policy, terms and premiums reflect expected claims and cost associated with a location and avoids adverse selection. Additionally, exposure by location is monitored to ensure there is a geographic spread of risk. Catastrophe reinsurance cover also mitigates loss from concentrations of risk.
Catastrophe (Epidemics) The spread of an epidemic could cause large aggregate claims across the group's portfolio of protection businesses.	Protection	The pricing basis for protection business includes an assessment of potential claims as a result of epidemic risks. Quota share and excess of loss reinsurance contracts are used by individual and group protection, respectively, to further mitigate the risk. Depending on the nature of an epidemic, mortality experience may lead to a reduction in the cost of claims for annuity business.
Weather events Significant weather events such as windstorms, and coastal and river floods can lead to higher instance of claims than anticipated.	General Insurance	The impact of events are mitigated by excess of loss catastrophe treaties, under which the cost of claims from a weather event in excess of an agreed retention level, is recovered from insurers. The reinsurance is designed to protect against a modelled windstorm and coastal flood event with a return probability of 1 in 200 years.
Other Risks		
Subsidence The incidence of subsidence can have a significant impact on the level of claims on household policies.	General Insurance	Underwriting criteria for general insurance business includes assessment of subsidence risk, with an appropriate premium being charged for the risk accepted. Reinsurance arrangements are used to further mitigate the risk.

The financial risks associated with LGIM's businesses are directly borne by the investors in its funds. Therefore detailed risk disclosures have not been presented. The approach to the management of operational risks, including loss arising from trading errors, breach of fund management guidelines or valuation errors, where a breakdown in controls could lead to successful litigation against the company by one or more clients, is set out in Note 29.

Accumulation of risks

There is limited potential for single incidents to give rise to a large number of claims across the different contract types written by the group. In particular, there is little significant overlap between the long term and short term insurance business written by the group. However, there are potentially material correlations of insurance risk with other types of risk exposure. These correlations are difficult to estimate though they would tend to be more acute as the underlying risk scenarios became more extreme. An example of the accumulation of risk is the correlation between reinsurer credit risk with mortality and morbidity exposures.

BALANCE SHEET MANAGEMENT (CONTINUED)

20 Long term insurance valuation assumptions

The group's insurance assumptions, described below, relate exclusively to the UK insurance business. The non-UK businesses do not constitute a material component of the group's operations and consideration of geographically determined assumptions is therefore not included.

(i) Non-participating business

For its non-participating business the group seeks to make prudent assumptions about its future experience based on current market conditions and recent experience. The approach used to set non-participating assumptions is generally similar to that used to determine the assumptions used for PRA statutory Peak 1, although the actual assumptions may sometimes differ from those used for regulatory reporting purposes. These assumptions incorporate prudent margins in excess of our best estimate assumptions to reduce the possibility of actual experience being less favourable than assumed.

Valuation rates of interest and discount rates

The valuation interest rate for each contract type is based on the yield on the assets backing the contract adjusted for the risk that asset proceeds are not received by the group. For some business, this yield is the gross redemption yield on fixed interest securities and the running yield on variable interest securities. For other business it is the Internal Rate of Return on the portfolio of backing assets.

In 2014, the group continued to hold an additional reserve to protect against the risk of an uplift in defaults in the current economic environment and also maintained the level of the long term default allowance at 40bps per annum (2013: 40bps) for unapproved securities backing non profit business and 35bps per annum (2013: 35bps) for unapproved securities backing non participating with-profits business. For approved securities and swaps backing the non profit annuity business, the allowance is 9bps per annum (2013: 9bps). For approved securities and swaps backing non participating with-profit business the allowance decreased to 5bps per annum (2013: 5bps). For unapproved securities backing non profit annuity business, the credit default allowances equate to 54bps per annum (2013: 56bps) when expressed over the duration of the assets held, leading to an overall total default provision of £2.3bn (2013: £1.8bn).

The group believes the total default allowance is prudent to cover all reasonably foreseeable circumstances.

For equity investments, the yield is based on the current dividend yield, adjusted for prudence.

For property holdings, yields are based on the rental income payable, adjusted for the cost of default. Default rates used in the calculations vary by tenant category.

Mortality and morbidity

Mortality and morbidity assumptions are set with reference to standard tables drawn up by the Continuous Mortality Investigation Bureau (CMIB) of the Institute and Faculty of Actuaries, with an appropriate allowance for prudence. These tables are based on industry-wide mortality and morbidity experience for insured lives.

The majority of internal statistical investigations are carried out at least annually to determine the extent to which the group's experience differs from that of the industry and suggest appropriate adjustments which need to be made to the valuation assumptions.

Persistency

The group monitors its persistency experience and carries out detailed investigations annually. Persistency can be volatile and past experience may not be an appropriate future indicator.

The group tries to balance past experience and future conditions by making prudent assumptions about the future expected long term average persistency levels.

For non-participating contracts where explicit persistency assumptions are not made, prudence is also incorporated into the liabilities by ensuring that they are sufficient to cover the more onerous of the two scenarios where the policies either remain in-force until maturity or where they discontinue at the valuation date.

BALANCE SHEET MANAGEMENT (CONTINUED)

Expenses
The group monitors its expense experience and carries out detailed investigations regularly to determine the expenses incurred in writing and administering the different products and classes of business. Adjustments may be made for known future changes in the administration processes, in line with the group's business plan. An allowance for expense inflation in the future is also made, taking account of both salary and price information. The expense assumptions also include an appropriate allowance for prudence.

Premiums
For those contracts where the policyholder does not have the right to vary the amount of the premium paid, full credit is taken for the premiums contractually due at the valuation date. For contracts where the policyholder has the option to vary the rate of premium, the provision is taken as being the higher of the amount calculated as if the policyholder continues to make premium payments or, alternatively, ceases to pay premiums altogether.

(ii) Participating business
For its participating business, the group seeks to establish its liabilities at their realistic value in line with the requirements set out in FRS 27.

Non-economic assumptions
Non-economic assumptions are set to represent the group's best estimates of future experience.

Premiums
For those contracts where the policyholder does not have the right to vary the amount of the premium paid, full credit is taken for the premiums contractually due at the valuation date. For contracts where the policyholder has the option to vary the rate of premium, the provision is taken as being the higher of the amount calculated as if the policyholder continues to make premium payments or, alternatively, ceases to pay premiums altogether.

Economic assumptions
The PRA's realistic reporting regime requires a market consistent economic model. The model is calibrated using market data from a variety of market sources. This enables assumptions to be determined for the term structure of risk free interest rates, and for property and equity volatility. Risk free interest rates are determined with reference to the gilt yield curve on the valuation date increased by ten basis points.

Property volatility is set with reference to historic variations in property prices. Equity volatility is set so that the model reproduces observed market prices of traded equity derivatives. Correlations between asset classes are based on historic data.

Each investment scenario contains a consistent set of assumptions for investment returns and inflation.

Future bonuses
Future reversionary and terminal bonuses are consistent with the bonus policies set out in Society's Principles and Practices of Financial Management (PPFM).

Guaranteed annuity options
The guarantees are valued on a market consistent basis. The valuation methodology allows for the correlation between interest rates and the proportion of the policyholders who take up the option.

Guaranteed cash options
The liability is determined assuming that policyholders choose the most valuable alternative between the annuity and cash available at retirement.

BALANCE SHEET MANAGEMENT (CONTINUED)

20 Long term insurance valuation assumptions (continued)

(iii) Long term valuation assumptions

The table below sets out the current valuation assumptions used to establish the long term liabilities for Legal & General Assurance Society Limited (LGAS), Legal & General Pensions Limited (LGPL) and Legal & General Assurance (Pensions Management) Limited (PMC).

	2014	2013
Rate of interest/discount rates		
Non-participating business		
Life assurances[1]	**1.75% pa and 6.60% pa**	2.00% pa and 6.60% pa
Pension assurances[1]	**1.75% pa and 6.60% pa**	2.00% pa and 6.60% pa
Annuities in deferment	**3.03% pa**	3.96% pa
Annuities in deferment (RPI-linked; net rate after allowance for inflation)	**-0.26% pa**	0.56% pa
Vested annuities	**0.75% – 3.03% pa**	1.00% – 3.96% pa
Vested annuities (RPI-linked; net rate after allowance for inflation)	**-0.26% pa**	-0.20% – 0.56% pa
Participating business		
Risk free rate (10 years)	**1.94% pa**	3.31% pa
Future bonuses	**Determined stochastically in line with bonus policy as stated in PPFM**	Determined stochastically in line with bonus policy as stated in PPFM
UK equity volatility (10 year option term)	**22.3%**	22.4%
Property volatility	**15.0%**	15.0%
Mortality tables		
Non-participating business		
Non-linked individual term assurances:		
Smokers	**84% TMS00/TFS00 Sel 5**	82% TMS00/TFS00 Sel 5
Non-smokers	**86% TMN00/TFN00 Sel 5**	89% TMN00/TFN00 Sel 5
Non-linked individual term assurances with terminal illness		
Smokers[2]	**68% – 87% TMS00/TFS00 Sel 5**	83% – 100% TMS00/TFS00 Sel 5
Non-smokers[2]	**75% – 94% TMN00/TFN00 Sel 5**	79% – 103% TMN00/TFN00 Sel 5
Non-linked individual term assurances with critical illness		
Smokers[3]	**115% – 145% ACSL04M/F**	91% – 102% CIBT93M/F Comb
Non-smokers[3]	**130% – 173% ACNL04M/F**	60% – 69% CIBT93M/F Comb
Other non-linked non profit life assurances	**100% of A67/70 Ult**	100% of A67/70 Ult
Annuities in deferment[4]	**81.3% – 86.7% PNMA00/PNFA00**	81.3% – 88.0% PNMA00/PNFA00
Vested annuities[5]		
Bulk purchase annuities	**82.2% – 86.7% PCMA00/PCFA00**	82.2% – 88.0% PCMA00/PCFA00
Other annuities	**63.9% – 122.3% PCMA00/PCFA00**	63.9% – 111.9% PCMA00/PCFA00

1. For product groups where liabilities are positive, the lower interest rate of 1.75% (2013: 2.00%) is used. However, for product groups where liabilities are negative, the higher rate of 6.60% (2013: 6.60%) is used.
2. The percentage of the table varies with the duration that the policy has been in-force for the first five years.
3. The percentage of the table varies with the duration that the policy has been in-force for the first two years. For term assurance with critical illness, morbidity rates are assumed to deteriorate at a rate of 0.50% p.a. for males and 0.75% p.a. for females (2013: 0.50% p.a. for males and 0.75% p.a. for females). There is an additive loading of 1.00% (2013: 1.00%) for guaranteed term contracts post policy duration 5.
4. Table created by blending PCXA00 with PNXA00 tables. The base table to be used for bulk purchase annuity policies in deferment is PNMA00 up to and including age 55 and PCMA00 for age 65 and above for males. The identical method is applied to females using PNFA00 and PCFA00.
5. For vested annuities, mortality rates are assumed to reduce according to an adjusted version of CMIB's mortality improvement model; CMI 2013 (2013: CMI 2012) with the following parameters:
   Males: Long Term Rate of 2.00% p.a. (2013: 2.00% p.a.) up to age 85 tapering to 0% at 120;
   Females: Long Term Rate of 1.50% p.a. (2013: 1.50% p.a.) up to age 85 tapering to 0% at 120;
   For certain annuities, a further allowance is made for the effect of initial selection.
   The basis above is applicable up to age 90. After age 90 the basis is blended towards a bespoke table from age 100 onwards.

BALANCE SHEET MANAGEMENT (CONTINUED)

Persistency assumptions

Lapse rates assumptions are used in the PRA statutory Peak 1 valuation of certain classes of long term business. Where this is the case, the valuation persistency basis is set by applying a prudential margin over the best estimate assumptions. The tables below show the major products where lapse rates have been used.

For term assurance business, the margin acts to increase the best estimate lapse rate in the early part of a policy's lifetime (when it is treated as an asset) but to reduce the best estimate lapse rate later in the policy's lifetime (when it is treated as a liability). The crossover point at which the margin changes direction is assessed for broad product groups but applied at a policy by policy level. Any liability to reinsurers on discontinuance within the first four years from inception is allowed for explicitly in the cash flows, using the valuation lapse basis, together with a prudent allowance for clawback of commission from agents upon lapse.

For unitised business, the margin acts to either increase or decrease the best estimate lapse rates, depending upon which approach results in the higher liability. The direction of the margin is assessed for unit life business and unit pensions business separately.

A summary of the lapse basis for major classes of non profit business, as defined by the requirements of the annual returns to the PRA, is shown below. The lapse rates for unit linked business represent the decrement from in-force to surrender and for 2013 combine experience for non profit and non-participating business.

	2014 Average lapse rate for the policy years			
Product	**1-5 %**	**6-10 %**	**11-15 %**	**16-20 %**
Level term	**12.1**	**8.5**	**6.1**	**4.1**
Decreasing term	**12.0**	**8.5**	**6.3**	**6.3**
Accelerated critical illness cover	**18.9**	**12.0**	**5.4**	**5.2**
Pensions term	**10.7**	**7.6**	**5.7**	**5.6**
Whole of Life (conventional non profit)	**5.3**	**2.2**	**1.2**	**1.1**
Bond (unit linked non profit)	**1.7**	**6.1**	**3.3**	**2.8**
Individual pension regular premium (unit linked non profit)	**3.2**	**3.2**	**1.9**	**1.9**
Group pension regular premium (unit linked non profit)	**0.7**	**1.3**	**1.1**	**1.0**
Individual pension single premium (unit linked non profit)	**4.8**	**5.2**	**2.2**	**2.1**
Group pension single premium (unit linked non profit)	**3.8**	**4.2**	**2.8**	**2.8**
Trustee Investment Plan single premium (unit linked non profit)	**2.1**	**8.0**	**6.9**	**6.9**

	2013 Average lapse rate for the policy years			
Product	1-5 %	6-10 %	11-15 %	16-20 %
Level term	12.5	8.8	6.5	4.6
Decreasing term	12.5	8.8	6.7	6.7
Accelerated critical illness cover	19.7	11.9	5.6	5.6
Pensions term	11.3	7.9	6.0	6.0
Whole of Life (conventional non profit)	7.4	2.3	–	–
Bond (unit linked non profit)	1.7	6.2	3.7	3.0
Individual pension regular premium (unit linked non profit)	2.8	2.4	1.6	1.5
Group pension regular premium (unit linked non profit)	2.2	2.4	1.8	1.7
Individual pension single premium (unit linked non profit)	4.0	3.8	2.1	2.0
Group pension single premium (unit linked non profit)	3.8	3.8	3.8	3.8
Trustee Investment Plan single premium (unit linked non profit)	3.1	7.2	4.1	3.9

BALANCE SHEET MANAGEMENT (CONTINUED)

20 Long term insurance valuation assumptions (continued)

(iii) Long term valuation assumptions (continued)

Persistency assumptions (continued)

For with-profits business the Peak 2 (realistic) valuation is currently the biting basis and therefore detail of the long term best estimate lapse rates is given below for unitised with-profits (UWP) and unit linked non-participating products. The lapse rates for unit linked business represent the decrement from in-force to surrender and combine experience for non profit and non-participating business.

	2014 Average lapse rate for the policy years			
Product	1-5 %	6-10 %	11-15 %	16-20 %
Savings endowment (unitised with-profits)	–	–	6.7	8.9
Target cash endowment (unitised with-profits)	–	–	6.1	4.6
Savings endowment (unit linked non-participating)	–	–	6.7	8.9
Target cash endowment (unit linked non-participating)	–	–	6.1	4.6
Bond (unitised with-profits)	2.1	7.1	6.1	4.7
Bond (unit linked non-participating)	–	5.3	6.2	5.1
Individual pension regular premium (unitised with-profits)	4.5	4.5	4.5	4.5
Individual pension regular premium (unit linked non-participating)	5.9	5.4	5.1	5.1
Group pension regular premium (unitised with-profits)	14.5	14.4	14.1	14.1
Group pension regular premium (unit linked non-participating)	8.9	7.7	6.0	6.0
Individual pension single premium (unitised with-profits)	3.7	3.6	3.6	3.6
Individual pension single premium (unit linked non-participating)	4.9	4.3	4.0	4.0
Group pension single premium (unitised with-profits)	6.9	6.8	6.6	6.6
Group pension single premium (unit linked non-participating)	12.1	11.4	8.8	9.1
Trustee Investment Plan single premium (unitised with-profits)	3.5	19.2	16.3	16.3
Trustee Investment Plan single premium (unit linked non-participating)	3.5	19.2	16.3	16.3

	2013 Average lapse rate for the policy years			
Product	1-5 %	6-10 %	11-15 %	16-20 %
Savings endowment (unitised with-profits)	–	0.2	4.0	7.8
Target cash endowment (unitised with-profits)	–	–	5.8	4.8
Savings endowment (unit linked non-participating)	–	0.2	4.0	7.8
Target cash endowment (unit linked non-participating)	–	–	5.8	4.8
Bond (unitised with-profits)	1.8	5.4	6.6	3.8
Bond (unit linked non-participating)	3.4	12.4	7.4	6.0
Individual pension regular premium (unitised with-profits)	4.0	4.0	4.0	4.0
Individual pension regular premium (unit linked non-participating)	5.6	4.8	3.2	3.0
Group pension regular premium (unitised with-profits)	12.8	12.8	12.6	12.4
Group pension regular premium (unit linked non-participating)	4.4	4.8	3.6	3.4
Individual pension single premium (unitised with-profits)	3.6	3.6	3.4	3.4
Individual pension single premium (unit linked non-participating)	8.0	7.6	4.2	4.0
Group pension single premium (unitised with-profits)	16.8	16.8	16.8	16.8
Group pension single premium (unit linked non-participating)	7.6	7.6	7.6	7.6
Trustee Investment Plan single premium (unitised with-profits)	6.0	15.2	8.2	7.6
Trustee Investment Plan single premium (unit linked non-participating)	6.2	14.4	8.2	7.6

Endowment reserve

The endowment reserve has been set taking reasonable account of assessment of the expected future population of complaints, the expected uphold rate for these companies, the potential impact of any Financial Ombudsmen Service decisions on referred complaints and the average compensation per complaint.

Overseas business

In calculating the long term business provisions for international long term business operation, local actuarial tables and interest rates are used.

BALANCE SHEET MANAGEMENT (CONTINUED)

21 IFRS sensitivity analysis

	Impact on pre-tax group profit net of re-insurance 2014 £m	Impact on group equity net of re-insurance 2014 £m	Impact on pre-tax group profit net of re-insurance 2013 £m	Impact on group equity net of re-insurance 2013 £m
Economic sensitivity				
Long-term insurance				
1% increase in interest rates	**120**	**54**	39	32
1% decrease in interest rates	**(245)**	**(146)**	(11)	(10)
1% increase in long term inflation expectations	**(193)**	**(152)**	45	36
Credit spread widens by 100bps with no change in expected defaults	**(177)**	**(212)**	(100)	(76)
10% decrease in listed equities	**(155)**	**(126)**	(143)	(114)
10% fall in property values	**(130)**	**(102)**	(53)	(41)
10bps increase in credit default assumption	**(370)**	**(290)**	(284)	(218)
10bps decrease in credit default assumption	**344**	**270**	292	224
Non-economic sensitivity				
Long-term insurance				
1% decrease in annuitant mortality	**(170)**	**(133)**	(105)	(80)
5% increase in assurance mortality	**(56)**	**(44)**	(62)	–
Default of largest external reinsurer	**(657)**	**(516)**	(666)	(512)
General Insurance				
Single storm event with 1 in 200 year probability	**(74)**	**(59)**	(73)	(56)
Subsidence event – worst claims ratio in last 30 years	**(54)**	**(43)**	(55)	(42)
5% decrease in overall claims ratio	**8**	**6**	7	5
5% surplus over claims liabilities	**5**	**4**	5	4

For any single event with claims in excess of £30m (2013: £43m) but less than £466m (2013: £456m), the ultimate cost to Legal & General Insurance Limited (LGI) would be £30m plus 50% of the £5m XS £30m layer (2013: £43m). The ultimate cost to the group is greater as a proportion of the catastrophe reinsurance cover is placed with Legal & General Assurance Society Limited, which is exposed to 75% of claims between £35m and £80m, 75% of claims between £80m and £190m and 45% of claims between £190m and £457m. The impact of a 1 in 500 year modelled windstorm and coastal flood event would exceed the upper limit of the catastrophe cover by approximately £252m (2013: £210m), with an estimated total cost to LGI of £317m (2013: £287m) and to the group of £538m (2013: £481m).

BALANCE SHEET MANAGEMENT (CONTINUED)

21 IFRS sensitivity analysis (continued)

The table shows the impacts on group pre-tax profit and equity, net of reinsurance, under each sensitivity scenario for the group. The participating funds have been excluded in the above sensitivity analysis as the impact of the sensitivities on IFRS profit and equity is offset by the movement in the unallocated divisible surplus (UDS). The shareholders' share of with-profit bonus declared in the year is relatively insensitive to market movements due to the smoothing policies applied.

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

The interest rate sensitivity assumes a 100 basis point change in the gross redemption yield on fixed interest securities together with a 100 basis point change in the real yields on variable securities. For the UK long term funds, valuation interest rates are assumed to move in line with market yields adjusted to allow for the impact of PRA regulations. The interest rate sensitivities reflect the impact of the regulatory restrictions on the reinvestment rate used to value the liabilities of the long term business. Modelling improvements have been made in the year which more accurately isolate the impacts of discrete assumptions changes. This, coupled with the increase in the group's annuity liabilities have led to an increase in the reported 2014 sensitivities for interest rates and inflation. No yield floors have been applied in the estimation of the stresses, despite the current low interest rate environment.

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

The inflation stress adopted is a 1% pa increase in inflation resulting in a 1% pa reduction in real yield and no change to the nominal yield. In addition the expense inflation rate is increased by 1% pa.

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

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

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

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

For the sensitivity to the default of the group's largest external reinsurer, the reinsurer stress shown is equal to the technical provisions ceded to the external reinsurer and represents the impact of the default of largest external reinsurer at an entity level.

Details of IGD sensitivity analysis can be found in Table 2 of Note 30.

The group also uses embedded value financial statements information to manage risk. The effect of alternative assumptions on the long term embedded value, prepared in accordance with the guidance issued by the European Insurance CFO Forum in October 2005 are contained in Note 8 of the European Embedded Value section.

BALANCE SHEET MANAGEMENT (CONTINUED)

22 Insurance contract liabilities

Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract.

A number of insurance and investment contracts contain discretionary participating features (DPF) which entitle the policyholders to receive guaranteed benefits as well as additional benefits:

- the amount or timing of which is contractually at the discretion of the group; and
- which are contractually based on:
  - the performance of a specified pool of contracts or a specified type of contract;
  - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - the profit or loss of the Company, fund or other entity which issues the contract.

Contracts with DPF are referred to as participating contracts. With-profits contracts in the UK and most Garantie Long Terme contracts in France are classified as participating.

Long term insurance
Death claims are accounted for on notification of death. Surrenders for non-linked policies are accounted for when payment is made. Critical illness claims are accounted for when admitted. All other long term claims and surrenders are accounted for when payment is due. Claims payable include the direct costs of settlement.

The change in the insurance liability reflects the reduction in liabilities due to the payment of claims in the year, offset by liabilities arising from new business. The movement also reflects assumption changes relating to variables such as claims expectations, expenses and the unwind of the previous period's expectations.

Under current IFRS requirements, insurance contract liabilities are measured using local Generally Accepted Accounting Principles (GAAP), as permitted by IFRS 4, 'Insurance contracts'.

– UK
In the UK, insurance contract liabilities are determined following an annual investigation of the long term funds (LTFs) in accordance with regulatory requirements.

For non-participating insurance contracts, the liabilities are calculated on the basis of current information using the gross premium valuation method. This brings into account the full premiums receivable under contracts written, having prudent regard to expected lapses and surrenders, estimated renewal and maintenance costs and contractually guaranteed benefits. For unit linked insurance contract liabilities the provision is based on the fund value together with an allowance for any excess of future expenses over charges where appropriate.

For participating contracts, the liabilities to policyholders are determined on a realistic basis in accordance with Financial Reporting Standard (FRS) 27, 'Life assurance'. This includes an assessment of the cost of any future options and guarantees granted to policyholders valued on a market consistent basis. The calculation also takes account of bonus decisions which are consistent with Legal & General Assurance Society Limited's (Society's) Principles and Practices of Financial Management (PPFM). The shareholders' share of the future cost of bonuses is excluded from the assessment of the realistic liability.

In determining the realistic value of liabilities for participating contracts, the value of future profits on non-participating business written in the with-profits part of the fund is accounted for as part of the calculation. The present value of future profits (PVFP) for this business is separately determined and its value is deducted from the sum of the liabilities for participating contracts and the unallocated divisible surplus.

Unitised liabilities are recognised when premiums are received and non-unitised liabilities are recognised when premiums are due.

– Overseas
The long term insurance contract liabilities for business transacted by overseas subsidiaries are determined on the basis of recognised actuarial methods which reflect local supervisory principles or, in the case of the US, on the basis of US GAAP.

BALANCE SHEET MANAGEMENT (CONTINUED)

22 Insurance contract liabilities (continued)

General insurance
Liabilities, together with related reinsurance recoveries, are established on the basis of current information. Such liabilities can never be definitive as to their timing or the amount of claims and are therefore subject to subsequent reassessment on a regular basis. Claims and related reinsurance recoveries are accounted for in respect of all incidents up to the year end. Provision is made on the basis of available information for the estimated ultimate cost, including claims settlement expenses, claims reported but not yet settled and claims incurred but not yet reported. An unexpired risk provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums and after taking account of investment return.

Liability adequacy tests
The group performs liability adequacy testing on its insurance liabilities to ensure that the carrying amount of liabilities (less related deferred acquisition costs) is sufficient to cover current estimates of future cash flows. When performing the liability adequacy test, the group discounts all contractual cash flows and compares this amount with the carrying value of the liability.
Any deficiency is immediately charged to the income statement, initially reducing deferred acquisition costs and then by establishing a provision for losses.

Reinsurance
The group's insurance subsidiaries cede insurance premiums and risk in the normal course of business in order to limit the potential for losses and to provide financing. Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured. Reinsurance assets include balances due from reinsurers for paid and unpaid losses and loss adjustment expenses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded as an asset in the consolidated balance sheet unless a right of offset exists, in which case the associated liabilities are reduced commensurately.

BALANCE SHEET MANAGEMENT (CONTINUED)

(i) Analysis of insurance contract liabilities

	Notes	Gross 2014 £m	Re-insurance 2014 £m	Gross 2013 £m	Re-insurance 2013 £m
Participating insurance contracts	22(iii)	**6,579**	**(1)**	6,972	(1)
Non-participating insurance contracts	22(iv)	**49,589**	**(2,587)**	39,975	(2,596)
General insurance contracts	22(v)	**287**	**(8)**	298	(5)
Insurance contract liabilities		**56,455**	**(2,596)**	47,245	(2,602)

During the year, the group continued utilising prospective reinsurance arrangements which resulted in a profit of £298m (2013: £270m). This profit has been reflected in the Consolidated Income Statement for the year and arises from new reinsurance arrangements or the reinsurance of new business under existing arrangements.

(ii) Expected insurance contract liability cash flows

	Date of undiscounted cash flow					
As at 31 December 2014	**0-5 years £m**	**5-15 years £m**	**15-25 years £m**	**Over 25 years £m**	**Total £m**	**Carrying value £m**
Participating insurance contracts	**3,383**	**2,482**	**784**	**308**	**6,957**	**6,579**
Non-participating insurance contracts	**11,282**	**21,704**	**18,346**	**19,147**	**70,479**	**33,356**
General insurance contracts[1]	**88**	**3**	**–**	**–**	**91**	**91**
Insurance contract liabilities	**14,753**	**24,189**	**19,130**	**19,455**	**77,527**	**40,026**

	Date of undiscounted cash flow					
As at 31 December 2013	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating insurance contracts	3,917	2,882	748	269	7,816	6,972
Non-participating insurance contracts	9,846	18,856	16,257	18,509	63,468	28,684
General insurance contracts[1]	99	4	–	–	103	103
Insurance contract liabilities	13,862	21,742	17,005	18,778	71,387	35,759

1. Excludes unearned premium reserve of £196m (2013: £195m) for which there are no cash flows.

Insurance contract undiscounted cash flows are based on the expected date of settlement.

Amounts under unit linked contracts are generally repayable on demand and the group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due. However, the terms of funds investing in less liquid assets permit the deferral of redemptions for predefined periods in circumstances where there are not sufficient liquid assets within the fund to meet the level of requested redemptions. Accordingly, unit linked liabilities have been excluded from the table.

BALANCE SHEET MANAGEMENT (CONTINUED)

22 Insurance contract liabilities (continued)

(iii) Movement in participating insurance contract liabilities

	Gross 2014 £m	Re-insurance 2014 £m	Gross 2013 £m	Re-insurance 2013 £m
As at 1 January	**6,972**	**(1)**	8,116	(1)
New liabilities in the year	**61**	**–**	75	–
Liabilities discharged in the year	**(1,159)**	**–**	(1,606)	–
Unwinding of discount rates	**54**	**–**	79	–
Effect of change in non-economic assumptions	**(5)**	**–**	4	–
Effect of change in economic assumptions	**561**	**–**	291	–
Other	**95**	**–**	13	–
As at 31 December	**6,579**	**(1)**	6,972	(1)
Expected to be settled within 12 months (net of reinsurance)	**1,194**		1,387	
Expected to be settled after 12 months (net of reinsurance)	**5,384**		5,584	

(iv) Movement in non-participating insurance contract liabilities

	Gross 2014 £m	Re-insurance 2014 £m	Gross 2013 £m	Re-insurance 2013 £m
As at 1 January	**39,975**	**(2,596)**	37,445	(2,277)
New liabilities in the year	**7,325**	**(446)**	3,872	(334)
Liabilities discharged in the year	**(2,469)**	**259**	(2,307)	167
Unwinding of discount rates	**1,493**	**(145)**	1,308	(134)
Effect of change in non-economic assumptions	**(569)**	**362**	77	(25)
Effect of change in economic assumptions	**3,844**	**(3)**	(430)	–
Foreign exchange adjustments	**(10)**	**(18)**	10	7
As at 31 December	**49,589**	**(2,587)**	39,975	(2,596)
Expected to be settled within 12 months (net of reinsurance)	**3,584**		3,721	
Expected to be settled after 12 months (net of reinsurance)	**43,418**		33,658	

(v) Analysis of General insurance contract liabilities

	Gross 2014 £m	Re-insurance 2014 £m	Gross 2013 £m	Re-insurance 2013 £m
Outstanding claims	**61**	**(1)**	66	–
Claims incurred but not reported	**30**	**–**	37	–
Unearned premiums	**196**	**(7)**	195	(5)
General insurance contract liabilities	**287**	**(8)**	298	(5)

BALANCE SHEET MANAGEMENT (CONTINUED)

(vi) Movement in General insurance claim liabilities

	Gross 2014 £m	Re-insurance 2014 £m	Gross 2013 £m	Re-insurance 2013 £m
As at 1 January	**103**	**–**	104	–
Claims arising	**182**	**(2)**	175	–
Claims paid	**(183)**	**1**	(156)	–
Adjustments to prior year liabilities	**(11)**	**–**	(20)	–
As at 31 December	**91**	**(1)**	103	–
Expected to be settled within 12 months (net of reinsurance)	**62**		57	
Expected to be settled after 12 months (net of reinsurance)	**28**		46	

(vii) Unearned premiums

	Gross 2014 £m	Re-insurance 2014 £m	Gross 2013 £m	Re-insurance 2013 £m
As at 1 January	**195**	**(5)**	179	(8)
Earned in the year	**(377)**	**15**	(375)	10
Gross written premiums in respect of future periods	**378**	**(17)**	391	(7)
As at 31 December	**196**	**(7)**	195	(5)
Expected to be earned within 12 months (net of reinsurance)	**189**		190	
Expected to be earned after 12 months (net of reinsurance)	**–**		–	

(viii) Claims development – General insurance

Changes may occur in the amount of the group's obligations at the end of a contract period. The top section of each table below illustrates how the estimate of total claims outstanding for each accident year developed over time. The bottom section of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

Gross of reinsurance

Accident year	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	Total £m
Estimate of ultimate claims costs:						
– At end of accident year	**174**	**124**	**164**	**162**	**168**	
– One year later	**187**	**119**	**150**	**156**	**–**	
– Two years later	**185**	**116**	**148**	**–**	**–**	
– Three years later	**183**	**116**	**–**	**–**	**–**	
– Four years later	**183**	**–**	**–**	**–**	**–**	
Estimate of cumulative claims	**183**	**116**	**148**	**156**	**168**	**771**
Cumulative payments	**(176)**	**(119)**	**(145)**	**(145)**	**(103)**	**(688)**
Outstanding claims provision	**7**	**(3)**	**3**	**11**	**65**	**83**
Prior year outstanding claims						**6**
Claims handling provision						**2**
Total claims liabilities recognised in the balance sheet						**91**

BALANCE SHEET MANAGEMENT (CONTINUED)

22 Insurance contract liabilities (continued)

(viii) Claims development – General insurance (continued)

Net of reinsurance

Accident year	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	Total £m
Estimate of ultimate claims costs:						
– At end of accident year	**173**	**123**	**164**	**162**	**168**	
– One year later	**187**	**119**	**149**	**155**	**–**	
– Two years later	**184**	**115**	**147**	**–**	**–**	
– Three years later	**183**	**115**	**–**	**–**	**–**	
– Four years later	**183**	**–**	**–**	**–**	**–**	
Estimate of cumulative claims	**183**	**115**	**147**	**155**	**168**	**768**
Cumulative payments	**(176)**	**(119)**	**(144)**	**(145)**	**(102)**	**(686)**
Outstanding claims provision	**7**	**(4)**	**3**	**10**	**66**	**82**
Prior year outstanding claims						**6**
Claims handling provision						**2**
Total claims liabilities recognised in the balance sheet						**90**

23 Investment contract liabilities

Under current IFRS requirements, participating investment contract liabilities are measured using local GAAP, as permitted by IFRS 4. In the UK, participating investment contract liabilities are determined in accordance with FRS 27, including a value for guarantees, in the same way as participating insurance contracts.

Non-participating investment contracts are unit linked contracts. Unit linked liabilities are measured at fair value by reference to the value of the underlying net asset values of the group's unitised investment funds at the balance sheet date.

Unitised liabilities are recognised when premiums are received and non-unitised liabilities are recognised when premiums are due.

Claims are not included in the income statement but are deducted from investment contract liabilities. The movement in investment contract liabilities consists of claims incurred in the year less the corresponding elimination of the policyholder liability originally recognised in the balance sheet and the investment return credited to policyholders.

IFRS 15, 'Revenue from Contracts with Customers', issued in May 2014, is effective, subject to EU endorsement, for annual periods beginning on or after 1 January 2017. This Standard provides clear guidance over when and how much revenue should be recognised. It provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. As IFRS 15 has only recently been issued a full assessment is currently on going to determine the impact upon the group, focussing in particular on our investment management business. The Standard does not apply to business classified as insurance contracts. The group does not intend to early adopt this Standard.

BALANCE SHEET MANAGEMENT (CONTINUED)

(i) Analysis of investment contract liabilities

	Note	Gross 2014 £m	Re-insurance 2014 £m	Gross 2013 £m	Re-insurance 2013 £m
Participating investment contracts		**7,667**	**14**	7,493	–
Non-participating investment contracts	23 (iii)	**288,558**	**(324)**	278,754	(295)
Investment contract liabilities		**296,225**	**(310)**	286,247	(295)
Expected to be settled within 12 months (net of reinsurance)		**40,645**		39,582	
Expected to be settled after 12 months (net of reinsurance)		**255,270**		246,370	

(ii) Movement in investment contract liabilities

	Gross 2014 £m	Re-insurance 2014 £m	Gross 2013 £m	Re-insurance 2013 £m
As at 1 January	**286,247**	**(295)**	272,361	(213)
Reserves in respect of new business	**30,645**	**(334)**	30,816	(237)
Amounts paid on surrenders and maturities during the year	**(53,311)**	**60**	(47,055)	66
Investment return and related benefits	**33,126**	**259**	30,369	89
Management charges	**(309)**	**–**	(295)	–
Foreign exchange adjustments	**(177)**	**–**	51	–
Other	**4**	**–**	–	–
As at 31 December	**296,225**	**(310)**	286,247	(295)

Change in provisions for investment contract liabilities represents the total gross and reinsurance investment return and related benefits of £33,385m (2013: £30,458m).

Fair value movements of £33,198m (2013: £30,095m) are included within the income statement arising from movements in investment contract liabilities designated as fair value through profit and loss.

BALANCE SHEET MANAGEMENT (CONTINUED)

23 Investment contract liabilities (continued)

(iii) Non-participating investment contract liability fair value hierarchy

As at 31 December 2014	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Non-participating investment contracts	**288,558**	**286,054**	**2,473**	**31**	**–**

As at 31 December 2013	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Non-participating investment contracts	278,754	276,759	1,953	42	–

The fair value of financial liabilities are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data.

Non-participating unit linked investment contracts include £31m (2013: £42m) valued using significant unobservable inputs and have been classified as level 3. These liabilities have limited transactions and are backed by property investments.

There have been no significant transfers between any of the levels.

(iv) Expected investment contract liability cash flows

	Date of undiscounted cash flow					
As at 31 December 2014	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating investment contracts	**3,035**	**3,882**	**1,324**	**357**	**8,598**	**7,667**

	Date of undiscounted cash flow					
As at 31 December 2013	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating investment contracts	2,893	4,210	1,763	527	9,393	7,493

Investment contract undiscounted net cash flows are based on the expected date of settlement.

Amounts under unit linked contracts are generally repayable on demand and the group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due. However, the terms of funds investing in less liquid assets permit the deferral of redemptions for predefined periods in circumstances where there are not sufficient liquid assets within the fund to meet the level of requested redemptions. Accordingly unit linked liabilities have been excluded from the reported cash flows.

A maturity analysis based on the earliest contractual repayment date would present investment contract liabilities as due on the earliest period of the table because policyholders can exercise cancellation options at their discretion. In such a scenario, the liability would be reduced due to the application of surrender penalties.

BALANCE SHEET MANAGEMENT (CONTINUED)

24 Unallocated divisible surplus

The participating funds operate with an excess of assets over the amount required to meet the policyholder liabilities.

The nature of benefits for the contracts within these funds is such that the allocation of surpluses between ordinary equity holders and participating policyholders is uncertain. The amount of surplus which has not been allocated at the balance sheet date is classified within liabilities as the unallocated divisible surplus. Adjustments made to comply with FRS 27 are charged to the unallocated divisible surplus.

	2014 £m	2013 £m
As at 1 January	**1,221**	1,153
Transferred from the income statement	**(181)**	112
Actuarial losses on defined benefit pension schemes transferred from the statement of comprehensive income	**(38)**	(49)
Foreign exchange adjustments	**(19)**	5
As at 31 December	**983**	1,221

With effect from 31 January 2015 the with-profits part of the LGAS long term fund was closed to new business.

25 Value of in-force non-participating contracts

(i) Movement in value of in-force non-participating contracts

	2014 £m	2013 £m
As at 1 January	**248**	242
Unwinding of the discount rates	**3**	4
Investment return	**(6)**	77
Other	**(37)**	(75)
As at 31 December	**208**	248
Expected to be settled within 12 months	**20**	20
Expected to be settled after 12 months	**188**	228

(ii) Expected net cash flows

	Date of undiscounted cash flow					
As at 31 December 2014	**0-5 years £m**	**5-15 years £m**	**15-25 years £m**	**Over 25 years £m**	**Total £m**	**Carrying value £m**
Value of in-force non-participating contracts	**135**	**87**	**29**	**16**	**267**	**208**

	Date of undiscounted cash flow					
As at 31 December 2013	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Value of in-force non-participating contracts	120	100	46	26	292	248

Value of in-force (VIF) non-participating undiscounted net cash flows are based on the expected date of realisation. The VIF relates entirely to insurance contracts.

BALANCE SHEET MANAGEMENT (CONTINUED)

26 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs. Borrowings classified as liabilities are subsequently stated at amortised cost. The difference between the net proceeds and the redemption value is recognised in the income statement over the borrowing period using the effective interest method.

Borrowings comprise core borrowings such as subordinated bond issues and long term unsecured senior debt. Operational borrowings include commercial paper issuance and bank borrowings under both committed and uncommitted debt facilities including bank overdrafts. Borrowings secured on specific assets/cash flows such as Triple X securitisations and private equity fund linked partnership assets are included as non recourse borrowings. Mortgage loans raised by SIPP clients secured on those properties invested in their portfolio of linked SIPP investments which we manage on their behalf are treated as unit linked borrowings.

(i) Analysis by type

	Borrowings excluding unit linked borrowings 2014 £m	Unit linked borrowings 2014 £m	Total 2014 £m	Borrowings excluding unit linked borrowings 2013[1] £m	Unit linked borrowings 2013 £m	Total 2013 £m
Core borrowings	**2,977**	**–**	**2,977**	2,453	–	2,453
Operational borrowings	**590**	**125**	**715**	647	128	775
Total borrowings	**3,567**	**125**	**3,692**	3,100	128	3,228

1. Operational borrowings have been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.

Unit linked borrowings are excluded from the analysis below as the risk is retained by the policyholders.

(ii) Analysis by nature

(a) Core borrowings

	Carrying amount 2014 £m	Coupon rate 2014 %	Fair value 2014 £m	Carrying amount 2013 £m	Coupon rate 2013 %	Fair value 2013 £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities (Tier 1)	**658**	**6.39**	**642**	680	6.39	650
5.875% Sterling undated subordinated notes (Tier 2)	**416**	**5.88**	**431**	418	5.88	438
4.0% Euro subordinated notes 2025 (Tier 2)	**472**	**4.00**	**482**	498	4.00	531
10% Sterling subordinated notes 2041 (Tier 2)	**310**	**10.00**	**424**	309	10.00	417
5.5% Sterling subordinated notes 2064 (Tier 2)	**588**	**5.50**	**666**	–	–	–
Client fund holdings of group debt[1]	**(28)**	**–**	**(31)**	(13)	–	(13)
Total subordinated borrowings	**2,416**		**2,614**	1,892		2,023
Senior borrowings						
Sterling medium term notes 2031-2041	**609**	**5.88**	**800**	608	5.88	721
Client fund holdings of group debt[1]	**(48)**	**–**	**(62)**	(47)	–	(55)
Total senior borrowings	**561**		**738**	561		666
Total core borrowings	**2,977**		**3,352**	2,453		2,689

1. £76m (2013: £60m) of the group's subordinated and senior borrowings are currently held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total core borrowings in the table above.

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

BALANCE SHEET MANAGEMENT (CONTINUED)

(b) Operational borrowings

	Carrying amount 2014 £m	Coupon rate 2014 %	Fair value 2014 £m	Carrying amount 2013[1] £m	Coupon rate 2013[1] %	Fair value 2013[1] £m
Short term operational borrowings						
Euro Commercial paper	**73**	**0.58**	**73**	173	0.25	173
Bank loans/other	**8**	**0.45**	**8**	4	0.38	4
Total short term operational borrowings	**81**		**81**	177		177
Non recourse borrowings						
US Dollar Triple X securitisation 2037	**286**	**0.54**	**240**	268	0.54	230
LGV 6/LGV 7 Private Equity Fund Limited Partnership	**136**	**3.89**	**136**	131	4.04	131
Consolidated Property Limited Partnerships	**148**	**1.89**	**148**	129	1.77	129
Total non recourse borrowings	**570**		**524**	528		490
Group holding of operational borrowings[2]	**(61)**	**–**	**(52)**	(58)	–	(49)
Total operational borrowings	**590**		**553**	647		618

1. Operational borrowings have been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.
2. The group investments in operational borrowings have been eliminated from the Group Consolidated Balance Sheet.

£142m of interest expense was incurred during the year (2013: £127m) on borrowings excluding non recourse and unit linked borrowings. The total financing costs incurred for the year is £183m (2013: £166m).

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.

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 regulatory purposes these securities are treated as innovative tier 1 capital.

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 capital for regulatory purposes.

4.0% Euro subordinated notes 2025

In 2005, Legal & General Group Plc issued €600m of 4.0% Euro dated subordinated notes. The proceeds were swapped into sterling. The notes are callable at par on 8 June 2015 and each year thereafter. If not called, the coupon from 8 June 2015 will reset to a floating rate of interest based on prevailing three month Euribor plus 1.7% pa. These notes mature on 8 June 2025 and are treated as tier 2 capital for regulatory 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 and are treated as tier 2 capital for regulatory purposes.

5.5% Sterling subordinated notes 2064

On 19 June 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 and are treated as tier 2 capital for regulatory purposes.

BALANCE SHEET MANAGEMENT (CONTINUED)

26 Borrowings (continued)

Non recourse borrowings

US Dollar Triple X securitisation 2037

In 2006, a subsidiary of LGA issued US$450m of non recourse debt in the US capital markets to meet the Triple X reserve requirements of part of the US term insurance written after 2005 and 2006. It is secured on the cash flows related to that tranche of business.

LGV 6/LGV 7 Private Equity Fund Limited Partnerships

These borrowings are non recourse bank borrowings.

Consolidated Property Limited Partnerships

These borrowings are non recourse bank borrowings.

(iii) Analysis by maturity

		Maturity profile of undiscounted cash flows					
As at 31 December 2014	Carrying amount £m	Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Subordinated borrowings							
6.385% Sterling perpetual capital securities (Tier 1)	658	(6)	–	–	–	(600)	(606)
5.875% Sterling undated subordinated notes (Tier 2)	416	(6)	–	–	–	(400)	(406)
4.0% Euro subordinated notes 2025 (Tier 2)	472	(11)	–	(465)	–	–	(476)
10% Sterling subordinated notes 2041 (Tier 2)	310	(13)	–	–	–	(300)	(313)
5.5% Sterling subordinated notes 2064 (Tier 2)	588	–	–	–	–	(600)	(600)
Senior borrowings							
Sterling medium term notes 2031-2041	609	(11)	–	–	(590)	(10)	(611)
Client fund holdings of group debt	(76)	–	–	–	–	–	–
Total core borrowings	2,977	(47)	–	(465)	(590)	(1,910)	(3,012)
Short term operational borrowings							
Euro Commercial paper	73	(73)	–	–	–	–	(73)
Bank loans/other	8	(8)	–	–	–	–	(8)
Non recourse borrowings							
– US Dollar Triple X securitisation 2037	286	–	–	–	(289)	–	(289)
– LGV 6/LGV 7 Private Equity Fund Limited Partnership	136	(27)	(107)	–	–	–	(134)
– Consolidated Property Limited Partnerships	148	–	(148)	–	–	–	(148)
– Group holding of operational borrowings	(61)	–	–	–	–	–	–
Total operational borrowings	590	(108)	(255)	–	(289)	–	(652)
Total borrowings excluding unit linked borrowings	3,567	(155)	(255)	(465)	(879)	(1,910)	(3,664)
Contractual undiscounted interest payments		(188)	(731)	(1,709)	(1,367)	(163)	(4,158)
Total contractual undiscounted cash flows		(343)	(986)	(2,174)	(2,246)	(2,073)	(7,822)

BALANCE SHEET MANAGEMENT (CONTINUED)

As at 31 December 2013[1]	Carrying amount £m	Maturity profile of undiscounted cash flows Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Subordinated borrowings							
6.385% Sterling perpetual capital securities (Tier 1)	680	–	–	–	–	(600)	(600)
5.875% Sterling undated subordinated notes (Tier 2)	418	–	–	–	–	(400)	(400)
4.0% Euro subordinated notes 2025 (Tier 2)	498	–	–	(499)	–	–	(499)
10% Sterling subordinated notes 2041 (Tier 2)	309	–	–	–	–	(300)	(300)
Senior borrowings							
Sterling medium term notes 2031-2041	608	–	–	–	(590)	(10)	(600)
Client fund holdings of group debt	(60)	–	–	–	–	–	–
Total core borrowings	2,453	–	–	(499)	(590)	(1,310)	(2,399)
Short term operational borrowings							
Euro Commercial paper	173	(173)	–	–	–	–	(173)
Bank loans/other	4	(4)	–	–	–	–	(4)
Non recourse borrowings							
– US Dollar Triple X securitisation 2037	268	–	–	–	(272)	–	(272)
– LGV 6/LGV 7 Private Equity Fund Limited Partnership	131	(45)	(77)	(10)	–	–	(132)
– Consolidated Property Limited Partnerships	129	–	(129)	–	–	–	(129)
– Group holding of operational borrowings	(58)	–	–	–	–	–	–
Total operational borrowings	647	(222)	(206)	(10)	(272)	–	(710)
Total borrowings excluding unit linked borrowings	3,100	(222)	(206)	(509)	(862)	(1,310)	(3,109)
Contractual undiscounted interest payments		(155)	(606)	(1,417)	(1,069)	(77)	(3,324)
Total contractual undiscounted cash flows		(377)	(812)	(1,926)	(1,931)	(1,387)	(6,433)

1. Operational borrowings have been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.

As at 31 December 2014, the group had in place a £1bn syndicated committed revolving credit facility provided by a number of its key relationship banks, £0.04bn matures in October 2017 and £0.96bn matures in October 2018. No amounts were outstanding at 31 December 2014.

The maturity profile above is calculated on the basis that a facility to refinance a maturing loan is not recognised unless the facility and loan are related. If refinancing under the group's credit facilities was recognised, then all amounts shown as repayable within one year would be reclassified as repayable between one and five years.

Undiscounted interest payments are estimated based on the year end applicable interest rate and spot exchange rates.

Short term assets available at the holding company level exceeded the amount of non-unit linked short term operational borrowings of £81m (2013: £177m). Short term operational borrowings comprise Euro Commercial paper, bank loans and overdrafts.

BALANCE SHEET MANAGEMENT (CONTINUED)

27 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

(i) Analysis of provisions

	Note	2014 £m	2013 £m
Retirement benefit obligations[1]	27(ii)	**1,217**	1,113
Other provisions		**30**	15
		1,247	1,128

1. Retirement benefit obligations are presented gross of £723m of annuity obligations insured by Society (2013: £646m).

(ii) Retirement benefit obligations

Defined contribution plans

The group operates the following principal defined contribution pension schemes in the UK and overseas:
- Legal & General Group Personal Pension Plan (UK).
- Legal & General Staff Stakeholder Pension Scheme (UK).
- Legal & General America Inc. Savings Plan (US).
- Régime de Retraite Professionnel (France).
- Legal & General Nederland Stichting Pensioenfonds (Netherlands); replacing the early retirement scheme previously part of the defined benefit plan. As from 1 January 2014 the plan was closed for future additions.
- Legal & General International (Ireland) Limited Retirement Solution Plan (Ireland).

The group pays contractual contributions in respect of defined contribution schemes. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Contributions of £52m (2013: £50m) were charged as expenses during the year in respect of defined contribution plans.

Defined benefit plans

The group operates the following defined benefit pension schemes in the UK and overseas:
- Legal & General Group UK Pension and Assurance Fund (the Fund). The Fund was closed to new members from January 1995; last full actuarial valuation as at 31 December 2012.
- Legal & General Group UK Senior Pension Scheme (the Scheme). The Scheme was, with a few exceptions (principally transfers from the Fund), closed to new members from August 2000 and finally closed to new members from April 2007; last full actuarial valuation as at 31 December 2012.
- Legal & General America Inc. Cash Balance Plan (US); last full actuarial valuation as at 31 December 2013.
- Legal & General Nederland Stichting Pensioenfonds (Netherlands); last full actuarial valuation as at 31 December 2014.
- Régime de Retraite à Prestations Définies de Legal & General (France); last full actuarial valuation as at 31 December 2011.

BALANCE SHEET MANAGEMENT (CONTINUED)

The assets of all UK defined benefit schemes are held in separate trustee administered funds to meet long-term pension obligations to past and present employees. Trustees are appointed to the schemes and have a responsibility to act in the best interest of the scheme beneficiaries. The Trustees' long term objectives are to minimise the risk that there are insufficient assets to meet the liabilities of the scheme over the longer term, control the ongoing operational costs of the schemes and to maximise returns for the beneficiaries within an acceptable level of risk.

The total number of members of the UK Fund and Scheme was:

	2014	2013
Active	**537**	637
Deferred	**4,173**	4,227
Pensioners	**3,371**	3,285
	8,081	8,149

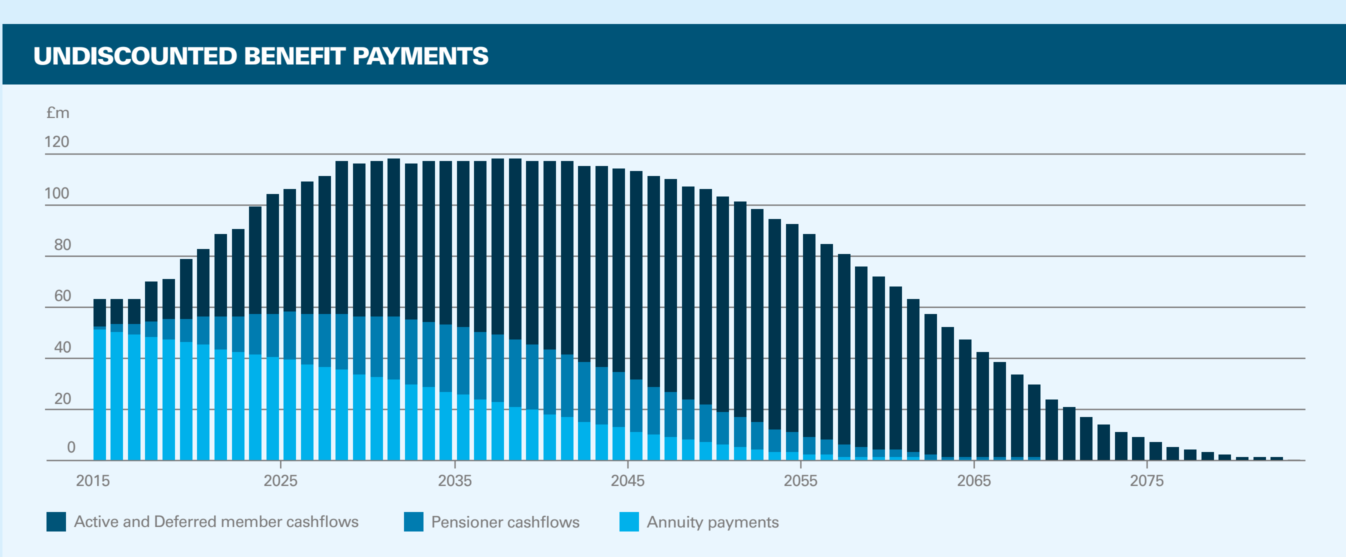
The group work closely with the trustees to develop an investment strategy for each UK scheme in order to meet the long term objectives of the trustees as noted above. Each UK scheme has a Statement of Investment Principles which governs the mix of assets and limits for each class of asset. As noted below the asset mix of the schemes is primarily split between bonds and equities. Additionally certain of the liabilities of the scheme are secured by way of annuities purchased from the group. These annuities are not recognised as an asset for IAS 19 purposes but at 31 December 2014 the value of these annuities, on an IAS19 basis, was £723m (2013: £646m).

The Scheme and Fund are primarily exposed to equity price risk, interest rate risk, inflation risk and longevity risk. These risks are managed within the risk appetite of the Scheme and Fund and the sensitivity of the net obligations to changes in any of the variables are monitored and action is taken if any risk moves outside of the appetite. Annuities are purchased to mitigate these risks for certain of the pension liabilities which passes the risks from the Scheme and Fund onto the group.

Full actuarial valuations are carried out on the Scheme and Fund every three years, updated by formal reviews at reporting dates. The actuarial assumptions used in the triennial valuation would normally be more prudent than those used for the purposes of IAS 19 reporting. Where the Scheme or Fund are in deficit following the triennial valuation, the group and the Trustee agree a deficit recovery plan. Both the Scheme and Fund have formal deficit recovery plans which agree to make good the deficits over a certain period of time. The latest triennial valuation at 31 December 2012 showed a total funding deficit for both the Scheme and the Fund as £494m. As a result of this, a recovery plan has been agreed of £55m a year until 2024.

The Scheme and the Fund liabilities have average duration of 23.4 years (2013: 23.1 years) and 23.6 years (2013: 23.1 years) respectively. The expected undiscounted benefits payments to members of the Scheme and Fund, including pensions in payment secured by annuities purchased from the group, are shown in the chart below:

UNDISCOUNTED BENEFIT PAYMENTS



BALANCE SHEET MANAGEMENT (CONTINUED)

27 Provisions (continued)

(ii) Retirement benefit obligations (continued)

Defined benefit plans (continued)

The liability recognised in the balance sheet in respect of defined benefit pension schemes is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, provided any surplus in the fund is not restricted. Plan assets exclude any insurance contracts issued by the group. The defined benefit obligation is calculated actuarially each year using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The discount rate is based on market yields of high quality corporate bonds which are denominated in the currency in which the benefits will be paid, and that have terms to maturity which approximate to those of the related pension liability.

Where the unallocated divisible surplus or equity holders' funds are affected as a result of actuarial gains and losses on the defined benefit pension scheme, the charge or credit is not recognised in the income statement but through the statement of comprehensive income.

The benefits paid from the defined benefit schemes are based on percentages of the employees' final pensionable salary for each year of credited service. The group has no liability for retirement benefits other than for pensions, except for a small scheme in LGF (Indemnités de Fin de Carrière), which provides lump sum benefits on retirement. The Fund and Scheme account for all of the UK and over 97% of worldwide assets of the group's defined benefit schemes.

The principal actuarial assumptions for the UK defined benefit schemes were:

	Fund and Scheme 2014 %	Fund and Scheme 2013 %
Rate used to discount liabilities	**3.60**	4.40
Rate of increase in salaries[1]	**2.30**	2.30
Rate of increase in pensions in payment	**3.40**	3.70
Rate of increase in deferred pensions	**4.30**	4.20
Rate of general inflation (RPI)	**3.10**	3.50
Rate of wage inflation	**2.30**	2.30
Post retirement mortality		
2014: 100% (Fund)/85% (Scheme) of PCMA/PCFA 00 with improvement at CMI 2011 base date 2000 with long-term rates 1.5% p.a males and 1.0% p.a females, with tapering linearly down to nil between ages 90 and 120.		
2013: 100% (Fund)/85% (Scheme) of PCMA/PCFA 00 with improvement at CMI 2011 base date 2000 with long-term rates 1.5% p.a males and 1.0% p.a females, with tapering linearly down to nil between ages 90 and 120.		

1. On 1 December 2008, the conditions of the fund and scheme were amended to cap future pensionable salary increases at a maximum of 2.5% each year with effect from 1 January 2009; benefits accrued before that date have an underpin of the early leaver benefits.

This equates to average life expectancy as follows:

	Fund and scheme 2014 years	Fund and scheme 2013 years
Normal retirement age	**60.0**	60.0
Male life expectancy at retirement age	**89.0**	88.9
Female life expectancy at retirement age	**90.4**	90.3
Male life expectancy at 20 years younger than retirement age	**91.6**	91.4
Female life expectancy at 20 years younger than retirement age	**92.0**	91.9

BALANCE SHEET MANAGEMENT (CONTINUED)

	Fund and Scheme 2014 £m	Overseas 2014 £m	Fund and Scheme 2013 £m	Overseas 2013 £m
Movement in present value of defined benefit obligations				
As at 1 January	**(2,069)**	**(41)**	(1,851)	(39)
Current service cost	**(12)**	**(2)**	(11)	(2)
Interest expense	**(90)**	**(2)**	(81)	(2)
Actuarial remeasurement (recognised in statement of comprehensive income)	**(234)**	**(13)**	(208)	1
Benefits paid	**57**	**1**	65	1
Exchange differences	**–**	**1**	–	–
Curtailment	**–**	**–**	17	–
As at 31 December	**(2,348)**	**(56)**	(2,069)	(41)
Movement in fair value of plan assets				
As at 1 January	**956**	**44**	884	40
Expected return on plan assets at liability discount rate	**42**	**2**	39	2
Actuarial remeasurement (recognised in statement of comprehensive income)	**124**	**9**	38	1
Employer contributions	**68**	**1**	60	2
Benefits paid	**(57)**	**(1)**	(65)	(1)
Exchange differences	**–**	**(1)**	–	–
As at 31 December	**1,133**	**54**	956	44
Gross pension obligations	**(1,215)**	**(2)**	(1,113)	3
Restricted surplus not recognised	**–**	**–**	–	(3)
Gross pension obligations included in provisions	**(1,215)**	**(2)**	(1,113)	–
Annuity obligations insured by Society	**723**	**–**	646	–
Gross defined benefit pension deficit	**(492)**	**(2)**	(467)	–
Deferred tax on defined benefit pension deficit	**98**	**–**	93	–
Net defined benefit pension deficit	**(394)**	**(2)**	(374)	–

The total amount of actuarial losses net of tax recognised in the statement of comprehensive income for the year was £(94)m; cumulative £(741)m (2013: £(145)m); cumulative £(647)m). Actuarial losses net of tax relating to with-profits policyholders of £(38)m (2013: £(49)m) have been allocated to the unallocated divisible surplus.

In 2013, a curtailment was recognised in the UK schemes due to the assignment of annuities to members with small pensions following the purchase of additional annuities in respect of future increments for them. There is no curtailment in 2014.

The mortality base assumptions are aligned with those used by the scheme's Trustees at the last valuation. The effect of assuming reasonable alternative assumptions in isolation to the gross defined benefit pension deficit are shown below. Opposite sensitivities are broadly symmetrical, but larger sensitivities are not necessarily broadly proportionate due to the existence of maxima and minima for inflation linked benefits.

	2014 £m	2013 £m
1 year increase in longevity	**(49)**	(47)
0.1% decrease in the rate used to discount liabilities	**(38)**	(32)
0.1% increase in the rate of general inflation (RPI)	**(33)**	(38)
0.1% increase in the rate of wage inflation	**–**	–

BALANCE SHEET MANAGEMENT (CONTINUED)

27 Provisions (continued)

(ii) Retirement benefit obligations (continued)

Defined benefit plans (continued)

The historic funding and experience adjustments are as follows:

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Present value of defined benefit obligations	**(2,404)**	(2,110)	(1,890)	(1,695)	(1,527)
Fair value of plan assets	**1,187**	1,000	924	829	781
Restricted surplus not recognised	**–**	(3)	(3)	(5)	(2)
Gross pension obligations included in provisions	**(1,217)**	(1,113)	(969)	(871)	(748)
Experience adjustments on plan liabilities	**(7)**	(11)	(10)	(17)	(8)
Experience adjustments on plan assets	**124**	39	53	1	13

The fair value of the plan assets at the end of the year is made up as follows:

	Valuation based on quoted market price		Valuation based on other than quoted market price	
As at 31 December 2014	**UK £m**	**Overseas £m**	**UK £m**	**Overseas £m**
Equities	**502**	**12**	**–**	**2**
Bonds	**546**	**35**	**–**	**–**
Properties	**–**	**–**	**58**	**–**
Other investments	**27**	**1**	**–**	**4**
	1,075	**48**	**58**	**6**

	Valuation based on quoted market price		Valuation based on other than quoted market price	
As at 31 December 2013	UK £m	Overseas £m	UK £m	Overseas £m
Equities	492	11	–	2
Bonds	413	28	–	–
Properties	–	–	50	–
Other investments	–	–	-	4
	905	39	50	6

In 2014, the return on plan assets was £168m (2013: £80m). The average credit rating of the bond portfolio is A (2013: A).

Employer contributions of £69m (2013: £62m) include a pension deficit reduction payment of £61m (2013: £47m). Employer contributions of £93m are expected to be paid to the plan during 2015.

The following amounts have been charged/(credited) to the income statement:

	2014 £m	2013 £m
Current service costs	**14**	13
Net interest expense	**48**	42
Curtailment	**–**	(17)
Total included in other expenses	**62**	38

BALANCE SHEET MANAGEMENT (CONTINUED)

28 Payables and other financial liabilities

Trail commission
The group operates distribution agreements with intermediaries where further commission costs are payable in each period in which a relevant policy remains in-force. For relevant non-participating investment contracts, a liability for the present value of this future commission cost is recognised in the balance sheet on inception of the contract. The present value of future commission costs is deferred as an asset and amortised over the period during which the related revenue will be recognised. At each subsequent reporting date the liability is re-measured to fair value because this financial liability is part of a portfolio of unit linked assets and liabilities whose performance is evaluated on a fair value basis. Any increase in the liability is recognised as an additional deferred cost. Any change in lapse assumptions or revisions to the underlying assumptions for future cash flows will be reflected in the fair value movement for a year. If the future commission liability decreases, a corresponding adjustment is made to the amortisation of the asset.

	2014 £m	2013[1] £m
Derivative liabilities	**6,877**	3,119
Other[2]	**9,254**	6,186
Payables and other financial liabilities	**16,131**	9,305
Settled within 12 months	**11,887**	7,587
Settled after 12 months	**4,244**	1,718

1. Payables and other financial liabilities and fair value hierarchy have been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.
2. Other liabilities include obligations under repurchase agreements of £7.0bn in 2014 (2013: £3.2bn), amounts payables to brokers for the settlement of investment trades and net variation margins in 2014: £658m (2013: positive net variation margins of £306m) on derivative contracts which are maintained daily. Included within the variation margins are collateral held and pledged of £107m and £235m respectively (2013: £31m and £35m respectively). The repurchase agreements are presented gross, however they and their related assets are subject to master netting arrangements.

Other includes future commission payments which have contingent settlement provisions of £186m (2013: £176m). This liability has been determined using the net present value of the future commission which will be payable on fund values. This valuation technique uses assumptions which are consistent with the group's effective rate of interest, investment return assumptions and persistency assumptions used in other valuations, but it is not determined by reference to published price quotations.

The undiscounted value which is expected to be paid at maturity in respect of such commission is £252m (2013: £247m).

Payables and other financial liabilities settled after 12 months are expected to be settled within five years with the exception of derivative liabilities, as disclosed in Note 14.

Fair value hierarchy

As at 31 December 2014	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	**6,877**	**593**	**6,284**	**–**	**–**
Other	**9,254**	**869**	**29**	**186**	**8,170**
Payables and other financial liabilities	**16,131**	**1,462**	**6,313**	**186**	**8,170**

As at 31 December 2013	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	3,119	274	2,845	–	–
Other	6,186	1,421	43	176	4,546
Payables and other financial liabilities	9,305	1,695	2,888	176	4,546

Trail commissions 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 income statement during the year. A reasonably possible alternative persistency assumption would have the effect of increasing or decreasing the liability by £6m (2013: £5m).

BALANCE SHEET MANAGEMENT (CONTINUED)

28 Payables and other financial liabilities (continued)

Significant transfers between levels

There have been no significant transfers between levels 1, 2 and 3 for the period ended 31 December 2014 (2013: No significant transfers between levels 1, 2 and 3).

29 Operational risk

Operational risk is defined as exposure to loss arising from inadequate or failed internal processes, people, systems, or from external events.

Potential for exposure to operational risk extends to all the group's businesses. All business managers are required to confirm regularly the adequacy of controls to mitigate those operational risks relevant to their responsibilities. Significant control issues are escalated to senior and executive management through the group's risk management framework. The framework is supported by Risk Oversight teams which facilitate the identification, assessment, monitoring and control of risks across the group's businesses.

There are a number of categories under which operational risk and its management across the group can be considered, and these are outlined in the following paragraphs.

Internal process failure

The group is potentially exposed to the risk of loss from failure of the internal processes with which it transacts its business. Each business division is responsible for ensuring the adequacy of the controls over its processes. Regular reviews are undertaken of their appropriateness and effectiveness.

People

The group is potentially exposed to the risk of loss from inappropriate actions by its staff. Recruitment is managed centrally by HR functions, and all new recruits undergo a formal induction programme. All employees have job descriptions setting out their accountabilities and reporting lines, and are appraised annually in accordance with agreed performance management frameworks. Employees in regulated subsidiaries are provided with appropriate training to enable them to meet the relevant regulatory requirements. Risks relating to health and safety and other legislation are managed through the provision of relevant training to all staff.

Outsourcing

The group is potentially exposed to the actions or failure of suppliers contracted to provide services on an outsourced basis. The group has defined minimum standards of control to be applied for all outsourced arrangements within a formal outsourcing and critical supplier policy.

Legal

Legal risk is the risk of loss from unclear or deficient product documentation; inadequate documentation in support of material contracts such as reassurance treaties; the incorrect interpretation of changes in legislation; employment related disputes and claims; and commercial disputes with suppliers. The group's product development and broader legal risk framework defines minimum standards of control to be applied to minimise the risk of loss.

Compliance

Compliance risk within the group relates to the risk of non-adherence to legislative requirements, regulations and internal policies and procedures. Responsibility for ensuring adherence to relevant legal and regulatory requirements is vested in individual business managers. Regulatory risk functions have oversight of the group's compliance with conduct of business requirements and standards, providing policy advice and guidance and oversight of compliance arrangements and responsibilities.

Event

Event risk relates to the potential for loss arising from significant external events such as terrorism, financial crisis, major changes in fiscal systems or disaster. Typically, such events have a low likelihood of occurrence, a material impact and can be difficult to prevent. The group's risk mitigation focuses on minimising the business disruption and potential financial loss which may ensue from such an event. This includes maintaining a framework for the management of major incidents, the maintenance and regular testing of detailed business, technical and location recovery plans and the provision of insurance cover for the loss of buildings, contents and information technology systems and for the increased cost of working in the event of business disruption.

BALANCE SHEET MANAGEMENT (CONTINUED)

Fraud

The group is potentially exposed to the risk of internal fraud, claims-related fraud, and external action by third parties. The risk of internal fraud is managed through a number of processes including the screening of staff at recruitment, segregation of duties and management oversight. The activities of Internal Audit also act to counter the risk. Claims-related fraud is managed by ensuring business processes are designed to fully validate claims and ensure that only bona fide claims are settled. Anti-fraud techniques are regularly updated to mitigate risks and emerging threats. The group's approach to mitigating fraud and other dishonest acts is supported by promoting an open and honest culture in all dealings between employees, managers and those parties with which the group has contact. A formal code of ethics sets out the group's expectations in this respect. Effective and honest communication is essential if malpractice is to be effectively dealt with. The group has defined whistle blowing procedures to enable all employees and those who work with Legal & General to raise matters of concern relating to Legal & General in confidence.

Technology

The group places a high degree of reliance on IT in its business activities. The failure of IT systems or a cyber event could potentially expose the group to significant business disruption and loss. To mitigate this risk, standards and methodologies for developing, testing and operating IT systems in a secure manner are maintained. Disaster recovery facilities enable IT operations to be conducted at remote locations in the event of the loss of computer facilities.

Contagion

The potential for contagion risk arises as a consequence of the use of a common brand across the majority of the group and the provision of intra-group loans and indemnities. The group has defined policies and procedures for managing matters that may have reputational implications, to ensure that Legal & General's position is correctly understood. The group also has defined policies for the provision of guarantees, indemnities and letters of comfort.

BALANCE SHEET MANAGEMENT (CONTINUED)

30 Management of capital resources

Capital structure

From a regulatory perspective the group is required to measure and monitor its capital resources on an ongoing basis and to comply with the minimum capital requirements of regulators in each territory in which it operates. At 31 December 2014, Legal & General's unaudited Insurance Group Directive (IGD) capital resources were £3.9bn (2013: £4.0bn) in excess of capital requirements of £3.8bn (2013: £3.3bn), representing a solvency coverage ratio of 201% (2013: 221%). This surplus capital is after accruing for a 2014 final dividend of £496m (2013: £408m).

The group writes a range of long term insurance and investment business in the long term fund (LTF) of its main operating insurance subsidiary, Legal & General Assurance Society Limited (Society). This fund is segregated from the group's other assets. The fund includes participating (with-profits) business where policyholders and shareholders share in the risks and rewards, and non-participating (non profit) business, where the shareholders receive profits or incur losses. Capital in excess of the amount required to cover the liabilities is currently held within Society. This capital provides support for new and existing non profit business within our UK non profit LGAS and Retirement businesses. In January 2015, Legal & General announced the closure of the with-profits fund to new business. There will be no change to how this fund is managed as a result of this closure.

The non-linked, non profit pensions and annuity business of Society is ceded, on arm's length terms, to a wholly owned Insurance Special Purpose Vehicle (ISPV), Legal & General Pensions Limited (LGPL). Whilst an ISPV is not required to segregate policyholder assets within a LTF, LGPL continues to manage policyholder and shareholder assets separately for internal purposes.

Managed pension fund business is written through Legal & General Assurance (Pensions Management) Limited (PMC), which is a life company writing predominantly non-participating group pension business effected by trustees of occupational schemes in the UK (or their equivalent overseas). The assets are held in a LTF and are separate from other assets within the group.

In addition, the group operates a UK long term insurance business through Suffolk Life Annuities Limited. General insurance business is written in the UK by Legal & General Insurance Limited, and long term insurance business is also written by LGA, LGN and LGF.

Capital management policies and objectives

The group aims to manage its capital resources to maintain financial strength, policyholder security and relative external ratings advantage. The group also seeks to maximise its financial flexibility by maintaining strong liquidity and by utilising a range of alternative sources of capital including equity, senior debt, subordinated debt and reinsurance.

Capital measures

The group measures its capital on a number of different bases, including those which comply with the regulatory frameworks within which the group operates and those which the directors consider most appropriate for managing the business. The measures used by the group include:

Accounting bases

Management use financial information prepared on both an IFRS and an Economic Capital basis to manage capital and cash flow usage and to determine dividend paying capacity. In addition, the supplementary accounts prepared using EEV principles provide further insight into the value of the business to shareholders. Accordingly the group's net asset value and total capital employed are also analysed and measured on this basis.

Regulatory bases

The financial strength of the group's insurance subsidiaries is measured under various local regulatory requirements (see below). One of these regulatory measures, Individual Capital Assessment (ICA), measures capital using risk based stochastic techniques, and provides a measure of the level of economic capital required to run the group's business. In addition, management assess financial strength under our current interpretation of the Solvency II rules.

Basis of regulatory capital and corresponding regulatory capital requirements

In each country in which the group operates, the local insurance regulator specifies rules and guidance for the minimum amount and type of capital which must be held by long term insurance subsidiaries in excess of their insurance liabilities. The minimum required capital must be maintained at all times throughout the year. This helps to ensure that payments to policyholders can be made as they fall due.

The required capital is calculated by either assessing the additional assets which would be required to meet the insurance company's liabilities in specified, stressed financial conditions, or by applying fixed percentages to the insurance company's liabilities and risk exposures. The requirements in the different jurisdictions in which the group operates are detailed below:

BALANCE SHEET MANAGEMENT (CONTINUED)

UK regulatory basis

Required capital for the life business is based on PRA rules. Society must hold assets in excess of the higher of two amounts; the first being calculated using the PRA rules specified by the Regulator (pillar 1), the second being an economic capital assessment by the Company which is reviewed by the PRA (pillar 2), otherwise known as ICA.

The public pillar 1 capital calculation is calculated by applying fixed percentages to liabilities and sums assured at risk or setting aside a proportion of expenses (Peak 1). There are further stress tests for participating business, as measured in the Realistic Balance Sheet (Peak 2), which may increase the required capital under Peak 1 calculations.

The private pillar 2 capital calculation is an assessment of the economic capital required to ensure that the Company can meet its liabilities, with a high likelihood, as they fall due. This is achieved by application of stochastic modelling and scenario testing. The result is reviewed and may be modified by the PRA.

Regulatory capital for the general insurance business is also calculated using PRA pillar 1 and pillar 2 requirements. The pillar 1 calculation applies fixed percentages to premiums and claims. Pillar 2 creates a higher capital requirement and is therefore applied in this business.

The group has developed an internal model to meet the future Solvency II requirements. We anticipate that our Solvency II internal model will be approved in 2015, ready for use on the Solvency II go live date – 1 January 2016.

US regulatory basis

Required capital is determined to be the Company Action Level Risk Based Capital (RBC) based on the National Association of Insurance Commissioners RBC model. RBC is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations, taking into account its size and risk profile. The calculation is based on applying factors to various asset, premium, claims, expense and reserve items, with higher factors used for those items with greater underlying risk and lower factors for less risky items.

French and Dutch regulatory bases

The minimum required capital is defined by the French Ministry of Finance's 'Code des Assurances' and the 'De Nederlandsche Bank N.V.' (Dutch Supervisory Body) respectively. The basis of the calculation is a percentage of the liabilities plus a percentage of the sum assured at risk and, for some contracts, the premium. The percentages depend on the guarantees given and the amount of reinsurance cover.

Group regulatory basis

In addition to the regulatory capital calculations for the individual firms, the group is required to comply with the requirements of the Insurance Group's Directive (IGD).

Available regulatory capital resources

Capital resources available to meet regulatory UK capital requirements are determined using PRA valuation rules. The asset valuation rules are based on applicable GAAP, adjusted for admissibility, counterparty exposure limits and specific valuation differences.

The group's regulatory capital position statement in Table 1 sets out the different sources of capital held within the group. The group's total available capital resources, under FRS 27 requirements, are £6.9bn (2013: £6.6bn) of which £4.6bn (2013: £4.5bn) is held by the life businesses. The use of capital held by the UK and overseas life businesses is generally constrained by local regulatory requirements, and may not be available to provide funding for other businesses.

The total available capital resources of the group's with-profits business (with-profits estate) is determined in accordance with the Realistic Balance Sheet rules prescribed by the PRA.

At 31 December 2014, the excess of realistic assets over realistic liabilities was £0.4bn (2013: £0.8bn), excluding the risk capital margin. The capital resources reflect the surplus in that part of the fund which is in excess of any constructive obligation to policyholders. The liabilities within the Consolidated Balance Sheet do not include the amount representing the shareholders' share of future bonuses.

BALANCE SHEET MANAGEMENT (CONTINUED)

30 Management of capital resources (continued)

Table 1 – Regulatory capital position statement

As at 31 December 2014	UK with-profits £m	UK non profit and SRC[1] £m	LGPL £m	Overseas and PMC £m	Total life £m	Shareholders' equity and other activities £m	Total £m
Ordinary shareholders' equity outside the LTF	–	13	1,261	1,832	3,106	1,174	4,280
Ordinary shareholders' equity held in the LTF	–	1,718	–	30	1,748	–	1,748
Capital and reserves attributable to ordinary equity holders of the Company	–	1,731	1,261	1,862	4,854	1,174	6,028
Adjustments onto regulatory basis:							
Unallocated divisible surplus	689	–	–	294	983	–	983
Other[2]	(338)	(337)	–	(554)	(1,229)	(689)	(1,918)
Other qualifying capital:							
Subordinated borrowings	–	–	–	–	–	2,346	2,346
Internal loans	–	–	–	–	–	–	–
Proposed dividend	–	–	–	–	–	(496)	(496)
Total available capital resources	351	1,394	1,261	1,602	4,608	2,335	6,943
IFRS liability analysis:							
UK participating liabilities on realistic basis							
– Options and guarantees	877	–	–	–	877	–	877
– Other policyholder obligations	10,694	14	–	–	10,708	–	10,708
Overseas participating liabilities	–	–	–	2,661	2,661	–	2,661
Unallocated divisible surplus	689	–	–	294	983	–	983
Value of in-force non-participating contracts	(208)	–	–	–	(208)	–	(208)
Participating contract liabilities	12,052	14	–	2,955	15,021	–	15,021
Unit linked non-participating life assurance liabilities	501	484	–	1,183	2,168	–	2,168
Non-linked non-participating life assurance liabilities	404	40,255	–	6,762	47,421	–	47,421
Unit linked non-participating investment contract liabilities	8,788	30,123	–	249,647	288,558	–	288,558
General insurance liabilities	–	–	–	–	–	287	287
Non-participating contract liabilities	9,693	70,862	–	257,592	338,147	287	338,434

1. UK non profit and SRC includes Suffolk Life Annuities Limited.
2. Other consists of shareholders' share in realistic liabilities of £263m and changes to the values of assets and liabilities on a regulated basis of £1,654m.

BALANCE SHEET MANAGEMENT (CONTINUED)

As at 31 December 2013	UK with-profits £m	UK non profit and SRC[1] £m	LGPL £m	Overseas and PMC £m	Total life £m	Shareholders' equity and other activities £m	Total £m
Ordinary shareholders' equity outside the LTF	–	27	1,298	1,475	2,800	1,060	3,860
Ordinary shareholders' equity held in the LTF	–	1,752	–	30	1,782	–	1,782
Capital and reserves attributable to equity holders of the Company	–	1,779	1,298	1,505	4,582	1,060	5,642
Adjustments onto regulatory basis:							
Unallocated divisible surplus	1,077	–	–	144	1,221	–	1,221
Other[2]	(314)	(505)	–	(520)	(1,339)	(294)	(1,633)
Other qualifying capital:							
Subordinated borrowings	–	–	–	–	–	1,790	1,790
Internal loans	–	–	–	–	–	–	–
Proposed dividend	–	–	–	–	–	(408)	(408)
Total available capital resources	763	1,274	1,298	1,129	4,464	2,148	6,612
IFRS liability analysis:							
UK participating liabilities on realistic basis							
– Options and guarantees	689	–	–	–	689	–	689
– Other policyholder obligations	11,047	16	–	–	11,063	–	11,063
Overseas participating liabilities	–	–	–	2,713	2,713	–	2,713
Unallocated divisible surplus	1,077	–	–	144	1,221	–	1,221
Value of in-force non-participating contracts	(248)	–	–	–	(248)	–	(248)
Participating contract liabilities	12,565	16	–	2,857	15,438	–	15,438
Unit linked non-participating life assurance liabilities	516	479	–	1,260	2,255	–	2,255
Non-linked non-participating life assurance liabilities	2,223	33,255	–	2,242	37,720	–	37,720
Unit linked non-participating investment contract liabilities	8,765	26,944	–	243,045	278,754	–	278,754
General insurance liabilities	-	-	–	–	–	298	298
Non-participating contract liabilities	11,504	60,678	–	246,547	318,729	298	319,027

1. UK non profit and SRC includes Nationwide Life Limited, Lucida Limited and Suffolk Life Annuities Limited.
2. Other consists of shareholders' share in realistic liabilities of £297m and changes to the values of assets and liabilities on a regulated basis of £1,336m.

BALANCE SHEET MANAGEMENT (CONTINUED)

30 Management of capital resources (continued)

Available regulatory capital resource risks

The group's available capital resources are sensitive to changes in market conditions, both to changes in the value of the assets and to the impact which changes in investment conditions may have on the value of the liabilities. Capital resources are also sensitive to assumptions and experience relating to mortality and morbidity and, to a lesser extent, expenses and persistency. The most significant sensitivities arise from the following four risks:

- market risk in relation to UK participating business which would crystallise if adverse changes in the value of the assets supporting this business could not be fully reflected in payments to policyholders because of the effect of guarantees and options. The capital position of this business would also deteriorate if increases to the market cost of derivatives resulted in an increase in the liability for guarantees and options in the realistic balance sheet.
- market risk in relation to the UK annuity business, which would crystallise if the return from the fixed interest investments supporting this business were lower than that assumed for reserving.
- mortality risk in relation to the UK annuity business, which would crystallise if the mortality of annuitants improved more rapidly than the assumptions used for reserving.
- mortality risk in relation to the UK and US term assurance businesses, which would crystallise if mortality of the lives insured was higher than that assumed, possibly because of an epidemic.

A range of management actions is available to mitigate any adverse impact from changing market conditions and experience, including pricing changes, cost management, reinsurance structure, investment strategy, changes to with-profits bonus rates, changes to discretionary surrender terms and charging for guarantees. To the extent that management actions are expected only to offset partially adverse experience, then liabilities would be increased to anticipate the future impact of the adverse experience and total capital resources would be reduced.

Table 2 provides management estimates of the impact on the IGD surplus of changes in market conditions.

Table 2 – IGD sensitivity analysis

	Impact on surplus capital 2014 £bn	Impact on surplus capital 2013 £bn
Sensitivity test		
20% fall in equity values	**(0.4)**	(0.6)
40% fall in equity values	**(1.0)**	(1.5)
15% fall in property values	**(0.2)**	(0.1)
100bp increase in interest rates	**0.4**	(0.1)
100bp decrease in interest rates	**(0.6)**	0.1
100bp increase in credit spreads	**(0.1)**	(0.1)
100bp decrease in credit spreads	**0.1**	0.1

We have applied a consistent methodology to the IFRS sensitivity analysis in Note 21.

The above sensitivity analysis does not reflect management actions which could be taken to reduce the impacts. In practice, the group actively manages its asset and liability positions to respond to market movements. Additionally, the sensitivity tests are considered in isolation, although in practice there is likely to be a correlation between the scenarios.

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

The interest rate sensitivity assumes a 100 basis point change in the gross redemption yield on fixed interest securities together with a 100 basis point change in the real yields on variable securities. For the UK long term funds, valuation interest rates are assumed to move in line with market yields adjusted to allow for the impact of PRA regulations. The interest rate sensitivities reflect the impact of the regulatory restrictions on the reinvestment rate used to value the liabilities of the long term business.

BALANCE SHEET MANAGEMENT (CONTINUED)

Modelling improvements have been made in the year, which more accurately isolate the impacts of discrete assumptions changes. This, coupled with the increase in the group's annuity liabilities, has led to an increase in the reported sensitivities to interest rates movements. Zero yield floors have not been applied in the estimation of the stresses, despite the low interest rate environment at the balance sheet date.

Table 3 – Movements in life business regulatory capital resources

	UK with–profits £m	UK non profit and SRC[1] £m	LGPL £m	Overseas and PMC £m	Total life £m
As at 1 January 2014	**763**	**1,274**	**1,298**	**1,129**	**4,464**
Effect of investment variations	**(100)**	**(29)**	**71**	**162**	**104**
Effect of changes in valuation assumptions	**(29)**	**61**	**82**	**–**	**114**
Changes in management policy	**–**	**–**	**–**	**–**	**–**
Changes in regulatory requirements	**–**	**4**	**–**	**–**	**4**
New business	**(12)**	**(1)**	**2**	**347**	**336**
Cash distributions	**–**	**(158)**	**–**	**(204)**	**(362)**
Other factors	**(271)**	**243**	**(192)**	**168**	**(52)**
As at 31 December 2014	**351**	**1,394**	**1,261**	**1,602**	**4,608**

	UK with–profits £m	UK non profit and SRC[1] £m	LGPL £m	Overseas and PMC £m	Total life £m
As at 1 January 2013	659	1,139	1,243	1,123	4,164
Effect of investment variations	94	31	37	(62)	100
Effect of changes in valuation assumptions	(68)	11	(9)	–	(66)
Changes in management policy	–	–	–	–	–
Changes in regulatory requirements	–	19	–	–	19
New business	(8)	(17)	(82)	(51)	(158)
Cash distributions	–	(150)	–	(206)	(356)
Other factors	86	241	109	325	761
As at 31 December 2013	763	1,274	1,298	1,129	4,464

1. UK non profit and SRC includes Suffolk Life Annuities Limited, Lucida Limited and Nationwide Life Limited.

BALANCE SHEET MANAGEMENT (CONTINUED)

31 Acquisitions

Business combinations are accounted for using the purchase method, under which the acquirer recognises the acquiree's fair value of the identifiable assets, liabilities and contingent liabilities at the acquisition date. Purchased goodwill is recognised as an asset on the consolidated balance sheet and is carried at cost less any accumulated impairment losses in accordance with IAS 36, 'Impairment of Assets'.

Private equity investment vehicles classified as subsidiaries are those entities over which the group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. Profits or losses of subsidiary undertakings sold or acquired during the year are included in the consolidated results up to the date of disposal or the date of gaining control.

Global Index Advisors Inc.

On 19 May 2014, the group acquired the trade and assets of Global Index Advisors Inc., an asset management advisory company based in Atlanta, US. The acquisition provides the group with opportunities to accelerate growth into the US Defined Contribution market.

	2014 £m
Total cash and deferred contingent consideration for 100% acquisition	24
Recognised amounts of identifiable assets transferred and liabilities assumed at fair value	
Intangibles	38
Deferred tax liabilities	(14)
Net assets attributable to equity holders of the Company	24

Deferred contingent consideration represents amounts payable for the trade and assets of Global Index Advisors Inc. contingent on meeting certain financial performance targets over a 1 to 2 year period. The range of undiscounted amounts the company could pay under the contingent consideration arrangements is between £nil and £6.9m.

In addition, the group acquired Kitco, a supplier of manpower, training, accommodation and procurement services, in July 2014 for £7m. A further investment was made in December 2014 in Butcombe Brewery, a brewery and chain of pubs, for £14m. These two acquisitions gave rise to the increase in the group's goodwill of £6m. Both investments were made on behalf of the with-profits part of the LGAS long term fund.

32 Disposals

On 28 May 2014, the group sold Amber Taverns, the operator of 95 community pubs in the North of England to funds managed by MxP Partners LLP and their associates for £50m. The carrying value of the company was c£37m, realising the profit on disposal of c£13m reported in the operational income in the Consolidated Income Statement. The majority of the profit on disposal is allocated to the with-profits fund.

On 31 October 2014, the group sold its estate agency franchise business, Xperience, to the well established lettings franchise business, Martin & Co. for £6m. The carrying value of the business was £1m, realising the profit on disposal of £5m reported in operational income in the Consolidated Income Statement.

ADDITIONAL FINANCIAL INFORMATION

33 Segmental analysis

The group provides a segmental analysis to enhance the understanding of the financial statements.

Under the requirements of IFRS 8, 'Operating Segments', operating and reportable segments are presented in a manner consistent with the internal reporting provided to the chief operating decision maker, which has been identified as the Board of Legal & General Group Plc.

Reportable segments

The group has five reportable segments comprising LGAS, LGR, LGIM, LGA, LGC and group expenses.

LGAS represents Insurance business (retail protection, group protection and general insurance) and Savings business (platforms, workplace, SIPPs, mature savings and with-profits). The LGAS segment also includes Legal & General France (LGF), Legal & General Netherlands (LGN) and emerging markets.

LGR represents Annuities (both individual and bulk purchase) and longevity insurance.

The LGIM segment represents institutional and retail investment management businesses.

The LGC segment includes shareholders' equity supporting the non profit LGR and LGAS businesses held within Society and Legal & General Pensions Limited (LGPL) and capital held by the group's treasury function. LGC and group expenses also incorporates inter-segmental eliminations, consolidation adjustments and consolidated unit trusts and property partnerships managed on behalf of clients which do not constitute a separately reportable segment.

The LGA segment represents protection business written in the USA.

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

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

33 Segmental analysis (continued)

(i) Profit/(loss) for the year

For the year ended 31 December 2014	LGAS £m	LGR £m	LGIM £m	LGC £m	LGA £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	**460**	**428**	**336**	**203**	**56**	**(208)**	**1,275**
Investment and other variances[1]	**(7)**	**67**	**(12)**	**(37)**	**(13)**	**(42)**	**(44)**
Gains attributable to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**7**	**7**
Profit/(loss) before tax attributable to equity holders	**453**	**495**	**324**	**166**	**43**	**(243)**	**1,238**
Tax (expense)/credit attributable to equity holders of the Company[2]	**(102)**	**(97)**	**(70)**	**(9)**	**(19)**	**51**	**(246)**
Profit/(loss) for the year	**351**	**398**	**254**	**157**	**24**	**(192)**	**992**

For the year ended 31 December 2013	LGAS £m	LGR £m	LGIM £m	LGC £m	LGA £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	444	310	304	179	92	(171)	1,158
Investment and other variances	(73)	63	(6)	60	(13)	(58)	(27)
Gains attributable to non-controlling interests[3]	–	–	–	–	–	13	13
Profit/(loss) before tax attributable to equity holders	371	373	298	239	79	(216)	1,144
Tax (expense)/credit attributable to equity holders of the Company	(83)	(83)	(65)	(27)	(43)	63	(238)
Profit/(loss) for the year	288	290	233	212	36	(153)	906

1. Positive investment and other variances for LGR are primarily due to favourable default experience and an increase in exposure to Direct Investments which has enhanced the risk adjusted return. Negative investment and other variances for LGC reflect lower equity returns from shareholder funds.
2. The low tax charge for LGC primarily reflects the impact of non-taxable income and recognition of losses.
3. The segmental analysis of profit/(loss) for the year has been restated to reflect the adoption by the group of IFRS 10 'Consolidated Financial Statements'. Further details are contained in Note 1. The impact is to increase profit for the year by £10m for 2013.

(ii) Revenue

For the year ended 31 December 2014	LGAS £m	LGR £m	LGIM £m	LGA £m	LGC and other[1] £m	Total £m
Internal revenue	**300**	**373**	**220**	**(218)**	**(675)**	**–**
External revenue	**4,971**	**13,767**	**27,972**	**377**	**4,430**	**51,517**
Total revenue	**5,271**	**14,140**	**28,192**	**159**	**3,755**	**51,517**

1. LGC and other includes LGC, inter-segmental eliminations and group consolidation adjustments.

For the year ended 31 December 2013[1]	LGAS £m	LGR £m	LGIM £m	LGA £m	LGC and other[2] £m	Total £m
Internal revenue	210	–	146	(71)	(285)	–
External revenue	6,600	4,468	27,173	460	563	39,264
Total revenue	6,810	4,468	27,319	389	278	39,264

1. The segmental analysis of revenue has been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1. The impact is to increase the total revenue by £13m for 2013.
2. LGC and other includes LGC, inter-segmental eliminations and group consolidation adjustments.

Total revenue includes investment return of £40,639m (2013: £32,234m).

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

(iii) Consolidated balance sheet

As at 31 December 2014	LGAS £m	LGR £m	LGIM £m	LGA £m	LGC and other[1] £m	Total £m
Assets						
Investments	51,307	46,987	260,488	2,160	30,682	391,624
Other assets	11,569	884	1,510	2,835	(8,869)	7,929
Total assets	62,876	47,871	261,998	4,995	21,813	399,553
Shareholders' equity	847	–	541	870	3,770	6,028
Non-controlling interests	–	–	–	–	275	275
Total equity	847	–	541	870	4,045	6,303
Liabilities						
Core borrowings	–	–	–	–	2,977	2,977
Operational borrowings[2]	261	2	6	285	161	715
Participating contract liabilities	15,021	–	–	–	–	15,021
Non-participating contract liabilities	44,065	43,862	249,612	1,923	(1,028)	338,434
Other liabilities	2,682	4,007	11,839	1,917	15,658	36,103
Total liabilities	62,029	47,871	261,457	4,125	17,768	393,250
Total equity and liabilities	62,876	47,871	261,998	4,995	21,813	399,553

1. LGC and other includes LGC, inter-segmental eliminations, consolidation adjustments and net asset value attributable to unit holders.
2. Includes non-recourse borrowings.

As at 31 December 2013[1]	LGAS £m	LGR £m	LGIM £m	LGA £m	LGC and other[2] £m	Total £m
Assets						
Investments	52,619	33,974	249,396	1,998	20,485	358,472
Other assets	9,891	2,491	1,335	2,393	(8,310)	7,800
Total assets	62,510	36,465	250,731	4,391	12,175	366,272
Shareholders' equity	783	–	421	816	3,622	5,642
Non-controlling interests	–	–	–	–	265	265
Total equity	783	–	421	816	3,887	5,907
Liabilities						
Core borrowings	–	–	–	–	2,453	2,453
Operational borrowings[3]	252	2	8	268	245	775
Participating contract liabilities	15,438	–	–	–	–	15,438
Non-participating contract liabilities	42,939	32,218	243,009	1,708	(847)	319,027
Other liabilities	3,098	4,245	7,293	1,599	6,437	22,672
Total liabilities	61,727	36,465	250,310	3,575	8,288	360,365
Total equity and liabilities	62,510	36,465	250,731	4,391	12,175	366,272

1. The segmental analysis of the consolidated balance sheet has been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1. The impact is to increase the total equity by £207m for 2013.
2. LGC and other includes LGC, inter-segmental eliminations, consolidation adjustments and net asset value attributable to unit holders.
3. Includes non-recourse borrowings.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

33 Segmental analysis (continued)

(iv) Gross written premiums on insurance contracts

Gross written premium is the total written by the group before deductions for reinsurance.

Long term insurance premiums are recognised as revenue when due for payment. General insurance premiums are accounted for in the period in which the risk commences. Estimates are included for premiums not notified by the year end and provision is made for the anticipated lapse of renewals not yet confirmed. Those proportions of premiums written in a year which relate to periods of risk extending beyond the end of the year are carried forward as unearned premiums.

Premiums received relating to investment contracts are not recognised as revenue, but are included in the balance sheet investment contract liability.

Outward reinsurance premiums of £1,122m (2013: £874m) are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured.

	2014 £m	2013 £m
From continuing operations		
LGAS		
Non-participating UK Protection business	**1,407**	1,326
Non-participating UK Savings business	**33**	36
Participating UK Savings business	**81**	116
Netherlands (LGN)	**200**	200
France (LGF)	**432**	444
General insurance		
– Household	**354**	352
– Other business	**23**	23
Total LGAS	**2,530**	2,497
LGR		
Non-participating UK Annuity business	**6,960**	3,011
LGA	**678**	654
Total gross written premiums	**10,168**	6,162

(v) Fees from fund management and investment contracts

Fees charged for investment management services are recognised as revenue as the services are provided. Initial fees which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the anticipated period in which the services will be provided. The total fees earned from fund management and investment contracts for the year is £1,085m (2013: £1,040m).

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

34 Investment return

Investment return includes fair value gains and losses, excluding fair value movements attributable to available-for-sale (AFS) investments, dividends, rent and interest. Dividends are accrued on an ex-dividend basis. Interest and rent are included on an accruals basis. Interest income for financial assets which are not classified as fair value through profit or loss (FVTPL) is recognised using the effective interest method.

The group earns an investment return from holdings in financial instruments and property investments, held to back insurance and investment contracts on behalf of policyholders, and as group capital.

	2014 £m	2013[1] £m
Dividend income	**4,265**	4,496
Interest income on financial investments at fair value through profit or loss	**4,875**	4,942
Other investment income	**(59)**	(173)
Gains on financial investments at fair value through profit or loss	**29,493**	21,014
Gains on derivative instruments (designated as held for trading)	**1,161**	1,314
Realised gains on available-for-sale financial assets	**35**	38
Gains/(losses) on loans and receivables	**1**	(2)
Financial investment return[2]	**39,771**	31,629
Rental income	**463**	373
Fair value gains on properties	**405**	232
Property investment return	**868**	605
Investment return	**40,639**	32,234

1. Investment return has been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.
2. Interest income of £67m (2013: £63m) arose on financial investments designated as AFS. There were no impairments on assets classified as AFS during the year (2013: £nil).

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

35 Net claims and change in insurance liabilities

Insurance claims are paid in accordance with the individual policy terms typically arising from an insured event.

Long term insurance

Death claims are accounted for on notification of death. Surrenders for non-linked policies are accounted for when payment is made. Critical illness claims are accounted for when admitted. All other long term claims and surrenders are accounted for when payment is due. Claims payable include the direct costs of settlement.

The change in the insurance liability reflects the reduction in liabilities due to the payment of claims in the year, offset by liabilities arising from new business. The movement also reflects assumption changes relating to variables such as claims expectations, expenses and the unwind of the previous period's expectations.

General insurance

Claims and related reinsurance recoveries are accounted for in respect of all incidents up to the year end. Provision is made on the basis of available information for the estimated ultimate cost, including claims settlement expenses, claims reported but not yet settled and claims incurred but not yet reported. An unexpired risk provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums and after taking account of investment return.

	Long term insurance 2014 £m	General insurance 2014 £m	Total 2014 £m	Long term insurance 2013 £m	General insurance 2013 £m	Total 2013 £m
Claims paid						
– Gross	**5,519**	**182**	**5,701**	5,558	156	5,714
– Reinsurance recoveries	**(995)**	**(1)**	**(996)**	(792)	–	(792)
	4,524	**181**	**4,705**	4,766	156	4,922
Change in insurance liabilities						
– Gross	**9,352**	**18**	**9,370**	55	(2)	53
– Reinsurance recoveries	**22**	**(1)**	**21**	(321)	–	(321)
Net claims and change in insurance liabilities	**13,898**	**198**	**14,096**	4,500	154	4,654

The roll-forward of the insurance contract liabilities is provided in Note 22.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

36 Tax

The tax shown in the consolidated income statement comprises current and deferred tax.

Current tax
Current tax comprises tax payable on current year profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous years. Current tax is recognised in the income statement unless it relates to items which are recognised in other comprehensive income.

Deferred tax
Deferred tax is calculated on differences between the accounting value of assets and liabilities and their respective tax values. Deferred tax is also recognised in respect of unused tax losses to the extent it is probable that future taxable profits will arise against which the losses can be utilised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity.

The tax shown in the income statement has been apportioned between that attributable to policyholders and that attributable to equity holders.

The judgements made in arriving at tax balances in the financial statements are discussed in the notes below.

Tax rates
The table below provides a summary of the current tax and deferred tax rates for the year.

	2014		2013	
	Current tax	**Deferred tax**	Current tax	Deferred Tax
UK	**21.5%**	**20.0%**	23.3%	20.0%
USA	**35.0%**	**35.0%**	35.0%	35.0%
France	**38.0%**	**34.4%**	38.0%	34.4%
Netherlands	**25.0%**	**25.0%**	25.0%	25.0%
Ireland	**12.5%**	**12.5%**	12.5%	12.5%

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

36 Tax (continued)

(i) Tax charge in the Consolidated Income Statement

	2014 £m	2013 £m
Current tax	**160**	104
Deferred tax		
– Movement in temporary differences	**253**	308
– Reduction in UK corporate tax rate to 20% (2013: 20%)	**–**	3
Total deferred tax	**253**	311
Adjustment to equity holders' tax in respect of prior years	**8**	4
Total tax	**421**	419
Less tax attributable to policyholder returns	**(175)**	(181)
Tax attributable to equity holders	**246**	238

The total movement in deferred tax of £253m (2013: £311m) disclosed above differs from the amount of £246m (2013: £302m) disclosed in the note below by £7m (2013: £9m) being the deferred tax prior year adjustment included within the 'Adjustment to equity holders' tax in respect of the prior years' line.

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

	2014 £m	2013[1] £m
Profit before tax attributable to equity holders	**1,238**	1,144
Tax calculated at 21.5% (2013: 23.25%)	**266**	266
Effects of:		
Adjustments in respect of prior years	**8**	4
Income not subject to tax, such as dividends	**(9)**	(6)
Change in valuation of tax losses	**(6)**	(19)
Higher rate of tax on profits taxed overseas	**8**	23
Additional allowances/non-deductible expenses for tax purposes	**(7)**	(11)
Impact of reduction in UK corporate tax rate to 20% (2013: 20%) on deferred tax balances	**–**	3
Differences between taxable and accounting investment gains, e.g. RPI relief	**(15)**	(19)
Other	**1**	(3)
Tax attributable to equity holders	**246**	238
Equity holders' effective tax rate	**19.9%**	20.8%

1. The profit before tax attributable to equity holders has been restated to reflect the adoption by the group of IRFS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1. The impact is to increase profit for the year by £10m for 2013.

Equity holders' effective tax rate is calculated by dividing the tax attributable to equity holders over profit before tax attributable to equity holders.

Tax calculated on profit before tax at 21.5% (2013: 23.25%) would amount to £304m (2013: £306m). The difference between this number and the total tax of £421m (2013: £419m) is made up of the reconciling items above, which total £(20)m (2013: £(26)m), and the effect of the apportionment methodology on tax applicable to policyholder returns of £135m (2013: £139m).

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

(ii) Tax charge to equity

Deferred tax recognised directly in equity	2014 £m	2013 £m
Relating to net gains or losses recognised directly in equity	**6**	(74)
Exchange gains	**17**	(4)
Deferred tax recognised directly in equity	**23**	(78)

(iii) Disclosure of tax effects relating to each component of other comprehensive income

	Before tax 2014 £m	Tax credited/ (charged) 2014 £m	After tax 2014 £m	Before tax 2013 £m	Tax credited/ (charged) 2013 £m	After tax 2013 £m
Actuarial (losses)/gains on defined benefit pension schemes	**(117)**	**23**	**(94)**	(168)	23	(145)
Actuarial (losses)/gains on defined benefit pension schemes transferred to unallocated divisible surplus	**47**	**(9)**	**38**	56	(7)	49
Exchange differences on translation of overseas operations	**12**	**–**	**12**	(16)	–	(16)
Net change in financial investments designated as available-for-sale	**40**	**(14)**	**26**	(135)	47	(88)
Other comprehensive income	**(18)**	**–**	**(18)**	(263)	63	(200)

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

36 Tax (continued)

(iv) Deferred tax – Balance Sheet

Deferred tax assets and liabilities have been recognised/(provided) for the temporary differences and unused tax losses. The recognition of a deferred tax asset in respect of tax losses is supported by management's best estimate of future taxable profits to absorb the losses in future years. These taxable profit projections are based on assumptions consistent with those used for EEV reporting purposes. Deferred tax assets and liabilities have been offset to the extent it is permissible under the accounting standard. The net movement in deferred tax assets and liabilities during the year is as follows:

(a) UK deferred tax asset/(liability)

	Net tax asset as at 1 January 2014 £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to equity £m	Transfers in on acquisitions £m	Net tax liability as at 31 December 2014 £m
Realised and unrealised gains on investments	**(160)**	**(8)**	**–**	**–**	**(168)**
Excess of depreciation over capital allowances	**24**	**(5)**	**–**	**–**	**19**
Excess expenses[1]	**192**	**(87)**	**–**	**–**	**105**
Deferred acquisition expenses	**(72)**	**19**	**(8)**	**–**	**(61)**
Difference between the tax and accounting value of insurance contracts	**(70)**	**(73)**	**–**	**–**	**(143)**
Accounting provisions	**8**	**(4)**	**–**	**(1)**	**3**
Trading losses[2]	**93**	**(48)**	**–**	**–**	**45**
Pension fund deficit	**93**	**(13)**	**18**	**–**	**98**
Purchased interest in long term business	**(26)**	**2**	**–**	**–**	**(24)**
UK deferred tax asset/(liability)[3]	**82**	**(217)**	**10**	**(1)**	**(126)**
Presented in the Consolidated Balance Sheet as:					
– UK deferred tax asset	**82**	**(28)**	**–**	**–**	**54**
– UK deferred tax liabilities	**–**	**(189)**	**10**	**(1)**	**(180)**

1. The reduction in the deferred tax asset on excess expenses reflects the full utilisation of excess management expenses together with the unwind of the spread acquisition expenses relating to changes in the I-E legislation.
2. The reduction in the deferred tax asset primarily reflects utilisation of brought forward trading losses against LGAS and LGR tavable profits (£71m) partly offset by additional tax losses.
3. The move to a net deferred tax liability provision in the UK reflects the continued utilisation of tax losses and corresponding reduction in deferred tax asset while the deferred tax liability on actuarial reserves has increased. On the Consolidated Balance Sheet the net UK deferred tax liability has been split between an asset of £54m and a liability of £180m where the relevant items cannot be offset.

	Net tax asset as at 1 January 2013 £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to equity £m	Transfers in on acquisitions £m	Net tax asset as at 31 December 2013 £m
Realised and unrealised losses/(gains) on investments	14	(174)	–	–	(160)
Excess of depreciation over capital allowances	43	(19)	–	–	24
Excess expenses	234	(42)	–	–	192
Deferred acquisition expenses	(77)	–	5	–	(72)
Difference between the tax and accounting value of insurance contracts	(99)	29	–	–	(70)
Accounting provisions	9	(18)	4	13	8
Trading losses	128	(48)	–	13	93
Pension fund deficit	76	(2)	19	–	93
Purchased interest in long term business	(12)	2	–	(16)	(26)
UK deferred tax asset	316	(272)	28	10	82

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

(b) Overseas deferred tax liabilities

	Net tax liability as at 1 January 2014 £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to equity £m	Transfers in on acquisitions £m	Net tax liability as at 31 December 2014 £m
Realised and unrealised gains on investments	**(33)**	**(3)**	**(17)**	**–**	**(53)**
Deferred acquisition expenses	**(241)**	**(41)**	**(13)**	**–**	**(295)**
Difference between the tax and accounting value of insurance contracts	**(229)**	**1**	**(14)**	**–**	**(242)**
General provisions	**(20)**	**(3)**	**–**	**–**	**(23)**
Trading losses	**158**	**17**	**11**	**–**	**186**
Pension fund deficit	**3**	**–**	**–**	**–**	**3**
Purchased interest in long term business	**–**	**–**	**–**	**(10)**	**(10)**
Overseas deferred tax liabilities	**(362)**	**(29)**	**(33)**	**(10)**	**(434)**

	Net tax liability as at 1 January 2013 £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to equity £m	Transfers in on acquisitions £m	Net tax liability as at 31 December 2013 £m
Realised and unrealised gains on investments	(84)	4	47	–	(33)
Deferred acquisition expenses	(222)	(22)	3	–	(241)
Difference between the tax and accounting value of insurance contracts	(264)	32	3	–	(229)
General provisions	–	(20)	–	–	(20)
Trading losses	185	(24)	(3)	–	158
Pension fund deficit	3	–	–	–	3
Overseas deferred tax liabilities	(382)	(30)	50	–	(362)

Unrecognised deferred tax assets

The group has the following unrelieved tax losses carried forward as at 31 December 2014. No deferred tax asset has been recognised in respect of these tax losses as at 31 December 2014 (or 31 December 2013), as it is not probable that there will be suitable taxable profits emerging in future periods against which to relieve them. Relief for these tax losses will only be recognised if it becomes probable that suitable taxable profits will arise in future periods. The potential deferred tax asset unrecognised as at 31 December 2014 is £23m (2013: £29m).

	Gross 2014 £m	Tax 2014 £m	Gross 2013 £m	Tax 2013 £m
Trading losses	**45**	**7**	43	7
Realised and unrealised losses on investments	**58**	**12**	169	18
Post cessation losses	**5**	**1**	5	1
Unrelieved interest payments on debt instruments	**14**	**3**	14	3
Unrecognised deferred tax asset	**122**	**23**	231	29

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

36 Tax (continued)

(v) Current tax – Balance sheet

	2014 £m	2013 £m
Tax due within 12 months	**23**	98
Tax due after 12 months	**194**	212
Current tax assets	**217**	310

	2014 £m	2013 £m
Tax due within 12 months	**8**	14
Tax due after 12 months	**1**	–
Current tax liabilities	**9**	14

37 Auditors' remuneration

	2014 £m	2013 £m
Remuneration receivable by the Company's auditors for the audit of the consolidated and Company financial statements	**1.1**	1.1
Remuneration receivable by the Company's auditors and its associates for the supply of other services to the Company and its associates, including remuneration for the audit of the financial statements of the Company's subsidiaries:		
The audit of the Company's subsidiaries	**3.2**	3.1
Audit related assurance services	**1.3**	1.4
Other assurance services[1]	**0.9**	0.1
Tax compliance services	**0.1**	0.1
Other tax services	**0.2**	0.3
Internal audit services	**0.1**	0.1
Services related to corporate finance transactions	**0.1**	0.2
Other services not covered above	**0.2**	0.6
Total remuneration	**7.2**	7.0

1. The increase in Other assurance services relates to assurance work carried out on Solvency II in 2014.

In addition to the above, fees payable to the Company's auditors and its associates for audit services supplied to the Company's associated pension schemes amounted to £31k (2013: £33k).

38 Employee information

	2014	2013
Monthly average number of staff employed during the year:		
UK	**8,014**	8,268
Europe	**431**	424
USA	**560**	545
Total excluding consolidated private equity investment vehicles	**9,005**	9,237
Consolidated private equity investment vehicles[1]	**2,033**	1,926
Worldwide employees	**11,038**	11,163

	Note	2014 £m	2013 £m
Wages and salaries[2]		**438**	410
Social security costs		**59**	54
Share-based incentive awards	39	**28**	23
Defined benefit pension costs	27	**62**	38
Defined contribution pension costs	27	**52**	50
Total excluding consolidated private equity investment vehicles		**639**	575
Consolidated private equity investment vehicles[1]		**56**	55
		695	630

1. The private equity investment vehicles are controlled by virtue of majority holdings owned by the with-profits part of the LTF. The £56m (2013: £55m) costs of employment for private equity investment subsidiaries primarily comprise salaries and £0.4m of defined contribution pension costs (2013: £0.4m).
2 The current year includes a full year's charge for Cofunds (Holdings) Limited's wages and salaries, whereas prior year only includes the charge since date of acquisition on 22 May 2013.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

39 Share-based payments

The fair value at the date of grant of the equity instrument is recognised as an expense, spread over the vesting period of the instrument. The total amount to be expensed is determined by reference to the fair value of the awards, excluding the impact of any non-market vesting conditions. At each balance sheet date, the group revises its estimate of the number of equity instruments which are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment is made to equity. On vesting or exercise, the difference between the expense charged to the income statement and the actual cost to the group is transferred to retained earnings. Where new shares are issued, the proceeds received are credited to share capital and share premium.

(i) Description of schemes

The group provides a number of equity settled share-based long term incentive plans for directors and eligible employees.

The Savings related share option scheme (SAYE) allows employees to enter into a regular savings contract over either three or five years, coupled with a corresponding option over shares of the group. The grant price is equal to 80% of the quoted market price of the group shares on the invitation date. Fair value is calculated using the Black-Scholes model.

Conditional shares can be granted to top managers under the Performance Share Plan (PSP), based upon individual and Company performance. Prior to the 2014 award, the number of performance shares transferred to the individual at the end of the three year vesting period is dependent on the group's relative Total Shareholder Return (TSR). New performance conditions attached to the 2014 award result in the number of shares being transferred being equally dependent on the group's relative TSR and Earnings per Share (EPS)/ Dividend per Share (DPS) growth. In addition, the shares vest evenly over three, four and five years.

The Company share option scheme (CSOP), approved by HMRC, and unapproved Executive share option scheme (ESOS) are designed to provide a long term incentive to directors and managers of the group. The number of options granted is based on the manager's grade, salary and performance. In order for the options to be exercisable, Legal & General's TSR must exceed the median TSR of the FTSE 100 for a period of at least three years commencing on the date of the grant. Fair value is calculated using a binomial model, reflecting the historic exercise patterns.

The Share bonus plan (SBP) awards restricted shares and nil-paid options. Recipients of restricted shares are entitled to both vote and receive dividends. Fair value is calculated as the market value on the grant date, adjusted to reflect the eligibility for dividend payments.

Under the Employee share plan (ESP), approved by HMRC, permanent UK employees may elect to purchase group shares from the market at the prevailing market price on a monthly basis. The group supplements the number of shares purchased by giving employees one free matching share for every one share purchased up to the first £20 of the employees' contributions and one free matching share for every two shares purchased with contributions between £20 and £125. From time to time, the group may make a grant of free shares. Both the free and matching shares must be held in trust for three years before they may vest to the employee. The fair value of granted shares is equal to the market value at grant date.

The fair values of the share grants made during the year have been calculated using the following assumptions:

	SAYE	SAYE	PSP
Award date	3-Sep-14	9-Apr-14	11-Jun-14
Weighted average share price	243p	213p	232p
Weighted average exercise price	191p	185p	n/a
Expected volatility	28%	31%	30%
Expected life	3-5 years	3-5 years	3-5 years
Risk free investment rate	1.27%-1.78%	1.10%-1.80%	1.25%
Dividend yield	3.9%	3.9%	3.9%

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

39 Share-based payments (continued)

(ii) Total recognised expense

The total recognised expense relating to share-based payments in 2014 was £28m (2013: £23m) before tax, all of which related to equity settled share schemes. This is broken down between the group's plans as detailed below:

	2014 £m	2013 £m
Share bonus plan (SBP)	13	11
Performance share plan (PSP)	7	6
Employee share plan (ESP)	6	3
Savings related share option scheme (SAYE)	2	3
Total share-based payment expense	**28**	**23**

(iii) Outstanding share options

	SAYE Options 2014	Weighted average exercise price 2014 p	CSOP/ESOS Options 2014	Weighted average exercise price 2014 p	SBP Options 2014	Weighted average exercise price 2014 p
Outstanding at 1 January	41,804,268	67	7,262,864	126	401,072	–
Granted during the year	5,387,224	188	1,688,881	212	189,185	–
Forfeited during the year	(969,983)	135	–	–	–	–
Exercised during the year	(25,003,593)	43	(3,562,693)	118	(37,738)	–
Expired during the year	(1,035,557)	116	(308,893)	148	(6,000)	–
Outstanding at 31 December	20,182,359	124	5,080,159	158	546,519	–
Exercisable at 31 December	195,759	70	35,293	85	–	–
Weighted average remaining contractual life (years)	2		2		8	

Exercised during the year includes 3,562,693 of options, which were predominantly CSOP options linked to SBP which have been settled using employee scheme shares.

	SAYE Options 2013	Weighted average exercise price 2013 p	CSOP/ESOS Options 2013	Weighted average exercise price 2013 p	SBP Options 2013	Weighted average exercise price 2013 p
Outstanding at 1 January	41,195,772	58	13,694,159	101	460,734	–
Granted during the year	5,166,415	147	1,244,272	169	165,400	–
Forfeited during the year	(1,151,667)	92	–	–	–	–
Exercised during the year	(2,861,483)	62	(7,131,655)	84	(73,402)	–
Expired during the year	(544,769)	74	(543,912)	105	(151,660)	–
Outstanding at 31 December	41,804,268	67	7,262,864	126	401,072	–
Exercisable at 31 December	100,433	78	41,007	85	–	–
Weighted average remaining contractual life (years)	2		1		8	

Exercised during the year includes 5,709,328 of options which were predominantly CSOP options linked to SBP which have been settled using employee scheme shares.

(iv) Total options

Options over 25,809,037 shares (2013: 49,468,204 shares) are outstanding under CSOP, ESOS, SAYE and SBP as at 31 December 2014. These options have a range of exercise prices between 0p and 220p (2013: 0p and 170p) and maximum remaining contractual life up to 2024 (2013: 2023).

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

40 Share capital, share premium and employee scheme treasury shares

An equity instrument is any contract which evidences a residual interest in the net assets of an entity. It follows that a financial instrument is treated as equity if:

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on unfavourable terms; and
- the instrument is either a non-derivative which contains no contractual obligation to deliver a variable number of own equity instruments, or is a derivative which will be settled only by the group exchanging a fixed amount of cash, or other financial assets, for a fixed number of its own equity instruments.

Where any group entity purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to shareholders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to shareholders, net of any directly attributable incremental transaction costs and the related income tax effects. Shares held on behalf of employee share schemes are disclosed as such on the balance sheet.

(i) Share capital and share premium

Authorised share capital	2014 Number of shares	2014 £m	2013 Number of shares	2013 £m
At 31 December: ordinary shares of 2.5p each	**9,200,000,000**	**230**	9,200,000,000	230

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2014	**5,917,066,636**	**148**	**959**
Options exercised under share option schemes			
– Executive share option scheme	**–**	**–**	**–**
– Savings related share option scheme	**25,003,593**	**1**	**10**
As at 31 December 2014	**5,942,070,229**	**149**	**969**

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2013	5,912,782,826	148	956
Options exercised under share option schemes			
– Executive share option scheme	1,422,327	–	1
– Savings related share option scheme	2,861,483	–	2
As at 31 December 2013	5,917,066,636	148	959

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

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

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

40 Share capital, share premium and employee scheme treasury shares (continued)

(ii) Employee scheme treasury shares

The group uses the Employee Share Ownership Trust (ESOT) and the Legal & General Group Employee Share Plan (ESP) to purchase and hold shares of the group for delivery to employees under various employee share schemes. Shares owned by these vehicles are included at cost in the Consolidated Balance Sheet and are shown as a deduction from shareholders' equity. They are disclosed as employee scheme treasury shares until they vest to employees. Share-based liabilities to employees may also be settled via purchases directly from the market or by the issue of new shares.

The ESOT has waived its voting rights and its rights to some of the dividends payable on the shares it holds. Employees are entitled to dividends on the shares held on their behalf within the ESP.

	2014 Number of shares	2014 £m	2013 Number of shares	2013 £m
As at 1 January	**32,902,447**	**39**	40,400,259	43
Shares purchased	**3,720,595**	**7**	7,313,358	12
Shares vested	**(7,138,637)**	**(9)**	(14,811,170)	(16)
As at 31 December	**29,484,405**	**37**	32,902,447	39

41 Non-controlling interests

Non-controlling interests represent third party interests in private equity and property investment vehicles which are consolidated in the group's results. The majority of the net increase in the non-controlling interests in 2014 arises from the revaluation of the third party interests in the Legal & General UK Property Ungeared Fund Limited Partnership and the Leisure Fund Unit Trust.

42 Other liabilities

	2014 £m	2013[1] £m
Accruals	**327**	281
Reinsurers' share of deferred acquisition costs	**69**	67
Deferred income liabilities	**216**	295
Other	**351**	402
Other liabilities	**963**	1,045
Settled within 12 months	**696**	691
Settled after 12 months	**267**	354

1. Other liabilities have been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 1.

Other liabilities settled after 12 months are expected to be settled within five years.

43 Related party transactions

There were no material transactions between key management and the Legal & General group of companies. 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 £69m (2013: £62m) for all employees.

At 31 December 2014 and 31 December 2013 there were no loans outstanding to officers of the Company.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

Key management personnel compensation

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

	2014 £m	2013 £m
Salaries	**8**	8
Social security costs	**2**	3
Post-employment benefits	**2**	–
Share-based incentive awards	**4**	4
Key management personnel compensation	**16**	15
Number of key management personnel	**16**	18

The group UK defined benefit pension schemes have purchased annuity contracts issued by Society for consideration of £60m (2013: £68m) during the year, priced on an arm's length basis.

The group's investment portfolio includes investments in venture capital, property and financial investments which are held via collective investment vehicles. Net investments into associate investment vehicles totalled £5m during the year (2013: £21m). The group received investment management fees of £1m during the year (2013: £2m). Distributions from these investment vehicles to the group totalled £13m (2013: £19m). The prior year comparatives have been restated to reflect the adoption by group of IFRS 10, 'Consolidated Financial Statements', which led to the consolidation of investment vehicles previously classified as associates.

During the year, the group injected cash of £77m into its joint venture investment, CALA, in the form of £43m equity and £34m debt. These payments settled the deferred consideration due and facilitated the growth of the company, including the acquisition of Banner Homes. The loans outstanding from CALA total £55m (2013: £17m).

During the year, the group also acquired a preferred equity stake in Pemberton Asset Management Holdings Limited (Pemberton) at a cost of £6m. This represents 40% of the voting rights in the company. The option is available to convert this into ordinary equity at any time in the next five years. A commitment of £194m was also made to Pemberton's first co-mingled funds, none of which was drawn as at 31 December 2014. An additional commitment of £78m was made to an Legal & General segregated account with Pemberton. As at 31 December 2014, £25m of this was drawn.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

44 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 judgements.

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

In 1975, Legal and General Assurance Society Limited (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 indemnities and guarantees as a normal part of their business and operating activities or in relation to capital market transactions. 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.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

45 Commitments

(i) Capital commitments

	2014 £m	2013 £m
Authorised and contracted commitments not provided for in respect of investment property development, payable after 31 December:		
– Long term business	**119**	193

(ii) Operating lease commitments

	2014 £m	2013 £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
– Not later than 1 year	**29**	30
– Later than 1 year and not later than 5 years	**102**	103
– Later than 5 years	**477**	468
	608	601
Future aggregate minimum sublease payments expected to be received under operating subleases	**181**	157
The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:		
– Not later than 1 year	**405**	342
– Later than 1 year and not later than 5 years	**1,389**	1,167
– Later than 5 years	**4,156**	3,489
	5,950	4,998

The group leases offices and other premises under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

46 Post balance sheet events

In February 2015 the group entered into an agreement to sell Legal & General International (Ireland) Limited (LGII), the group's Dublin based offshore bond provider, to Canada Life. The sale is expected to conclude during Q1 2015. At 31 December 2014 LGII had £2.6bn of assets under administration.

In February 2015 the group entered into an agreement to acquire 100% of New Life Home Finance Limited, a UK based lifetime mortgage provider for a consideration of £5m. The acquisition is expected to complete in Q2 2015, subject to FCA approval, and will enable the group to offer lifetime mortgages as part of its retirement solutions.

47 Subsidiaries

Subsidiaries are those entities (including special purpose entities, mutual funds and unit trusts) over which the group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. Profits or losses of subsidiary undertakings sold or acquired during the year are included in the consolidated results up to the date of disposal or from the date of gaining control. The interests of parties, other than the group, in investment vehicles, such as unit trusts, are classified as liabilities and appear as 'Net asset value attributable to unit holders' in the Consolidated Balance Sheet. The basis by which subsidiaries are consolidated in the group financial statements is outlined in the basis of preparation (Note 1).

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

47 Subsidiaries (continued)

(i) Operating subsidiaries

In the opinion of the directors, the following subsidiaries principally affected the group's results as set out in the annual accounts and are consolidated in these financial statements. The information required to be provided under section 409 of the Companies Act 2006 is provided only in relation to these undertakings and the undertakings listed under Notes 47(ii) and 48. A complete list of undertakings will be annexed to the Company's annual return which will be available from Companies House.

Company name	Nature of business	Country of incorporation
Legal & General Finance PLC[1]	Treasury operations	England and Wales
Legal & General Resources Limited[1]	Provision of services	England and Wales
Legal & General Assurance Society Limited	Long term and general insurance	England and Wales
Legal & General Insurance Limited	General insurance	England and Wales
Legal & General Investment Management Limited	Institutional fund management	England and Wales
Legal and General Assurance (Pensions Management) Limited	Long term business	England and Wales
Legal & General Pensions Limited	Reinsurance	England and Wales
Legal & General Partnership Services Limited	Provision of services	England and Wales
Legal & General (Portfolio Management Services) Limited	Institutional fund management	England and Wales
Legal & General Property Limited	Property management	England and Wales
Legal & General (Unit Trust Managers) Limited	Unit trust management	England and Wales
Suffolk Life Annuities Limited	Long term business	England and Wales
Suffolk Life Pensions Limited	Long term business	England and Wales
LGV Capital Limited	Private equity	England and Wales
Cofunds (Holdings) Limited	Provision of services	England and Wales
Investment Discounts Online Limited	Provision of services	England and Wales
Legal & General (France) SA	Long term business	France
Legal & General Bank (France) SA	Financial services	France
Legal & General Risques Divers (France) SA	Insurance company	France
Legal & General International (Ireland) Limited	Long term business	Ireland
Legal & General Nederland Levensverzekering Maatschappij NV	Long term business	Netherlands
Global Index Advisors Inc	Institutional fund management	USA
Banner Life Insurance Company Inc	Long term business	USA
William Penn Life Insurance Company of New York Inc	Long term business	USA
Legal & General Investment Management America Inc	Institutional fund management	USA
First British American Reinsurance Company II	Reinsurance	USA
First British Vermont Reinsurance Company II	Reinsurance	USA
First British Bermuda Reinsurance Company II Limited	Reinsurance	Bermuda
Legal & General Reinsurance Company Limited	Reinsurance	Bermuda
Legal & General Investment Management Asia Limited	Institutional fund management	Hong Kong

1. Directly held by Legal & General Group Plc. All other subsidiaries are held through intermediate holding companies.

The main territory of operation of subsidiaries incorporated in England and Wales is the UK. For overseas subsidiaries the principal country of operation is the same as the country of incorporation. All operating subsidiaries have a 31 December year end reporting date and are 100% owned apart from Investment Discounts Online Limited, which is 95% owned.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

(ii) Investment vehicles

The following mutual funds and partnerships have been consolidated as a result of the group's ability to exert control over the financial and operating activities of the investment vehicle so as to obtain economic benefits.

Vehicle name	Vehicle type	Territory	Year end reporting date	% of equity shares held by the group
Antham 1 Limited	Limited company	England and Wales	31/12/2014	100.0
Chineham Shopping Centre Limited Partnership	Limited partnership	England and Wales	31/12/2014	100.0
Ealing Shopping Centre Limited Partnership	Limited partnership	England and Wales	31/12/2014	100.0
Gresham Street Limited Partnership	Limited partnership	England and Wales	31/12/2014	100.0
Legal & General City Offices Limited Partnership	Limited partnership	England and Wales	31/12/2014	100.0
Legal & General Investment Management (Ireland) Risk Management Solutions Plc	Open ended investment company	Ireland	31/12/2014	100.0
Legal & General Life Fund Limited Partnership	Limited partnership	England and Wales	31/12/2014	100.0
Northampton Shopping Centre Limited Partnership	Limited partnership	England and Wales	31/12/2014	100.0
Performance Retail Limited Partnership	Limited partnership	England and Wales	31/12/2014	100.0
Performance Retail Unit Trust	Property unit trust	Jersey	31/12/2014	100.0
Procession House One Unit Trust	Property unit trust	Jersey	31/12/2014	100.0
Synergy Gracechurch Holdings Limited	Limited company	Jersey	31/12/2014	100.0
LGV 7 Private Equity Fund Limited Partnership	Private equity partnership	England and Wales	31/12/2014	99.7
LGV 6 Private Equity Fund Limited Partnership	Private equity partnership	England and Wales	31/12/2014	99.5
Legal & General SICAV	Societe d'Investissement A Capital Variable	France	31/12/2014	93.3
Legal & General Growth Trust	Equity unit trust	England and Wales	15/05/2014	90.2
Legal & General Global Environmental Enterprises Fund	Equity unit trust	England and Wales	01/12/2014	89.0
Legal & General Investment Management Global Corporate Bond Fund	Open ended investment company	England and Wales	31/12/2014	84.3
Legal & General Asian Income Trust	Equity unit trust	England and Wales	10/09/2014	75.3
Legal & General European Trust	Equity unit trust	England and Wales	28/07/2014	70.8
Legal & General UK Special Situations Trust	Equity unit trust	England and Wales	14/09/2014	62.6
Legal & General UK Smaller Companies Trust	Equity unit trust	England and Wales	18/06/2014	61.1
Legal & General High Income Trust	Debt security unit trust	England and Wales	05/09/2014	60.5
Legal & General Mixed Investment 40-85% Fund	Mixed asset unit trust	England and Wales	30/09/2014	57.7
Legal & General UK Equity Income Fund	Equity unit trust	England and Wales	24/01/2014	57.1
Legal & General European Index Trust	Equity unit trust	England and Wales	31/07/2014	55.9
Legal & General Emerging Markets Government Bond (US$) Index Fund	Debt security unit trust	England and Wales	10/11/2014	54.9
Legal & General Global Emerging Market Index Fund	Equity unit trust	England and Wales	31/07/2014	53.9
Legal & General Japan Index Trust	Equity unit trust	England and Wales	24/10/2014	53.3
Legal & General Investment Management Liquidity Funds Plc	Open ended investment company	Ireland	31/12/2014	50.8
Legal & General UK Property Ungeared Fund Limited Partnership	Limited partnership	England and Wales	31/12/2014	49.6
Legal & General Pacific Index Trust	Equity unit trust	England and Wales	25/03/2014	49.3
Legal & UK Alpha Trust	Equity unit trust	England and Wales	18/06/2014	45.4
L&G US Index Trust	Equity unit trust	England and Wales	05/12/2014	45.0
Legal & General Ethical Trust	Equity unit trust	England and Wales	12/12/2014	44.9
Legal & Fixed Interest Trust	Debt security unit trust	England and Wales	05/09/2014	38.9
Legal & Dynamic Bond Trust	Mixed asset unit trust	England and Wales	05/09/2014	32.6
Legal & General Sterling Corporate Bond Index Fund	Debt security unit trust	England and Wales	20/05/2014	31.2
The Leisure Fund Limited Partnership	Limited partnership	England and Wales	31/12/2014	27.6
Lagoon Finance Limited[1]	Limited liability company	Ireland	31/12/2014	–

1. Lagoon Finance Limited is consolidated on the basis that the group has the power to govern the financial and operating policies and has the rights to receive 100% of the economic benefits.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

47 Subsidiaries (continued)

(iii) Subsidiaries with non-controlling interests greater than 5%

Summarised financial information for subsidiaries with non-controlling interests greater than 5% is shown below.

2014	Property partnerships £m	Unit trusts £m	Total £m
Dividends paid to non-controlling interests	–	–	–
Current assets	**24**	**33,746**	**33,770**
Non-current assets	**489**	**1,749**	**2,238**
Current liabilities	**17**	**14,238**	**14,255**
Non-current liabilities	**92**	**21,257**	**21,349**
Profit after tax	**9**	–	**9**

2013	Property partnerships £m	Unit trusts £m	Total £m
Dividends paid to non-controlling interests	–	–	–
Current assets	61	23,974	24,035
Non-current assets	425	882	1,307
Current liabilities	14	11,578	11,592
Non-current liabilities	71	13,278	13,349
Profit after tax	21	–	21

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

48 Associates and joint ventures

Associates are entities over which the group has significant influence but which it does not control. Consistent with IAS 28, 'Investments in associates', it is presumed that the group has significant influence where it has between 20% and 50% of the voting rights in the investee unless indicated otherwise. Joint ventures are entities where the group and other parties undertake an activity which is subject to joint control. The basis by which associates and joint ventures are consolidated in the group financial statements is outlined in the basis of preparation (Note 1).

The group has the following significant holdings which have been included as financial investments, investments in associates or joint ventures. The gross assets of these companies are in part funded by borrowings which are non-recourse to the group.

Company name	Country of incorporation	Accounting treatment	Year end reporting date	% of equity shares held by the group
Commercial International Life Company SAE[1,2]	Egypt	Equity method	30/06/2014	55.0
Bracknell Property Unit Trust[1]	Jersey	FVTPL	31/03/2014	50.4
Central St Giles Unit Trust	Jersey	FVTPL	31/12/2014	50.0
Legal & General Gulf BSC[2]	Bahrain	Equity method	31/03/2014	50.0
Mithras Capital Fund Limited Partnership	Scotland	FVTPL	31/12/2014	50.0
Warrington Retail Unit Trust	Jersey	FVTPL	31/12/2014	50.0
Meteor Industrial Partnership	England and Wales	FVTPL	31/12/2014	49.9
CALA Group Limited	Scotland	Equity method	30/06/2014	46.5
Arlington Business Parks Unit Trust	Jersey	FVTPL	31/12/2014	41.3
Novus Leisure Limited	England and Wales	FVTPL	30/06/2014	40.5
English Cities Fund	England and Wales	FVTPL	31/12/2014	37.5
IndiaFirst Life Insurance Company Limited[2]	India	Equity method	31/03/2014	26.0
Bishopsgate Limited Partnership	Jersey	FVTPL	31/12/2014	25.0

1. The Bracknell Property Unit Trust and Commercial International Life Company SAE are not consolidated as the group does not have the power to control the entity.
2. IndiaFirst Life Insurance Company Limited is an associate operation, Legal & General Gulf BSC and Commercial International Life Company SAE are joint venture operations.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

48 Associates and joint ventures (continued)

i) Associates

Summarised financial information for associates is shown below.

2014	Equity method	Classified as FVTPL		
	Associates £m	Private equity £m	Property partner-ships £m	Total £m
Current assets	22	24	54	78
Non-current assets	459	125	1,038	1,163
Current liabilities	15	22	197	219
Non-current liabilities	429	127	218	345
Revenue	221	111	162	273
Profit or loss from continuing operations	–	(14)	93	79
Total comprehensive income	–	(14)	93	79

2013	Equity method	Classified as FVTPL		
	Associates £m	Private equity £m	Property partner-ships £m	Total £m
Current assets	14	75	826	901
Non-current assets	411	80	378	458
Current liabilities	9	23	399	422
Non-current liabilities	379	107	177	284
Revenue	224	124	103	227
Profit or loss from continuing operations	(4)	(4)	51	47
Total comprehensive income	(4)	(4)	51	47

ii) Joint ventures

Summarised financial information for joint ventures is shown below.

Joint Ventures	2014 £m	2013 £m
Current assets	955	348
Non-current assets	748	503
Current liabilities	199	128
Non-current liabilities	628	183
Revenue	420	216
Profit or loss from continuing operations	33	11
Total comprehensive income	33	11
Cash and cash equivalents	696	16
Current financial liabilities (excluding trade and other payables/provisions)	2	1
Non-current financial liabilities (excluding trade and other payables/provisions)	561	26
Interest expense	17	–

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

49 Interests in structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominating factor in deciding who controls the entity, such as when voting rights might relate to administrative tasks only and the relevant activities are directed by means of contractual arrangement. The group has interests in investment vehicles which, depending upon their status, are classified as either consolidated or unconsolidated structured entities. These interests are detailed under sections (i) to (iii).

All of the group's holdings in the above vehicles are subject to the terms and conditions of the respective investment vehicle's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investment vehicles. The investment manager makes investment decisions after extensive due diligence of the underlying investment vehicle, including consideration of its strategy and the overall quality of the underlying investment vehicle's manager.

All of the investment vehicles in the investment portfolio are managed by portfolio managers who are compensated by the respective investment vehicles for their services. Such compensation generally consists of an asset based fee and a performance related incentive fee, and is reflected in the valuation of the investment vehicles.

(i) Interests in consolidated structured entities

Where the group has control over an investment vehicle, we have determined it to be a consolidated structured entity. The group currently consolidates Collateralised Debt Obligations (CDOs) with a market value of £1,120m (2013: £1,098m) at 31 December 2014. Details of the support which the group has agreed to provide these entities, in addition to the triggers under which it could be invoked, are contained within Note 13 (ii). The group has not, and has no intention, to provide financial or other support to any other structured entities which it consolidates.

(ii) Interests in unconsolidated structured entities

As part of its investment activities, the group also invests in unconsolidated structured entities. As at 31 December 2014 our total interest in such entities, reflected on the group's consolidated balance sheet and classified as financial investments held at fair value through profit or loss, was £28,259m (2013: £16,560m). A summary of our holdings at 31 December 2014, with prior year comparatives, is provided below:

	2014 Financial investments £m	2013 Financial investments £m
Debt securities		
Analysed as:		
Asset Backed Securities – Traditional	**8,122**	1,809
Asset Backed Securities – Securitisations and Debentures	**12,329**	7,086
CDOs	**279**	239
Investment funds		
Analysed as:		
Unit Trusts	**3,950**	4,052
Property Limited Partnerships	**238**	121
Exchange Traded Funds	**147**	122
Specialised investment vehicles		
Analysed as:		
OEICs	**2,991**	3,023
SICAVs	**198**	108
SPVs	**5**	–
Total	**28,259**	16,560

Where the Company does not manage the above investments our maximum exposure to loss to the interests presented above is the carrying amount of the Company's investments. Given the Company's limited exposure further information about the overall size of these entities has not been provided. Where the Company manages these investments the maximum exposure is the underlying balance sheet value, together with future management fees – these are covered further under Section (iii) below. The Company does not sponsor any of the above entities.

The group has not, and has no intention, to provide financial or other support to any other structural entities which it consolidates.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

49 Interests in structured entities (continued)

(iii) Other interests in unconsolidated structured entities

Management fees received for investments that the group manages also represent interests in unconsolidated structured entities. The group always maintains an interest in those funds which it manages. The group's maximum exposure to loss with these investments equates to the underlying assets on the group balance sheet, together with future management fees. The table below shows the assets under management of those structured entities which the group manages, together with investment management fees received from external parties. The group's holding in these entities is included within the amounts disclosed in section (ii).

	2014		2013	
	AUM £m	Investment management fees £m	AUM £m	Investment management fees £m
Investment funds	**15,906**	**111**	23,598	144
Specialised Investment Vehicles				
Analysed as:				
OEICs	**903**	**3**	886	2
SICAVs	**–**	**–**	20,085	5
Property Limited Partnerships	**2,066**	**7**	2,036	6
Total	**18,875**	**121**	46,605	157

EUROPEAN EMBEDDED VALUE BASIS

Group embedded value – summary

For the year ended 31 December 2014	Covered business UK business £m	LGAS overseas business £m	LGA £m	Non-covered business £m	Total £m
At 1 January 2014					
Value of in-force business (VIF)	4,693	197	699	–	5,589
Shareholder net worth (SNW)	3,249	315	234	199	3,997
Embedded value at 1 January 2014	7,942	512	933	199	9,586
Exchange rate movements	–	(30)	44	(16)	(2)
Operating profit/(loss) after tax for the year	1,264	31	(68)	107	1,334
Non-operating profit/(loss) after tax for the year	709	(11)	(11)	(5)	682
Profit/(loss) for the year	1,973	20	(79)	102	2,016
Intra-group distributions[1]	(641)	(30)	(46)	717	–
Dividends to equity holders of the Company	–	–	–	(580)	(580)
Transfer to non-covered business[2]	(26)	–	–	26	–
Other reserve movements including pension deficit[3]	389	–	(125)	(309)	(45)
Embedded value at 31 December 2014	**9,637**	**472**	**727**	**139**	**10,975**
Value of in-force business	6,118	147	518	–	6,783
Shareholder net worth	3,519	325	209	139	4,192
Embedded value per share (p)[4]					**185**

1. UK intra-group distributions primarily reflect a £675m dividend paid from LGAS to group, and dividends of €35m (2013: €16m) from LGN and £5m from Nationwide Life (2013: £10m) paid to LGAS. Dividends of $76m (2013: $69m) from LGA and €2m (2013: €2m) from LGF were paid to group.
2. The transfer to non-covered business represents the IFRS profits arising in the year from the provisions of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.
3. The other reserve movements primarily reflect the effect of reinsurance arrangement transactions between UK and US covered business, pension deficit movement, movement in the savings related share options scheme, and intra-group capital contribution.
4. The number of shares in issue at 31 December 2014 was 5,942,070,229 (31 December 2013: 5,917,066,636).

Further analysis of the LGAS and LGR covered business can be found in Note 2.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

Group embedded value – summary (continued)

For the year ended 31 December 2013	Covered business UK business £m	Covered business LGAS overseas business £m	Covered business LGA £m	Non-covered business £m	Total £m
At 1 January 2013					
Value of in-force business (VIF)	4,402	146	735	–	5,283
Shareholder net worth (SNW)	3,178	296	239	(96)	3,617
Embedded value at 1 January 2013	7,580	442	974	(96)	8,900
Exchange rate movements	–	9	(14)	(10)	(15)
Operating profit after tax for the year	804	16	70	168	1,058
Non-operating profit/(loss) for the year	222	60	(24)	(17)	241
Profit for the year	1,026	76	46	151	1,299
Intra-group distributions[1]	(602)	(15)	(44)	661	–
Dividends to equity holders of the Company	–	–	–	(479)	(479)
Transfer to non-covered business[2]	(27)	–	–	27	–
Other reserve movements including pension deficit[3]	(35)	–	(29)	(55)	(119)
Embedded value at 31 December 2013	7,942	512	933	199	9,586
Value of in-force business	4,693	197	699	–	5,589
Shareholder net worth	3,249	315	234	199	3,997
Embedded value per share (p)[4]					162

1. UK intra-group distributions reflect a £625m dividend paid from LGAS to group, and dividends of £10m paid to LGAS from subsidiaries (primarily Nationwide Life). Dividends of €16m from LGN were also paid to LGAS. Dividends of $69m from LGA and €2m from LGF were paid to group.
2. The transfer to non-covered business represents the IFRS profits arising in the year from the provisions of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.
3. The other reserve movements reflect the pension deficit movement, the movement of investment project costs from covered to non-covered business and the effect of reinsurance arrangement transactions between UK and US covered business.
4. The number of shares in issue at 31 December 2013 was 5,917,066,636.

Further analysis of the LGAS and LGR covered business can be found in Note 2.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

1 Methodology

Basis of preparation

The supplementary financial information has been prepared in accordance with the European Embedded Value (EEV) Principles issued in May 2004 by the European Insurance CFO Forum.

The supplementary financial information has been reviewed by PricewaterhouseCoopers LLP and prepared with assistance from our consulting actuary Milliman in the USA.

Changes to accounting policy – IASB consolidation project

On 1 January 2014 the application of IFRS 10, 'Consolidated Financial Statements' became compulsory for entities reporting in the EU.

IFRS 10, 'Consolidated Financial Statements' defines the principal of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. This states that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The application of IFRS 10 has resulted in the group consolidating a small number of investment vehicles which were not previously consolidated which impacted the gain attributable to non-controlling interests.

As a result, the prior year disclosure in the group embedded value summary and Note 6 have been restated to reflect the adoption by the group of IFRS 10, 'Consolidated Financial Statements'. The effect on amounts previously reported at 31 December 2013 is shown below. Embedded value at 31 December 2013 remains unaffected by the adoption.

	2013 £m
Profit for the year as previously reported (after tax)	1,289
Gains on non-controlling interests	
IFRS 10 'Consolidated Financial Statements' amendment	10
Revised profit for the year (after tax)	1,299

Covered business

The group uses EEV methodology to value individual and group life assurance, pensions and annuity business written in the UK, Europe and the US. The UK covered business also includes non-insured self invested personal pension (SIPP) business.

The managed pension funds business has been excluded from covered business and is reported on an IFRS basis.

All other businesses are accounted for on the IFRS basis adopted in the primary financial statements.

There is no distinction made between insurance and investment contracts in our covered business as there is under IFRS.

Description of methodology

The objective of EEV is to provide shareholders with realistic information on the financial position and current performance of the group.

The methodology requires assets of an insurance company, as reported in the primary financial statements, to be attributed between those supporting the covered business and the remainder. The method accounts for assets in the covered business on an EEV basis and the remainder of the group's assets on the IFRS basis adopted in the primary financial statements.

The EEV methodology recognises profit from the covered business as the total of:

i. cash transfers during the relevant period from the covered business to the remainder of the group's assets; and
ii. the movement in the present value of future distributable profits to shareholders arising from the covered business over the relevant reporting period.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

1 Methodology (continued)

Embedded value

Shareholders' equity on the EEV basis comprises the embedded value of the covered business plus the shareholders' equity of other businesses, less the value included for purchased interests in long term business.

The embedded value is the sum of the shareholder net worth (SNW) and the value of the in-force business (VIF). SNW is defined as those amounts, within covered business (both within the long term fund and held outside the long term fund but used to support long term business), which are regarded either as required capital or which represent free surplus.

The VIF is the present value of future shareholder profits arising from the covered business, projected using best estimate assumptions, less an appropriate deduction for the cost of holding the required level of capital and the time value of financial options and guarantees (FOGs).

Service companies

All services relating to the UK covered business are charged on a cost recovery basis, with the exception of investment management services provided to Legal & General Pensions Limited (LGPL) and to Legal & General Assurance Society Limited (LGAS). Profits arising on the provision of these services are valued on a look through basis.

As the EEV methodology incorporates the future capitalised cost of these internal investment management services, the equivalent IFRS profits have been removed from the investment management (LGIM) segment and are instead included in the results of the LGAS and LGR segments on an EEV basis.

The capitalised value of future profits emerging from internal investment management services are therefore included in the embedded value and new business contribution calculations for the LGAS and LGR segments. However, the historical profits which have emerged continue to be reported in the shareholders' equity of the LGIM segment on an IFRS basis. Since the look through into service companies includes only future profits and losses, current intra-group profits or losses must be eliminated from the closing embedded value and in order to reconcile the profits arising in the financial period within each segment with the net assets on the opening and closing balance sheet, a transfer of IFRS profits for the period from the UK SNW is deemed to occur.

New business

New business premiums reflect income arising from the sale of new contracts during the reporting period and any changes to existing contracts, which were not anticipated at the outset of the contract.

In-force business comprises previously written single premium, regular premium, recurrent single premium contracts and payments in relation to existing longevity insurance. Longevity insurance product comprises the exchange of a stream of fixed leg payments for a stream of floating payments, with the value of the income stream being the difference between the two legs. New business annual premiums have been excluded for longevity insurance due to the unpredictable deal flow from this type of business.

New business contribution arising from the new business premiums written during the reporting period has been calculated on the same economic and operating assumptions used in the embedded value at the end of the financial period. This has then been rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.

The present value of future new business premiums (PVNBP) has been calculated and expressed at the point of sale. The PVNBP is equivalent to total single premiums plus the discounted value of regular premiums expected to be received over the term of the contracts using the same economic and operating assumptions used for the embedded value at the end of the financial period. The discounted value of longevity insurance regular premiums is calculated on a net of reinsurance basis to enable a more representative margin figure.

The new business margin is defined as new business contribution at the end of the reporting period divided by the PVNBP. The premium volumes and projection assumptions used to calculate the PVNBP are the same as those used to calculate new business contribution.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

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 group wide expected impact of LGA directly-written business.

Projection assumptions

Cash flow projections are determined using best estimate assumptions for each component of cash flow and for each policy group. Future economic and investment return assumptions are based on conditions at the end of the financial period. Future investment returns are projected by one of two methods. The first method is based on an assumed investment return attributed to assets at their market value. The second, which is used by LGA, where the investments of that subsidiary are substantially all fixed interest, projects the cash flows from the current portfolio of assets and assumes an investment return on reinvestment of surplus cash flows. The assumed discount and inflation rates are consistent with the investment return assumptions.

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

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

Tax

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

Allowance for risk

Aggregate risks within the covered business are allowed for through the following principal mechanisms:

i. setting required capital levels with reference to both the group's internal risk based capital models, and an assessment of the strength of regulatory reserves in the covered business;
ii. allowing explicitly for the time value of financial options and guarantees within the group's products; and
iii. setting risk discount rates by deriving a group level risk margin to be applied consistently to local risk free rates.

Required capital and free surplus

Regulatory capital for the UK LGAS and LGR businesses is provided by assets backing the with-profits business or by the SNW. The SNW comprises all shareholders' capital within Society, including those funds retained within the long term fund and the excess assets in LGPL (collectively Society shareholder capital).

Society shareholder capital is either required to cover EU solvency margin or is free surplus as its distribution to shareholders is not restricted.

For UK with-profits business, the required capital is covered by the surplus within the with-profits part of the fund and no effect is attributed to shareholders except for the burn-through cost, which is described later. This treatment is consistent with the Principles and Practices of Financial Management for this part of the fund.

For UK non profit business, the required capital will be maintained at no less than the level of the EU minimum solvency requirement. This level, together with the margins for adverse deviation in the regulatory reserves, is, in aggregate, in excess of internal capital targets assessed in conjunction with the Individual Capital Assessment (ICA) and the with-profits support account.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

1 Methodology (continued)

Required capital and free surplus (continued)

The initial strains relating to new non profit business, together with the related EU solvency margin, are supported by releases from existing non profit business and the Society shareholder capital. As a consequence, the writing of new business defers the release of capital to free surplus. The cost of holding required capital is defined as the difference between the value of the required capital and the present value of future releases of that capital. For new business, the cost of capital is taken as the difference in the value of that capital assuming it was available for release immediately and the present value of the future releases of that capital. As the investment return, net of tax, on that capital is less than the risk discount rate, there is a resulting cost of capital which is reflected in the value of new business.

For LGA, the Company Action Level (CAL) of capital has been treated as required capital for modelling purposes. The CAL is the regulatory capital level at which the company would have to take prescribed action, such as submission of plans to the State insurance regulator, but would be able to continue operating on the existing basis. The CAL is currently twice the level of capital at which the regulator is permitted to take control of the business.

For LGN, required capital has been set at 104% of EU minimum solvency margin for all products without FOGs. For those products with FOGs, capital of between 104% and 339% of the EU minimum solvency margin has been used. These capital requirements have been scaled up by a factor of 1.042 at the total level to ensure the total requirement meets the 160% Solvency I from the capital policy for the EEV, for the NBVA no scaling is applied. The level of capital has been determined using risk based capital techniques.

For LGF, 100% of EU minimum solvency margin has been used for EV modelling purposes for all products both with and without FOGs. The level of capital has been determined using risk based capital techniques.

The contribution from new business for our international businesses reflects an appropriate allowance for the cost of holding the required capital.

Financial options and guarantees

Under the EEV Principles an allowance for time value of FOGs is required where a financial option exists which is exercisable at the discretion of the policyholder. These types of option principally arise within the with-profits part of the fund and their time value is recognised within the with-profits burn-through cost described below. Additional financial options for non profit business exist only for a small amount of deferred annuity business where guaranteed early retirement and cash commutation terms apply when the policyholders choose their actual retirement date.

Further financial guarantees exist for non profit business, in relation to index-linked annuities where capped or collared restrictions apply. Due to the nature of these restrictions and the manner in which they vary depending on the prevailing inflation conditions, they are also treated as FOGs and a time value cost recognised accordingly.

The time value of FOGs has been calculated stochastically using a large number of real world economic scenarios derived from assumptions consistent with the deterministic EEV assumptions and allowing for appropriate management actions where applicable. The management action primarily relates to the setting of bonus rates. Future regular and terminal bonuses on participating business within the projections are set in a manner consistent with expected future returns available on assets deemed to back the policies within the stochastic scenarios.

In recognising the residual value of any projected surplus assets within the with-profits part of the fund in the deterministic projection, it is assumed that terminal bonuses are increased to exhaust all of the assets in the part of the fund over the future lifetime of the in-force with-profits policies. However, under stochastic modelling, there may be some extreme economic scenarios when the total projected assets within the with-profits part of the fund are insufficient to pay all projected policyholder claims and associated costs. The average additional shareholder cost arising from this shortfall has been included in the time value cost of financial options and guarantees and is referred to as the with-profits burn-through cost.

Economic scenarios have been used to assess the time value of the financial guarantees for non profit business by using the inflation rate generated in each scenario. The inflation rate used to project index-linked annuities will be constrained in certain real world scenarios, for example, where negative inflation occurs but the annuity payments do not reduce below pre-existing levels. The time value cost of FOGs allows for the projected average cost of these constrained payments for the index-linked annuities. It also allows for the small additional cost of the guaranteed early retirement and cash commutation terms for the minority of deferred annuity business where such guarantees have been written.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

LGA FOGs relate to guaranteed minimum crediting rates and surrender values on a range of contracts, as well as impacts on no-lapse guarantees (NLG). The guaranteed surrender value of the contract is based on the accumulated value of the contract including accrued interest. The crediting rates are discretionary but related to the accounting income for the amortising bond portfolio. The majority of the guaranteed minimum crediting rates are between 3% and 4%. The assets backing these contracts are invested in US Dollar denominated fixed interest securities.

LGN separately provides for two types of guarantees: interest rate guarantees and maturity guarantees. Certain contracts provide an interest rate guarantee where there is a minimum crediting rate based on the higher of one year Euribor and the policy guarantee rate. This guarantee applies on a monthly basis. Certain other linked contracts provide a guaranteed minimum value at maturity where the maturity amount is the higher of the fund value and a guarantee amount. The fund values for both these contracts are invested in Euro denominated fixed interest securities.

For LGF, FOGs which have been separately provided for relate to guaranteed minimum crediting rates and surrender values on a range of contracts. The guaranteed surrender value of the contract is the accumulated value of the contract including accrued bonuses. The bonuses are based on the accounting income for the amortising bond portfolios plus income and releases from realised gains on any equity type investments. Policy liabilities equal guaranteed surrender values. In general, the guaranteed annual bonus rates are between 0% and 4.5%.

Risk free rate

The risk free rate is set to reflect both the pattern of the emerging profits under EEV and the relevant duration of the liabilities where backing assets reflect this assumption (e.g. equity returns). For the UK, it is set by reference to the gross redemption yield on the 15-year gilt index. For LGA, the risk free rate is the 10-year US Treasury effective yield, while the 10-year ECB AAA-rated Euro area central government bond par yield is used for LGN and LGF.

Risk discount rate

The risk discount rate (RDR) is a combination of the risk free rate and a risk margin, which reflects the residual risks inherent in the group's covered businesses, after taking account of prudential margins in the statutory provisions, the required capital and the specific allowance for FOGs.

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

The WACC is derived from the group's cost of equity and debt, and the proportion of equity to debt in the group's capital structure measured using market values. Each of these three parameters is forward looking, although informed by historic information and appropriate judgements where necessary. The cost of equity is calculated as the risk free rate plus the equity risk premium for the chosen index multiplied by the Company's beta. Forward-looking or adjusted betas make allowance for the observed tendency for betas to revert to 1 and therefore a weighted average of the historic beta and 1 tends to be a better estimate of the Company's beta for the future period. We have computed the WACC using an arithmetical average of forward-looking betas against the FTSE 100 index.

The cost of debt used in the WACC calculations takes account of the actual locked-in rates for our senior and subordinated long term debt. All debt interest attracts tax relief at a rate of 20.1% (2013: 20.1%).

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

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

1 Methodology (continued)

Analysis of profit

Operating profit is identified at a level which reflects an assumed longer term level of investment return.

The contribution to operating profit in a period is attributed to four sources:

i. New business;
ii. The management of in-force business;
iii. Development costs; and
iv. Return on shareholder net worth.

Further profit contributions arise from actual investment return differing from the assumed long term investment return (investment return variances), and from the effect of economic assumption changes. These are shown below operating profit.

The contribution from new business represents the value recognised at the end of each period from new business written in that period, after allowing for the actual cost of acquiring the business and of establishing the required technical provisions and reserves and after making allowance for the cost of capital. New business contributions are calculated using closing assumptions.

The contribution from in-force business is calculated using opening assumptions and comprises:

i. expected return – the discount earned from the value of business in-force at the start of the year;
ii. experience variances – the variance in the actual experience over the reporting period from that assumed in the value of business in-force as at the start of the year; and
iii. operating assumption changes – the effects of changes in future assumptions, other than changes in economic assumptions from those used in valuing the business at the start of the year. These changes are made prospectively from the end of the period.

Development costs relate to investment in strategic systems and development capability.

The contribution from shareholder net worth comprises the increase in embedded value based on assumptions at the start of the year in respect of the expected investment return on the Society shareholder capital.

Further profit contributions arise from investment return variances and the effect of economic assumption changes.

Economic variances represent:

i. the effect of actual investment performance and changes to investment policy on SNW and VIF business from that assumed at the beginning of the period; and
ii. the effect of changes in economic variables on SNW and VIF business from that assumed at the beginning of the period, which are beyond the control of management, including associated changes to valuation bases to the extent that they are reflected in revised assumptions.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

2 LGAS and LGR embedded value reconciliation

For the year ended 31 December 2014	Shareholder net worth Free surplus £m	Shareholder net worth Required capital £m	Shareholder net worth Total £m	Value of in-force £m	Total embedded value £m
At 1 January 2014	1,174	2,390	3,564	4,890	8,454
Exchange movement	(1)	(16)	(17)	(13)	(30)
Operating profit/(loss) after tax – UK business:					
Contribution from new risks after cost of capital					
– New business contribution[1]	(340)	343	3	607	610
– Intragroup transfer from With-Profit to Non Profit Fund	–	–	–	80	80
– Expected return on VIF	–	–	–	317	317
– Expected transfer from VIF to SNW[2]	901	(213)	688	(688)	–
– Expected return on SNW	55	116	171	–	171
Generation of embedded value	616	246	862	316	1,178
– Experience variances	175	(83)	92	(6)	86
– Operating assumption changes	171	(109)	62	(36)	26
– Development costs	(26)	–	(26)	–	(26)
Variances	320	(192)	128	(42)	86
Operating profit after tax – LGAS overseas	4	3	7	24	31
Operating profit after tax – LGAS and LGR	940	57	997	298	1,295
Non-operating profit/(loss) after tax – UK business:					
– Economic variances	(359)	219	(140)	851	711
– Other taxation impacts[3]	(12)	–	(12)	10	(2)
Non-operating profit/(loss) after tax – LGAS overseas	57	(7)	50	(61)	(11)
Non-operating profit/(loss) after tax – LGAS and LGR	(314)	212	(102)	800	698
Profit for the year – LGAS and LGR	626	269	895	1,098	1,993
Intra-group distributions[4]	(671)	–	(671)	–	(671)
Transfer to non-covered business[5]	(26)	–	(26)	–	(26)
Other reserve movements including pension deficit[6]	(125)	224	99	290	389
Embedded value at 31 December 2014	**977**	**2,867**	**3,844**	**6,265**	**10,109**

1. The UK free surplus reduction of £340m to finance new business primarily reflects £343m additional required capital in relation to new business.
2. The increase in UK free surplus of £901m from the expected transfer from the in-force non profit business includes £688m of operational cash generation and a £213m reduction in required capital. The £764m operational cash generation from LGAS and LGR per Note 2 of the IRFS section also includes £29m dividend from LGN, £2m dividend from LGF and £44m primarily reflecting profit from non-covered business.
3. Reflects the impact of the change in treatment in deferred tax to align with IFRS by removing the effect of discounting.
4. Intra-group distributions primarily reflect £675m dividend paid from LGAS to group and dividend of €35m from LGN and £5m from Nationwide to LGAS.
5. The transfer to non-covered business represents the IFRS profits arising in the year from the provisions of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.
6. The other reserve movements reflect the pension deficit movement, the effect of reinsurance arrangement transactions between UK and US covered business, and intra-group capital contribution

The value of in-force business of £6,265m is comprised of £5,925m of non profit business and £340m of with-profits business.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

2 LGAS and LGR embedded value reconciliation (continued)

For the year ended 31 December 2013	Shareholder net worth				
	Free surplus £m	Required capital £m	Total £m	Value of in-force £m	Total embedded value £m
At 1 January 2013	1,259	2,215	3,474	4,548	8,022
Exchange movement	3	3	6	3	9
Operating profit/(loss) after tax – UK business:					
Contribution from new risks after cost of capital					
– New business contribution[1]	(324)	284	(40)	484	444
– Intragroup transfer from With-Profit to Non-Profit Fund	–	–	–	–	–
– Expected return on VIF	–	–	–	266	266
– Expected transfer from VIF to SNW[2]	869	(181)	688	(688)	–
– Expected return on SNW	40	76	116	–	116
Generation of embedded value	585	179	764	62	826
– Experience variances	5	(9)	(4)	14	10
– Operating assumption changes	(24)	2	(22)	21	(1)
– Development costs	(31)	–	(31)	–	(31)
Variances	(50)	(7)	(57)	35	(22)
Operating profit after tax – LGAS overseas	7	1	8	8	16
Operating profit after tax – LGAS and LGR	542	173	715	105	820
Non-operating profit/(loss) after tax – UK business:					
– Economic variances	109	(8)	101	80	181
– Effect of tax rate changes and other taxation impacts[3]	–	–	–	41	41
Non-operating profit after tax – LGAS overseas	20	–	20	40	60
Non-operating profit/(loss) after tax – LGAS and LGR	129	(8)	121	161	282
Profit for the year – LGAS and LGR	671	165	836	266	1,102
Intra-group distributions[4]	(617)	–	(617)	–	(617)
Transfer to non-covered business[5]	(27)	–	(27)	–	(27)
Other reserve movements including pension deficit[6]	(115)	7	(108)	73	(35)
Embedded value at 31 December 2013	1,174	2,390	3,564	4,890	8,454

1. The UK free surplus reduction of £324m to finance new business includes £40m new business strain and £284m additional required capital.
2. The increase in UK free surplus of £869m from the expected transfer from the in-force covered business includes £688m of operational cash generation and a £181m reduction in required capital. The £734m operational cash from LGAS and LGR per Note 2 of the IRFS section also includes £2m and £14m remitted from LGF and LGN respectively, and £30m primarily reflecting IFRS profit from non covered business.
3. Reflects the implementation of the UK planned future reductions in corporation tax to 20% on 1 April 2015.
4. UK intra-group dividends reflect a £625m dividend paid from LGAS to group and dividends of £10m paid to LGAS from subsidiaries (primarily Nationwide Life). Dividends of €16m from LGN were also paid to LGAS.
5. The transfer to non-covered business represents the IFRS profits arising in the year from the provisions of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.
6. The other reserve movements reflects the pension deficit movement, the movement of investment project costs from covered to non-covered business and the effect of reinsurance arrangement transactions between UK and US covered business.

The value of in-force business of £4,890m is comprised of £4,454m of non profit business and £436m of with-profits business.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

3 Analysis of shareholders' equity

As at 31 December 2014	LGAS and LGR £m	LGIM £m	LGC and group expenses £m	LGA £m	Total £m
Analysed as:					
IFRS basis shareholders' equity[1]	847	541	3,770	870	6,028
Additional retained profit/(loss) on an EEV basis	6,227	–	(1,137)	(143)	4,947
Shareholders' equity on an EEV basis	**7,074**	**541**	**2,633**	**727**	**10,975**
Comprising:					
Business reported on an IFRS basis	484	541	(886)	–	139
Business reported on an EEV basis:					
Shareholder net worth					
– Free surplus[2]	90		887	161	1,138
– Required capital to cover solvency margin	235		2,632	48	2,915
Value of in-force					
– Value of in-force business[3]	6,870			529	7,399
– Cost of capital	(605)			(11)	(616)

1. Shareholders' equity supporting the UK non profit LGAS and LGR businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within the LGC and group expenses segment.
2. Free surplus is the value of any capital and surplus allocated to, but not required to support, the in-force covered business at the valuation date.
3. Value of in-force business includes a deduction for the time value of options and guarantees of £43m (2013: £23m).

As at 31 December 2013	LGAS and LGR £m	LGIM £m	LGC and group expenses £m	LGA £m	Total £m
Analysed as:					
IFRS basis shareholders' equity[1]	783	421	3,622	816	5,642
Additional retained profit/(loss) on an EEV basis	4,830	–	(1,003)	117	3,944
Shareholders' equity on an EEV basis	5,613	421	2,619	933	9,586
Comprising:					
Business reported on an IFRS basis	408	421	(630)	–	199
Business reported on an EEV basis:					
Shareholder net worth					
– Free surplus[2]	67		1,107	192	1,366
– Required capital to cover solvency margin	248		2,142	42	2,432
Value of in-force					
– Value of in-force business[3]	5,398			711	6,109
– Cost of capital	(508)			(12)	(520)

1. Shareholders' equity supporting the UK non profit LGAS and LGR businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within the LGC and group expenses segment.
2. Free surplus is the value of any capital and surplus allocated to, but not required to support, the in-force covered business at the valuation date.
3. Value of in-force business includes a deduction for the time value of options and guarantees of £23m.

Further analysis of shareholders' equity is included in Note 4.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

4 Segmental analysis of shareholders' equity

	Covered business EEV basis 2014 £m	Other business IFRS basis 2014 £m	Total 2014 £m	Covered business EEV basis 2013 £m	Other business IFRS basis 2013 £m	Total 2013 £m
LGAS						
– LGAS UK Protection and Savings	**2,354**	**–**	**2,354**	2,331	–	2,331
– LGAS overseas business	**472**	**–**	**472**	512	–	512
– General insurance and other	**–**	**484**	**484**	–	408	408
Total LGAS	**2,826**	**484**	**3,310**	2,843	408	3,251
LGR	**3,764**	**–**	**3,764**	2,362	–	2,362
LGIM	**–**	**541**	**541**	–	421	421
LGC and group expenses	**3,519**	**(886)**	**2,633**	3,249	(630)	2,619
LGA	**727**	**–**	**727**	933	–	933
Total	**10,836**	**139**	**10,975**	9,387	199	9,586

5 Reconciliation of shareholder net worth

	UK covered business 2014 £m	Total 2014 £m	UK covered business 2013 £m	Total 2013 £m
SNW of long term operations (IFRS basis)	**4,693**	**5,889**	4,291	5,443
Other assets (IFRS basis)	**–**	**139**	–	199
Shareholders' equity on the IFRS basis	**4,693**	**6,028**	4,291	5,642
Purchased interest in long term business	**(46)**	**(49)**	(52)	(59)
Deferred acquisition costs/deferred income liabilities	**(201)**	**(1,255)**	(223)	(1,129)
Deferred tax[1]	**(16)**	**444**	(162)	232
Other[2]	**(911)**	**(976)**	(605)	(689)
Shareholder net worth on the EEV basis	**3,519**	**4,192**	3,249	3,997

1. Deferred tax represents all tax which is expected to be paid under current legislation.
2. Other primarily relates to the different treatment of annuities and LGA Triple X securitisation between the EEV and IFRS basis.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

6 Profit/(loss) for the year

For the year ended 31 December 2014	Note	LGAS and LGR £m	LGIM £m	LGC and group expenses £m	LGA £m	Total £m
Business reported on an EEV basis:						
Contribution from new risks after cost of capital:						
– contribution from new business	7	760			90	850
– intra-group transfer from With-Profit to Non Profit Fund		100			–	100
Contribution from in-force business:						
– expected return[1]		424			66	490
– experience variances[2]		21			(23)	(2)
– operating assumption changes[3]		58			(241)	(183)
Development costs		(32)			–	(32)
Contribution from shareholder net worth		7		184	3	194
Operating profit/(loss) on covered business		1,338	–	184	(105)	1,417
Business reported on an IFRS basis[4,5,6]		50	304	(190)	–	164
Total operating profit/(loss)		1,388	304	(6)	(105)	1,581
Economic variances[7]		893	(12)	(74)	(17)	790
Gains on non-controlling interests		–	–	7	–	7
Profit/(loss) before tax		2,281	292	(73)	(122)	2,378
Tax (expense)/credit on profit from ordinary activities		(372)	(63)	32	43	(360)
Other taxation impacts[8]		(2)	–	–	–	(2)
Profit/(loss) for the year		1,907	229	(41)	(79)	2,016
Operating profit attributable to:						
LGAS		377				
LGR		1,011				

	p
Earnings per share	
Based on profit attributable to equity holders of the Company	34.07
Diluted earnings per share	
Based on profit attributable to equity holders of the Company	33.73

1. The expected return on in-force for LGAS and LGR is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the UK LGAS and LGR business was £4,693m in 2014 (£4,402m in 2013). This is adjusted for the effects of opening model changes of £(30)m (2013: £27m) to give an adjusted opening base VIF of £4,663m (2013: £4,429m). This is then multiplied by the opening risk discount rate of 6.8% (2013: 6.0%) and the result grossed up at the notional attributed tax rate of 20% (2013: 20%) to give a return of £397m (2013: £331m). The same approach has been applied for the LGAS overseas businesses.
2. LGAS and LGR variance primarily reflects UK cost of capital unwind and favourable mortality experience for bulk annuities. LGA experience variance primarily relates to adverse mortality experience within term assurance and universal life products respectively.
3. LGAS and LGR operating assumption change primarily reflects mortality assumptions changes for non-profit annuities. LGA operating assumption change primarily incorporates an adjustment to our mortality assumptions to reflect the changes in industry wide mortality tables (which were issued in the second half of 2014).
4. LGAS and LGR non-covered business primarily reflects GI operating profit of £59m (2013: £69m).
5. LGIM operating profit includes Retail Investments and excludes £32m (2013: £34m) of profits arising from the provision of investment management services at market referenced rates to the covered business on a look through basis and as a consequence are included in the LGAS and LGR covered business on an EEV basis.
6. LGC and group expenses non-covered business primarily reflects group debt costs and investment projects and expenses, partly offset by investment returns from non-covered shareholder assets.
7. The LGAS and LGR positive variance has resulted from a number of factors including lower risk discount rate, favourable default experience and enhanced yield on annuity assets offset by a lower risk free rate. LGC and group expenses primarily reflects lower equity return from shareholder funds.
8. Other taxation impacts reflects the change in the treatment of deferred tax on in-force business to align with IFRS by removing the effect of discounting.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

6 Profit/(loss) for the year (continued)

For the year ended 31 December 2013	Note	LGAS and LGR £m	LGIM £m	LGC and group expenses £m	LGA £m	Total £m
Business reported on an EEV basis:						
Contribution from new risks after cost of capital:						
– contribution from new business	7	544			107	651
– intra-group transfer from With-Profit to Non Profit Fund		–			–	–
Contribution from in-force business:						
– expected return[1]		358			68	426
– experience variances[2]		52			(23)	29
– operating assumption changes[3]		(9)			(52)	(61)
Development costs		(40)			–	(40)
Contribution from shareholder net worth		5		113	7	125
Operating profit on covered business		910	–	113	107	1,130
Business reported on an IFRS basis[4,5,6]		47	270	(106)	–	211
Total operating profit		957	270	7	107	1,341
Economic variances[7]		250	(6)	8	(37)	215
Gains on non-controlling interests		–	–	13	–	13
Profit before tax		1,207	264	28	70	1,569
Tax (expense)/credit on profit from ordinary activities		(251)	(57)	21	(24)	(311)
Effect of tax rate changes and other taxation impacts[8]		41	–	–	–	41
Profit for the year		997	207	49	46	1,299
Operating profit attributable to:						
LGAS		360				
LGR		597				

	p
Earnings per share	
Based on profit attributable to equity holders of the Company	21.91
Diluted earnings per share	
Based on profit attributable to equity holders of the Company	21.61

1. The expected return on in-force is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the UK LGAS and LGR business was £4,402m in 2013. This is adjusted for the effects of opening model changes of £27m to give an adjusted opening base VIF of £4,429m. This is then multiplied by the opening risk discount rate of 6.0% and the result grossed up at the notional attributed tax rate of 20% to give a return of £331m. The same approach has been applied for the LGAS overseas businesses.
2. LGAS and LGR variance primarily reflects UK cost of capital unwind, bulk purchase annuity data loading, fewer retail protection lapses and better longevity experience. LGA experience variance primarily relates to adverse persistency experience and mortality experience within term assurance and universal life products respectively.
3. LGAS and LGR assumption changes primarily reflects mortality assumption changes in LGR. LGA assumption changes primarily relate to improved modelling of term business in the period after the end of the guaranteed level premium period.
4. LGAS and LGR non-covered business primarily reflects GI operating profit of £69m.
5. LGIM operating profit includes Retail Investments and excludes £34m of profits arising from the provision of investment management services at market referenced rates to the covered business on a look through basis and as a consequence are included in the LGAS and LGR covered business on an EEV basis.
6. LGC and group expenses non-covered business primarily reflects group debt costs and investment projects and expenses, partly offset by investment returns from non-covered shareholder assets.
7. The LGAS and LGR positive variance has resulted from a number of factors including equity market outperformance, favourable default experience, actions to improve the yield on annuity assets and a lower risk margin offset by a higher risk free rate. The higher risk free rate has contributed to a negative variance in LGA.
8. Primarily reflects the implementation of the UK planned future reductions in the corporation tax rate to 20% on 1 April 2015.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

7 New business by product[1]

For the year ended 31 December 2014	Annual premiums £m	Present value of annual premiums £m	Capitalisation factor[2]	Single premiums £m	PVNBP £m	Contribution from new business[3] £m	Margin %
UK Insurance	230	1,336	5.8	–	1,336	112	8.4
Overseas business	41	300	7.3	394	694	7	1.0
UK Savings	654	2,448	3.7	2,738	5,186	27	0.5
Total LGAS	925	4,084	4.4	3,132	7,216	146	2.0
LGR	n/a	–	n/a	6,578	6,578	614	9.3
LGA	91	907	10.0	–	907	90	9.9
Total new business	1,016	4,991	4.9	9,710	14,701	850	5.8
Cost of capital						108	
Contribution from new business before cost of capital						958	

1. Covered business only.
2. The capitalisation factor is the present value of annual premiums divided by the amount of annual premiums.
3. The contribution from new business is defined as the present value at the point of sale of assumed profits from new business written in the period and then rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.

For the year ended 31 December 2013	Annual premiums £m	Present value of annual premiums £m	Capitalisation factor[2]	Single premiums £m	PVNBP £m	Contribution from new business[3] £m	Margin %
UK Insurance	218	1,141	5.2	–	1,141	101	8.9
Overseas business	30	229	7.6	371	600	5	0.8
UK Savings	724	2,516	3.5	2,495	5,011	2	–
Total LGAS	972	3,886	4.0	2,866	6,752	108	1.6
LGR[4]	n/a	939	n/a	4,089	5,028	436	8.7
LGA	99	926	9.4	–	926	107	11.6
Total new business	1,071	5,751	5.4	6,955	12,706	651	5.1
Cost of capital						72	
Contribution from new business before cost of capital						723	

1. Covered business only.
2. The capitalisation factor is the present value of annual premiums divided by the amount of annual premiums.
3. The contribution from new business is defined as the present value at the point of sale of assumed profits from new business written in the period and then rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.
4. LGR includes present value of annual premiums for longevity insurance on a net of reinsurance basis to enable a more representative margin figure. The gross of reinsurance longevity insurance annual premium is £270m. The LGR PVNBP contribution from new business and margin are also inclusive of longevity insurance.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

8 Sensitivities

In accordance with the guidance issued by the European Insurance CFO Forum in October 2005 the table below shows the effect of alternative assumptions on the long term embedded value and new business contribution.

Effect on embedded value as at 31 December 2014

	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
LGAS and LGR[1]	10,109	855	(724)	628	(488)	175
LGA	727	103	(85)	22	(21)	–
Total covered business	**10,836**	**958**	**(809)**	**650**	**(509)**	**175**

	As published £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse rate £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
LGAS and LGR[1]	10,109	(302)	158	82	(428)	71
LGA	727	–	12	(2)	n/a	168
Total covered business	**10,836**	**(302)**	**170**	**80**	**(428)**	**239**

Effect on new business contribution for the year

	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
LGAS and LGR[1]	760	117	(96)	38	(29)	26
LGA	90	14	(11)	5	(5)	–
Total covered business	**850**	**131**	**(107)**	**43**	**(34)**	**26**

	As published £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse rates £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
LGAS and LGR[1]	760	(7)	30	20	(97)	10
LGA	90	–	1	4	n/a	16
Total covered business	**850**	**(7)**	**31**	**24**	**(97)**	**26**

1. Includes LGC.

Opposite sensitivities are broadly symmetrical.

The above sensitivity analyses do not reflect management actions which could be taken to reduce the impacts. Sensitivity to changes in assumptions may not be linear, and as such, they should not be extrapolated to changes of a much larger order. A 2% higher risk discount rate would result in a £1,281m negative impact on UK embedded value and a £168m negative impact on UK new business contribution for the year.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

9 Assumptions

UK assumptions

The assumed future pre-tax returns on fixed interest and RPI linked securities are set by reference to the portfolio yield on the relevant backing assets held at market value at the end of the reporting period. The calculated return takes account of derivatives and other credit instruments in the investment portfolio. Indicative yields on the portfolio, excluding annuities within LGR, but after allowance for long term default risk, are shown below.

For LGR, separate returns are calculated for new and existing business. An indicative combined yield, after allowance for long term default risk and the following additional assumptions, is also shown below. These additional assumptions are:

i. Where cash balances and debt securities are held at the reporting date in excess of, or below strategic investment guidelines, then it is assumed that these cash balances or debt securities are immediately invested or disinvested at current yields.

ii. Where interest rate swaps are used to reduce risk, it is assumed that these swaps will be sold before expiry and the proceeds reinvested in corporate bonds with a redemption yield of 0.70% p.a. (0.70% p.a. at 31 December 2013) greater than the swap rate at that time (i.e. the long term credit rate).

iii. Where reinvestment or disinvestment is necessary to rebalance the asset portfolio in line with projected outgo, this is also assumed to take place at the long term credit rate above the swap rate at that time.

The returns on fixed and index-linked securities are calculated net of an allowance for default risk which takes account of the credit rating, outstanding term of the securities. The allowance for corporate securities expressed as a level rate deduction from the expected returns for annuities was 21bps at 31 December 2014 (27bps at 31 December 2013).

UK covered business

i. Assets are valued at market value.

ii. Future bonus rates have been set at levels which would fully utilise the assets supporting the policyholders' portion of the with-profits business in accordance with established practice. The proportion of profits derived from with-profits business allocated to shareholders amounts to almost 10% throughout the projection.

iii. The value of in-force business reflects the cost, including administration expenses, of providing for benefit enhancement or compensation in relation to certain products.

iv. Other actuarial assumptions have been set at levels commensurate with recent operating experience, including those for mortality, morbidity, persistency and maintenance expenses (excluding the development costs referred to below). These are normally reviewed annually.

An allowance is made for future mortality improvement. For new business, mortality assumptions may be modified to take certain scheme specific features into account.

v. Development costs relate to investment in strategic systems and development capability that are charged to the covered business. Projects charged to the non-covered business are included within group investment projects in LGC and group expenses.

Overseas covered business

vi. Other actuarial assumptions have been set at levels commensurate with recent operating experience, including those for mortality, morbidity, persistency and maintenance expenses.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

9 Assumptions (continued)

Economic assumptions

	As at 2014 % p.a.	As at 2013 % p.a.	As at 2012 % p.a.
Risk margin	**3.3**	3.4	3.7
Risk free rate[1]			
– UK	**2.2**	3.4	2.3
– Europe	**0.6**	2.2	1.7
– US	**2.2**	3.1	1.8
Risk discount rate (net of tax)			
– UK	**5.5**	6.8	6.0
– Europe	**3.9**	5.6	5.4
– US	**5.5**	6.5	5.5
Reinvestment rate (US)	**5.0**	5.8	4.3
Other UK business assumptions			
Equity risk premium	**3.3**	3.3	3.3
Property risk premium	**2.0**	2.0	2.0
Investment return (excluding annuities in LGR)			
– Fixed interest:			
– Gilts and non gilts	**1.7 – 2.4**	2.2 – 3.6	1.9 – 2.9
– Equities	**5.5**	6.7	5.6
– Property	**4.2**	5.4	4.3
Long-term rate of return on non-profit annuities in LGR	**3.6**	4.6	4.3
Inflation[2]			
– Expenses/earnings	**3.7**	4.1	3.4
– Indexation	**3.2**	3.6	2.9

1. The risk free rate is the gross redemption yield on the 15-year gilt index. The Europe risk free rate is the 10-year ECB AAA-rated Euro area central government bond par yield. The LGA risk free rate is the 10-year US Treasury effective yield.
2. The LGR inflation rate has been set with reference to a curve.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

Tax

vii. The profits on the covered business, except for the profits on the Society shareholder capital held outside the long term fund, are calculated on an after tax basis and are grossed up by the notional attributed tax rate for presentation in the income statement. For the UK, the after tax basis assumes the annualised current tax rate of 21.5% and the subsequent enacted future reduction in corporation tax to 20% from 1 April 2015. The tax rate used for grossing up is the long-term corporate tax rate in the territory concerned, which for the UK is 20% (31 December 2013: 20%) after taking into account the expected further rate reduction to 20% by 1 April 2015. The profits on the Society shareholder capital held outside the long term fund are calculated before tax and therefore tax is calculated on an actual basis.

US, Netherlands and France covered business profits are also grossed up using the long term corporate tax rates of the respective territories i.e. US is 35% (31 December 2013: 35%), France is 34.43% (31 December 2013: 34.43%) and Netherlands is 25% (31 December 2013: 25%).

Stochastic calculations

viii. The time value of options and guarantees is calculated using economic and non-economic assumptions consistent with those used for the deterministic embedded value calculations.

A single model has been used for UK and international business, with different economic assumptions for each territory reflecting the significant asset classes in each territory.

Government nominal interest rates are generated using a LIBOR Market Model projecting full yield curves at annual intervals. The model provides a good fit to the initial yield curve.

The total annual returns on equities and property are calculated as the return on one year bonds plus an excess return. The excess return is assumed to have a lognormal distribution. Corporate bonds are modelled separately by credit rating using stochastic credit spreads over the risk free rates, transition matrices and default recovery rates. The real yield curve model assumes that the real short rate follows a mean-reverting process subject to two normally distributed random shocks.

The significant asset classes are:
- UK with-profits business – equities, property and fixed rate bonds of various durations;
- UK annuity business – fixed rate and index-linked bonds of various durations; and
- International business – fixed rate bonds of various durations.

The risk discount rate is scenario dependent within the stochastic projection. It is calculated by applying the deterministic risk margin to the risk free rate in each stochastic projection.

Sensitivity calculations

ix. A number of sensitivities have been produced on alternative assumption sets to reflect the sensitivity of the embedded value and the new business contribution to changes in key assumptions. Relevant details relating to each sensitivity are:
- 1% variation in discount rate – a one percentage point increase/decrease in the risk margin has been assumed in each case (for example a 1% increase in the risk margin would result in a 4.3% risk margin).
- 1% variation in interest rate environment – a one percentage point increased/decreased parallel shift in the risk free curve with consequential impacts on fixed asset market values, investment return assumptions, risk discount rate, including consequential changes to valuation bases.
- 1% higher equity/property yields – a one percentage point increase in the assumed equity/property investment returns, excluding any consequential changes, for example, to risk discount rates or valuation bases, has been assumed in each case (for example a 1% increase in equity returns would increase assumed total equity returns from 5.5% to 6.5%).
- 10% lower equity/property market values – an immediate 10% reduction in equity and property asset values.
- 10% lower maintenance expenses, excluding any consequential changes, for example, to valuation expense bases or potentially reviewable policy fees (for example a 10% decrease on a base assumption of £10 per annum would result in a £9 per annum expense assumption).
- 10% lower assumed persistency experience rates, excluding any consequential changes to valuation bases, incorporating a 10% decrease in lapse, surrender and premium cessation assumptions (for example a 10% decrease on a base assumption of 7% would result in a 6.3% lapse assumption).
- 5% lower mortality and morbidity rates, excluding any consequential changes to valuation bases but including assumed product repricing action where appropriate (for example if base experienced mortality is 90% of a standard mortality table then, for this sensitivity, the assumption is set to 85.5% of the standard table).

The sensitivities for covered business allow for any material changes to the cost of financial options and guarantees but do not allow for any changes to reserving bases or capital requirements within the sensitivity calculation, unless indicated otherwise above.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

Independent auditors' report To the Directors of Legal & General Group Plc on the Supplementary Financial Statements – European Embedded Value Basis

Our Opinion

In our opinion, Legal & General Group plc's supplementary financial statements – European Embedded Value basis (the "supplementary financial statements") for the year ended 31 December 2014 have been properly prepared in all material respects in accordance with the European Embedded Value ("EEV") basis set out in Note 1 – Methodology.

What we have audited

Legal & General Group plc's supplementary financial statements comprise:

- the Group Embedded Value – Summary as at 31 December 2014; and
- the notes to the supplementary financial statements.

The financial reporting framework that has been applied in the preparation of the supplementary financial statements is the European Embedded Value ("EEV") basis as set out in Note 1 – Methodology. The supplementary financial statements should be read in conjunction with the group's financial statements.

In applying the EEV basis, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of supplementary financial statements involves

The directors are responsible for the preparation of the supplementary financial statements on the EEV basis in accordance with the EEV basis set out in Note 1 – Methodology.

Our responsibility is to audit and express an opinion on the supplementary financial statements in accordance with applicable law and International Standards on Auditing ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the group's board of directors in conformity with the methodology and disclosure requirements contained in the document "Supplementary Reporting for Long Term Insurance Business (the European Embedded Value Method)" issued by the CFO forum, in accordance with our engagement letter dated 29 January 2015 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the company, save where expressly agreed by our prior consent in writing.

Responsibilities for the Supplementary financial statements

Our responsibilities and those of the directors

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the supplementary financial statements sufficient to give reasonable assurance that the supplementary financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the supplementary financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the supplementary financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited supplementary financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCoopers LLP
Chartered Accountants
London
3 March 2015

COMPANY FINANCIAL STATEMENTS

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

Report on the parent company financial statements

Our opinion

In our opinion, Legal & General Group Plc's parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the parent company's affairs as at 31 December 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Legal & General Group Plc's financial statements comprise:

- the Company Balance Sheet as at 31 December 2014;
- the Company Reconciliation of Movements in Total Shareholders' Funds for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 261, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

COMPANY FINANCIAL STATEMENTS (CONTINUED)

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the group financial statements of Legal & General Group Plc for the year ended 31 December 2014.

Andrew Kail (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 March 2015

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

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

COMPANY FINANCIAL STATEMENTS (CONTINUED)

Company Balance Sheet

As at 31 December 2014	Notes	2014 £m	2013 £m
Fixed assets			
Investments	7	**7,365**	6,493
Current assets			
Debtors	8	**2,024**	1,602
Derivative assets	11	**84**	138
Other financial investments		**22**	3
Cash at bank and in hand		**9**	16
Current liabilities			
Creditors: amounts falling due within one year	9	**(121)**	(109)
Derivative liabilities	11	**(13)**	(27)
Net current assets		**2,005**	1,623
Total assets less current liabilities		**9,370**	8,116
Creditors: amounts falling due after more than one year	10	**(3,023)**	(2,483)
Net assets		**6,347**	5,633
Capital and reserves			
Called up share capital	13/14	**149**	148
Share premium account	14	**969**	959
Revaluation reserve	14	**2,889**	2,459
Capital redemption and other reserves	14	**78**	67
Profit and loss account	14	**2,262**	2,000
Total shareholders' funds		**6,347**	5,633

The notes on pages 249 to 257 form an integral part of these financial statements.

The financial statements on pages 247 to 257 were approved by the directors on 3 March 2015 and were signed on their behalf by:

John Stewart
Chairman

Nigel Wilson
Group Chief Executive

Mark Gregory
Group Chief Financial Officer

COMPANY FINANCIAL STATEMENTS (CONTINUED)

Company Statement of Total Recognised Gains and Losses

For the year ended 31 December 2014	Note	2014 £m	2013 £m
Profit for the financial year		**859**	888
Gains/(losses) on revaluation of investments in subsidiary undertakings	7	**430**	(185)
Total recognised gains and losses relating to the year		**1,289**	703

Company Reconciliation of Movements in Total Shareholders' Funds

For the year ended 31 December 2014	Note	2014 £m	2013 £m
As at 1 January		**5,633**	5,431
Total recognised gains and losses		**1,289**	703
Dividend distributions to equity holders of the company during the year	2	**(580)**	(479)
Issue of share capital		**11**	3
Net movement in share-based payments reserve		**(6)**	(25)
As at 31 December		**6,347**	5,633

COMPANY FINANCIAL STATEMENTS (CONTINUED)

1 Accounting policies

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of fixed asset investments and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

The Company's financial statements have been prepared in compliance with Section 394 and 396 of the Companies Act 2006 adopting the exemption of omitting the profit and loss account conferred by Section 408 of that Act.

Investment income

Investment income includes dividends and interest. Dividends receivable from group companies are recognised in the period in which the dividends are declared and approved at the general meeting or paid. Interest income is recognised using the effective interest method.

Distributions

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are authorised and are no longer at the discretion of the Company.

Interest expense

Interest expense reflects the underlying cost of borrowing, based on the effective interest method, and includes payments and receipts made under derivative instruments which are amortised over the interest period to which they relate.

Investment in subsidiary undertakings

Shares in subsidiary undertakings are stated at current value. Unrealised gains or losses arising on investments in subsidiary undertakings are taken to the revaluation reserve.

Loans and receivables

Loans and receivables are held at amortised cost using the effective interest method.

Derivative financial instruments

The Company's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The Company uses derivatives such as foreign exchange forward contracts and interest rate swap contracts to hedge these exposures.

Changes in the fair value of any derivative instruments are recognised immediately in the profit and loss account.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs. Borrowings classified as liabilities are subsequently stated at amortised cost. The difference between the net proceeds and the redemption value is recognised in the profit and loss account over the borrowing period using the effective interest method.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future periods has been entered into by the subsidiary.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities expressed in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date. Non-monetary items are maintained at historic rates. Exchange gains or losses are recognised in the profit and loss account, except those arising upon the revaluation of fixed assets, which are included in the revaluation reserve.

COMPANY FINANCIAL STATEMENTS (CONTINUED)

1 Accounting policies (continued)

Pension costs

The Company participates in multi-employer defined benefit schemes, within the meaning of FRS 17, 'Retirement Benefits', which, as its share of the underlying assets and liabilities cannot be identified, have been treated for reporting purposes as defined contribution schemes. In addition to these schemes the Company also contributes to defined contribution schemes. The Company charges the costs of its pension schemes against profit as incurred. Any difference between the cumulative amounts charged against profits and contribution amounts paid is included as a provision or prepayment in the balance sheet.

The assets of the defined benefit schemes and the defined contribution schemes are held in separate trustee administered funds, which have been subject to regular valuation every three years and updated by formal reviews at reporting dates by qualified actuaries who were employees of the group.

Related party transactions

The Company has taken advantage of the exemptions of FRS 8, 'Related Party Transactions', not to disclose transactions with other group companies.

Cash flow

The Company has taken advantage of the exemptions of IFRS 1, 'Cash Flow Statements' not to report a cash flow statement as a group cash flow statement is included within the consolidated financial statements.

Share-based payments

The Company operates a number of share-based payment plans on behalf of its subsidiaries. The fair value of the equity instruments granted is spread over the vesting period of the instrument and treated as a capital contribution to the respective subsidiary. The total capital contribution is determined by reference to the fair value of the awards, excluding the impact of any non-market vesting conditions. The capital contribution to the subsidiaries is accounted for as an increase in the investment in the parent company's financial statements.

At each balance sheet date, the Company revises its estimate of the number of equity instruments which are expected to become exercisable. It recognises the impact of the revision of original estimate, if any, in the cost of the investment in the subsidiary and a corresponding adjustment is made to equity over the remaining vesting period. On vesting or exercise, the difference between the accumulated capital contribution and the actual cost to the Company is transferred to retained earnings. Where new shares are issued, the proceeds received are credited to share capital and share premium. Any capital contribution is subsequently recharged to the respective subsidiary as incurred and the corresponding cost of investment is reduced.

Risk management

The Company has taken advantage of the exemptions provided in FRS 29, 'Financial Instruments: Disclosures', which states that disclosure of financial instruments is not required in parent company financial statements where these are included in publicly available consolidated financial statements.

Future developments

In August 2014 the Financial Reporting Council (FRC) published three new accounting standards that will impact companies reporting in the United Kingdom. For accounting periods beginning on or after 1 January 2015 the FRC has updated current UK GAAP by replacing the existing mix of guidance with a single Financial Reporting Standard (FRS 100), and introducing a reduced disclosure framework for parent entities and subsidiaries of groups which prepare publicly available consolidated financial statements (FRS 101). The company is intending to adopt FRS 101 in its next set of financial statements.

COMPANY FINANCIAL STATEMENTS (CONTINUED)

2 Dividends

	Per share 2014 p	Total 2014 £m	Per share 2013 p	Total 2013 £m
Ordinary share dividends paid in the year				
– Prior year final dividend	**6.90**	**408**	5.69	337
– Current year interim dividend	**2.90**	**172**	2.40	142
	9.80	**580**	8.09	479
Ordinary share dividend proposed[1]	**8.35**	**496**	6.90	408

1. The dividend proposed has not been included as a liability in the balance sheet.

3 Directors' emoluments and other employee information

Full disclosures of Legal & General Group Plc directors' emoluments are contained within those parts of the Directors' Report on Remuneration which are described as having been audited. At 31 December 2014 there were £nil outstanding with directors of the Company (2013: £nil). The Company has nil other employees (2013: nil).

4 Pensions

There were £nil contributions prepaid or outstanding at either 31 December 2014 (2013: £nil) in respect of these schemes, and there were £nil current service costs incurred in respect of these schemes for year ended 31 December 2014 (2013: £nil). The Company had £nil liability for retirement benefits at 31 December 2014 (2013: £nil).

Defined contribution plans

The Company operates the following defined contribution pension schemes in the UK:

– Legal & General Group Personal Pension Plan (UK).
– Legal & General Staff Stakeholder Pension Scheme (UK).

Defined benefit plans

The Company operates the following defined benefit pension schemes in the UK:

– Legal & General Group UK Pension and Assurance Fund (the Fund). The Fund was closed to new members from January 1995; last full actuarial valuation as at 31 December 2012.
– Legal & General Group UK Senior Pension Scheme (the Scheme). The Scheme was, with a few exceptions (principally transfers from the Fund), closed to new members from August 2000 and finally closed to new members from April 2007; last full actuarial valuation as at 31 December 2012.

In the UK, the Fund and the Scheme are multi-employer defined benefit schemes, which, as the Company's share of the underlying assets and liabilities cannot be identified, have been treated for reporting purposes as defined contribution schemes. There was a deficit in respect of these schemes for the year ended 31 December 2014 of £394m (2013: £374m) and the contributions in respect of them for the year were £68m (2013: £60m). Further information is given in Note 27 of the group's consolidated financial statements.

5 Share-based payments

Legal & General Group Plc grants share-based payments to employees within the Legal & General Group. The group recognises an expense for these payments measured indirectly by reference to the fair value of the equity instruments granted. The expense is recognised over the vesting period as the services are received. The relevant company is recharged its share of this expense with reference to the benefits it receives from the employees. The full disclosures required by FRS 20 are provided in the group's consolidated financial statements.

The total expense recharged to the Company in relation to share-based payments was £nil (2013: £nil).

COMPANY FINANCIAL STATEMENTS (CONTINUED)

6 Auditors' remuneration

Remuneration receivable by the Company's auditor for the audit of the Company's financial statements is not presented. The group's consolidated IFRS financial statements disclose the aggregate remuneration receivable by the Company's auditor for the audit of the group's annual financial statements, which include the Company's financial statements.

The disclosure of fees payable to the auditor and its associates for other (non-audit) services has not been made because the group's consolidated financial statements are required to disclose such fees on a consolidated basis.

7 Investments

	Shares in group companies 2014 £m	Loans to group companies 2014 £m	Total 2014 £m	Shares in group companies 2013 £m	Loans to group companies 2013 £m	Total 2013 £m
At valuation, 1 January	**5,749**	**744**	**6,493**	5,549	741	6,290
Additions[1]	**431**	**11**	**442**	385	–	385
Revaluation[1]	**430**	**–**	**430**	(185)	3	(182)
At valuation, 31 December	**6,610**	**755**	**7,365**	5,749	744	6,493
At cost, 31 December	**3,610**	**757**	**4,367**	3,180	746	3,926

1. In 2013, the Company received a dividend of £146m in respect of Banner Life shares at net asset value from Legal & General Insurance Holdings (No.2) Limited. The Company then passed these shares to Legal & General Overseas Operations Limited in return for £1 share capital and £146m share premium.

Additions represent capital injections into group undertakings.

Full disclosure of the Company's investments in subsidiary undertakings is contained in Note 47 of the group's consolidated financial statements.

8 Debtors

	2014 £m	2013 £m
Amounts owed by group undertakings	**1,953**	1,544
Corporation tax	**61**	28
Deferred tax	**10**	14
Other debtors	**–**	16
	2,024	1,602

Amounts owed by group undertakings are repayable at the request of either party and include an £424m (2013: £211m) interest bearing balance with a current interest rate of LIBOR-12.5 bps.

At 31 December 2014, there is an unrecognised deferred tax asset in respect of timing differences of £3m (2013: £3m).

COMPANY FINANCIAL STATEMENTS (CONTINUED)

9 Creditors: amounts falling due within one year

	Note	2014 £m	2013 £m
Amounts owed to group undertakings		**76**	63
Accrued interest on subordinated borrowings	12	**36**	37
Other creditors		**9**	9
		121	109

Amounts owed to group undertakings falling due within one year are interest free and repayable at the request of either party.

10 Creditors: amounts falling due after more than one year

	Note	2014 £m	2013 £m
Subordinated borrowings	12	**2,408**	1,868
Amounts owed to group undertakings		**615**	615
		3,023	2,483

Amounts owed to group undertakings falling due after more than one year are unsecured and include £601m (2013: £601m) of interest bearing balances with current interest rates between 5.71% and 6.12% (2013: 5.71% and 6.12%).

11 Derivative assets and liabilities

	Contract/ notional amount 2014 £m	Fair values Assets 2014 £m	Fair values Liabilities 2014 £m
Interest rate contracts – held for trading	**1,095**	**17**	**13**
Forward foreign exchange contracts – net investment hedges	**589**	**1**	**–**
Forward foreign exchange contracts – held for trading	**465**	**66**	**–**
Derivative assets and liabilities		**84**	**13**

	Contract/ notional amount 2013 £m	Fair values Assets 2013 £m	Fair values Liabilities 2013 £m
Interest rate contracts – held for trading	1,129	31	27
Forward foreign exchange contracts – net investment hedges	558	6	–
Forward foreign exchange contracts – held for trading	499	101	–
Derivative assets and liabilities		138	27

The descriptions of each type of derivative are given in Note 14 of the group's consolidated financial statements.

COMPANY FINANCIAL STATEMENTS (CONTINUED)

12 Borrowings

Analysis by nature	Carrying amount 2014[1] £m	Coupon rate 2014 %	Fair value 2014[1] £m	Carrying amount 2013[1] £m	Coupon rate 2013 %	Fair value 2013[1] £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities (Tier 1)	**658**	**6.39**	**642**	680	6.39	650
5.875% Sterling undated subordinated notes (Tier 2)	**416**	**5.88**	**431**	418	5.88	438
4.0% Euro subordinated notes 2025 (Tier 2)	**472**	**4.00**	**482**	498	4.00	531
10% Sterling subordinated notes 2041 (Tier 2)	**310**	**10.00**	**424**	309	10.00	417
5.5% Sterling subordinated notes 2064 (Tier 2)	**588**	**5.50**	**666**	–	–	–
Total borrowings	**2,444**		**2,645**	1,905		2,036

1. Includes accrued interest on subordinated borrowings of £36m (2013: £37m).

As at 31 December 2014, the group had in place a £1.00bn syndicated committed revolving credit facility provided by a number of its key relationship banks, £0.04bn matures in October 2017 and £0.96bn matures in October 2018. A test drawing was made under this facility during 2013. No amounts were outstanding at 31 December 2014.

6.385% Sterling perpetual capital securities

In 2007, Legal & General Group Plc issued £600m of 6.385% Sterling perpetual capital securities. Simultaneous with the issuance, the fixed coupon was swapped into six month LIBOR plus 0.94% pa. 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% p.a. For regulatory purposes these securities are treated as innovative tier 1 capital.

5.875% Sterling undated subordinated notes

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

4.0% Euro subordinated notes 2025

In 2005, Legal & General Group Plc issued €600m of 4.0% Euro dated subordinated notes. The proceeds were swapped into Sterling. The notes are callable at par on 8 June 2015 and each year thereafter. If not called, the coupon from 8 June 2015 will reset to a floating rate of interest based on prevailing three month Euribor plus 1.7% p.a. These notes mature on 8 June 2025 and are treated as tier 2 capital for regulatory purposes.

10% Sterling subordinated notes 2041

On 16 July 2009, Legal & General Group Plc issued £300m of 10% dated subordinated notes. The notes are callable at par on 23 July 2021 and every five years thereafter. If not called, the coupon from 23 July 2021 will be reset to the prevailing five-year benchmark gilt-yield plus 9.325% p.a. These notes mature on 23 July 2041 and are treated as tier 2 capital for regulatory purposes.

5.5% Sterling subordinated notes 2064

On 19 June 2014, Legal & General Group Plc issued £600m of 5.5% dated subordinated notes. The notes are callable at par on 27 June 2044 and every five years thereafter. If not called, the coupon from 27 June 2044 will be reset to the prevailing five-year benchmark gilt-yield plus 3.17% p.a. These notes mature on 27 June 2064 and are treated as tier 2 capital for regulatory purposes.

COMPANY FINANCIAL STATEMENTS (CONTINUED)

13 Called up share capital

Issued share capital, fully paid	Number of shares	Called up share capital £m
As at 1 January 2014	**5,917,066,636**	**148**
Options exercised under share option schemes		
– Executive share option scheme	–	–
– Savings related share option scheme	25,003,593	1
As at 31 December 2014	**5,942,070,229**	**149**

Issued share capital, fully paid	Number of shares	Called up share capital £m
As at 1 January 2013	5,912,782,826	148
Options exercised under share option schemes		
– Executive share option scheme	1,422,327	–
– Savings related share option scheme	2,861,483	–
As at 31 December 2013	5,917,066,636	148

Options over the ordinary share capital of the Company are disclosed in Note 40 of the group's consolidated financial statements.

COMPANY FINANCIAL STATEMENTS (CONTINUED)

14 Movements in reserves

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Share-based payment reserve £m	Re-valuation reserve £m	Profit and loss account £m	Total £m
As at 1 January 2014	**148**	**959**	**17**	**(1)**	**51**	**2,459**	**2,000**	**5,633**
Retained profit after tax and dividends	–	–	–	–	–	–	**279**	**279**
Increase in the net assets of subsidiaries	–	–	–	–	–	**430**	–	**430**
Value of employee services	–	–	–	–	**28**	–	–	**28**
Shares vested and transferred from share-based payments reserve	–	–	–	–	**(17)**	–	**(17)**	**(34)**
Options exercised under share option schemes	**1**	**10**	–	–	–	–	–	**11**
As at 31 December 2014	**149**	**969**	**17**	**(1)**	**62**	**2,889**	**2,262**	**6,347**

COMPANY FINANCIAL STATEMENTS (CONTINUED)

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Share-based payment reserve £m	Re-valuation reserve £m	Profit and loss account £m	Total £m
As at 1 January 2013	148	956	17	(1)	47	2,644	1,620	5,431
Retained profit after tax and dividends	–	–	–	–	–	–	409	409
Increase in the net assets of subsidiaries	–	–	–	–	–	(185)	–	(185)
Value of employee services	–	–	–	–	23	–	–	23
Shares vested and transferred from share-based payments reserve	–	–	–	–	(19)	–	(29)	(48)
Options exercised under share option schemes	–	3	–	–	–	–	–	3
As at 31 December 2013	148	959	17	(1)	51	2,459	2,000	5,633

Directors' report

Articles of association
The company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. The Articles of Association are available on the company's website.

Conflicts of interest
In accordance with the Companies Act 2006, the Board has adopted a policy and procedure for the disclosure and authorisation (if appropriate) of conflicts of interest, and these have been followed during 2014.

Powers of directors
The directors may exercise all powers of the company subject to applicable legislation and regulation and the company's Articles of Association.

Share capital
As at 31 December 2014, the company's issued share capital comprised 5,942,070,229 ordinary shares each with a nominal value of 2.5p. Details of the ordinary share capital can be found in Note 40 to the Group Consolidated Financial Statements.

At the 2014 AGM, the company was granted authority by shareholders to purchase up to 591,752,468 ordinary shares, being 10% of the issued share capital of the company as at 28 March 2014. In the year to 31 December 2014, no shares were purchased by the company. This authority will expire at this year's AGM. As such, a special resolution is proposed in the Notice of AGM seeking shareholder approval to renew this authority.

At the 2014 AGM, the directors were given the power to allot shares up to an amount of £49,312,706, being 33% of the issued share capital of the company as at 28 March 2014. This authority will also expire at this year's AGM. As such, an ordinary resolution is proposed in the Notice of AGM seeking shareholder approval to renew this authority.

A further resolution is proposed, as set out in the Notice of AGM, that will, if approved by shareholders, authorise the directors to issue shares up to the equivalent of 5% of the company's issued share capital as at 27 March 2015 for cash without offering the shares first to existing shareholders in proportion to their holdings.

Detailed explanatory notes to these resolutions are set out in the Notice of AGM.

Other than the above, the directors have no current intention of issuing further share capital and no issue will be made which would effectively alter control of the company without prior approval of shareholders in a general meeting.

Interests in voting rights
As at 27 February 2015, the company had been advised of the following significant direct and indirect interests in the issued share capital of the company:

	Number of Ordinary shares of 2.5p	% of capital*	Total interest in issued share capital
Invesco Limited	297,097,017	5.0%	Indirect
The Capital Group Companies, Inc.	479,015,337	8.1%	Indirect
Schroders Plc	294,332,429	5.0%	Indirect
Blackrock Inc.	300,077,786	5.0%	Indirect

* Using the voting rights figure announced to the London Stock Exchange on 2 March 2015 of 5,942,296,486.

Dividend
The company may, by ordinary resolution in a general meeting, declare dividends in accordance with the respective rights of the members, but no dividend can exceed the amount recommended by the Board. The directors propose a final dividend for the year ended 31 December 2014 of 8.35p per ordinary share which, together with the interim dividend of 2.90p per ordinary share paid to shareholders on 1 October 2014, will make a total dividend for the year of 11.25p (2013: 9.30p). Subject to shareholder approval at the AGM, the final dividend will be paid on 4 June 2015 to shareholders on the share register on 24 April 2015 provided that the Board of directors may cancel payment of the dividend at any time prior to payment, if it considers it necessary to do so for regulatory capital purposes.

Related party transactions
Details of related party transactions are set out in Note 43 to the Group Consolidated Financial Statements.

Rights and obligations attaching to shares
The rights and obligations relating to the company's ordinary shares are set out in the Articles of Association. A copy of the Articles of Association can be requested from the company secretary at the company's registered office.

Holders of ordinary shares are entitled to attend, speak and vote at general meetings. In a vote on a show of hands, every member present in person or every proxy present, who has been duly appointed by a member, will have one vote and on a poll every member present in person or by proxy shall have one vote for every ordinary share held. These rights are subject to any special terms as to voting upon which any shares may be issued or may at the relevant time be held and to any other provisions of the company's Articles of Association. Under the Companies Act 2006 and the Articles of Association, directors have the power to suspend voting rights and, in certain circumstances, the right to receive dividends in respect

of shares where the holder of those shares fails to comply with a notice issued under section 793 of the Companies Act 2006.

The Board can decline to register a transfer of any share which is not a fully paid share. In addition, registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules and where the number of joint holders exceeds four. The Board may also refuse to register the transfer of a certificated share unless:

(a) the instrument of transfer is duly stamped and is left at the company's registered office or such other place as the Board may from time to time determine accompanied by the certificate for the share to which it relates and such evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
(b) the instrument of transfer is in respect of only one class of share; and
(c) the number of joint holders does not exceed four.

Subject to the provisions of the Companies Act 2006, all or any of the rights attaching to an existing class of shares may be varied from time to time either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class (excluding any treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares.

Shares acquired through the employee share schemes rank equally with all other ordinary shares in issue. Barclays Wealth Trustees (Guernsey) Limited, as trustee of the Legal & General Employees' Share Ownership Trust, holds 0.37% of the issued share capital of the company as at 27 February 2015 in trust for the benefit of the executive directors, senior executives and employees of the group. This includes shares held as nominee on behalf of Legal & General Share Scheme Trustees Limited, as trustee of the Legal & General Employee Share Trust, which is in the process of being wound up. The voting rights in relation to these shares are exercised by the trustee. The trustee may vote or abstain from voting, or accept or reject any offer relating to shares, in any way it sees fit, without incurring any liability and without being required to give reasons for its decision.

Under the rules of the Legal & General Group Employee Share Plan (Plan), eligible employees are entitled to acquire shares in the company. Plan shares are held in trust for participants by Capita IRG Trustees Limited, which holds 0.40% of the issued share capital of the company as at 27 February 2015. Voting rights are exercised by the trustees on receipt of the participants' instructions. If a participant does not submit an instruction to the trustees, no vote is registered. In addition, the trustees do not vote on any unawarded shares held under the Plan as surplus assets. The company is not aware of any agreements between shareholders which may result in restrictions on the transfer of securities and/or voting rights.

Change of control

There are no agreements between the company and its directors or employees for compensation providing for loss of office or employment (whether through resignation, purported redundancy or otherwise) in the event of a takeover bid, except for those relating to normal notice periods. The rules of the company's share plans contain provisions under which options and awards to participants, including executive directors, may vest on a takeover or change of control of the company or transfer of undertakings.

The company has a committed £1 billion bank syndicated credit facility which is terminable if revised terms cannot be agreed with the syndicate of banks in a 30 day period following a change of control. As at 27 February 2015, the company has no borrowings under this facility.

There are no change of control conditions in the terms of any of the company's outstanding debt securities. The terms of the company's agreements with its banking counterparties, under which derivative transactions are undertaken, include the provision for termination of transactions upon takeover/merger if the resulting merged entity has a credit rating materially weaker than the company. There are no other committed banking arrangements either drawn or undrawn that incorporate any change of control conditions.

Use of financial instruments

Information on the group's risk management process is set out on pages 48 to 53. More details on risk management and the financial instruments used are set out in Notes 17 to 19 of the Financial Statements.

Indemnities

The company has agreed to indemnify, to the extent permitted by law, each of the directors against any liability incurred by a director in respect of acts or omissions arising in the course of their office. Qualifying pension scheme indemnities (as defined in section 235 of the Companies Act 2006) have been granted, to the extent permitted by law, to certain trustees of the company's pension schemes. The indemnities were in force throughout 2014 and remain so. Copies of the deeds of indemnity are available for inspection at the company's registered office and will also be available at the AGM.

Directors' report

Political donations
No political donations were made during 2014.

Forward-looking statements
The Directors' report is prepared for the members of the company and should not be relied upon by any other party or for any other purpose. Where the Directors' report includes forward-looking statements, these are made by the directors in good faith based on the information available to them at the time of their approval of this report. Such statements should be treated with caution due to the inherent uncertainties underlying such forward-looking statements.

Insurance
The company has arranged appropriate directors' and officers' liability insurance for directors. This is reviewed annually.

Greenhouse gas disclosures
Global GHG Emissions Data

Emissions from	Jan – Dec 2013	Jan – Dec 2014
Scope 1 and 2 (electricity and gas) (based on the scope of Legal & General's UK CRC Energy Efficiency Scheme disclosed emissions, Overseas property emissions)	12,979.11 tCO_2	12,230.70 tCO_2
Scope 2 (electricity sourced from a renewable tariff)	20,813.68 tCO_2	21,971.96 tCO_2
Scope 3 – Business travel (includes road, rail and air travel for LGAS, France, Netherlands and USA)	4,558.13 tCO_2	4,567.40 tCO_2
Total CO2 (scope 1,2,3) (based on the scope of Legal & General's UK CRC Energy Efficiency Scheme disclosed emissions, Overseas property emissions and reported travel emissions)	38,350.92 tCO_2	38,770.06 tCO_2
Intensity ratio: Emissions per policy	3.78 $kgCO_2$	4.18 $kgCO_2$
Fugitive Emissions	571.24 tCO_2	768.73 tCO_2

Please refer to our CSR report for further breakdown and analysis of emissions.

* Please note the figures provided for LGV Capital cover the financial year 2013/14 and not the calendar year 2014.

Methodology
We have reported on the emission sources required under the Companies Act 2006 Strategic Report and Directors' Report Regulations 2013.

We have used the GHG reporting protocol for calculating our GHG emissions for 2013 and applied the emission factors from UK Government's GHG Conversion Factors for Company Reporting 2014.

Disability
Our policies support the employment, promotion and career development of disabled persons, as well as supporting employees who become disabled during the course of their employment. We make reasonable adjustments, as required under the Equality Act 2010, for disabled employees, including seeking redeployment in the event that reasonable adjustments are not possible. We offer appropriate training, including training in relation to equality, and will make adjustments to this training where required.

Independent auditors
The company's auditors have expressed their willingness to continue in office and the Audit Committee has recommended their re-appointment to the Board. Resolutions to re-appoint PricewaterhouseCoopers LLP as auditors to the company and to authorise the directors to determine their remuneration are proposed for the forthcoming AGM.

Directors' interests
The Directors' Report on Remuneration on pages 76 to 101 provides details of the interests of each director, including details of current incentive schemes and long term incentive schemes, the interests of directors in the share capital of the company and details of their share interests, as at 27 February 2015.

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 the strategic report on pages 1 to 55. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the financial review on page 192. Principal risks and uncertainties are detailed on pages 54 to 55. In addition, the financial statements include, amongst other things, notes on the group's objectives, policies and processes for managing its capital (page 192); its financial risk management objectives (page 50); details of its financial instruments and hedging activities (page 46); and its exposures to credit risk and liquidity risk (page 55).

Whilst the economy has improved over the past year, the general climate remains, to a degree, uncertain. However, based on the available information on the future, the directors consider that the group has the plans and resources to manage its business risks successfully as it has a diverse range of businesses and remains financially strong. After making enquiries, the directors have a reasonable expectation that the company, and the group, have adequate resources to continue their operations for the foreseeable future. For that reason, they continue to adopt the going concern basis in preparing the financial statements.

Annual general meeting

The company's annual general meeting will be held at 11am on Thursday, 21 May 2015 at The Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Accounts, including the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Board of directors section confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- the strategic report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces.

In accordance with section 418 of the Companies Act 2006, each of the directors who held office at the date this report was approved confirms that:

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
(b) he/she has taken all the steps that he/she ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The directors' report and strategic report were approved by the Board, and signed on their behalf.
By order of the Board

G J Timms
Company secretary

Shareholder information

Annual general meeting

The 2015 annual general meeting (AGM) will be held on Thursday, 21 May 2015 at 11am at The Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ. The AGM provides Legal & General with the opportunity to meet its shareholders. The Board regards the AGM as an important opportunity to communicate directly with private investors. The Notice of Meeting and all other details for the AGM are available at www.legalandgeneralgroup.com (the website).

Dividend information

Dividend per share

This year the directors are recommending the payment of a final dividend of 8.35p per share. If you add this to your interim dividend of 2.90p per share, the total dividend recommended for 2014 will be 11.25p per share (2013: 9.30p per share). The key dates for the payment of dividends are set out in the important dates section on the next page.

Dividend payments

Legal & General is keen to encourage all its shareholders to have their dividends paid directly into a bank or building society account. If you would like more details or a dividend mandate form, please contact our registrar.

Details of how to contact the registrar can be found on the opposite page and on our website.

Dividend reinvestment plan

The Legal & General dividend reinvestment plan (DRIP) enables shareholders to use their cash dividends to purchase Legal & General Group Plc shares. If you would like more details, please contact our registrar.

Communications

Internet

Information about the company, including details of the current share price, is available on the website, www.legalandgeneralgroup.com.

Investor relations

Private investors should contact the registrar with any queries.

Institutional investors can contact the investor relations team by email: investor.relations@group.landg.com

Share fraud warning

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register at www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at www.fca.org.uk/scams.
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Financial reports

The company's financial reports are available on the website. The Annual Report and Accounts are sent to those shareholders who have elected to receive paper copies. Alternatively, shareholders may elect to receive notification by email by registering on www.landgshareportal.com. If you receive more than one copy of our communications, it could be because you have more than one record on the share register. To avoid duplicate mailings, please contact the registrar, who can arrange for your accounts to be amalgamated.

Registrar

You can contact our registrar:

By post: Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

By telephone: 0871 402 3341*. If calling from outside the UK please dial + 44 800 141 2959.

*Calls to this number cost 10p per minute plus network extras. Lines are open 9am to 5.30pm, Monday to Friday.

By email: landgshares@capita.co.uk

The registrar also provides the following services:

Corporate sponsored nominee

The corporate sponsored nominee allows you to hold shares in Legal & General without the need for a share certificate and enables you to benefit from shorter market settlement periods. Individual shareholders hold their Legal & General shares in a nominee holding registered in the name of Capita IRG Trustees (Nominees) Limited. To join or obtain further information contact the registrar. They will send you a booklet, outlining the terms and conditions under which your shares will be held, together with the appropriate share transfer form. The booklet and the share transfer form are also available in the Investors section of the website.

Share portal

Share portal allows you to view your Legal & General shareholding on the internet. Registering is easy; simply log on to www.landgshareportal.com and follow the instructions. You will need your Shareholder Investor Code, which can be found on your share certificate, dividend statement or proxy form. If you have any queries, please call the shareholder helpline.

Share dealing service

A quick and easy share dealing service is provided by Capita Share Dealing Services to sell or buy shares in Legal & General and any other leading UK companies. Further information is available online at www.capitadeal.com.

General information

Capital gains tax: For the purpose of calculating UK capital gains tax, the market value on 31 March 1982 of each share was 7.996p, after adjusting for the 1986 capitalisation issue and the 1996 and 1999 sub-divisions, but not reflecting any rights taken up under the 2002 rights issue.

Close company provisions: The company is not a close company within the terms of the Corporation Tax Act 2010.

Registered office: One Coleman Street, London EC2R 5AA. Registered in England and Wales, No. 01417162.

Shareholder offer line: For details of shareholder offers on Legal & General products call 0500 65 5555.

Important Dates:	
23 April 2015	Ex-dividend date (final dividend)
15 May 2015	Last day for DRIP elections
21 May 2015	Annual General Meeting
4 June 2015	Payment of final dividend for 2014 (to members registered on 24 April 2015)
5 August 2015	Half year results 2015
13 August 2015	Ex-dividend date (interim dividend)
17 September 2015	Payment of interim dividend for 2015 (to members registered on 14 August 2015)

Glossary

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

Advisory assets
These are assets on which Global Index Advisors (GIA) provide advisory services. Advisory assets are beneficially owned by GIA's clients and all investment decisions pertaining to these assets are also made by the clients. These are different from Assets under Management (AUM) defined below.

Annual premium equivalent (APE)
A standardised measure of the volume of new life insurance business written. It is calculated as the sum of (annualised) new recurring premiums and 10% of the new single premiums written in an annual reporting period.

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

Assets under 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 actively managed by our fund managers on behalf of investors.

Bulk purchase annuity (BPA)
Bulk annuities are 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.

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

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

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

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

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

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

Earnings per share (EPS)
EPS is a common financial metric which can be used to measure the profitability and strength of a company over time. It is the total shareholder profit after tax divided by the number of shares outstanding. EPS uses a weighted average number of shares outstanding during the year.

Economic capital surplus and coverage
Economic capital is the capital that an insurer holds internally as a result of its own assessment of risk. It differs from regulatory capital, which is determined by regulators. It represents an estimate of the amount of economic losses an insurer could withstand and still remain solvent with a target level of confidence over a specified time horizon. Economic capital surplus represents group available economic capital less the group economic capital requirement, pre-accrual for proposed dividend. Economic capital coverage is calculated as the group available economic capital divided by the group economic capital requirement.

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

European embedded value (EEV)
The Embedded Value (EV) of a life insurance company is the value to equity shareholders of the net assets and expected future profits of the company on existing business. The European Embedded Value (EEV) is a variation of EV which allows for a more formalised method of choosing the parameters and performing the calculations to enable greater transparency and accountability.

European embedded value operating profit (EEV operating profit)
Legal & General provides supplementary financial statements prepared on the European Embedded Value (EEV) basis for long term insurance contracts. Operating profit on the EEV basis reports the change in embedded value in a period, but excludes fluctuations from assumed longer term investment return.

European embedded value per share (EEV per share)
EEV per share is used to measure value creation over time. It is the group's EEV including LGIM, divided by the closing number of shares in issue at the balance sheet date.

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

Generally accepted accounting principles (GAAP)
These are a widely accepted collection of guidelines and principles, established by accounting standard setters and used by the accounting community to report financial information.

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

Index tracker (passive fund)
Index tracker funds invest in most or all of the same shares, and in a similar proportion, as the index they are tracking, for example the FTSE 100 index. Index tracker funds aim to produce a return in line with a particular market or sector, for example, Europe or technology. They are also sometimes known as 'tracker funds'.

Insurance groups directive (IGD) surplus and coverage
The IGD surplus is a regulatory measure which calculates surplus capital within the group in accordance with the EU Insurance Groups Directive. IGD surplus is defined as group regulatory capital less the group regulatory capital requirement, after accrual for proposed dividends. Surplus capital held within Society's Long Term Fund cannot be included in the IGD definition of capital employed. IGD coverage is calculated as the group regulatory capital divided by the group regulatory capital requirement.

International financial reporting standards (IFRS)
These are accounting guidelines and rules that companies and organisations follow when completing financial statements. They are designed to enable comparable reporting between companies, and they are the standards that all publicly listed groups in the European Union (EU) are required to use.

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

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

LGA
Legal & General America.

LGAS
Legal & General Assurance Society (division).

LGC
Legal & General Capital.

LGIM
Legal & General Investment Management.

LGR
Legal & General Retirement.

Liability driven investment (LDI)
A form of investing in which the main goal is to gain sufficient assets to meet all liabilities, both current and future. This form of investing is most prominent in final salary pension plans, whose liabilities can often reach into billions of pounds for the largest of plans.

Glossary

Longevity
Risk associated with increasing life expectancy trends among policyholders and pensioners.

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

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

New business strain
The impact of writing new business on the regulatory position, including the cost of acquiring new business and the setting up of regulatory reserves.

Open architecture
Where a company offers investment products from a range of other companies in addition to its own products. This gives customers a wider choice of funds to invest in and access to a larger pool of money management professionals. Cofunds is an open architecture platform.

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

Operational cash generation
Operational cash generation is the expected release from in-force business for the UK non profit LGAS and LGR businesses, the shareholder's share of bonuses on with-profits business, the post-tax operating profit on other UK businesses, including an expected investment return on LGC invested assets, and dividends remitted from our international businesses.

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

Platform
Online services used by intermediaries and consumers to view and administer their investment portfolios. Platforms usually provide facilities for buying and selling investments (including, in the UK products such as Individual Savings Accounts (ISAs), Self-Invested Personal Pensions (SIPPs) and life insurance) and for viewing an individual's entire portfolio to assess asset allocation and risk exposure.

Present value of new business premiums (PVNBP)
The industry measure used to determine the value of new business. It is calculated as 100% of single premiums plus the expected present value of new regular premiums.

Purchased interest in long term business (PILTB)
An estimate of the future profits that will emerge over the remaining term of life and pensions policies that have been acquired via a business combination.

Retail distribution review (RDR)
RDR is part of the UK Financial Conduct Authority's agenda of customer protection. RDR aimed to drive structural change throughout the retail investments industry in order to ensure consumers can have confidence in their retirement and investment planning.

Return on equity (ROE)
ROE measures the return earned by shareholders on shareholder capital retained within the business. ROE is calculated as IFRS profit after tax divided by average IFRS shareholders' funds.

Risk appetite
The aggregate level and types of risk a company is willing to assume in its exposures and business activities in order to achieve its business objectives.

Single premiums
Single premiums arise on the sale of new contracts where the terms of the policy do not anticipate more than one premium being paid over its lifetime, such as in individual and bulk annuity deals.

Solvency II
An EU-wide regulatory regime which intends to align solvency capital to an insurer's risk profile. Solvency II is scheduled to be implemented on 1 January 2016.

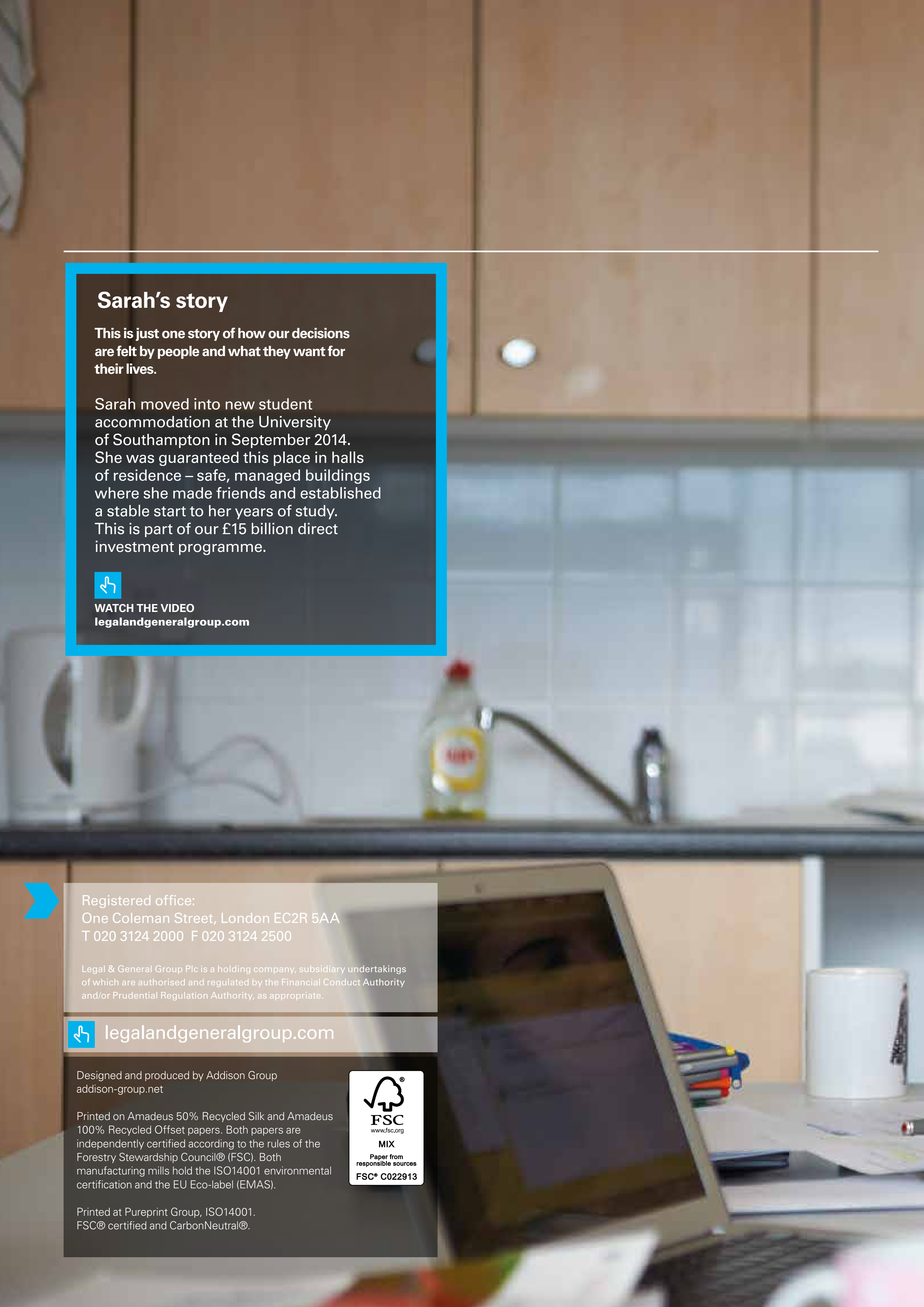
Total shareholder return (TSR)
TSR is a measure used to compare the performance of different companies' stocks and shares over time. It combines the share price appreciation and dividends paid to show the total return to the shareholder.

Value in force (VIF)
The value of in-force business is the present value of expected future shareholder profits less the present value cost of holding capital required to support the in-force business.

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

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

Notes



Sarah's story

This is just one story of how our decisions are felt by people and what they want for their lives.

Sarah moved into new student accommodation at the University of Southampton in September 2014. She was guaranteed this place in halls of residence – safe, managed buildings where she made friends and established a stable start to her years of study. This is part of our £15 billion direct investment programme.

WATCH THE VIDEO
legalandgeneralgroup.com

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Printed on Amadeus 50% Recycled Silk and Amadeus 100% Recycled Offset papers. Both papers are independently certified according to the rules of the Forestry Stewardship Council® (FSC). Both manufacturing mills hold the ISO14001 environmental certification and the EU Eco-label (EMAS).

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Paper from responsible sources
FSC® C022913

Printed at Pureprint Group, ISO14001.
FSC® certified and CarbonNeutral®.