Stock Exchange Release
15 March 2016

NET CASH UP 14%, ROE[1] 17.7%, DIVIDENDS UP 19%

FINANCIAL HIGHLIGHTS:

- **NET CASH GENERATION UP 14% TO £1,256M (2014: £1,104M)**
- **OPERATING PROFIT UP 14% TO £1,455M (2014: £1,275M)**
- **PROFIT AFTER TAX UP 10% TO £1,094M (2014: £992M)**
- **ADJUSTED EARNINGS PER SHARE[2] UP 11% TO 18.58P (2014: 16.70P)**
- **FULL YEAR DIVIDEND UP 19% TO 13.40P PER SHARE (2014: 11.25P)**
- **SOLVENCY II SURPLUS[3] OF £5.5BN: COVERAGE RATIO OF 169%**
- **ECONOMIC CAPITAL SURPLUS OF £7.6BN: COVERAGE RATIO OF 230%**

BUSINESS HIGHLIGHTS:

- **LGIM AUM UP 8% TO £746.1BN (2014: £693.7BN)**
- **LGIM EXTERNAL AUM NET FLOWS OF £37.7BN (2014: £7.5BN)**
- **LGR NEW BUSINESS OF £2.9BN (2014: £6.6BN)**
- **GROUP-WIDE DIRECT INVESTMENTS UP 22% TO £7.0BN (2014: £5.7BN)**
- **UK RETAIL PROTECTION PREMIUMS UP 5% TO £1,112M (2014: £1,056M)**
- **LGA PREMIUMS UP 6% TO $1,183M (2014: $1,117M)**

Nigel Wilson, Group Chief Executive, said:

“Legal & General delivered excellent growth in cash, profits and dividends in 2015: Net cash generation and Operating Profit were both up by 14%, EPS was up 11 % and we are increasing the dividend by 19%. Over the last 4 years we have delivered sustained growth, Net Cash has increased 10%, EPS has increased 11% and the dividend increased by 20% on average each year.

We had already moved to a capital-lite model for UK pension risk transfer business in anticipation of the new Solvency II regime and we will use our Solvency II surplus capital of £5.5bn to continue to deliver on our strategy. We have a robust business model which has proved to be adept and resilient in dealing with fiscal and regulatory changes in our sector. We are planning for more global economic and market volatility and are well positioned for continued pressure on pricing and changes in product mix in our industry.

Our strategy is aligned to growth for our markets, meeting our customers’ needs and delivering socially useful products. We remain confident in the outlook for our business.”

1. Return on equity is calculated by taking profit after tax attributable to equity holders of the Company, divided by the average shareholders’ equity during the period. This excludes a £25m net loss in relation to the disposals of Legal & General France, Legal & General Gulf, Legal & General Egypt and Legal & General International (Ireland).
2. Adjusted earnings per share is calculated by dividing profit after tax by the weighted average number of ordinary shares in issue during the period, excluding the £25m loss as per note 1. Unadjusted earnings per share was 18.16p (2014: 16.70p).
3. Solvency II position on a proforma basis as at 31 December 2015 and before the accrual of the final dividend.

GROUP FINANCIAL SUMMARY

IFRS £m	2015	2014	Growth %
Analysis of operating profit			
Legal & General Retirement	**639**	428	**49**
Legal & General Investment Management	**355**	321	**11**
Legal & General Capital	**233**	203	**15**
Insurance	**293**	370	**(21)**
Savings	**99**	105	**(6)**
Legal & General America	**83**	56	**48**
Operating profit from divisions	**1,702**	**1,483**	**15**
Group debt costs	**(153)**	(142)	**(8)**
Investment projects and expenses	**(94)**	(66)	**(42)**
Operating profit	**1,455**	**1,275**	**14**
Investment and other variances (inc. minority interests)[1]	**(100)**	(37)	**(170)**
Profit before tax attributable to equity holders	**1,355**	**1,238**	**9**
Adjusted earnings per share (p)[2]	**18.58**	**16.70**	**11**
IFRS earnings per share (p)	**18.16**	**16.70**	**9**

1. Investment and other variances include a £25m net loss resulting from the sale of Legal & General France, Legal & General Gulf, Legal & General Egypt and Legal & General International (Ireland).
2. Adjusted earnings per share is calculated by dividing profit after tax by the weighted average number of ordinary shares in issue during the period, excluding the £25m loss as per note 1.

OPERATIONAL AND NET CASH GENERATION £m	2015	2014	Growth %
Operational cash generation	**1,217**	1,101	**11**
New business surplus	**39**	3	**1,200**
Net cash generation	**1,256**	**1,104**	**14**

SOLVENCY II CAPITAL £bn[3]	2015
Eligible own funds	**13.5**
Solvency capital requirement	**(8.0)**
Surplus	**5.5**
SCR coverage ratio (%)	**169**

3. Solvency II position on a proforma basis as at 31 December 2015 and before the accrual of the final dividend.

ECONOMIC CAPITAL £bn[4]	2015	2014	Growth %
Eligible own funds	**13.5**	12.5	**8**
Economic capital requirement	**(5.9)**	(5.5)	**(7)**
Surplus	**7.6**	**7.0**	**9**
1-in-200 coverage ratio (%)	**230**	**229**	**1**

4. Economic capital is the amount of capital that the Board believes the Group needs to hold, over and above its liabilities, in order to meet the Group's strategic objectives. Our Economic Capital model has not been reviewed by the Prudential Regulatory Authority (PRA), nor will it be.

DIVIDEND – 19% INCREASE, PROGRESSIVE POLICY GOING FORWARD

The Board has confidence in the strength and growth prospects for the business. This underpins the Board's recommendation of a final dividend of 9.95p (2014: 8.35p) giving a full year dividend of 13.40p (2014: 11.25p), 19% higher than 2014. This reflects a net cash cover of 1.58 times.

The Board has adopted a progressive dividend policy going forward reflecting the Group's expected medium term underlying business growth, including net cash generation and operating earnings.

CAPITAL – S2 SURPLUS: £5.5BN, EC SURPLUS: £7.6BN

The Group's Solvency II surplus was £5.5bn, representing a coverage ratio of 169%. The Group has set a preferred Solvency II coverage ratio of greater than 140%. The economic capital surplus was £7.6bn, representing a coverage ratio of 230%. We remain disciplined in ensuring we deliver our required rates of return on the capital we choose to deploy, particularly in respect of UK pension risk transfer business.

STRATEGY – FIVE LONG TERM GROWTH DRIVERS

In addition to our institutional insurance businesses, Legal & General is increasingly serving its corporate, institutional and retail customers through our asset gatherer businesses of LGIM, LGR and LGC. These businesses are working together to deliver consistent, sustainable and attractive growth. We are executing our clear and focused strategy based on five key long term growth drivers:

1) AGEING POPULATIONS

The demand for de-risking strategies remains high and the opportunity remains significant for Legal & General as a market leader in both the UK and US. We are well placed to deploy our unique and integrated specialist experience in longevity, investment management and asset transitioning, across LGR, LGIM and LGC. In addition we have a panel of 11 counterparty reinsurance partners to execute transactions in a capital and risk efficient manner. Our entry into the equity release market (lifetime mortgages) provides an additional high quality long duration asset with enhanced risk adjusted returns to back the Group's annuity liabilities.

2) GLOBALISATION OF ASSET MARKETS

Investors worldwide are increasingly looking to global asset managers and markets to satisfy their requirements for value, yield, risk management and service. LGIM, the 15th largest asset manager globally with around a 1% share of the global market, is expanding internationally through its three manufacturing hubs in the UK, US and Asia as well as expanding its distribution footprint. In 2015 we won new mandates in Korea, Taiwan and Japan.

3) CREATING REAL ASSETS

Legal & General Capital (LGC) is utilising the Group's shareholder funds to take significant stakes in strategic businesses to enhance risk adjusted returns. LGC is investing in sectors that are economically crucial and require long term finance, such as infrastructure and UK housing and suffer from a multi-billion pound financing gap. In doing so, we are able to originate a pipeline of assets to back our long term annuity liabilities, which have predictable liquidity requirements in LGR and co-investment opportunities with the LGIM client base.

4) WELFARE REFORM

Governments worldwide are stepping back from welfare provision and it is increasingly likely that employers and individuals will have to fill this need. In the UK, auto-enrolment has been the successful prototype for this model, with 90% of members choosing to stay enrolled and defined contribution (DC) assets expected to triple in the next 10 years. We have had notable success with major employers reviewing their DC provider including John Lewis and Tesco. As a result we now have 1.8m customers on our Workplace Savings platform.

5) DIGITAL

We are addressing the opportunities and challenges presented by digital developments, which both shape the ways in which we interact with our customers and present opportunities to significantly reduce unit costs. Our market leading retail protection business has straight through processing of around 80%, we re-platformed our lifetime mortgages proposition for less than £500k. In India simple products supported by digital technology resulted in two million new insurance customers in three months during 2015 and in housing, we will use technology to build innovative modular homes.

OUTLOOK

Our strategy is designed to deliver sustainable growth in cash, earnings and RoE. Our business model enables us to grow across an increasingly wide range of asset and insurance markets, giving us additional optionality. This model is increasingly led by the gathering and management of assets and includes internationalising our investment management and retirement propositions, as well as successfully entering the UK lifetime mortgage market and creating long term institutional asset classes.

We believe that by aligning our strategy to growth drivers together with our diversified revenue streams, creates resilience. No model however can be completely immune from slowing global growth and continuing market uncertainty.

We expect international demand for de-risking strategies to remain strong. The pension risk transfer (PRT) market continues to grow as corporates seek to reduce or remove their exposure to their legacy defined benefit pension liabilities, estimated at approximately $9 trillion globally. We see growing demand for our skills in asset management, liability management, complex administration and deal execution. LGR will apply these skills as a direct insurer in the US through LGA, and as a reinsurer through LGRe in other markets initially focusing on the Netherlands.

Volumes of pension risk transfer business we choose to write in 2016 and beyond remain dependent on meeting our return on capital hurdle rates, including those based on Solvency II capital. We anticipate that the Solvency II regime will create annuity back book consolidation opportunities. We expect our own existing £43bn back book of annuity assets to generate strong levels of profit for many years, enhanced by an increasing proportion of assets allocated to risk adjusted, yield enhancing, direct investments.

Following our successful entry into the lifetime mortgage market we expect to write up to £500m of lifetime mortgages new business in 2016. We expect individual annuity sales to remain at current levels.

In LGIM we are well placed to continue generating strong net inflows across a range of products, channels and regions. In the UK, demand for LDI, Multi Asset, Real Asset and Fixed Income strategies is expected to remain strong. LGIM's strategy is based on being a low cost scalable provider of fund management products and as such is well placed to be a net beneficiary from the expected pricing pressure across the asset management market. We expect retail sales to continue to improve, and also expect to increase the number of full service customers on our Defined Contribution platform to around 2m by the end of 2016. Internationally we are expanding our distribution in the US, Asia, the Gulf and Europe and are well positioned to continue our positive international momentum.

LGC will continue to invest strategically into businesses that require long term investment, utilising the long term nature of the Group's liabilities and capital requirements, whilst providing wider benefit to the Group with improved access to additional assets and fee earning opportunities. To date the Group has invested £7.0bn and we intend to invest up to £15bn in the medium term across our areas of focus: housing; urban regeneration; alternative finance and clean energy.

We see further opportunities in the UK insurance market. In retail protection we remain the market leader in a mature market, however we see the potential to grow as it becomes more digital and direct. In our Group protection business we are exploring ways of providing additional protection products through our Workplace proposition.

In UK Savings we have over two million UK customers and £102bn of administered assets. We will focus on simplifying our business model to deliver cash generation and profits to the Group.

LGA protection new business volumes are expected to be 10% lower in 2016 than in 2015 as LGA focuses on increasing margins and sustaining strong cash generation to the Group. More broadly for further US pension risk transfer business, LGA will continue to provide the regulatory balance sheet, administrative services and payments to annuitants for LGR America and back office support for LGIM America.

For 2016 we expect to deliver a further increase in operational cash generation of 6-7% across the areas that we provide guidance for: LGR, LGA, LGC, Savings and Insurance excluding General Insurance.

LEGAL & GENERAL RETIREMENT

FINANCIAL HIGHLIGHTS £m	2015	2014
Operational cash generation	**372**	292
New business surplus	**45**	51
Net cash generation	**417**	**343**
Experience variances, assumption changes, tax and non-cash movements	**222**	85
Operating profit	**639**	**428**
Bulk annuity single premiums[1]	**2,417**	5,987
Individual annuity single premiums	**327**	591
Lifetime mortgage advances	**201**	-
Total LGR new business	**2,945**	**6,578**
Annuity net inflows (£bn)	**0.4**	4.4
Bulk annuity assets (£bn)	**29.0**	29.1
Individual annuity assets (£bn)	**14.4**	15.1
Total annuity assets (£bn)	**43.4**	**44.2**
of which: direct investments	**5.5**	4.6
Longevity insurance gross premiums	**326**	333

1. In addition to the 2014 reported bulk annuity single premium we completed the internal transfer of £1,953m of annuities from with-profits to our shareholder fund in July 2014.

BACK BOOK FOR CASH, DIVERSIFIED NEW BUSINESS

Operational cash generation increased 27% to £372m (2014: £292m) reflecting the increased scale of the business. New business surplus of £45m (2014: £51m) resulted from our continued ability to source attractively priced assets, with the introduction of lifetime mortgages and further direct investments. New business surplus further benefited from our selected use of longevity and asset reinsurance in 2015 as our business model evolves to reflect the size of the market opportunities and the impact of the Solvency II regime.

Operating profit increased 49% to £639m (2014: £428m) reflecting both the increased scale of the business and the capital-lite model we are deploying for new annuity business. Operating profit further benefited by £18m from higher annuitant mortality experience and by £97m from changes in reserving assumptions for individuals who have deferred taking a pension past their assumed retirement date. In particular, for this group our reserving now assumes mortality rates in line with the rest of our book and slightly reduced late retirement factors to reflect lower interest rates.

We will continue to use direct investments and selective de-risking actions to actively manage our annuity back book. As a result our expectation is that the back book should be able to generate strong levels of profit for many years. **Direct investments backing our annuity business increased 20% to £5.5bn (2014: £4.6bn).**

INTERNATIONAL DIVERSIFICATION

LGR has internationalised its business in 2015, with entry into the US and European pension risk transfer markets, significantly enhancing optionality. The US market particularly provides a significant opportunity for further growth.

We completed our first US pension risk transfer deal in October 2015, a $900m group annuity contract shared equally with The Prudential Insurance Company of America. Legal & General Retirement America (LGRA) benefits from the strong support and close links with Legal & General's other US businesses. Going forwards all pensions administration services will be provided by Legal & General America (LGA) using an in-house defined benefit pensions administration capability that was developed and implemented in 2015. Fund management services will be provided by LGIM America (LGIMA). LGRA delivered its second pension risk transfer (PRT) deal in February 2016, a $65m pensioner buy-out.

We also completed our first PRT transaction in the Netherlands in December 2015, a €200m deal with ASR Nederland NV (ASR) and Hannover Re. In 2014 we established a global reinsurance hub, Legal & General Re (LGRe), to facilitate the growth of our international pension risk transfer business and this entity took on the pension obligations in respect of our deal with ASR.

IMPLEMENTATION OF UK CAPITAL-LITE FRONT BOOK MODEL

UK bulk annuity sales were £1,977m, from 63 policies, (2014: £5,987m from 54 policies), including the UK's largest ever medically underwritten bulk annuity contract, covering £230m in pension liabilities.

Many UK DB pension plan trustees and sponsoring companies wish to mitigate or remove financial risk associated with their promises to pay pensions. Our role is to apply our asset management, liability management, complex administration and deal structuring skills to help them achieve their desired outcome in the most effective way possible. Increasingly this means choosing which risks we retain on our balance sheet and which risks are reinsured. This capital-lite model seeks to optimise return on capital and will mean more of the cash generation and profits being realised at the point of sale than has been the case previously, whilst risk retained in respect of this new business (asset and partial longevity) will continue to create future, albeit lower, sources of value for shareholders in the subsequent years of each new annuity contract. Over 2015 we widened our panel of reinsurers to 11 and reinsured £3.8bn of longevity risk spread across seven of these reinsurers.

The pipeline for UK PRT remains substantial and strong. Some UK PRT deals were accelerated into December 2015 in advance of the implementation of Solvency II, and as a result we saw strong new business flows in December. We remain disciplined in the deployment of our capital, with all transactions having to meet minimum capital hurdle rates, and continue to expect an uneven distribution of new business between reporting periods. However the UK market potential is very large, the client need is strong, our skill sets highly relevant and sought after and our client reach well established.

CREDIT AND LONGEVITY MANAGEMENT

Our £43.4bn back book of assets and liabilities is well-diversified and with prudent reserves of £2.2bn for adverse credit events and c.£1.7bn of prudence in excess of best estimate for longevity.

The assets backing our annuity liabilities consist predominantly of globally diversified investment grade credit assets with an average 'A-' rating, making up £38bn out of the £43.4bn. Just 2.4% of the £43.4bn is held in corporate bonds rated as sub-investment grade. The focus of the portfolio is to provide secure and stable sterling cashflows to back pension payments. Our in-house expert fixed income fund managers are incentivised to manage the portfolio against credit deterioration, particularly default losses and are pioneers in the institutional shift towards buy-and-maintain fixed income portfolios actively managed for credit risk.

Direct Investments are managed in the same way, with directly negotiated covenants and security or collateral a primary feature of these self-manufactured asset portfolios. This portfolio is now £5.5bn, (2014: £4.6bn). We hold a further £3.5bn in gilts (included as 'AA' rated assets). Within the credit assets backing our annuity liabilities, our exposure to Oil & Gas is 5.2% with a further 1.2% in Basic Resources. Our allocation to Banks remains low at 4.4%.

Our gross longevity exposure including longevity insurance deals is £48.7bn with net exposure after longevity reinsurance of £37.1bn. With our prudent reserves, careful management of our net longevity risk and our well-diversified asset portfolio, combined with the ability to self-manufacture further direct investment, we are confident that our back book can deliver strong profits for many years into the future.

INDIVIDUAL RETIREMENT SOLUTIONS

Following the acquisition of Newlife Home Finance, now Legal & General Home Finance, lifetime mortgage advances were £201m (2014: £nil), with £99m of advances in Q4 2015. The equity release market grew 16% in 2015 to £1.6bn and is forecast to reach £2.3bn by 2019. The number of people over 60 years old is expected to grow by 6.3 million in the next 20 years, coupled with an estimated £1.4 trillion of housing equity currently owned by the over 65s in the UK, makes the long-term growth characteristics of this market very strong.

Individual Annuity sales were down 45% to £327m (2014: £591m), with £65m of sales in Q4 2015. We expect this market to remain subdued.

LEGAL & GENERAL INVESTMENT MANAGEMENT

FINANCIAL HIGHLIGHTS £m	2015	2014[1]
Total revenue	**694**	645
Total costs	**(335)**	(309)
Asset management operating profit	**359**	**336**
Workplace Savings	**(4)**	(15)
Operating profit	**355**	**321**
Net cash generation	**281**	**246**
Cost:income ratio[2] (%)	**48**	48
External AUM net flows (£bn)	**37.7**	7.5
Internal AUM net flows (£bn)	**(2.1)**	0.9
Disposal of Legal & General France (LGF)	**(2.3)**	-
Total AUM net flows (£bn)	**33.3**	**8.4**
Of which international (£bn)	9.5	8.7

£bn	2015	2014
Assets under management, including overlay assets[3]	**746.1**	693.7
Advisory assets	**10.5**	14.8
Total assets	**756.6**	**708.5**
Of which:		
- International assets under management, including overlay assets[3]	**122.4**	114.0
- International advisory assets	**10.5**	14.8
- Total international assets	**132.9**	**128.8**
Assets under administration – Workplace Savings	**14.7**	**11.1**
- of which, managed by LGIM	**14.4**	10.5

1. LGIM includes the Workplace Savings business which was previously reported in Savings.
2. Excluding Workplace Savings.
3. Assets under management include overlay assets, which represent the notional value of derivative instruments on which LGIM earns fees. Fees are charged on notional values and as such are not subject to positive or negative market movements.

CONTINUED PROFIT AND CASH GROWTH FROM A DIVERSIFIED BUSINESS

LGIM has delivered strong results with **operating profit up 11% to £355m (2014: £321m).** LGIM is continuing to diversify its business by offering a broader range of solutions across client segments and markets, such as fiduciary management and Pathway Funds for DC schemes.

LGIM maintained a cost:income ratio, excluding Workplace, of 48% (2014: 48%), while continuing to invest in the business. **Total revenues increased 8% to £694m (2014: £645m).**

Total external AUM net flows increased fivefold to £37.7bn (2014: £7.5bn) driven by positive net flows across every client segment, region and product level. The National Grid pension scheme mandate was successfully integrated in Q4, adding c.£12bn of fund flows.

In Workplace Savings the business delivered a breakeven result in Q4 and the operating loss was reduced to £4m (2014: £15m) for the year.

MARKET LEADING DE-RISKING SOLUTIONS

Asset movements £bn	Index funds	Active fixed income	Solu-tions	Real assets	Active equities	**Total AUM**	Advisory assets	Workplace Savings AUA
At 1 January 2015	**274.8**	**102.9**	**293.3**	**14.5**	**8.2**	**693.7**	**14.8**	**11.1**
External inflows	33.4	11.1	16.3	1.4	-	**62.2**		**3.3**
External outflows	(30.9)	(4.3)	(6.6)	(0.9)	-	**(42.7)**		**(0.7)**
Overlay / advisory net flows	-	-	18.2	-	-	**18.2**	(4.6)	**-**
External net flows	**2.5**	**6.8**	**27.9**	**0.5**	**-**	**37.7**	**(4.6)**	**2.6**
Internal net flows	(0.7)	(1.9)	-	0.9	(0.4)	**(2.1)**	-	**-**
Disposal of LGF	-	(2.3)	-	-	-	**(2.3)**	-	**-**
Total net flows	**1.8**	**2.6**	**27.9**	**1.4**	**(0.4)**	**33.3**	**(4.6)**	**2.6**
Cash management movements	-	0.8	-	-	-	**0.8**	-	**-**
Market and other movements	(2.3)	0.5	17.0	2.4	0.7	**18.3**	0.3	**1.0**
At 31 December 2015	**274.3**	**106.8**	**338.2**	**18.3**	**8.5**	**746.1**	**10.5**	**14.7**

Total AUM increased 8% to £746.1bn (2014: £693.7bn), while total external net inflows were £37.7bn (2014: £7.5bn). The sale of our French insurance business (LGF) in Q4 2015 resulted in a net outflow of £2.3bn.

LGIM remains the market leader in pension risk-management solutions in the UK, with over 40% of the Liability Driven Investment (LDI) market. **Assets in LDI and Multi-Asset solutions increased 15% to £338.2bn (2014: £293.3bn), including external net flows of £27.9bn (2014: £20.7bn).** LGIM has, and continues to develop, client solutions, including our fiduciary management capability for the institutional market, and expanding our Multi-Asset range.

Index external net flows significantly improved on last year to £2.5bn (2014: £15.8bn outflow). This was primarily due to an increase in alternatively weighted index products and strong international net flows of £5.1bn (2014: £2.0bn), with significant mandate wins in Europe, Asia and the US. The index market is experiencing on-going fee pressure but our size and scalable model are providing mitigation to this trend.

Active Fixed Income external inflows of £6.8bn (2014: £1.7bn) were driven by continued strong demand for LGIM's credit capabilities in the US and growing demand for our global fixed income products.

The Retail business delivered a record year with external net flows of £1.2bn (2014: £0.8bn) and was sixth in UK net sales in 2015 (The Pridham report). AUM increased to £19.9bn (2014: £18.1bn). Strong fund flows were experienced in Index, Multi-Asset and Property funds.

Real assets achieved total net inflows of £1.4bn (2014: £2.4bn) reflecting strong asset value growth and our clients' continued appetite for this asset class. LGIM worked in partnership with LGC to transact on three significant UK urban regeneration schemes: MediaCity UK in Salford; Thorpe Park in Leeds and Central Square in Cardiff. We continued to build on our international client base, securing investment in UK real estate from institutions in Japan, Kuwait, Saudi Arabia, Bahrain, the Netherlands, Finland, Switzerland and Canada. We transacted £0.7bn of commercial lending deals in 2015 (2014: £0.6bn).

The outflow in advisory assets of £4.6bn primarily reflects Wells Fargo's decision to remove GIA advisory assets from their collective investment trust. The original acquisition of GIA allowed for this outcome.

GROWTH IN UK DEFINED CONTRIBUTION

In a market of increasing importance following recent pension reforms, net inflows into LGIM's Defined Contribution (DC) business were £2.9bn (2014: £2.7bn). LGIM has continued to develop its comprehensive range of products available to DC customers with the launch of its Pathway Funds, and it now has over £3.8bn on the investment only platform. The win of several significant mandates in 2015, including a number of large high street retailers, took total customers to 1.8m. These mandates have been integrated successfully through the automated bulk transfer on-boarding of the schemes. **Total DC assets have increased by 13% to £46.1bn (2014: £40.7bn).**

CONTINUED INTERNATIONAL EXPANSION

International AUM net flows were £9.5bn (2014: £8.7bn). As a result total international AUM increased 7% to £122.4bn (2014: £114.0bn). This was primarily driven by growth in the US of £6.3bn (2014 £6.0bn). LGIM won its first multi-billion dollar US Index mandate in 2015 and continued to attract significant LDI and Active Fixed Income inflows. In Asia, we won new mandates in Korea, Taiwan, and Japan. We also signed a co-operation agreement with Meiji Yasuda, the third largest insurance company in Japan. Total net flows in Asia were £0.8bn (2014: £0.7bn).

LEGAL & GENERAL CAPITAL

FINANCIAL HIGHLIGHTS £m	2015	2014
Operational cash generation	**187**	162
Traded portfolio	**164**	151
Direct investment portfolio	**69**	52
Total operating profit	**233**	**203**

DIRECT INVESTMENT PORTFOLIO £m	2015	2014
Housing	**345**	297
Urban regeneration	**346**	304
Clean energy	**15**	-
Alternative finance	**161**	99
	867	**700**
TRADED PORTFOLIO £m		
Equities	**1,389**	1,313
Fixed income	**143**	483
Multi-asset	**133**	277
Cash	**1,548**	1,631
	3,213	**3,704**
LGC investment portfolio	**4,080**	**4,404**
Treasury assets at holding company £m	1,585	718
TOTAL	**5,665**	**5,122**

GROWING PROFITS

Legal & General Capital (LGC), excluding returns on treasury assets, increased operating profit by 14% to £223m (2014: £196m) with an assumed annualised return of 5.3% (2014: 5.0%) on an average asset base of £4.2bn (2014: £3.9bn).

INCREASING STRATEGIC DIRECT INVESTMENTS

LGC has successfully continued with its strategy of investing into businesses that require long term capital, thereby creating assets that can be invested in by the Group's investment and retirement businesses. As a result LGC's £0.9bn of strategic direct investments have multiple drivers of value for the Group. These include providing assets with high returns for the shareholder funds, creating new LGIM client products and fee earning opportunities, and delivering assets suitable to back annuity new business. The multi-billion pound funding gap in the core sectors in which LGC selectively invests - **housing, urban regeneration, alternative finance and clean energy** - continue to provide significant opportunities for the medium term future. LGC's £0.9bn of direct investments, together with LGR's £5.5bn and LGA's £0.6bn, total to £7.0bn at the end of 2015.

Housing expanded into Build to Rent

During the second half of 2015, LGC partnered with PGGM, one of the largest Dutch pension managers, to form a £600m partnership to develop purpose-built private rental housing across the UK. PGGM already has such investments in the US and the Netherlands and this partnership will expand its reach into the UK sector. The partnership has been seeded with LGC's regeneration sites in Walthamstow, Bristol and Salford. LGC expect to play a significant role in this sector to form a new institutional asset class and are seeing a strong pipeline of opportunities. Additional investors will be introduced to the fund generating further fees for LGIM, as our Build to Rent portfolio grows in 2016 and beyond.

In the general housing sector, CALA Homes performed very well during the period and had a record year in terms of both revenue and profit in their financial year to 30 June 2015. This represented the first year of significant volume increase as part of CALA's strategic growth plans. Revenue growth was up 79% to £512m driven by an increase in both home completions and the highest ever average selling price. This resulted in operating profit more than doubling to £73m (2014: £35m).

LGC also launched a modular housing business, Legal & General Homes, which will seek to modernise the home building industry by providing modern, precision engineered factory manufactured houses through its new factory just outside Leeds.

Further Urban Regeneration partnerships

Following the investment into the world class media hub, MediaCityUK, in the first half of 2015, LGC invested in two new significant Urban Regeneration sites: in Cardiff and Leeds.

Cardiff Central Square is a £400m development in the centre of Cardiff. BBC Wales announced that it would be moving its HQ to the site and construction has started following the signing of its lease. LGC has formed a joint venture partnership with Rightacres and Cardiff City Council with the aim of developing the Central Square area, with the BBC Wales providing an anchor tenant and catalyst to the development. LGC expects to complete on the first site (One Central Square) in March 2016, which is now over 95% pre-let. In addition, LGR has agreed terms to acquire 3 Central Square, intended to be the new Headquarters for BBC Wales.

In Leeds, LGC's £162m investment in Thorpe Park will finance and build a multi-use commercial business park, incorporating retail, leisure and land. Construction will commence as letting agreements are finalised. This investment has generated another strategic partner for LGC: Scarborough Ltd, who own 50% of the land with LGC and will act as a development partner.

These further developments take LGC's Urban Regeneration sites to a potential Gross Development Value (GDV) of approximately £3bn. LGC are partnering with the UK Government's Regeneration Investment Organisation (RIO) to source further projects and attract foreign investment into the UK as co-investors.

Alternative Finance launched

LGC has a 40% stake in Pemberton Asset Management, an independent alternative asset management group providing loan finance to the European mid-market sector. Pemberton's first fund, European Mid-Market Debt Strategy, started lending in July 2015 and is on target to hold a final close of the Fund in July 2016. As at 31 December 2015, it was 70% invested and had raised €492m. The strategy is to capitalise on the significant opportunities presented by the large funding gap in Europe as a result of regulatory constraints on the banking sector. The fund is looking to build a diversified portfolio of directly originated private loans to market leading companies with turnover between €75m and €1bn. Pemberton was awarded Global Newcomer of Year 2015 by Private Debt Investor.

Clean Energy Strategy

The UK will require significant deployment of private long term capital in clean energy power generation to reach international 2020 and longer term emission standards. This will be delivered by both existing technologies that are already at scale in the UK, and newer clean energy technologies that should be developed to take advantage of the UK's natural resources.

At the end of 2015 L&G Capital made an investment in NTR PLC, a company whose key aim is to secure a greener future with current focus on constructing and operating on-shore wind in the UK and Republic of Ireland. LGC committed up to 47.5% of a fund targeting €250m to invest in creating a portfolio of long term on-shore assets managed by NTR.

INSURANCE

FINANCIAL HIGHLIGHTS £m	2015	2014
Operational cash generation	**323**	332
New business surplus / (strain)	**25**	(5)
Net cash generation	**348**	**327**
Change to reinsurance modelling	**(93)**	-
Other experience variances, assumption changes, tax and non-cash movements	**38**	43
Operating profit	**293**	**370**
UK Protection new business annual premiums	**231**	230
Retail Protection gross premiums	**1,112**	1,056
Group Protection gross premiums	**330**	351
General Insurance gross premiums	**337**	377
Total UK gross premiums	**1,779**	**1,784**

CONTINUED GROWTH IN NET CASH

Operational cash reduced marginally to £323m (2014: £332m). New business surplus of £25m (2014: strain of £5m) resulted from the strong commercial focus of our market leading retail protection business and disciplined expense management across the division, while continuing to deliver value to both customer and shareholder. UK Protection margin increased to 9.9% (2014: 8.4%) in the period.

SUSTAINED PREMIUM INCOME

UK Protection gross premiums up 2% to £1,442m (2014: £1,407m) driven by continued strong new business sales and coupled with improved customer retention.

Retail Protection gross premium income increased 5% to £1,112m (2014: £1,056m) with new business annual premium of £162m (2014: £165m). We remain the largest provider of retail protection in the UK and benefit from a highly efficient automated underwriting model and broad distribution reach. Our direct distribution channel delivered retail protection new business APE of £29m, representing 12% growth on 2014 and now accounts for 18% of new business APE (2014: £26m, 16% of new business APE).

Group Protection gross premium was £330m (2014: £351m) with new business of £69m (2014: £65m).

Legal & General Mortgage Club facilitated £46 billion of mortgages in 2015 (2014: £40bn) through strong partnerships with top lenders and over 8,000 mortgage brokers. As the largest participant in the intermediated mortgage market in the UK, we are now involved in one in five of all UK mortgage transactions. In addition our surveying business completed c.465k surveys, representing an increase of 96% over 2014.

General Insurance operating profit reduced to £51m (2014: £59m) with a combined operating ratio of 89% (2014: 87%), including a £15m impact of the three major UK weather events in December 2015 (2014: £12m adverse weather at the start of the 2014).

RESERVING IMPACT REDUCES PROFITS

The reinsurance modelling for our UK Protection business has been enhanced. Recent reinsurance contracts have been written on a risk premium basis (as opposed to level premium) and the model change ensures that for these treaties, sufficient prudence is being held in later years. The one-off impact reduced operating profit after tax by £93m in 2015. This also defers a higher proportion of cash generation into the later years of these reinsurance contracts.

SAVINGS

FINANCIAL HIGHLIGHTS £m	2015	2014
Operational cash generation	**119**	127
New business strain	**(9)**	(14)
Net cash generation	**110**	**113**
Experience variances, assumption changes, tax and non-cash movements	**(11)**	(8)
Operating profit	**99**	**105**

Operational cash generation reduced to £119m (2014: £127m) as we continue to manage the reducing contribution from our mature savings business. Net cash generation was broadly flat at £110m (2014: £113m) as we reduce the cost base associated with this business.

Savings operating profit reduced to £99m (2014: £105m) resulting from marginally lower contributions from our with-profits and retail bonds businesses as we manage the gradual run-off of these mature product lines.

On the 15 January 2016 the Group announced the sale of Suffolk Life to Curtis Banks Group for £45m. This disposal is expected to complete in the first half of 2016. In 2015 Suffolk Life contributed £nil to operational cash, net cash and operating profit.

Assets under administration	Platforms £bn	Mature Retail Savings £bn	Consol Adj £bn	Total Savings excluding Suffolk Life £bn	Suffolk Life £bn
At 1 January 2015	**71.9**	**36.0**	**(5.6)**	**102.3**	**7.7**
Gross inflows	8.7	1.1	-	**9.8**	1.2
Gross outflows	(5.2)	(4.1)	0.6	**(8.7)**	(0.5)
Disposal of Legal & General International (Ireland) Limited	-	(2.8)	-	**(2.8)**	-
Net flows	**3.5**	**(5.8)**	**0.6**	**(1.7)**	**0.7**
Market and other movements	1.5	(0.6)	-	**0.9**	0.2
At 31 December 2015	**76.9**	**29.6**	**(5.0)**	**101.5**	**8.6**

Our Platforms business delivered net flows of £3.5bn (2014: £5.4bn) resulting in assets under administration (AUA) increasing 7% to £76.9bn (2014: £71.9bn). Cofunds continues to lead the market, with a 19% share of UK platform assets. Cofunds delivered the £11m per annum reduction in costs by the end of 2015, targeted at the time of the acquisition.

In Mature Savings, assets were £29.6bn (2014: £36.0bn). Following the closure of our With-profits fund to new business in January 2015, net outflows of £(3.0)bn (2014: £(3.4)bn), excluding the disposal of Legal & General International (Ireland), were in line with our expectations.

FREEDOM AND CHOICE

Since the introduction of the Pensions Reform legislation we have seen an increase in the proportion of customers wishing to take their pension pots as cash withdrawals, with approximately 90%, or 22,000 customers, electing to take cash payments. Our average payment size is £12k. This compares to approximately 60% of customers taking cash before the reform legislation was announced.

LEGAL & GENERAL AMERICA

FINANCIAL HIGHLIGHTS $m	2015	2014
Operational cash generation	**83**	76
Operating profit	**125**	93
Gross premium income	**1,183**	1,117
New business sales	**106**	150

INCREASED CONTRIBUTION TO CASH AND PROFITS

Operational cash generation increased by 9% to $83m (2014: $76m). This represents the dividends paid by Legal & General America (LGA) to the Group and reflects the focus of LGA to deliver net cash generation.

Operating profit increased by 34% to $125m (2014: $93m) with 2014 operating profit impacted by total mortality claims $46m higher than assumption. In 2015, mortality claims were $21m higher than assumption.

Gross premium revenue increased 6% to $1,183m (2014: $1,117m) and continues to benefit from strong relationships with the brokerage general agents, (BGAs), who distribute term assurance in the US market. LGA is the 6th largest provider of term life assurance, by annual premium equivalent, in the US and remains the 2nd largest provider through the key distribution channel of BGAs. LGA now has 1.21m policies (2014: 1.15m).

PRICING FOR EMERGING US MORTALITY TRENDS

LGA adjusted its new business pricing in 2014 and made further adjustments in 2015. These changes allow for the pricing of risk at a more granular level. As a consequence prices have been raised at lower margin price points and reduced elsewhere. This has resulted in lower new business volumes of $106m (2014: $150m), broadly in line with our expectations, with a significant improvement in new business margins to 12.1% (2014: 9.9%). In 2016 we expect to maintain margins on new business consistent with 2015.

FACILITATING US PENSION RISK TRANSFER BUSINESS

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

GROUP INVESTMENT VARIANCE

The Group investment variance in 2015 was £(57)m. This was mainly driven by the traded equity portfolio within LGC, which produced a negative investment variance of £110m, as a result of equity markets performing below longer term expected outcomes, partially offset by benign default experience in LGR.

NET CASH GENERATION BACKED BY DIVIDENDS TO GROUP

In 2015, 80% of the net cash generation was distributed to the Group (2014: 86%).

£m	Net Cash 2015	Dividend to Group 2015	Dividend % of cash 2015	Net Cash 2014	Dividend to Group 2014	Dividend % of cash 2014
LGR, Insurance, Savings and LGC	**1,062**	**739**	**70**	929	685	74
LGIM	**281**	**210**	**74**	262	213	81
LGA	**54**	**54**	**100**	46	46	100
Sub-total	**1,397**	**1,003**	**72**	**1,237**	**944**	**76**
Group debt and other costs	**(141)**	**-**	**-**	(133)		
Total	**1,256**	**1,003**	**80**	**1,104**	**944**	**86**
External dividend	**797**			**668**		
Dividend coverage	**1.58**			**1.65**		

OPERATIONAL CASH GENERATION GUIDANCE

£m	2015	2016 Guidance
LGR	372	
Insurance excluding General Insurance	282	
Savings	119	
LGA[1]	54	
LGC	187	
Sub-total	**1,014**	**+ 6–7%**
LGIM	303	
General Insurance	41	
Operational cash generation from divisions	**1,358**	
Group debt costs	(122)	
Other costs	(19)	
Total operational cash generation	**1,217**	

1. LGA has already paid its 2016 ordinary dividend of $88m in February 2016.

TAXATION - EFFECTIVE TAX RATE OF 19.3%

Equity holders' Effective Tax Rate (%)	2015	2014
Total Effective Tax Rate	**19.3**	19.9
Annualised rate of UK corporation tax	**20.25**	21.5

In 2015, the Group's effective tax rate remained slightly below the UK corporation tax rate due to a number of differences between the measurement of accounting profit and taxable profits.

The UK has a deferred tax asset of £6m in respect of trading losses carried forward in Group companies (2014: £45m) relating mainly to Cofunds. Trading losses within Legal & General Pensions Limited, which benefit both LGR and Insurance, were fully utilised in 2015. The contribution to net cash generation in LGR and Insurance from the utilisation of tax was £31m for 2015 (2014: £73m).

FOCUS ON EFFICIENCY AND CORE ACTIVITIES

We continue to rationalise our business model to focus on core activities where we believe we can achieve significant scale and attractive returns on capital. During 2015 we disposed of Legal & General International (Ireland) for £15m (carrying value: £14m), our Egyptian business for £33m (carrying value: £14m), Legal & General France for a loss of £43m compared to the carrying value and Legal & General Gulf for £1 (carrying value: £2m). As a result of these transactions we have reflected a £25m net loss within investment and other variances representing the difference between previous carrying values and sale proceeds.

On 14th January 2016 we agreed to sell Suffolk Life to Curtis Bank for £45m, subject to regulatory approval, and as a consequence it has been classified as held for sale in our 2015 results.

Effective and sustainable management of costs remain key to our strategy. We exceeded our £80m cost saving target in 2015, incurring £50m of one-off costs in doing so. In 2016 we plan to invest £40m to deliver a further reduction in management expenses and operating costs in both nominal and real terms.

BORROWINGS

Legal & General continues to have a strong liquidity position reflecting its requirements for working capital and derivative collateral. The Group's outstanding core borrowings total £3.1bn (2014: £3.0bn). There is also a further £0.5bn (2014: £0.7bn) of operational borrowings including £0.6bn (2014: £0.7bn) of non-recourse borrowings. In June 2015 we redeemed €600m of 4.0% Euro dated subordinated notes at par. In October 2015 we issued £600m of 5.375% Sterling Subordinated notes.

Group debt costs of £153m (2014: £142m) reflect an average cost of debt of 5.3% per annum (2014: 5.2% per annum) on average nominal value of debt balances of £2.9bn (2014: £2.7bn).

SOLVENCY II

As at 31 December 2015 the Group had a proforma Solvency II surplus of £5.5bn over its Solvency capital requirement, corresponding to a Solvency II coverage ratio of 169%. The Group has set a preferred Solvency II coverage ratio of greater than 140%.

Capital (£bn)[1]	2015
Eligible own funds	**13.5**
Solvency capital requirement (SCR)	**(8.0)**
Surplus	**5.5**
SCR Coverage ratio (%)	**169**

1. Solvency II position on a proforma basis as at 31 December 2015 and before the accrual of the final dividend.

SENSITIVITY ANALYSIS

	Impact on net of tax capital surplus £bn	Impact in SII coverage ratio %
Credit spreads widen by 100bps using the same 100bps addition to all ratings	**(0.3)**	**(1)**
Credit spreads widen by 100bps assuming an escalating addition to ratings	**(0.6)**	**(8)**
Credit spreads tighten by 100bps using the same 100bps deduction to all ratings	**0.2**	**1**
Credit spreads tighten by 100bps assuming an escalating deduction to ratings	**0.6**	**7**
A worsening in our expectation of future default and downgrade to 115% of our assumed best estimate	**(0.5)**	**(11)**
20% fall in equity markets	**(0.4)**	**(4)**
40% fall in equity markets	**(0.7)**	**(8)**
20% rise in equity markets	**0.5**	**5**
15% fall in property markets	**(0.3)**	**(3)**
100bps increase in risk free rates	**0.6**	**19**
100bps fall in risk free rates	**(0.4)**	**(11)**
1% reduction in annuitant base mortality	**(0.1)**	**(2)**
1% increase in annuitant base mortality	**0.1**	**2**

These are all independent stresses to a single risk. In practice the balance sheet is impacted by combinations of stresses and the combined impact can be larger than adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse stresses will happen together. The above sensitivity analysis does not reflect all management actions which could be taken to reduce the impacts. Transitional relief on technical provisions is assumed to be recalculated in the interest rate sensitivities.

IGD CAPITAL RESOURCES

As at 31 December 2015 the Insurance Group's Directive (IGD) surplus was £4.4bn (2014: £3.9bn).

The Group's capital resources totalled £8.2bn, covering the capital resources requirement of £3.8bn by 2.17 times.

The Group maintains a provision of £2.2bn (2014: £2.3bn) to provide for the risk of credit default in our annuity fund. Over the last five years we have experienced total actual defaults of less than £10m. However, we have incurred losses over these years, including 2015, (accounted for through investment variance) where we have traded out of names where we are no longer comfortable with the credit position.

Capital (£bn)	2015	2014
Group capital resources	**8.2**	7.7
Group capital resources requirements	**(3.8)**	(3.8)
IGD surplus	**4.4**	**3.9**
Coverage ratio (%)	**217**	**201**

ECONOMIC CAPITAL

Economic capital is the amount of capital that the Board believes the Group needs to hold, over and above its liabilities, in order to meet the Group's strategic objectives. Our Economic Capital model has not been reviewed by the Prudential Regulatory Authority (PRA), nor will it be.

As at 31 December 2015 Legal & General Group had an economic capital surplus of £7.6bn (2014: £7.0bn), corresponding to an economic capital coverage ratio of 230% (2014: 229%).

Eligible own funds increased by £1.0bn to £13.5bn (2014: £12.5bn). The economic capital requirement increased to £5.9bn (2014: £5.5bn).

Capital (£bn)	2015	2014
Eligible own funds	**13.5**	12.5
Economic capital requirement	**(5.9)**	(5.5)
Economic capital surplus	**7.6**	**7.0**
Coverage ratio (%)	**230**	**229**

Analysis of movement from 1 January to 31 December 2015 (£bn)	Economic Capital surplus
Economic solvency position as at 1 January 2015	**7.0**
Operating experience	0.7
New business surplus	0.1
Non-operating experience	0.4
New Sterling subordinated debt issuance	0.6
Repayment of Euro subordinated debt	(0.5)
Dividends paid in the period	(0.7)
Economic solvency position as at 31 December 2015	**7.6**

SUPPLEMENTARY EEV DISCLOSURE

EEV highlights (Pence)	2015	2014
Equity per share including LGIM	**221**	212
Equity per share	**195**	185

Analysis of EEV results (£m)	2015	2014
Contribution from new business	**529**	850
Intra-group transfer of annuities from With-Profit to Non-Profit Fund	**-**	100
Expected return from in-force business	**474**	490
Experience variances and assumption changes	**(31)**	(185)
Development costs	**(25)**	(32)
Contribution from shareholder net worth	**202**	194
EEV operating profit on covered business	**1,149**	**1,417**
Business reported on an IFRS basis	**161**	164
EEV operating profit	**1,310**	**1,581**
Economic and other variances	**140**	790
Gains attributable to non-controlling interests	**19**	7
EEV profit before tax	**1,469**	**2,378**
Tax on profit and other tax impacts	**(133)**	(362)
EEV profit after tax	**1,336**	**2,016**

This is the last time that the Group will be providing supplementary EEV disclosure. The Group instead will focus on providing economic and regulatory capital disclosures from H1 2016.

PRINCIPAL RISKS AND UNCERTAINTIES

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

RISKS AND UNCERTAINTIES	TREND, OUTLOOK AND MITIGATION
Reserves for long-term business may require revision as a result of changes in experience, regulation or legislation. The writing of long-term insurance business requires the setting of assumptions for long–term trends in factors such as mortality, lapse rates and persistency, valuation interest rates, expenses and credit defaults. Actual experience may result in the need to recalibrate these assumptions reducing profitability. Forced changes in reserves can also be required because of regulatory or legislative intervention in the way that products are priced, reducing profitability and future earnings.	We regularly appraise the assumptions underpinning the business that we write. In our annuities business we are, however, exposed to factors such as dramatic advances in medical science beyond those anticipated leading to unexpected changes in life expectancy. In protection business we remain inherently exposed to rates of mortality diverging from assumptions and to loss from events that cause widespread mortality/morbidity or significant policy lapse rates. There is also potential for legislative intervention in the pricing of insurance products irrespective of risk factors, such as age or health. We undertake significant analysis of longevity and mortality risks to ensure an appropriate premium is charged for the risks we take on and that our reserves remain appropriate. We remain focused on developing a comprehensive understanding of annuitant mortality and we continue to evolve and develop our underwriting capabilities. Our risk based capital model also takes account of unanticipated rates of mortality improvements in determining our prudential capital requirement.
Investment market performance or conditions in the broader economy may adversely impact our earnings and profitability. The performance and liquidity of investment markets, interest rate movements and inflation impact the value of investments we hold in shareholders' funds and those to meet the obligations from insurance business, with the movement in certain investments directly impacting profitability. Interest rate movement and inflation can also change the value of our obligations. We use a range of techniques to manage mismatches between assets and liabilities. However, loss can still arise from adverse markets. In addition, significant falls in investment values can reduce fee income to our investment management business, while broader economic conditions can impact the purchase and the retention of retail financial services products, impacting profitability.	Ongoing uncertainty in the global economic outlook is expected to cause continued volatility in financial markets as they respond to falling growth rates in emerging economies and speculation to future monetary policies, with potential for more disruptive asset price shifts should markets reappraise the degree to which a further deterioration in the outlook has been priced into asset values. Current illiquidity in bond markets could exaggerate the impacts of a significant market correction further depressing asset prices. Whilst the international impact of a euro default has diminished, there also remains potential for renewed financial stress in Europe driven by political uncertainty, as well as from geo-political events. The referendum on UK membership of the European Union also has potential to increase financial market volatility as markets speculate on the impact of potential outcomes. We model our business plans across a broad range of economic scenarios and take account of alternative economic outlooks within our overall business strategy. Our ORSA process plays an integral part in our business planning ensuring a clear link between capital sufficiency and the nature of risks to which we may be exposed. We have sought to ensure focus upon those market segments that we expect to be resilient in projected conditions. For example investing our long-term funds into real assets provides both enhanced returns to our 'slow money' and reduces exposure to the volatilities of short–term financial markets.

In dealing with issuers of debt and other types of counterparty the group is exposed to the risk of financial loss.
A systemic default event within the corporate sector, or a major sovereign debt event, could result in dislocation of bond markets, significantly widening credit spreads with consequential impacts on the value of our bond portfolios, and may result in default of even strongly rated issuers of debt, exposing us to financial loss. We are also exposed to banking, money market and reinsurance counterparties, and settlement, custody and other bespoke business services, a failure of which could expose us to both financial loss and operational disruption of our business processes.

The current economic outlook inherently increases the risk of default by some issuers of bonds, and recent months have seen a widening of credit spreads, with high yield markets showing particular signs of stress. There remain, however, a range of factors that could lead to more widespread stress in bond markets as a whole resulting in reduced profitability or financial loss to the Group. Such factors include a significant deterioration in global economic conditions or a banking crisis. An economic shock or significant change in the current economic outlook may also increase potential for a supplier of business services being unable to meet their obligations to us.

We actively manage our exposure to default risks, setting counterparty selection criteria and exposure limits, and using the capabilities of LGIM's credit management team to ensure risks in our bond portfolio are effectively controlled, and if appropriate traded out. Alongside holding reserves for our assessment of default, we continue to diversify the asset classes backing our annuities business, investing in real assets and property lending investments. While our capital-lite strategy for bulk annuities will increase our counterparty risk exposure, we continue to be selective in the counterparties with which we will deal.

A material failure in our business processes may result in unanticipated financial loss or reputation damage.
We have constructed our framework of internal controls to minimise the risk of unanticipated financial loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage.

Our plans for growth together with the regulatory change agenda inherently 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 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.

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

Although the Solvency II regime came into operation on 1 January 2016, there continues to be a significant pipeline of other regulatory change. EU driven regulation includes UCITS V, MiFID II and PRIIPs, as well as various new tax rules. Within the US a new statutory reserving regime, Principle Based Reserves (PBR), will come into operation in January 2017. In the UK alongside the PRA ensuring the effective operation of the Solvency II regime and an ongoing requirement upon Legal & General to ensure compliance with the new regulatory framework, the FCA continues to develop its approach to consumer regulation, and there remain challenges in ensuring that regulatory interpretation of rules is proportionate and cost effective for the insurance sector, and aligns with the industry as businesses become increasingly digitalised. The FCA programme of thematic reviews of industry practices may also lead to additional business remediation costs. More broadly we continue to see legislative and regulatory change particularly in relation to the UK pensions market, and in the applicable tax framework including as a result of devolution and implementation of the OECD BEPS recommendations.

We are supportive of regulation in the markets where we operate where it ensures trust and confidence and can be a positive force on business. We remain, however, vigilant to the risk that future legislative and regulatory change may have unintended consequences for the sectors in which we operate. We seek to actively participate with government and regulatory bodies in the UK and Europe to assist in the evaluation of change so as to develop outcomes that meet the needs of all stakeholders, and have actively participated in the Financial Advice Market Review, the Capital Markets Review and various tax consultations. Internally, we evaluate the impact of all legislative and regulatory

	change as part of our formal risk identification and assessment processes, with material matters being considered at the Group Risk Committee and the Group Board. Our internal control framework includes processes that seek to ensure ongoing compliance with relevant legislation and regulation. We cannot, however, completely eliminate the risks that controls processes may fail or that historic accepted practices may be reappraised by regulators.
New entrants may disrupt the landscape of the markets in which we operate As has been seen other business sectors, it is possible that alternative digitally-enabled providers of financial service products emerge with lower cost business models or innovative service propositions and capital structures disrupting the current competitive landscape.	Customer facing businesses are becoming increasingly digitalised. Huge structural changes have already changed the face of travel, music, retail and media industries. There is already strong competition in all our markets, and although we have had considerable past success at building sufficient scale to offer low cost products it is possible that alternative providers emerge with lower cost or new service models that present new challenges for our businesses. We are executing a strategy that has digital at its heart, using digital platforms that allow for globalisation and high scale. We have already delivered online facilities for auto-enrolment, investment platforms and individual retirement products and continue to focus on ensuring that customer engagement is at the heart of the digital experience. We've a clear strategy, with the diversity and scale to expand organically in our selected markets.
The financial services sector is increasingly becoming a target of 'cyber crime'. As we and our business partners increasingly digitalise our businesses, we are inherently exposed to the risk that third parties may seek to disrupt our online business operations, steal customer data or perpetrate acts of fraud using digital media. A significant cyber event could result in reputation damage and financial loss.	The financial services sector continues to see attempts by third parties to seek and exploit perceived vulnerabilities in IT systems. Potential threats include denial of service attacks, network intrusions to steal data for the furtherance of financial crime, and the electronic diversion of funds. We're focused on maintaining a robust and secure IT environment. Working with our business partners, we seek to ensure the security of our systems with proactive responses to emerging threats, however, the evolving nature of cyber threats means that residual risks will remain. During 2015 the Group Board received an update on cyber risks and our control framework.

ENQUIRIES

Investors:

Laura Doyle	Head of Investor Relations	020 3124 2088
Stephen Thomas	Investor Relations Manager	020 3124 2047

Media:

John Godfrey	Corporate Affairs Director	020 3124 2090
Richard King	Head of Group Corporate Communications	020 3124 2095
Michelle Clarke	Tulchan Communications	020 7353 4200

NOTES

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

A presentation to analysts and fund managers will take place at 9.30am UK time today at One Coleman Street, London, EC2R 5AA. There will be a live webcast of the presentation which can be accessed at http://www.legalandgeneralgroup.com/investors/results2016.html A replay will be available on this website later today.

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

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2016 Financial Calendar	Date
Ex-dividend date	**28 April 2016**
Record date	**29 April 2016**
Annual general meeting	**26 May 2016**
Payment date of 2015 final dividend	**9 June 2016**
Half-year results 2016	**9 August 2016**

DEFINITIONS

Operational cash generation is the expected release from in-force business for the UK non-profit Insurance and Savings and LGR businesses, the shareholder's share of bonuses on with-profits business, the post-tax operating profit on other UK businesses, including the medium term expected investment return on LGC invested assets, and dividends remitted from LGA, LGF and LGN.

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

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 economic 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.

Adjusted earnings per share is calculated by dividing profit after tax from continuing operations, attributable to equity holders of the Company, excluding recognised gains and losses associated with held for sale and completed business disposals, by the weighted average number of ordinary shares in issue during the period, excluding employee scheme treasury shares.

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

FORWARD LOOKING STATEMENTS

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IFRS and Cash

Operating profit

For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
From continuing operations			
Legal & General Retirement (LGR)	2.02	**639**	428
Legal & General Investment Management (LGIM)	2.03	**355**	321
Legal & General Capital (LGC)	2.05	**233**	203
Insurance	2.02	**293**	370
Savings	2.02	**99**	105
Legal & General America (LGA)		**83**	56
Operating profit from divisions		**1,702**	1,483
Group debt costs[1]		**(153)**	(142)
Group investment projects and expenses[2]	2.06	**(94)**	(66)
Operating profit		**1,455**	1,275
Investment and other variances	2.07	**(119)**	(44)
Gains on non-controlling interests		**19**	7
Profit before tax attributable to equity holders		**1,355**	1,238
Tax expense attributable to equity holders of the company	2.16	**(261)**	(246)
Profit for the year		**1,094**	992
Profit attributable to equity holders of the company		**1,075**	985
		p	p
Earnings per share[3]	2.10	**18.16**	16.70
Adjusted earnings per share[3,4]	2.10	**18.58**	16.70
Diluted earnings per share[3]	2.10	**18.04**	16.54
Adjusted diluted earnings per share[3,4]	2.10	**18.46**	16.54

1. Group debt costs exclude interest on non recourse financing.
2. Group investment projects and expenses include restructuring costs of £50m (2014: £31m).
3. All earnings per share calculations are based on profit attributable to equity holders of the company.
4. Adjusted earnings per share and adjusted diluted earnings per share have been calculated excluding the net loss, £25m, resulting from the disposal of subsidiary and joint venture investments during the year.

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

LGR represents worldwide annuities (both individual and bulk purchase), longevity insurance and lifetime mortgages.

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

LGC represents the medium term investment return (less expenses) on group invested assets, using assumptions applied to the average balance of group invested assets (including interest bearing intra-group balances).

Insurance represents business in retail protection, group protection, general insurance, networks, Legal & General France (LGF) sold on 31 December 2015 and Legal & General Netherlands (LGN).

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

The LGA segment comprises protection business written in the USA.

Following changes to the organisational structure, Insurance and Savings are now reported as separate segments. Previously, Insurance and Savings had been reported together as the LGAS segment. In addition, the workplace savings business is now included in the LGIM segment. Workplace savings had previously been recognised in the Savings (LGAS) segment. Comparatives have been amended accordingly in line with this reclassification. The impact of the workplace savings reclassification has been to reduce LGIM 2014 operating profit by £15m, with an offsetting increase in the Savings segment’s operating profit.

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

2.01 Reconciliation of operational cash to operating profit before tax

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

For the year ended 31 December 2015	Operational cash generation[1] £m	New business surplus/ (strain) £m	Net cash generation £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other[2] £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	**372**	**45**	**417**	**13**	**114**	**(20)**	**-**	**524**	**115**	**639**
LGIM[3]	**303**	**(22)**	**281**	**(1)**	**1**	**(2)**	**-**	**279**	**76**	**355**
- LGIM excluding workplace savings	282	-	282	-	-	-	-	282	77	359
- Workplace savings	21	(22)	(1)	(1)	1	(2)	-	(3)	(1)	(4)
LGC	**187**	**-**	**187**	**-**	**-**	**-**	**-**	**187**	**46**	**233**
Insurance	**323**	**25**	**348**	**(14)**	**(45)**	**(46)**	**(10)**	**233**	**60**	**293**
Savings[3]	**119**	**(9)**	**110**	**(9)**	**-**	**(23)**	**1**	**79**	**20**	**99**
LGA	**54**	**-**	**54**	**-**	**-**	**-**	**(17)**	**37**	**46**	**83**
Total from divisions	**1,358**	**39**	**1,397**	**(11)**	**70**	**(91)**	**(26)**	**1,339**	**363**	**1,702**
Group debt costs	**(122)**	**-**	**(122)**	**-**	**-**	**-**	**-**	**(122)**	**(31)**	**(153)**
Group investment projects and expenses	**(19)**	**-**	**(19)**	**-**	**-**	**-**	**(56)**	**(75)**	**(19)**	**(94)**
Total	**1,217**	**39**	**1,256**	**(11)**	**70**	**(91)**	**(82)**	**1,142**	**313**	**1,455**

1. Operational cash generation includes dividends remitted from LGF of £1m (2014: £2m) and LGN of £28m (2014: £29m) within the Insurance line and LGA of £54m (2014: £46m).
2. International and other includes £40m (2014: £25m) of restructuring costs (£50m before tax) (2014: £31m before tax) within the Group investment projects and expenses line.
3. LGIM includes the workplace savings business which was previously reported in Savings. Prior year comparatives have been amended.

Operational cash generation for LGR, LGIM, Insurance and Savings represents the expected surplus generated in the year from the in-force non profit annuities, workplace savings, protection and savings businesses using best estimate assumptions. The LGIM operational cash generation also includes operating profit after tax from the institutional and retail investment management businesses. The Insurance operational cash generation also includes dividends remitted from LGF and LGN and operating profit after tax from general insurance and the remaining Insurance businesses. The Savings operational cash generation also includes the shareholders' share of bonuses on with-profits business and operating profit after tax from the remaining Savings businesses.

New business surplus/strain for LGR, LGIM, Insurance and Savings represents the cost of acquiring new business and setting up regulatory reserves in respect of the new business for UK non profit annuities, workplace savings, protection and savings, net of tax. The new business surplus and operational cash generation for LGR, LGIM, Insurance and Savings exclude the required solvency margin from the liability calculation.

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

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

The operational cash generation for LGA represents the dividends received.

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

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

For the year ended 31 December 2014	Operational cash generation[1] £m	New business surplus/ (strain) £m	Net cash generation £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other[2] £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	292	51	343	(13)	48	(32)	-	346	82	428
LGIM[3]	275	(29)	246	(3)	5	2	-	250	71	321
- LGIM excluding workplace savings	262	-	262	-	-	-	-	262	74	336
- Workplace savings	13	(29)	(16)	(3)	5	2	-	(12)	(3)	(15)
LGC	162	-	162	-	-	-	-	162	41	203
Insurance	332	(5)	327	(8)	24	(50)	(6)	287	83	370
Savings[3]	127	(14)	113	(7)	3	(22)	(1)	86	19	105
LGA	46	-	46	-	-	-	(14)	32	24	56
Total from divisions	1,234	3	1,237	(31)	80	(102)	(21)	1,163	320	1,483
Group debt costs	(112)	-	(112)	-	-	-	-	(112)	(30)	(142)
Group investment projects and expenses	(21)	-	(21)	-	-	-	(32)	(53)	(13)	(66)
Total	1,101	3	1,104	(31)	80	(102)	(53)	998	277	1,275

1. Operational cash generation includes dividends remitted from LGF of £2m and LGN of £29m within the Insurance line and LGA of £46m.
2. International and other includes £25m of restructuring costs (£31m before tax) within the Group investment projects and expenses line.
3. LGIM includes the workplace savings business which was previously reported in Savings.

2.02 Analysis of LGR, Insurance and Savings operating profit

	LGR 2015 £m	**Insurance 2015 £m**	**Savings[1] 2015 £m**	LGR 2014 £m	Insurance 2014 £m	Savings[1] 2014 £m
Net cash generation	**417**	**348**	**110**	343	327	113
Experience variances						
Persistency	**4**	**5**	**(2)**	(3)	(3)	1
Mortality/Morbidity	**18**	**(16)**	**-**	13	(7)	2
Expenses	**-**	**2**	**3**	(3)	1	(2)
Project and development costs	**(20)**	**(2)**	**(2)**	(19)	(6)	(3)
Other[2]	**11**	**(3)**	**(8)**	(1)	7	(5)
Total experience variances	**13**	**(14)**	**(9)**	(13)	(8)	(7)
Changes to valuation assumptions						
Persistency[3]	**-**	**48**	**-**	-	43	(1)
Mortality/Morbidity[4]	**97**	**(20)**	**-**	61	37	-
Expenses[5]	**17**	**27**	**(2)**	(5)	11	3
Reinsurance modelling[6]	**-**	**(93)**	**-**	-	-	-
Other	**-**	**(7)**	**2**	(8)	(67)	1
Total valuation assumption changes	**114**	**(45)**	**-**	48	24	3
Movement in non-cash items						
Deferred tax	**-**	**-**	**2**	(11)	(3)	6
Utilisation of brought forward trading losses	**(25)**	**(6)**	**-**	(62)	(11)	2
Acquisition expense tax relief [7]	**-**	**(30)**	**(4)**	-	(36)	(6)
Deferred Acquisition Costs (DAC)[8]	**-**	**-**	**(54)**	-	-	(76)
Deferred Income Liabilities (DIL)[8]	**-**	**-**	**39**	-	-	50
Other	**5**	**(10)**	**(6)**	41	-	2
Total non-cash movement items	**(20)**	**(46)**	**(23)**	(32)	(50)	(22)
Other	**-**	**(10)**	**1**	-	(6)	(1)
Operating profit after tax	**524**	**233**	**79**	346	287	86
Tax gross up	**115**	**60**	**20**	82	83	19
Operating profit before tax	**639**	**293**	**99**	428	370	105

1. Savings excludes the workplace savings business which is now reported in LGIM. Prior period comparatives have been amended. The impact on the Savings comparatives is the increase of net cash generation by £16m and the increase of operating profit by £15m. Offsetting movements have been reflected in the LGIM segment.
2. The Other LGR experience variance reflects the benefit to profit of selective longevity and asset reinsurance related to bulk annuity transactions, offset by other smaller experience variances.
3. The Insurance persistency valuation assumption change reflects continued improvement in retail protection lapse rates.
4. The mortality/morbidity valuation assumption change in LGR primarily reflects late retirement factor assumption changes and a change in mortality reserving assumptions in relation to unreported deaths of deferred annuitants. The Insurance mortality/morbidity valuation assumption change has arisen on the strengthening of the reserving basis on the Whole Life Protection product to reflect the current expectation of future mortality improvement on this business.
5. The LGR and Insurance positive expense valuation assumption changes represents the continued operational efficiency reducing the existing business cost base.
6. The reinsurance modelling for our UK protection business has been enhanced. Recent reinsurance contracts have been written on a risk premium basis (as opposed to level premium) and the model change ensures that for these treaties, sufficient prudence is being held in later years. The one-off impact reduced operating profit by £93m in 2015. This also defers a higher proportion of cash generation into the later years of these reinsurance contracts.
7. Net cash for Insurance and Savings recognises tax relief from prior year acquisition expenses, which are spread evenly over seven years under relevant 'I-E' tax legislation in the period the cash flows actually occur. In contrast, operating profit typically recognises the value of these future cash flows in the same period as the underlying expense as deferred tax amounts. The reconciling amounts arising from these items are included in the table above. Following the removal of new retail protection business from the 'I-E' tax regime, and the removal of commission from new insured savings business under the Retail Distribution Review at the end of 2012, no material amount of deferred tax assets arise on new acquisition expenses and the value of these future cash flows for post-2013 acquisition expenses have been reflected within net cash. The residual prior year acquisition expenses will run off predictably to 2018.
8. The DAC in Savings represents the amortisation charges offset by new acquisition costs deferred in the year. The DIL reflects initial fees on insured savings business which relate to the future provision of services and are deferred and amortised over the anticipated period in which these services are provided.

2.03 LGIM

	2015 £m	2014 £m
Investment management revenue	**694**	645
Investment management expenses	**(335)**	(309)
Workplace savings operating loss	**(4)**	(15)
Total LGIM operating profit	**355**	321

2.04 General insurance operating profit and combined operating ratio

	2015 £m	2014 £m
General insurance operating profit[1]	**51**	59
General insurance combined operating ratio (%)[2]	**89**	87

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.

2.05 LGC

	2015 £m	2014 £m
Investment return	**251**	219
Expenses	**(18)**	(16)
Total LGC operating profit	**233**	203

2.06 Group investment projects and expenses

	2015 £m	2014 £m
Group investment projects and central expenses	**(44)**	(35)
Restructuring costs	**(50)**	(31)
Total Group investment projects and expenses	**(94)**	(66)

2.07 Investment and other variances

	2015 £m	2014 £m
Investment variance[1]	**(57)**	(8)
M&A related[2]	**(57)**	(21)
Other[3]	**(5)**	(15)
Total Investment and other variances	**(119)**	(44)

1. 2015 investment variance is negative, primarily driven by below expected equity performance and a defined pension benefit scheme variance of £(15)m (2014: £40m), that reflects the actuarial losses and gains and valuation differences arising on annuity assets held by defined benefit pension schemes that have been purchased from Legal & General Assurance Society Limited (Society).
2. M&A related includes gains and losses, expenses and intangible amortisation relating to acquisitions and disposals. 2015 includes the £25m net loss resulting from the disposal of subsidiary and joint venture investments during the year.
3. Other includes new business start-up costs and other non-investment related variance items.

Consolidated Income Statement

For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Revenue			
Gross written premiums		**6,321**	10,168
Outward reinsurance premiums		**(1,603)**	(1,122)
Net change in provision for unearned premiums		**21**	1
Net premiums earned		**4,739**	9,047
Fees from fund management and investment contracts		**1,139**	1,085
Investment return		**5,947**	40,639
Operational income		**876**	746
Total revenue		**12,701**	51,517
Expenses			
Claims and change in insurance liabilities		**5,080**	15,071
Reinsurance recoveries		**(2,466)**	(975)
Net claims and change in insurance liabilities		**2,614**	14,096
Change in provisions for investment contract liabilities		**5,615**	33,385
Acquisition costs		**838**	873
Finance costs		**186**	183
Other expenses		**1,893**	1,748
Transfers to/(from) unallocated divisible surplus		**141**	(181)
Total expenses		**11,287**	50,104
Profit before tax		**1,414**	1,413
Tax expense attributable to policyholder returns		**(59)**	(175)
Profit before tax attributable to equity holders		**1,355**	1,238
Total tax expense		**(320)**	(421)
Tax expense attributable to policyholder returns		**59**	175
Tax expense attributable to equity holders	2.16	**(261)**	(246)
Profit for the year		**1,094**	992
Attributable to:			
Non-controlling interests		**19**	7
Equity holders of the company		**1,075**	985
Dividend distributions to equity holders of the company during the year	2.18	**701**	580
Dividend distributions to equity holders of the company proposed after the year end	2.18	**592**	496

		p	p
Earnings per share[1]	2.10	**18.16**	16.70
Adjusted earnings per share[1,2]	2.10	**18.58**	16.70
Diluted earnings per share[1]	2.10	**18.04**	16.54
Adjusted diluted earnings per share[1,2]	2.10	**18.46**	16.54

1. All earnings per share calculations are based on profit attributable to equity holders of the company.
2. Adjusted earnings per share and adjusted diluted earnings per share have been calculated excluding the net loss, £25m, resulting from the disposal of subsidiary and joint venture investments during the year. Adjusted EPS is a non IFRS reporting measure.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Profit for the year		**1,094**	992
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) on defined benefit pension schemes		**47**	(117)
Tax on actuarial losses on defined benefit pension schemes		**(11)**	23
Actuarial (losses)/gains on defined benefit pension schemes transferred to unallocated divisible surplus		**(17)**	47
Tax on actuarial (losses)/gains on defined benefit pension schemes transferred to unallocated divisible surplus		**4**	(9)
Total items that will not be reclassified to profit or loss subsequently		**23**	(56)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations		**25**	12
Net change in financial investments designated as available-for-sale		**(64)**	40
Tax on net change in financial investments designated as available-for-sale		**22**	(14)
Total items that may be reclassified to profit or loss subsequently		**(17)**	38
Other comprehensive income/(expense) after tax		**6**	(18)
Total comprehensive income for the year		**1,100**	974
Total comprehensive income attributable to:			
Non-controlling interests		**19**	7
Equity holders of the company		**1,081**	967

Consolidated Balance Sheet

As at 31 December 2015

	Notes	2015 £m	2014 £m
Assets			
Goodwill		**83**	79
Purchased interest in long term businesses and other intangible assets		**292**	342
Deferred acquisition costs		**1,887**	1,936
Investment in associates and joint ventures		**220**	149
Property, plant and equipment		**92**	146
Investment property	2.15	**8,082**	8,152
Financial investments	2.15	**354,063**	360,614
Reinsurers' share of contract liabilities		**4,120**	2,906
UK deferred tax asset	2.16	**20**	54
Current tax recoverable		**236**	217
Other assets		**3,618**	2,249
Assets of operations classified as held for sale	2.13	**3,409**	-
Cash and cash equivalents		**20,677**	22,709
Total assets		**396,799**	399,553
Equity			
Share capital	2.19	**149**	149
Share premium	2.19	**976**	969
Employee scheme treasury shares		**(30)**	(37)
Capital redemption and other reserves		**89**	117
Retained earnings		**5,220**	4,830
Shareholders' equity		**6,404**	6,028
Non-controlling interests		**289**	275
Total equity		**6,693**	6,303
Liabilities			
Participating insurance contracts	2.22	**5,618**	6,579
Participating investment contracts	2.23	**4,912**	7,667
Unallocated divisible surplus		**893**	983
Value of in-force non-participating contracts		**(184)**	(208)
Participating contract liabilities		**11,239**	15,021
Non-participating insurance contracts	2.22	**49,754**	49,876
Non-participating investment contracts	2.23	**278,554**	288,558
Non-participating contract liabilities		**328,308**	338,434
Core borrowings	2.20	**3,092**	2,977
Operational borrowings	2.21	**536**	715
Provisions	2.27	**1,171**	1,247
UK deferred tax liabilities	2.16	**137**	180
Overseas deferred tax liabilities	2.16	**436**	434
Current tax liabilities		**95**	9
Payables and other financial liabilities	2.17	**22,709**	16,131
Other liabilities		**737**	963
Net asset value attributable to unit holders		**18,277**	17,139
Liabilities of operations classified as held for sale	2.13	**3,369**	-
Total liabilities		**390,106**	393,250
Total equity and liabilities		**396,799**	399,553

Consolidated Statement of Changes in Equity

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

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2014	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
As at 1 January 2014	148	959	(39)	57	4,517	5,642	265	5,907
Profit for the year	-	-	-	-	985	985	7	992
Exchange differences on translation of overseas operations	-	-	-	12	-	12	-	12
Actuarial losses on defined benefit pension schemes	-	-	-	-	(94)	(94)	-	(94)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	-	-	-	-	38	38	-	38
Net change in financial investments designated as available-for-sale	-	-	-	26	-	26	-	26
Total comprehensive income for the year	-	-	-	38	929	967	7	974
Options exercised under share option schemes:								
- Savings related share option scheme	1	10	-	-	-	11	-	11
Shares purchased	-	-	(7)	-	-	(7)	-	(7)
Shares vested	-	-	9	(17)	-	(8)	-	(8)
Employee scheme treasury shares:								
- Value of employee services	-	-	-	20	-	20	-	20
Share scheme transfers to retained earnings	-	-	-	-	(17)	(17)	-	(17)
Dividends	-	-	-	-	(580)	(580)	-	(580)
Movement in third party interests	-	-	-	-	-	-	3	3
Currency translation differences	-	-	-	19	(19)	-	-	-
As at 31 December 2014	149	969	(37)	117	4,830	6,028	275	6,303

Consolidated Cash Flow Statement

For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Cash flows from operating activities			
Profit for the year		**1,094**	992
Adjustments for non cash movements in net profit for the year			
Realised and unrealised losses/(gains) on financial investments and investment properties		**4,077**	(30,851)
Investment income		**(9,760)**	(9,205)
Interest expense		**186**	183
Tax expense		**320**	421
Other adjustments		**(70)**	87
Net (increase)/decrease in operational assets			
Investments held for trading or designated as fair value through profit or loss		**1,007**	5,931
Investments designated as available-for-sale		**158**	225
Other assets		**(2,594)**	(151)
Net increase/(decrease) in operational liabilities			
Insurance contracts		**(1,083)**	9,228
Transfer to/(from) unallocated divisible surplus		**(90)**	(222)
Investment contracts		**(9,524)**	10,156
Value of in-force non-participating contracts		**24**	40
Other liabilities		**6,645**	9,811
Cash used in operations		**(9,610)**	(3,355)
Interest paid		**(186)**	(203)
Interest received		**5,286**	4,857
Tax paid[1]		**(244)**	(76)
Dividends received		**3,931**	4,264
Net cash flows (used in)/generated from operating activities		**(823)**	5,487
Cash flows from investing activities			
Net acquisition of plant, equipment and intangibles		**(24)**	(80)
Acquisitions[2]	2.11	**(5)**	(38)
Disposal of subsidiaries[3]	2.12	**(82)**	56
Investment in joint ventures		**(71)**	(77)
Net cash flows from investing activities		**(182)**	(139)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the company during the year	2.18	**(701)**	(580)
Proceeds from issue of ordinary share capital		**7**	11
Purchase of employee scheme shares		**(8)**	(2)
Proceeds from borrowings		**697**	674
Repayment of borrowings		**(527)**	(181)
Net cash flows used in financing activities		**(532)**	(78)
Net (decrease)/increase in cash and cash equivalents		**(1,537)**	5,270
Exchange losses on cash and cash equivalents		**(106)**	(15)
Cash and cash equivalents at 1 January		**22,709**	17,454
Cash and cash equivalents (before reallocation of held for sale cash)		**21,066**	22,709
Cash and cash equivalents classified as held for sale	2.13	**(389)**	-
Cash and cash equivalents at 31 December		**20,677**	22,709

1. Tax comprises UK corporation tax paid of £128m (2014: £29m), overseas corporate taxes of £36m (2014: £24m) and withholding tax of £80m (2014: £23m).
2. Net cash flows from acquisitions includes cash paid of £5m (2014: £38m) less cash and cash equivalents acquired of £nil (2014: £nil).
3. Net cash flows from disposals includes cash received of £242m (2014: £56m) less cash and cash equivalents disposed of £324m (2014: £nil).

The group's Consolidated Cash Flow Statement includes all cash and cash equivalent flows, including £856m (2014: £1,082m) relating to the with-profit fund policyholders and £16,116m (2014: £18,895m) relating to unit linked policyholders.

2.08 Basis of preparation

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

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

Financial assets and financial liabilities are disclosed gross in the 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 interpretations by the IFRS Interpretations Committee.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. The functional currency of the group's foreign operations is the currency of the primary economic environment in which the entity operates. The assets and liabilities of all of the group's foreign operations are translated into sterling, the group's presentation currency, at the closing rate at the date of the balance sheet. The income and expenses for each income statement are translated at average exchange rates. On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are taken to a separate component of shareholders' equity.

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

Key technical terms and definitions
The report refers to various key performance indicators, accounting standards and other technical terms. A comprehensive list of these definitions is contained within the glossary of the group's 2015 Annual Report and Accounts.

2.09 Segmental analysis

Reportable segments

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

LGR represents annuities (both individual and bulk purchase), longevity insurance and lifetime mortgages.

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

The LGC segment includes shareholders' equity supporting the non profit LGR, Insurance and Savings businesses held within Society, and capital held by the group's treasury function. LGC and group expenses also incorporate inter-segmental eliminations, consolidated unit trusts and property partnerships managed on behalf of clients, which do not constitute a separately reportable segment.

Following changes to the organisational structure, Insurance and Savings are now reported as separate segments. Previously, Insurance and Savings had been reported together as the LGAS segment. In addition, the workplace savings business is now included in the LGIM segment. Workplace savings had previously been recognised in the Savings segment. Comparatives have been amended in line with this reclassification. The impact of the workplace savings reclassification has been to reduce LGIM 2014 operating profit by £15m, with an offsetting increase in the Savings segment's operating profit.

Insurance represents business in retail protection, group protection, general insurance, networks, Legal & General France (LGF), sold on 31 December 2015, and Legal & General Netherlands (LGN).

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

The LGA segment represents protection business written in the USA.

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

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

For the year ended 31 December 2015	LGR £m	LGIM £m	LGC £m	Insurance £m	Savings £m	LGA £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	**639**	**355**	**233**	**293**	**99**	**83**	**(247)**	**1,455**
Investment and other variances[1]	**79**	**(20)**	**(116)**	**(40)**	**3**	**(13)**	**(12)**	**(119)**
Gains attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**19**	**19**
Profit/(loss) before tax attributable to equity holders	**718**	**335**	**117**	**253**	**102**	**70**	**(240)**	**1,355**
Tax (expense)/credit attributable to equity holders of the company	**(131)**	**(74)**	**(9)**	**(61)**	**(15)**	**(41)**	**70**	**(261)**
Profit/(loss) for the year	**587**	**261**	**108**	**192**	**87**	**29**	**(170)**	**1,094**

For the year ended 31 December 2014	LGR £m	LGIM[2] £m	LGC £m	Insurance £m	Savings[2] £m	LGA £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	428	321	203	370	105	56	(208)	1,275
Investment and other variances	67	(7)	(37)	12	(24)	(13)	(42)	(44)
Gains attributable to non-controlling interests	-	-	-	-	-	-	7	7
Profit/(loss) before tax attributable to equity holders	495	314	166	382	81	43	(243)	1,238
Tax (expense)/credit attributable to equity holders of the company	(97)	(68)	(9)	(90)	(14)	(19)	51	(246)
Profit/(loss) for the year	398	246	157	292	67	24	(192)	992

1. 2015 Investment and other variances - Insurance and Savings include the gain/(loss) resulting from the disposal of subsidiary and joint venture investments during the year.
2. LGIM includes the workplace savings business which was previously reported in Savings. Prior period comparatives have been amended. At 2014, the impact includes the reduction of operating profit by £15m and profit before tax by £10m. Offsetting movements have been reflected in the Savings segment.

2.10 Earnings per share
(a) Earnings per share

	Profit after tax 2015 £m	Earnings per share[1] 2015 p	Adjusted profit after tax 2015 £m	Adjusted earnings per share[1,2] 2015 p	Profit after tax 2014 £m	Earnings per share[1] 2014 p
Operating profit after tax	**1,142**	**19.29**	**1,142**	**19.29**	998	16.92
Investment and other variances	**(67)**	**(1.13)**	**(42)**	**(0.71)**	(13)	(0.22)
Earnings per share based on profit attributable to equity holders	**1,075**	**18.16**	**1,100**	**18.58**	985	16.70

1. Earnings per share is calculated by dividing profit after tax derived from continuing operations by the weighted average number of ordinary shares in issue during the year, excluding employee scheme treasury shares.
2. Adjusted earnings per share has been calculated excluding the net loss, £25m, resulting from the disposal of subsidiary and joint venture investments.

(b) Diluted earnings per share

	Number of shares[1] 2015 m	Profit after tax 2015 £m	Earnings per share 2015 p	Adjusted profit after tax 2015 £m	Adjusted earnings per share[1, 2] 2015 p	Number of shares[1] 2014 m	Profit after tax 2014 £m	Earnings per share 2014 p
Profit attributable to equity holders of the Company	**5,920**	**1,075**	**18.16**	**1,100**	**18.58**	5,897	985	16.70
Net shares under options allocable for no further consideration	**38**	**-**	**(0.12)**	**-**	**(0.12)**	59	-	(0.16)
Diluted earnings per share	**5,958**	**1,075**	**18.04**	**1,100**	**18.46**	5,956	985	16.54

1. For diluted earnings per share, the weighted average number of ordinary shares in issue, excluding employee scheme treasury shares, is adjusted to assume conversion of all potential ordinary shares, such as share options granted to employees.
2. Adjusted earnings per share has been calculated excluding the net loss, £25m, resulting from the disposal of subsidiary and joint venture investments.

2.11 Acquisition

On 1 April 2015, the group acquired 100% of New Life Home Finance Limited, a UK based lifetime mortgage provider for a consideration of £5m. The acquisition gave rise to an increase in the group's goodwill of £2m and an increase in purchased interest in long term businesses (PILTB) and other intangibles of £2m. This enables the group to offer lifetime mortgages as part of the retirement solutions suite of products.

2.12 Disposals

During 2015, the Group made the following disposals:

- Snow + Rock Group Holding Limited was sold to Cotswold Outdoor Limited for £34m. The carrying value of the investment was £6m, realising a profit on disposal of £28m reported in operational income in the Consolidated Income Statement. The majority of the profit on disposal is allocated to the with-profits fund.

- Legal & General International (Ireland) Limited (LGII), the group's Dublin based offshore bond provider was sold to Canada Life for £16m. The carrying value of the business was £14m, and disposal costs totalled £1m, realising a profit on disposal of £1m reported in operational income in the Consolidated Income Statement.

- Commercial International Life Insurance Company SAE (CIL), the group's Egypt based life insurance joint venture, was sold to AXA for £33m. The carrying value of the business was £14m, realising a profit on disposal of £19m reported in operational income in the Consolidated Income Statement.

- The group's interest in Legal & General Gulf BSC (LGG), the group's Bahrain based life insurance joint venture, was sold to a third party for £1. The carrying value of the business was £2m, realising a loss on disposal of £2m reported in operational income in the Consolidated Income Statement.

- Legal & General Holdings (France) S.A. (LGF), the group's French insurance business, was sold to APICIL Prévoyance. A loss on disposal of £43m is reported in operational income in the Consolidated Income Statement.

None of the disposals completed during 2015 are discontinued operations as they do not represent major lines of business or geographical segments of the group.

2.13 Held for sale

On 15 January 2016, the group sold Suffolk Life Group Limited (SLG) to Curtis Banks Group plc for £45m (excluding transaction costs), subject to regulatory approval. The assets and liabilities of SLG have accordingly been assessed as a disposal group and have been classified as held for sale as at 31 December 2015. SLG formed part of the Savings segment in Note 2.09.

SLG is not a discontinued operation as it does not represent a major line of business or geographical segment of the group.

	Total 2015 £m
Assets classified as held for sale	
Purchased interest in long term business and other intangible assets	**28**
Property, plant and equipment	**1**
Investment property	**1,140**
Financial investments	**1,801**
Reinsurers' share of contract liabilities	**39**
Cash and cash equivalents	**389**
Other assets	**11**
Total assets of the disposal group	**3,409**
Liabilities classified as held for sale	
Investment contract liabilities	**(3,235)**
Operational borrowings	**(102)**
Tax liabilities	**(5)**
Payables and other financial liabilities	**(10)**
Other liabilities	**(17)**
Total liabilities of the disposal group	**(3,369)**
Total net assets of the disposal group	**40**

2.14 Post balance sheet events

On 15 January 2016, the group sold Suffolk Life Group Limited (SLG) to Curtis Banks Group Plc for £45m, subject to regulatory approval. The assets and liabilities of SLG have accordingly been assessed as a disposal group and have been classified as held for sale as at 31 December 2015. For held for sale details refer to Note 2.13.

On 21 January 2016, the group made a formal decision to close an office located in Kingswood, Surrey, UK. The group plans to close the office in 2018. The net cost associated with this closure (including write-off of previously capitalised property, plant and equipment and expenditure relating to redundancy and rent and rates), is estimated to be £50m, which is expected to be recognised in the 2016 Consolidated Income Statement. These costs will be treated as restructuring costs and as such will not be included in operational and net cash generation.

2.15 Financial investments and investment property

	2015 £m	2014 £m
Equities	**166,892**	162,177
Unit trusts	**6,021**	7,529
Debt securities[1]	**169,720**	178,766
Accrued interest	**1,456**	1,604
Derivative assets[2]	**9,509**	10,035
Loans and receivables	**465**	503
Financial investments	**354,063**	360,614
Investment property	**8,082**	8,152
Total financial investments and investment property	**362,145**	368,766

1. Detailed analysis of debt securities which shareholders are directly exposed to is disclosed in Note 4.06.
2. Derivatives are used to ensure efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management. Derivative assets are shown gross of derivative liabilities and include £5,795m (2014: £6,011m) held on behalf of unit linked policyholders.

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

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

	2015 £m	2014 £m
Profit before tax attributable to equity holders	**1,355**	1,238
Tax calculated at 20.25% (2014: 21.5%)	**274**	266
Effects of:		
Adjustments in respect of prior years	**(5)**	8
Income not subject to tax, such as dividends	**(11)**	(9)
Change in valuation of tax losses	**-**	(6)
Higher rate of tax on profits taxed overseas	**16**	8
Additional allowances/non-deductible expenses	**(4)**	(7)
Impact of reduction in UK corporate tax rate to 18% from 2020 on deferred tax balances[1]	**1**	-
Differences between taxable and accounting investment gains	**(10)**	(15)
Other	**-**	1
Tax attributable to equity holders	**261**	246
Equity holders' effective tax rate[2]	**19.3%**	19.9%

1. Following the 2015 Finance Act, the rate of corporation tax will reduce to 19% from 1 April 2017. There will be a further 1% reduction to 18% from 1 April 2020. The enacted rates of 20 - 18% have been used in the calculation of UK's deferred tax assets and liabilities.

2. Equity holders' effective tax rate is calculated by dividing the tax attributable to equity holders over profit before tax attributable to equity holders.

2.16 Tax (continued)
(b) Deferred Tax

(i) UK deferred tax assets/(liabilities)	**2015 £m**	2014 £m
Realised and unrealised gains on investments	**(146)**	(168)
Excess of depreciation over capital allowances	**18**	19
Excess expenses[1]	**74**	105
Deferred acquisition expenses	**(51)**	(61)
Difference between the tax and accounting value of insurance contracts	**(83)**	(143)
Accounting provisions	**8**	3
Trading losses[2]	**6**	45
Pension fund deficit	**72**	98
Purchased interest in long term business	**(15)**	(24)
Net UK deferred tax liabilities	**(117)**	(126)

Presented on the Consolidated Balance Sheet as:		
UK deferred tax asset	**20**	54
UK deferred tax liability	**(137)**	(180)
Net UK deferred liabilities[3]	**(117)**	(126)

(ii) Overseas deferred tax assets/(liabilities)		
Realised and unrealised gains on investments	**(8)**	(53)
Deferred acquisition expenses	**(308)**	(295)
Difference between the tax and accounting value of insurance contracts	**(241)**	(242)
Accounting provisions	**(27)**	(20)
Trading losses	**159**	186
Purchased interest in long term business	**(11)**	(10)
Net Overseas deferred tax liabilities	**(436)**	(434)

1. The reduction in the deferred tax asset on excess expenses reflects the unwind of the spread acquisition expenses.
2. LGR and Insurance utilised their remaining losses against profits that arose during the first half of the year. The remaining losses mainly relate to Cofunds.
3. On the Consolidated Balance Sheet the net UK deferred tax liability has been split between an asset of £20m and a liability of £137m where the relevant items cannot be offset.

2.17 Payables and other financial liabilities

	2015 £m	2014 £m
Derivative liabilities	**8,047**	6,877
Repurchase agreements[1]	**13,343**	7,016
Other[2]	**1,319**	2,238
Payables and other financial liabilities	**22,709**	16,131
Due within 12 months	**20,027**	11,887
Due after 12 months	**2,682**	4,244

1. The repurchase agreements are presented gross, however they and their related assets are subject to master netting arrangements.

2. Other financial liabilities include net variation margins on derivative contracts, which are maintained daily. Included within the variation margins are collateral held and pledged of £94m and £50m respectively (2014: £107m and £235m respectively). Other also includes the present value of future commission costs which have contingent settlement provisions of £175m (2014: £186m).

Fair value hierarchy

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

As at 31 December 2014	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	6,877	593	6,284	-	-
Repurchase agreements	7,016	-	-	-	7,016
Other	2,238	869	29	186	1,154
Payables and other financial liabilities	16,131	1,462	6,313	186	8,170

Future commission costs are modelled using expected cash flows, incorporating expected future persistency. They have therefore been classified as level 3 liabilities. The entire movement in the balance has been reflected in the Consolidated Income Statement during the period. A reasonably possible alternative persistency assumption would have the effect of increasing the liability by £6m (2014: £6m).

Significant transfers between levels

There have been no significant transfers between levels 1, 2 and 3 for the period ended 31 December 2015 (2014: No significant transfers between levels 1, 2 and 3).

2.18 Dividends

	Dividend 2015 £m	Per share[1] 2015 p	Dividend 2014 £m	Per share[1] 2014 p
Ordinary share dividends paid in the period:				
- Prior year final dividend	**496**	**8.35**	408	6.90
- Current year interim dividend	**205**	**3.45**	172	2.90
	701	**11.80**	580	9.80
Ordinary share dividend proposed[2]	**592**	**9.95**	496	8.35

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

2.19 Share capital and share premium

Authorised share capital	**2015 Number of shares**	**2015 £m**	2014 Number of shares	2014 £m
At 31 December: ordinary shares of 2.5p each	**9,200,000,000**	**230**	9,200,000,000	230

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

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2014	5,917,066,636	148	959
Options exercised under share option schemes:			
- Savings related share option scheme	25,003,593	1	10
As at 31 December 2014	5,942,070,229	149	969

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

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

2.20 Core Borrowings

	Carrying amount 2015 £m	**Fair value 2015 £m**	Carrying amount 2014 £m	Fair value 2014 £m
Subordinated borrowings				
6.385% Sterling perpetual capital securities (Tier 1)	**637**	**631**	658	642
5.875% Sterling undated subordinated notes (Tier 2)	**413**	**426**	416	431
4.0% Euro subordinated notes 2025 (Tier 2)	**-**	**-**	472	482
10% Sterling subordinated notes 2041 (Tier 2)	**310**	**398**	310	424
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**570**	588	666
5.375% Sterling subordinated notes 2045 (Tier 2)	**602**	**611**	-	-
Client fund holdings of group debt[1]	**(26)**	**(27)**	(28)	(31)
Total subordinated borrowings	**2,525**	**2,609**	2,416	2,614
Senior borrowings				
Sterling medium term notes 2031-2041	**609**	**779**	609	800
Client fund holdings of group debt[1]	**(42)**	**(54)**	(48)	(62)
Total senior borrowings	**567**	**725**	561	738
Total core borrowings	**3,092**	**3,334**	2,977	3,352

1. £68m (2014: £76m) of the group's subordinated and senior borrowings are currently held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total core borrowings in the table above.

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

Subordinated borrowings

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

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

4.0% Euro subordinated notes 2025
In 2005, Legal & General Group Plc issued €600m of 4.0% Euro dated subordinated notes. The proceeds were swapped into Sterling. On 8 June 2015, the group redeemed these notes at par. Prior to redemption, these notes were treated as lower tier 2 capital for Solvency I purposes and tier 2 own funds for Solvency II purposes.

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

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

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

2.21 Operational Borrowings

	Carrying amount 2015 £m	**Fair value 2015 £m**	Carrying amount 2014 £m	Fair value 2014 £m
Short term operational borrowings				
Euro Commercial paper	**15**	**15**	73	73
Bank loans/other	**2**	**2**	13	13
Total short term operational borrowings	**17**	**17**	86	86
Non recourse borrowings				
US Dollar Triple X securitisation 2037	**302**	**258**	286	240
Suffolk Life unit linked borrowings[1]	**-**	**-**	120	120
LGV 6/LGV 7 Private Equity Fund Limited Partnership	**98**	**98**	136	136
Consolidated Property Limited Partnerships	**184**	**184**	148	148
Total non recourse borrowings	**584**	**540**	690	644
Group holding of operational borrowings[2]	**(65)**	**(56)**	(61)	(52)
Total operational borrowings	**536**	**501**	715	678

1. In January 2016, the group announced that Suffolk Life Group Limited had been sold to Curtis Banks Group. As at 31 December 2015, the Suffolk Life unit linked borrowings have been transferred to held for sale, refer to Note 2.13.
2. Group investments in operational borrowings have been eliminated from the Consolidated Balance Sheet.

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

Short term operational borrowings

Short term assets available at the holding company level exceeded the amount of short term operational borrowings of £17m (2014: £86m). Short term operational borrowings comprise Euro Commercial paper, bank loans and overdrafts.

Non recourse borrowings

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

Suffolk Life unit linked borrowings
All of these non recourse borrowings are in relation to commercial properties held within SIPP plans and the borrowings solely relate to client investments.

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

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

Syndicated credit facility

As at 31 December 2015, the group had in place a £1.00bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2020. This facility replaced the syndicated facility totalling £1.00bn, of which £0.04bn was due to mature in October 2017 and £0.96bn was due to mature in October 2018. No drawings were made under either facility during 2015.

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

	Notes	Gross 2015 £m	Re-insurance 2015 £m	Gross 2014 £m	Re-insurance 2014 £m
Participating insurance contracts	2.22(b)	**5,618**	**(1)**	6,579	(1)
Non-participating insurance contracts	2.22(c)	**49,470**	**(3,861)**	49,589	(2,587)
General insurance contracts		**284**	**(8)**	287	(8)
Insurance contract liabilities		**55,372**	**(3,870)**	56,455	(2,596)

During the year, the group continued utilising prospective reinsurance arrangements which resulted in a profit of £503m (2014: £298m). This profit has been reflected in the Consolidated Income Statement for the year and arises from new reinsurance arrangements or the reinsurance of new business under existing arrangements.

(b) Movement in participating insurance contract liabilities

	Gross 2015 £m	Re-insurance 2015 £m	Gross 2014 £m	Re-insurance 2014 £m
As at 1 January	**6,579**	**(1)**	6,972	(1)
New liabilities in the year	**52**	**-**	61	-
Liabilities discharged in the year	**(977)**	**-**	(1,159)	-
Unwinding of discount rates	**40**	**-**	54	-
Effect of change in non-economic assumptions	**5**	**-**	(5)	-
Effect of change in economic assumptions	**81**	**-**	561	-
Disposals[1]	**(171)**	**-**	-	-
Other	**9**	**-**	95	-
As at 31 December	**5,618**	**(1)**	6,579	(1)

1. Reflects the disposal of LGF and LGII during the year.

(c) Movement in non-participating insurance contract liabilities

	Gross 2015 £m	Re-insurance 2015 £m	Gross 2014 £m	Re-insurance 2014 £m
As at 1 January	**49,589**	**(2,587)**	39,975	(2,596)
New liabilities in the year	**2,866**	**(768)**	7,325	(446)
Liabilities discharged in the year	**(2,744)**	**(39)**	(2,469)	259
Unwinding of discount rates	**1,451**	**(93)**	1,493	(145)
Effect of change in non-economic assumptions	**(384)**	**157**	(569)	362
Effect of change in economic assumptions	**(1,335)**	**(513)**	3,844	(3)
Foreign exchange adjustments	**27**	**(18)**	(10)	(18)
As at 31 December	**49,470**	**(3,861)**	49,589	(2,587)

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

	Note	Gross 2015 £m	Re-insurance 2015 £m	Gross 2014 £m	Re-insurance 2014 £m
Participating investment contracts		**4,912**	**-**	7,667	14
Non-participating investment contracts		**278,554**	**(250)**	288,558	(324)
Investment contract liabilities	2.23(b)	**283,466**	**(250)**	296,225	(310)

(b) Movement in investment contract liabilities

	Gross 2015 £m	Re-insurance 2015 £m	Gross 2014 £m	Re-insurance 2014 £m
As at 1 January	**296,225**	**(310)**	286,247	(295)
Reserves in respect of new business	**37,639**	**(598)**	30,645	(334)
Amounts paid on surrenders and maturities during the year	**(46,557)**	**164**	(53,311)	60
Investment return and related benefits	**5,160**	**455**	33,126	259
Management charges	**(303)**	**-**	(309)	-
Foreign exchange adjustments	**(162)**	**-**	(177)	-
Disposals[1]	**(5,321)**	**-**	-	-
Transfer to held for sale	**(3,235)**	**39**	-	-
Other	**20**	**-**	4	-
As at 31 December	**283,466**	**(250)**	296,225	(310)

1. Reflects the disposal of LGF and LGII during the year.

2.24 IFRS sensitivity analysis

	Impact on pre-tax group profit net of re-insurance 2015 £m	Impact on group equity net of re-insurance 2015 £m
Economic sensitivity		
Long-term insurance		
1% increase in interest rates	**48**	**(36)**
1% decrease in interest rates	**(168)**	**(49)**
1% increase in long term inflation expectations	**(38)**	**(31)**
Credit spread widens by 100bps with no change in expected defaults	**(102)**	**(138)**
10% decrease in listed equities	**(124)**	**(103)**
10% fall in property values	**(81)**	**(65)**
10bps increase in credit default assumption	**(324)**	**(258)**
10bps decrease in credit default assumption	**366**	**292**
Non-economic sensitivity		
Long-term insurance		
1% decrease in annuitant mortality	**(132)**	**(105)**
5% increase in assurance mortality	**(64)**	**(49)**
Default of largest external reinsurer	**(835)**	**(666)**
General insurance		
Single storm event with 1 in 200 year probability	**(67)**	**(54)**
Subsidence event – worst claims ratio in last 30 years	**(72)**	**(57)**

The table shows the impacts on group pre-tax profit and equity, net of reinsurance, under each sensitivity scenario for the group. The participating funds have been excluded in the above sensitivity analysis as the impact of the sensitivities on IFRS profit and equity is offset by the movement in the unallocated divisible surplus (UDS). The shareholders' share of with-profit bonus declared in the year is relatively insensitive to market movements due to the smoothing policies applied.

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

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

The inflation stress adopted is a 1% pa increase in inflation resulting in a 1% pa reduction in real yield and no change to the nominal yield. In addition the expense inflation rate is increased by 1% pa.

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

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

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

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

For the sensitivity to the default of the group's largest external reinsurer, the reinsurer stress shown is equal to the technical provisions ceded to the external reinsurer and represents the impact of the default of largest external reinsurer at an entity level.

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

2.25 Foreign exchange rates

Principal rates of exchange used for translation are:

Period end exchange rates	**At 31.12.15**	At 31.12.14
United States Dollar	**1.47**	1.56
Euro	**1.36**	1.29

Average exchange rates	**01.01.15 - 31.12.15**	01.01.14 - 31.12.14
United States Dollar	**1.53**	1.65
Euro	**1.38**	1.24

2.26 Related party transactions

There were no material transactions between key management and the Legal & General group of companies during the period. All transactions between the group and its key management are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment defined benefit plans were £93m (2014: £69m) for all employees.

At 31 December 2015 and 31 December 2014 there were no loans outstanding to officers of the company.

Key management personnel compensation

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

	2015 £m	2014 £m
Salaries	**10**	8
Social security costs	**2**	2
Post-employment benefits	**1**	2
Share-based incentive awards	**5**	4
Key management personnel compensation	**18**	16
Number of key management personnel	**16**	16

2.27 Provisions
(a) Analysis of provisions

	2015 £m	2014 £m
Retirement benefit obligations	**1,131**	1,217
Other provisions	**40**	30
	1,171	1,247

(b) Retirement benefit obligations

	Fund and Scheme 2015 £m	Overseas 2015 £m	Fund and Scheme 2014 £m	Overseas 2014 £m
Gross pension obligations included in provisions	**(1,126)**	**(5)**	(1,215)	(2)
Annuity obligations insured by Society	**746**	**-**	723	-
Gross defined benefit pension deficit	**(380)**	**(5)**	(492)	(2)
Deferred tax on defined benefit pension deficit	**72**	**-**	98	-
Net defined benefit pension deficit	**(308)**	**(5)**	(394)	(2)

The Legal & General Group UK Pension and Assurance Fund and the Legal & General Group UK Senior Pension Scheme are defined benefit pension arrangements and account for all UK and the majority of worldwide assets of, and contributions to, such arrangements. The schemes were closed to future accrual on 1 January 2016. At 31 December 2015, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Society) has been estimated at £308m (2014: £394m). These amounts have been recognised in the financial statements with £194m charged against shareholder equity (2014: £248m) and £114m against the unallocated divisible surplus (2014: £146m).

2.28 Contingent liabilities, guarantees and indemnities

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

Various group companies receive claims and become involved in actual or threatened litigation and regulatory issues from time to time. The relevant members of the group ensure that they make prudent provision as and when circumstances calling for such provision become clear, and that each has adequate capital and reserves to meet reasonably foreseeable eventualities. The provisions made are regularly reviewed. It is not possible to predict, with certainty, the extent and the timing of the financial impact of these claims, litigations or issues. Legal & General (Portfolio Management Services) Limited (PMS) is currently cooperating with an investigation by FCA into Structured Deposits products issued by PMS between 2006 and 2014. PMS has responded to FCA's requests for information and awaits FCA's feedback. This matter is at an early stage, management and legal advisers will evaluate on an ongoing basis whether any provision should be recognised.

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

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

Asset and premium flows

3.01 Legal & General investment management total assets

For the year ended 31 December 2015	Index £bn	Active fixed income[1] £bn	Solu-tions[2] £bn	Real assets[1] £bn	Active equities £bn	Total AUM £bn	Advisory assets £bn	Total assets £bn
At 1 January 2015	**274.8**	**102.9**	**293.3**	**14.5**	**8.2**	**693.7**	**14.8**	**708.5**
External inflows[3]	33.4	11.1	16.3	1.4	-	62.2		62.2
External outflows	(30.9)	(4.3)	(6.6)	(0.9)	-	(42.7)		(42.7)
Overlay/ advisory net flows	-	-	18.2	-	-	18.2	(4.6)	13.6
External net flows[4]	**2.5**	**6.8**	**27.9**	**0.5**	**-**	**37.7**	**(4.6)**	**33.1**
Internal net flows	(0.7)	(1.9)	-	0.9	(0.4)	(2.1)	-	(2.1)
Disposal of LGF[5]	-	(2.3)	-	-	-	(2.3)	-	(2.3)
Total net flows	**1.8**	**2.6**	**27.9**	**1.4**	**(0.4)**	**33.3**	**(4.6)**	**28.7**
Cash management movements[6]	-	0.8	-	-	-	0.8	-	0.8
Market and other movements[4]	(2.3)	0.5	17.0	2.4	0.7	18.3	0.3	18.6
At 31 December 2015	**274.3**	**106.8**	**338.2**	**18.3**	**8.5**	**746.1**	**10.5**	**756.6**
Assets attributable to:								
External						**661.0**	**10.5**	**671.5**
Internal						**85.1**	-	**85.1**
Assets attributable to:								
UK						**623.7**	-	**623.7**
International						**122.4**	**10.5**	**132.9**

For the year ended 31 December 2014	Index £bn	Active fixed income[1] £bn	Solu-tions[2] £bn	Real assets[1] £bn	Active equities £bn	Total AUM £bn	Advisory assets £bn	Total assets £bn
As at 1 January 2014	**269.8**	**88.7**	**232.5**	**12.0**	**8.6**	**611.6**	**-**	**611.6**
External inflows	23.7	5.5	8.5	1.4	0.1	39.2		39.2
External outflows	(39.5)	(3.8)	(6.6)	(0.5)	(0.1)	(50.5)		(50.5)
Overlay/ advisory net flows	-	-	18.8	-	-	18.8	(0.2)	18.6
External net flows[4]	**(15.8)**	**1.7**	**20.7**	**0.9**	**-**	**7.5**	**(0.2)**	**7.3**
Internal net flows	(0.2)	(0.7)	0.4	1.5	(0.1)	0.9	-	0.9
Total net flows	**(16.0)**	**1.0**	**21.1**	**2.4**	**(0.1)**	**8.4**	**(0.2)**	**8.2**
Acquisition of GIA assets	-	-	-	-	-	-	13.4	13.4
Cash management movements[6]	-	(1.6)	-	-	-	(1.6)	-	(1.6)
Market and other movements[4]	21.0	14.8	39.7	0.1	(0.3)	75.3	1.6	76.9
As at 31 December 2014	**274.8**	**102.9**	**293.3**	**14.5**	**8.2**	**693.7**	**14.8**	**708.5**
Assets attributable to:								
External						**603.7**	**14.8**	**618.5**
Internal						**90.0**	-	**90.0**
Assets attributable to:								
UK						**579.7**	-	**579.7**
International						**114.0**	**14.8**	**128.8**

1. Infrastructure debt investment has been reclassified from Active Fixed Income to Real Assets in 2015. 2014 has therefore been restated (1 January 2014 AUM: £0.7bn; internal net flows: £0.2bn; 31 December 2014 AUM: £0.9bn). The commercial loans business has also been reclassified and is now included in Real Assets (2014: £0.6bn).
2. Solutions include liability driven investments, multi-asset funds and included £226.2bn at 31 December 2015 (31 December 2014: £194.6bn) of derivative notionals associated with the Solutions business.
3. Solutions external inflows include £11.7bn of assets associated with the transfer of National Grid UK Pension Scheme after the purchase of their asset manager Aerion Fund Management.
4. External net flows exclude movements in short term solutions assets, with maturity as determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 31 December 2015 was £59.9bn (31 December 2014: £46.5bn) and the movement in these assets is included in market and other movements for Solutions assets.
5. On 31 December 2015, the group sold Legal & General Holdings (France) S.A. to APICIL Prévoyance.
6. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.

3.02 Legal & General investment management total assets quarterly progression

For the year ended 31 December 2015	Index £bn	Active fixed income[1] £bn	Solu-tions[2] £bn	Real assets[1] £bn	Active equities £bn	Total AUM £bn	Advisory assets £bn	Total assets £bn
At 1 January 2015	**274.8**	**102.9**	**293.3**	**14.5**	**8.2**	**693.7**	**14.8**	**708.5**
External inflows	6.8	2.3	1.4	0.3	-	10.8		10.8
External outflows	(8.3)	(1.6)	(1.6)	(0.1)	-	(11.6)		(11.6)
Overlay/ advisory net flows	-	-	5.1	-	-	5.1	(1.2)	3.9
External net flows[4]	**(1.5)**	**0.7**	**4.9**	**0.2**	**-**	**4.3**	**(1.2)**	**3.1**
Internal net flows	-	(0.6)	-	0.3	(0.1)	(0.4)	-	(0.4)
Total net flows	**(1.5)**	**0.1**	**4.9**	**0.5**	**(0.1)**	**3.9**	**(1.2)**	**2.7**
Cash management movements[5]	-	1.7	-	-	-	1.7	-	1.7
Market and other movements	11.3	4.8	5.8	1.2	0.1	23.2	0.7	23.9
At 31 March 2015	**284.6**	**109.5**	**304.0**	**16.2**	**8.2**	**722.5**	**14.3**	**736.8**
External inflows	9.1	2.5	2.5	0.4	-	14.5		14.5
External outflows	(8.8)	(0.9)	(1.8)	(0.2)	-	(11.7)		(11.7)
Overlay/ advisory net flows	-	-	6.7	-	-	6.7	(2.3)	4.4
External net flows[4]	**0.3**	**1.6**	**7.4**	**0.2**	**-**	**9.5**	**(2.3)**	**7.2**
Internal net flows	(0.3)	(0.2)	-	0.1	(0.2)	(0.6)	-	(0.6)
Total net flows	**-**	**1.4**	**7.4**	**0.3**	**(0.2)**	**8.9**	**(2.3)**	**6.6**
Cash management movements[5]	-	-	-	-	-	-	-	-
Market and other movements	(9.9)	(4.5)	(3.2)	0.2	0.6	(16.8)	(0.7)	(17.5)
At 30 June 2015	**274.7**	**106.4**	**308.2**	**16.7**	**8.6**	**714.6**	**11.3**	**725.9**
External inflows	9.3	1.0	1.6	0.4	-	12.3		12.3
External outflows	(6.6)	(0.8)	(1.1)	(0.2)	-	(8.7)		(8.7)
Overlay / advisory net flows	-	-	4.3	-	-	4.3	(0.2)	4.1
External net flows[4]	**2.7**	**0.2**	**4.8**	**0.2**	**-**	**7.9**	**(0.2)**	**7.7**
Internal net flows	-	(1.5)	-	0.3	-	(1.2)	-	(1.2)
Total net flows	**2.7**	**(1.3)**	**4.8**	**0.5**	**-**	**6.7**	**(0.2)**	**6.5**
Cash management movements[5]	-	(0.8)	-	-	-	(0.8)	-	(0.8)
Market and other movements	(13.5)	1.2	9.3	0.3	(0.8)	(3.5)	(0.4)	(3.9)
At 30 September 2015	**263.9**	**105.5**	**322.3**	**17.5**	**7.8**	**717.0**	**10.7**	**727.7**
External inflows[3]	8.2	5.3	10.8	0.3	-	24.6		24.6
External outflows	(7.2)	(1.0)	(2.1)	(0.4)	-	(10.7)		(10.7)
Overlay / advisory net flows	-	-	2.1	-	-	2.1	(0.9)	1.2
External net flows[4]	**1.0**	**4.3**	**10.8**	**(0.1)**	**-**	**16.0**	**(0.9)**	**15.1**
Internal net flows	(0.4)	0.4	-	0.2	(0.1)	0.1	-	0.1
Disposal of LGF[6]	-	(2.3)	-	-	-	(2.3)	-	(2.3)
Total net flows	**0.6**	**2.4**	**10.8**	**0.1**	**(0.1)**	**13.8**	**(0.9)**	**12.9**
Cash management movements[5]	-	(0.1)	-	-	-	(0.1)	-	**(0.1)**
Market and other movements	9.8	(1.0)	5.1	0.7	0.8	15.4	0.7	16.1
At 31 December 2015	**274.3**	**106.8**	**338.2**	**18.3**	**8.5**	**746.1**	**10.5**	**756.6**

1. Infrastructure debt investment has been reclassified from Active Fixed Income to Real Assets in 2015 (1 January 2015 AUM: £0.9bn). The commercial loans business has also been reclassified and is now included in Real Assets (Q1 15: £0.1bn, Q2 15: £0.1bn, Q3 15: £0.3bn).

2. Solutions include liability driven investments, multi-asset funds, and include £226.2bn at 31 December 2015 (Q1 15: £197.1bn; Q2 15: £208.1bn; Q3 15: £216.6bn) of derivative notionals associated with the Solutions business.

3. External inflows include £11.7bn of assets associated with the transfer of National Grid UK Pension Scheme after the purchase of their asset manager Aerion Fund Management.

4. External net flows exclude movements in short term solutions assets, with maturity as determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 31 December 2015 was £59.9bn (Q1 15: £44.0bn; Q2 15: £48.2bn; Q3 15: £52.5bn) and the movement in these assets is included in market and other movements for Solutions assets.

5. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.

6. On 31 December 2015, the group sold Legal & General Holdings (France) S.A. to APICIL Prévoyance.

3.02 Legal & General investment management total assets quarterly progression (continued)

For the year ended 31 December 2014	Index £bn	Active fixed income[1] £bn	Solu-tions[2] £bn	Real assets[1] £bn	Active equities £bn	Total AUM £bn	Advisory assets £bn	Total assets £bn
At 1 January 2014	**269.8**	**88.7**	**232.5**	**12.0**	**8.6**	**611.6**	**-**	**611.6**
External inflows	4.9	1.4	2.4	0.3	-	9.0		9.0
External outflows	(5.8)	(0.5)	(1.2)	(0.1)	-	(7.6)		(7.6)
Overlay/ advisory net flows	-	-	5.2	-	-	5.2	-	5.2
External net flows[3]	**(0.9)**	**0.9**	**6.4**	**0.2**	**-**	**6.6**	**-**	**6.6**
Internal net flows	-	2.0	-	0.5	(0.1)	2.4	-	2.4
Total net flows	**(0.9)**	**2.9**	**6.4**	**0.7**	**(0.1)**	**9.0**	**-**	**9.0**
Cash management movements[4]	-	-	-	-	-	-	-	-
Market and other movements[3]	1.5	2.9	5.9	(0.1)	0.1	10.3	-	10.3
At 31 March 2014	**270.4**	**94.5**	**244.8**	**12.6**	**8.6**	**630.9**	**-**	**630.9**
External inflows	6.1	1.5	2.8	0.3	0.1	10.8		10.8
External outflows	(13.5)	(1.4)	(0.9)	(0.1)	(0.1)	(16.0)		(16.0)
Overlay/ advisory net flows	-	-	7.1	-	-	7.1	0.1	7.2
External net flows[3]	**(7.4)**	**0.1**	**9.0**	**0.2**	**-**	**1.9**	**0.1**	**2.0**
Internal net flows	(0.1)	(1.3)	0.5	0.4	(0.1)	(0.6)	-	(0.6)
Total net flows	**(7.5)**	**(1.2)**	**9.5**	**0.6**	**(0.1)**	**1.3**	**0.1**	**1.4**
Acquisition of GIA assets	-	-	-	-	-	-	13.4	13.4
Cash management movements[4]	-	0.2	-	-	-	0.2	-	0.2
Market and other movements[3]	5.8	3.0	(1.2)	0.3	(0.3)	7.6	0.2	7.8
At 30 June 2014	**268.7**	**96.5**	**253.1**	**13.5**	**8.2**	**640.0**	**13.7**	**653.7**
External inflows	5.6	1.0	1.5	0.3	-	8.4		8.4
External outflows	(8.7)	(0.8)	(1.4)	(0.2)	-	(11.1)		(11.1)
Overlay/ advisory net flows	-	-	2.5	-	-	2.5	-	2.5
External net flows[3]	**(3.1)**	**0.2**	**2.6**	**0.1**	**-**	**(0.2)**	**-**	**(0.2)**
Internal net flows	(0.3)	(0.9)	(0.1)	-	(0.1)	(1.4)	-	(1.4)
Total net flows	**(3.4)**	**(0.7)**	**2.5**	**0.1**	**(0.1)**	**(1.6)**	**-**	**(1.6)**
Cash management movements[4]	-	(0.7)	-	-	-	(0.7)	-	(0.7)
Market and other movements[3]	5.2	1.7	17.4	0.3	(0.2)	24.4	0.5	24.9
At 30 September 2014	**270.5**	**96.8**	**273.0**	**13.9**	**7.9**	**662.1**	**14.2**	**676.3**
External inflows	7.1	1.6	1.8	0.5	-	11.0		11.0
External outflows	(11.5)	(1.1)	(3.1)	(0.1)	-	(15.8)		(15.8)
Overlay/ advisory net flows	-	-	4.0	-	-	4.0	(0.3)	3.7
External net flows[3]	**(4.4)**	**0.5**	**2.7**	**0.4**	**-**	**(0.8)**	**(0.3)**	**(1.1)**
Internal net flows	0.2	(0.5)	-	0.6	0.2	0.5	-	0.5
Total net flows	**(4.2)**	**-**	**2.7**	**1.0**	**0.2**	**(0.3)**	**(0.3)**	**(0.6)**
Cash management movements[4]	-	(1.1)	-	-	-	(1.1)	-	(1.1)
Market and other movements[3]	8.5	7.2	17.6	(0.4)	0.1	33.0	0.9	33.9
At 31 December 2014	**274.8**	**102.9**	**293.3**	**14.5**	**8.2**	**693.7**	**14.8**	**708.5**

1. Infrastructure debt investment has been reclassified from Active Fixed Income to Real Assets in 2015. 2014 has therefore been restated (1 January 2014 AUM: £0.7bn; internal net flows: £0.2bn; 31 December 2014 AUM: £0.9bn). The commercial loans business has also been reclassified and is now included in Real Assets (Q1 14: £0.0bn, Q2 14: £0.2bn, Q3 14: £0.1bn, Q4 14: £0.3bn).
2. Solutions include liability driven investments, multi-asset funds, and include £194.6bn at 31 December 2014 (Q1 14: £168.3bn; Q2 14: £174.9bn; Q3 14: £185.3bn) of derivative notionals associated with the Solutions business.
3. External net flows exclude movements in Solutions assets, with maturity as determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 31 December 2014 was £46.5bn (Q1 14: £33.8bn; Q2 14: £33.3bn; Q3 14: £41.2bn), and the movement in these assets is included in market and other movements for Solutions assets.
4. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.

3.02 Legal & General investment management total assets quarterly progression (continued)

	As at 31.12.15 £bn	**As at 30.09.15 £bn**	**As at 30.06.15 £bn**	**As at 31.03.15 £bn**	As at 31.12.14 £bn	As at 30.09.14 £bn	As at 30.06.14 £bn	As at 31.03.14 £bn
Total assets attributable to:[1]								
External	671.5	641.7	636.1	644.5	618.5	591.5	570.3	547.8
Internal	85.1	86.0	89.8	92.3	90.0	84.8	83.4	83.1
Total assets attributable to:[1]								
UK	623.7	599.2	598.8	610.4	579.7	589.8	570.8	564.9
International[2]	132.9	128.5	127.1	126.4	128.8	86.5	82.9	66.0

1. Total assets at 31 December 2015 include £10.5bn of advisory assets (Q3 15: £10.7bn; Q2 15: £11.3bn; Q1 15: £14.3bn; Q4 14: £14.8bn; Q3 14: £14.2bn; Q2 14: £13.7bn; Q1 14: £nil).
2. In Q4 14, International assets included £37.5bn of assets transferred from our London office to our Chicago office.

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

	3 months to 31.12.15 £bn	**3 months to 30.09.15 £bn**	**3 months to 30.06.15 £bn**	**3 months to 30.03.15 £bn**	3 months to 31.12.14 £bn	3 months to 30.09.14 £bn	3 months to 30.06.14 £bn	3 months to 31.03.14 £bn
LGIM total external AUM net flows[1]	**16.0**	**7.9**	**9.5**	**4.3**	(0.8)	(0.2)	1.9	6.6
Attributable to:								
International	**1.5**	**2.6**	**4.6**	**0.8**	1.6	1.3	2.4	3.4
UK Institutional								
- Defined contribution	**1.1**	**0.8**	**0.6**	**0.4**	0.9	0.7	0.5	0.6
- Defined benefit [2]	**13.1**	**3.9**	**4.0**	**3.1**	(3.6)	(2.2)	(1.2)	2.3
UK Retail	**0.3**	**0.6**	**0.3**	**-**	0.3	-	0.2	0.3

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

Asset and premium flows

3.04 Assets under administration

For the year ended ended 31 December 2015	Platforms[2] £bn	Suffolk Life £bn	Mature Retail Savings[3] £bn	Consol-idation adjust-ment[4] £bn	Total Savings £bn	France and Nethe-rlands £bn	LGIM Work-place £bn	LGIM Retail Invest-ments[7] £bn	Annuities £bn
At 1 January 2015	**71.9**	**7.7**	**36.0**	**(6.9)**	**108.7**	**4.4**	**11.1**	**21.3**	**44.2**
Gross inflows[1]	8.7	1.2	1.1	(0.5)	10.5	0.4	3.3	5.9	3.0
Gross outflows	(5.2)	(0.5)	(4.1)	0.8	(9.0)	(0.3)	(0.7)	(5.7)	-
Payments to pensioners		-	-	-	-	-	-	-	(2.6)
Disposals[5,6]	-	-	(2.8)	-	(2.8)	(2.7)	-	-	-
Net flows	**3.5**	**0.7**	**(5.8)**	**0.3**	**(1.3)**	**(2.6)**	**2.6**	**0.2**	**0.4**
Market and other movements	1.5	0.2	(0.6)	(0.2)	0.9	(0.2)	1.0	1.1	(1.2)
At 31 December 2015	**76.9**	**8.6**	**29.6**	**(6.8)**	**108.3**	**1.6**	**14.7**	**22.6**	**43.4**

For the year ended ended 31 December 2014	Platforms[2] £bn	Suffolk Life £bn	Mature Retail Savings[3] £bn	Consol-idation adjust-ment[4] £bn	Total Savings £bn	France and Nethe-rlands £bn	LGIM Work-place £bn	LGIM Retail Invest-ments[7] £bn	Annuities £bn
At 1 January 2014	**64.1**	**6.6**	**36.3**	**(6.8)**	**100.2**	**4.5**	**8.7**	**20.5**	**34.4**
Gross inflows[1]	10.1	1.3	1.4	(0.5)	12.3	0.4	2.8	4.4	6.5
Gross outflows	(4.7)	(0.5)	(4.4)	0.7	(8.9)	(0.4)	(0.6)	(4.8)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(2.1)
Net flows	**5.4**	**0.8**	**(3.0)**	**0.2**	**3.4**	**-**	**2.2**	**(0.4)**	**4.4**
Market and other movements	2.4	0.3	2.7	(0.3)	5.1	(0.1)	0.2	1.2	5.4
At 31 December 2014	**71.9**	**7.7**	**36.0**	**(6.9)**	**108.7**	**4.4**	**11.1**	**21.3**	**44.2**

1. Platforms gross inflows include Cofunds institutional net flows. Total 2015 Platforms comprise £37.5bn (2014: £38.3bn) of retail assets and £39.4bn (2014: £33.6bn) of assets held on behalf of institutional clients.
2. Platforms AUA comprise ISAs £19.9bn (2014: £19.1bn); onshore bonds £3.0bn (2014: £3.3bn); offshore bonds £0.1bn (2014: £0.1bn); platform SIPPs £3.5bn (2014: £3.3bn) and non-wrapped funds £50.4bn (2014: £46.1bn).
3. Mature Retail Savings products include with-profits products, bonds and retail pensions.
4. Consolidation adjustment represents Suffolk Life and Mature Retail Savings assets included in the Platforms column.
5. £2.8bn of assets relating to Legal & General International (Ireland) Limited, were sold to Canada Life Group on 1 July 2015.
6. £2.7bn of assets relating to Legal & General Holdings (France) S.A. were sold on 31 December 2015 to APICIL Prévoyance.
7. 2015 Retail Investments include £2.0bn (2014: £1.7bn) of LGIM unit trust assets held on our Cofunds platform and £3.2bn (2014: £3.2bn) of LGIM unit trust assets held on our IPS platform.

Asset and premium flows

3.05 Assets under administration quarterly progression

For the year ended 31 December 2015	Platforms £bn	Suffolk Life £bn	Mature Retail Savings[2] £bn	Consol-idation adjust-ment[3] £bn	Total Savings £bn	France and Nethe-rlands £bn	LGIM Work-place £bn	LGIM Retail Invest-ments[5] £bn	Annuities £bn
At 1 January 2015	**71.9**	**7.7**	**36.0**	**(6.9)**	**108.7**	**4.4**	**11.1**	**21.3**	**44.2**
Gross inflows[1]	1.9	0.3	0.3	-	2.5	0.1	0.6	1.5	0.7
Gross outflows	(1.2)	(0.1)	(0.9)	0.2	(2.0)	(0.1)	(0.1)	(1.6)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.5)
Net flows	**0.7**	**0.2**	**(0.6)**	**0.2**	**0.5**	**-**	**0.5**	**(0.1)**	**0.2**
Market and other movements	3.4	0.3	0.7	(0.4)	4.0	(0.1)	1.4	1.2	1.2
At 31 March 2015	**76.0**	**8.2**	**36.1**	**(7.1)**	**113.2**	**4.3**	**13.0**	**22.4**	**45.6**
Gross inflows[1]	1.9	0.3	0.4	(0.2)	2.4	0.1	0.6	1.5	0.7
Gross outflows	(1.5)	(0.2)	(1.3)	0.2	(2.8)	(0.1)	(0.2)	(1.4)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.7)
Net flows	**0.4**	**0.1**	**(0.9)**	**-**	**(0.4)**	**-**	**0.4**	**0.1**	**-**
Market and other movements	(1.8)	-	(0.4)	0.2	(2.0)	(0.1)	(0.3)	-	(2.2)
At 30 June 2015	**74.6**	**8.3**	**34.8**	**(6.9)**	**110.8**	**4.2**	**13.1**	**22.5**	**43.4**
Gross inflows[1]	2.7	0.3	0.1	(0.2)	2.9	0.1	1.0	1.7	0.2
Gross outflows	(1.2)	(0.1)	(1.0)	0.2	(2.1)	-	(0.2)	(1.2)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.7)
Disposal of LGI[4]	-	-	(2.8)	-	(2.8)	-	-	-	-
Net flows	**1.5**	**0.2**	**(3.7)**	**-**	**(2.0)**	**0.1**	**0.8**	**0.5**	**(0.5)**
Market and other movements	(3.0)	(0.3)	(0.9)	0.3	(3.9)	(0.1)	(0.8)	(0.8)	0.2
At 30 September 2015	**73.1**	**8.2**	**30.2**	**(6.6)**	**104.9**	**4.2**	**13.1**	**22.2**	**43.1**
Gross inflows[1]	2.2	0.3	0.3	(0.1)	2.7	0.1	1.1	1.2	1.4
Gross outflows	(1.3)	(0.1)	(0.9)	0.2	(2.1)	(0.1)	(0.2)	(1.5)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.7)
Disposal of LGF[6]	-	-	-	-	-	(2.7)	-	-	-
Net flows	**0.9**	**0.2**	**(0.6)**	**0.1**	**0.6**	**(2.7)**	**0.9**	**(0.3)**	**0.7**
Market and other movements	2.9	0.2	-	(0.3)	2.8	0.1	0.7	0.7	(0.4)
At 31 December 2015[7]	**76.9**	**8.6**	**29.6**	**(6.8)**	**108.3**	**1.6**	**14.7**	**22.6**	**43.4**

1. Platforms gross inflows include Cofunds institutional net flows. Total 2015 Platforms comprise £37.5bn (Q3 15: £36.5bn; Q2 15: £37.9bn; Q1 15: £38.8bn) of retail assets and £39.4bn (Q3 15: £36.6bn; Q2 15: £36.7bn; Q1 15: £37.2bn) of assets held on behalf of institutional clients.
2. Mature Retail Savings products include with-profits products, bonds and retail pensions.
3. Consolidation adjustment represents Suffolk Life and Mature Retail Savings assets included in the Platforms column.
4. £2.8bn of assets relating to Legal & General International (Ireland) Limited, were sold to Canada Life Group on 1 July 2015.
5. At 31 December 2015 Retail Investments include £3.2bn (Q3 15: £1.9bn; Q2 15: £1.8bn; Q1 15: £1.8bn) of LGIM unit trust assets held on our Cofunds platform and £2.0bn (Q3 15: £3.1bn; Q2 15: £3.3bn; Q1 15: £3.4bn) of LGIM unit trust assets held on our IPS platform.
6. £2.7bn of assets relating to Legal & General Holdings (France) S.A. were sold on 31 December 2015 to APICIL Prévoyance.
7. On 21 January 2016 Suffolk Life was sold. The assets of £8.6bn and consol adjustment of £0.1m are included in the total savings assets as at 31 December 2015.

Asset and premium flows

3.05 Assets under administration quarterly progression (continued)

For the year ended 31 December 2014	Platforms £bn	Suffolk Life £bn	Mature Retail Savings[2] £bn	Consol-idation adjust-ment[3] £bn	Total Savings £bn	LGIM France and Nether-lands £bn	LGIM Work-place £bn	LGIM Retail Invest-ments[4] £bn	Annuities £bn
At 1 January 2014	**64.1**	**6.6**	**36.3**	**(6.8)**	**100.2**	**4.5**	**8.7**	**20.5**	**34.4**
Gross inflows[1]	2.6	0.3	0.4	(0.1)	3.2	0.1	0.7	1.0	3.3
Gross outflows	(1.1)	(0.1)	(1.1)	0.2	(2.1)	(0.1)	(0.2)	(0.9)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.5)
Net flows	**1.5**	**0.2**	**(0.7)**	**0.1**	**1.1**	**-**	**0.5**	**0.1**	**2.8**
Market and other movements	-	0.1	0.5	(0.1)	0.5	(0.1)	(0.1)	0.2	1.1
At 31 March 2014	**65.6**	**6.9**	**36.1**	**(6.8)**	**101.8**	**4.4**	**9.1**	**20.8**	**38.3**
Gross inflows[1]	2.2	0.3	0.3	(0.1)	2.7	0.1	0.6	0.9	0.2
Gross outflows	(1.2)	(0.1)	(1.1)	0.2	(2.2)	(0.1)	(0.1)	(1.5)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.5)
Net flows	**1.0**	**0.2**	**(0.8)**	**0.1**	**0.5**	**-**	**0.5**	**(0.6)**	**(0.3)**
Market and other movements	0.8	0.1	0.6	-	1.5	0.1	(0.1)	0.4	0.5
At 30 June 2014	**67.4**	**7.2**	**35.9**	**(6.7)**	**103.8**	**4.5**	**9.5**	**20.6**	**38.5**
Gross inflows[1]	2.8	0.4	0.4	(0.2)	3.4	0.1	0.7	1.2	0.4
Gross outflows	(1.3)	(0.2)	(1.2)	0.2	(2.5)	(0.1)	(0.2)	(1.3)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.6)
Net flows	**1.5**	**0.2**	**(0.8)**	**-**	**0.9**	**-**	**0.5**	**(0.1)**	**(0.2)**
Market and other movements	0.1	0.1	0.4	(0.1)	0.5	(0.1)	0.1	0.2	1.6
At 30 September 2014	**69.0**	**7.5**	**35.5**	**(6.8)**	**105.2**	**4.4**	**10.1**	**20.7**	**39.9**
Gross inflows[1]	2.5	0.3	0.3	(0.1)	3.0	0.1	0.8	1.3	2.6
Gross outflows	(1.1)	(0.1)	(1.0)	0.1	(2.1)	(0.1)	(0.1)	(1.1)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.5)
Net flows	**1.4**	**0.2**	**(0.7)**	**-**	**0.9**	**-**	**0.7**	**0.2**	**2.1**
Market and other movements	1.5	-	1.2	(0.1)	2.6	-	0.3	0.4	2.2
At 31 December 2014	**71.9**	**7.7**	**36.0**	**(6.9)**	**108.7**	**4.4**	**11.1**	**21.3**	**44.2**

1. Platforms gross inflows include Cofunds institutional net flows. At 31 December 2014 Platforms comprise £38.3bn (Q1 14 £36.6bn; Q2 14: £37.3bn; Q3 14: £37.4bn) of retail assets and £33.6bn (Q1 14: £29.0bn; Q2 14: £30.1bn; Q3 14: £31.6bn) of assets held on behalf of institutional clients.
2. Mature Retail Savings products include with-profits products, bonds and retail pensions.
3. Consolidation adjustment represents Suffolk Life and Retail Savings assets included in the Platforms column.
4. At 31 December 2014 Retail Investments include £1.7bn (Q1 14: £1.6bn; Q2 14: £1.5bn; Q3 14: £1.6bn) of LGIM unit trust assets held on our Cofunds platform and £3.2bn (Q1 14: £3.2bn; Q2 14: £3.2bn; Q3 14: £3.2bn) of LGIM unit trust assets held on our IPS platform.

Asset and premium flows

3.06 LGR new business

	3 months to 31.12.15 £m	3 months to 30.09.15 £m	3 months to 30.06.15 £m	3 months to 31.03.15 £m	3 months to 31.12.14 £m	3 months to 30.09.14 £m	3 months to 30.06.14 £m	3 months to 31.03.14 £m
Individual Annuities	**65**	**82**	**81**	**99**	83	125	139	244
Bulk Purchase Annuities								
- UK	**739**	**92**	**491**	**655**	2,619	233	90	3,045
- USA	**295**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Netherlands	**145**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Lifetime Mortgage Advances[1]	**99**	**65**	**37**	**-**	-	-	-	-
Total LGR new business	**1,343**	**239**	**609**	**754**	2,702	358	229	3,289

1. In Q2 15, £12m of these advances were funded by L&G prior to our acquisition of New Life Home Finance Ltd.

3.07 Insurance new business annual premiums

	3 months to 31.12.15 £m	3 months to 30.09.15 £m	3 months to 30.06.15 £m	3 months to 31.03.15 £m	3 months to 31.12.14 £m	3 months to 30.09.14 £m	3 months to 30.06.14 £m	3 months to 31.03.14 £m
UK Retail Protection	**41**	**42**	**41**	**38**	41	41	41	42
UK Group Protection	**16**	**13**	**22**	**18**	11	14	20	20
France Protection	**-**	**-**	**-**	**30**	-	-	-	33
Netherlands Protection	**1**	**1**	**2**	**1**	-	1	-	2
US Protection	**14**	**15**	**21**	**20**	21	23	24	23
Total Insurance new business	**72**	**71**	**86**	**107**	73	79	85	120

3.08 Gross written premiums on Insurance business

	3 months to 31.12.15 £m	3 months to 30.09.15 £m	3 months to 30.06.15 £m	3 months to 31.03.15 £m	3 months to 31.12.14 £m	3 months to 30.09.14 £m	3 months to 30.06.14 £m	3 months to 31.03.14 £m
UK Retail Protection	**282**	**285**	**275**	**270**	273	269	260	254
UK Group Protection	**51**	**50**	**127**	**102**	57	65	130	99
General Insurance	**86**	**87**	**83**	**81**	95	104	94	84
France Protection	**44**	**39**	**42**	**43**	41	41	45	46
Netherlands Protection	**11**	**11**	**11**	**13**	9	16	12	14
US Protection	**201**	**186**	**202**	**184**	184	162	170	162
Longevity Insurance	**81**	**81**	**85**	**79**	82	84	83	84
Total gross written premiums on insurance business	**756**	**739**	**825**	**772**	741	741	794	743

3.09 Overseas new business in local currency

	Annual premiums 2015	**Single premiums 2015**	Annual premiums 2014	Single premiums 2014
US (US$m)	**106**	**-**	150	-
Netherlands (€m)	**14**	**111**	10	138
France (€m)	**41**	**418**	41	351
India (Rs m) - Group's 26% interest	**478**	**3,266**	408	4,003
Egypt (Pounds m) - Group's 55% interest	**144**	**-**	149	-
Gulf (US$m) - Group's 50% interest	**2**	**2**	3	5

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Capital and Investments

4.01 Group regulatory capital – Insurance Groups Directive (IGD)

The group is required to measure and monitor its capital resources on a regulatory basis and to comply with the minimum capital requirements of regulators in each territory in which it operates. At a group level, Legal & General had to comply with the requirements of the European Insurance Groups Directive (IGD) at the balance sheet date. The table below shows the total group capital resources, group capital resources requirement and the group surplus on an IGD basis. These results are not audited.

	2015 £bn	2014 £bn
Core tier 1 capital	**7.0**	6.4
Innovative tier 1 capital	**0.6**	0.6
Tier 2 capital[1]	**1.8**	1.7
Deductions	**(1.2)**	(1.0)
Group capital resources	**8.2**	7.7
Group capital resources requirement[2]	**3.8**	3.8
IGD surplus	**4.4**	3.9
Group capital resources requirement coverage ratio[3]	**217%**	201%

1. The group redeemed €0.6bn Euro subordinated notes in June 2015 and issued £0.6bn subordinated notes in October 2015, both constituting Lower Tier 2 capital.
2. Group capital resources requirement includes a With-profits Insurance Capital Component (WPICC) of £0.4bn (2014: £0.4bn).
3. Coverage ratio is calculated on unrounded values.

A reconciliation of the capital and reserves attributable to the equity holders of the company on an IFRS basis to the group capital resources on an IGD basis is given below.

	2015 £bn	2014 £bn
Capital and reserves attributable to equity holders on an IFRS basis	**6.4**	6.0
Innovative tier 1 capital	**0.6**	0.6
Tier 2 capital	**1.8**	1.7
Unallocated divisible surplus (UK only)	**0.9**	0.7
Proposed dividends	**(0.6)**	(0.5)
Intangibles	**(0.4)**	(0.4)
Other regulatory adjustments[1]	**(0.5)**	(0.4)
Group capital resources	**8.2**	7.7

1. Other regulatory adjustments include differences between accounting and regulatory bases.

The table below demonstrates how the group's net cash generation reconciles to the IGD capital surplus position.

	2015 £bn
IGD surplus at 1 January	**3.9**
Net cash generation	**1.3**
Dividends	**(0.8)**
New business capital deployed	**(0.2)**
Existing business capital release	**0.2**
Repayment of Euro subordinated debt	**(0.5)**
New Sterling subordinated debt issued	**0.6**
Other variances and regulatory adjustments	**(0.1)**
IGD surplus at 31 December[1]	**4.4**

1. All IGD amounts are estimated, unaudited and after accrual of the 2015 final dividend of £592m (2014: £496m).

4.02 Group regulatory capital – Solvency II Directive

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

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

The tables below show the estimated Group Eligible own funds, Solvency Capital Requirement (SCR) and Surplus own funds based on the Internal Model, Matching Adjustment and Transitional Measures on Technical Provisions (TMTP) approved by the PRA in December 2015.

(a) Capital position

As at 31 December 2015 the group had a Solvency II surplus of £5.5bn over its Solvency Capital Requirement, corresponding to a coverage ratio of 169%. The Solvency II capital position is as follows:

	2015 £bn
Eligible own funds[1]	13.5
Solvency capital requirement (SCR)	8.0
Surplus	**5.5**
SCR coverage ratio[2]	**169%**

1. Eligible own funds do not include an accrual for the 2015 final dividend of £592m declared in 2016.
2. Coverage ratio is calculated on unrounded values.

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

(b) Methodology

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

Assets are valued at IFRS fair value with adjustments to remove intangibles, deferred acquisition costs and to value reassurers' share of technical provisions on a basis consistent with the liabilities on the Solvency II Balance Sheet. The economic value of assets which are excluded from the IFRS Balance Sheet is also included.

Liabilities are valued on a best estimate market consistent basis, with the application of a Solvency II Matching Adjustment for valuing annuity liabilities and include recognition of the benefit relating to the TMTP for firms moving from the Solvency I to the Solvency II regime. The TMTP has been calculated on a basis approved by the PRA which seeks to encapsulate the difference between the total Financial Resources Requirement under the previous Solvency I regime and the new Solvency II regime as at 31 December 2015.

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

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

All material EEA insurance firms, including Legal & General Assurance Society, Legal & General Insurance, and Legal & General Pensions Management Company (PMC) (LGIM's insurance subsidiary) are incorporated into the group's Solvency II Internal Model assessment of required capital, assuming diversification of the risks between and within those firms. These firms contribute over 95% of the group SCR.

Firms which are not regulated but which carry material risks to group solvency are modelled in the Internal Model on the basis of applying an appropriate stress to their net asset value.

Firms for which the capital requirements are less material, for example Legal & General Netherlands, are valued on a Solvency II Standard Formula basis.

4.02 Group regulatory capital – Solvency II Directive (continued)

(b) Methodology (continued)

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

All non-insurance regulated firms are included using their current regulatory surplus, allowing for any restrictions on fungibility or transferability, without allowing for any diversification with the rest of the group.

Allowance is made within the Solvency II Balance Sheet for the group's defined benefit pension scheme using results on the IFRS basis. Allowance is made within the SCR by stressing the IFRS result position using the same Internal Model basis as for the insurance firms.

(c) Assumptions

The calculation of the Solvency II Balance Sheet and associated capital requirement requires a number of assumptions, including:

(i) assumptions required to derive the present value of best estimate liability cash flows. Non market assumptions are broadly the same as those used to derive the group's EEV disclosures. Future investment returns and discount rates are those defined by EIOPA, which means that the risk-free rates used to discount liabilities are market swap rates, with a 12 basis point deduction to allow for a credit risk adjustment. For annuities that are eligible, the liability discount rate includes a Matching Adjustment;

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

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

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

(d) Reconciliation of IFRS Shareholders' equity to Solvency II Eligible own funds

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

	2015 £bn
IFRS Shareholders' equity at 31 December	**6.4**
Remove DAC, goodwill and other intangible assets and liabilities	**(2.0)**
Add subordinated debt treated as economic available capital[1]	**2.5**
Insurance contract valuation differences[2]	**7.5**
Add value of shareholder transfers	**0.2**
Increase in value of net deferred tax liabilities (resulting from valuation differences)	**(0.5)**
Other	**(0.2)**
Adjustment - Basic own funds to Eligible own funds[3]	**(0.4)**
Eligible own funds at 31 December	**13.5**

1. Treated as available capital on the Solvency II Balance Sheet as the liabilities are subordinate to policyholder claims.
2. Differences in the measurement of liabilities between IFRS and Solvency II, offset by the inclusion of the Risk Margin net of Transitional Measures on Technical Provisions (TMTP).
3. Eligibility restrictions relating to the own funds of non-insurance regulated entities.

The figures that appear in this note are all pre-accrual for the 2015 final dividend of £592m, declared in 2016.

4.02 Group regulatory capital – Solvency II Directive (continued)

(e) Sensitivity analysis

The following sensitivities are provided to give an indication of how the group's Solvency II surplus as at 31 December 2015 would have changed in a variety of adverse events. These are all independent stresses to a single risk. In practice the balance sheet is impacted by combinations of stresses and the combined impact can be larger than adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse stresses will happen together.

	Impact on net of tax capital surplus 2015 £bn	Impact on Solvency II coverage ratio 2015 %
Credit spreads widen by 100bps using the same 100bps addition to all ratings[1]	**(0.3)**	**(1)**
Credit spreads widen by 100bps assuming an escalating addition to ratings[1,2]	**(0.6)**	**(8)**
Credit spreads tighten by 100bps using the same 100bps deduction to all ratings[1]	**0.2**	**1**
Credit spreads tighten by 100bps assuming an escalating deduction to ratings[1,2]	**0.6**	**7**
A worsening in our expectation of future default and downgrade to 115% of our assumed best estimate level	**(0.5)**	**(11)**
20% fall in equity markets	**(0.4)**	**(4)**
40% fall in equity markets	**(0.7)**	**(8)**
20% rise in equity markets	**0.5**	**5**
15% fall in property markets	**(0.3)**	**(3)**
100bps increase in risk free rates[3]	**0.6**	**19**
100bps fall in risk free rates[3]	**(0.4)**	**(11)**
1% reduction in annuitant base mortality	**(0.1)**	**(2)**
1% increase in annuitant base mortality	**0.1**	**2**

1. All spread sensitivities apply to Legal & General's corporate bond (and similar) holdings, with no change in the firm's long term default expectations.
2. The stress for AA bonds is twice that for AAA bonds, for A bonds it is three times, for BBB four times and so on, such that the weighted average spread stress for the portfolio is 100bps.
3. Interest rate sensitivities allow (on an approximate basis) for the recalculation of TMTP.

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

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

4.02 Group regulatory capital – Solvency II Directive (continued)

(f) Analysis of Group Solvency Capital Requirement

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

	2015 %
Interest Rate	4
Equity	11
Property	5
Credit[1]	48
Currency	3
Inflation	2
Total Market Risk[2]	**73**
Counterparty Risk	**1**
Life Mortality	-
Life Longevity[3]	11
Life Lapse	1
Life Catastrophe	2
Non-life underwriting	1
Health underwriting	-
Expense	-
Total Insurance Risk	**15**
Operational Risk	5
Miscellaneous[4]	6
Total SCR	**100**

1. Credit risk is Legal & General's most significant exposure, arising predominantly from the c£40bn portfolio of bonds and bond-like assets backing the group's annuity business.
2. In addition to credit risk the group also has significant exposure to other market risks, primarily due to the investment holdings within the shareholder funds but also the risk to fee income from assets backing unit linked and with-profit Savings business.
3. Longevity risk is Legal & General's most significant insurance risk exposure, arising from the annuity book on which the majority of the longevity risk is retained.
4. Miscellaneous includes the SCR for the pension scheme, LGA on a Deduction and Aggregation basis and the sectoral capital requirements for non-insurance regulated firms.

4.03 Group Economic Capital

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

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

Solvency II has elements which are considered to be inconsistent with the group's definition of economic capital, so there are differences between the two balance sheets. A reconciliation between the two bases is provided in section 4.03(h).

(a) Capital position

As at 31 December 2015 the group had an economic capital surplus of £7.6bn (2014: £7.0bn), corresponding to an economic capital coverage ratio of 230% (2014: 229%). The economic capital position is as follows:

	2015 £bn	2014 £bn
Eligible own funds[1]	**13.5**	12.5
Economic capital requirement	**5.9**	5.5
Surplus	**7.6**	7.0
1-in-200 coverage ratio[2]	**230%**	229%

1. Eligible own funds do not include an accrual for the 2015 final dividend of £592m (2014: £496m) declared after the balance sheet date.
2. Coverage ratio is calculated on unrounded values.

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

(b) Methodology

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

Assets are valued at IFRS fair value with adjustments to remove intangibles, deferred acquisition costs and to value reassurers' share of technical provisions on a basis consistent with the liabilities on the Economic Capital Balance Sheet. The economic value of assets excluded from the IFRS Balance Sheet is also included.

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

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

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

All material insurance firms, including Legal & General Assurance Society, Legal & General Insurance, Legal & General Pensions Management Company (PMC) (LGIM's insurance subsidiary) and Legal & General America (LGA) are incorporated into the group's Economic Capital model assessment of required capital, assuming diversification of the risks between those firms.

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

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

The results and the model are unaudited but certain elements of the methodology, assumptions and processes have been reviewed by PwC.

4.03 Group Economic Capital (continued)
(c) Assumptions

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

(i) assumptions required to derive the present value of best estimate liability cash flows. Non market assumptions are broadly the same as those used to derive the group's EEV disclosures. Future investment returns and discount rates are based on market data where a deep and liquid market exists or using appropriate estimation techniques where this is not the case. The risk-free rates used to discount liabilities are market swap rates, with a 12 basis point deduction to allow for a credit risk adjustment. For annuities the liability discount rate includes an Economic Matching Adjustment;

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

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

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

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

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

(d) Analysis of change

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

Analysis of movement from 1 January to 31 December 2015	**Economic Capital surplus 2015 £bn**
Economic solvency position as at 1 January 2015	**7.0**
Operating experience expected release[1]	**0.8**
Operating experience new business	**0.1**
Other capital movements[2]	**0.3**
New Sterling subordinated debt issuance	**0.6**
Repayment of Euro subordinated debt	**(0.5)**
Dividends paid in the period	**(0.7)**
Economic solvency position as at 31 December 2015	**7.6**

1. Release of surplus generated by in-force business.
2. Other capital movements comprise model and assumption changes, changes in asset mix across the group (with corresponding increase in Economic Capital Requirement) and other market movements.

4.03 Group Economic Capital (continued)
(e) Reconciliation of IFRS Shareholders' equity to Economic Capital Eligible own funds

The table below gives a reconciliation of the group's IFRS Shareholders' equity to the Eligible own funds on an Economic Capital basis.

	2015 £bn	2014 £bn
IFRS Shareholders' equity at 31 December	**6.4**	6.0
Remove DAC, goodwill and other intangible assets and liabilities	**(2.0)**	(2.0)
Add subordinated debt treated as economic available capital[1]	**2.5**	2.4
Insurance contract valuation differences[2]	**7.0**	6.6
Add value of shareholder transfers	**0.2**	0.3
Increase in value of net deferred tax liabilities (resulting from valuation differences)	**(0.5)**	(0.6)
Other	**0.2**	0.1
Adjustment - Basic own funds to Eligible own funds[3]	**(0.3)**	(0.3)
Eligible own funds at 31 December	**13.5**	12.5

1. Treated as available capital on the Economic Capital balance sheet as the liabilities are subordinate to policyholder claims.
2. Differences in the measurement of liabilities between IFRS and Economic Capital, offset by the inclusion of the recapitalisation cost.
3. Eligibility restrictions relating to the own funds of US captive reassurers and the UK with-profits fund.

The figures that appear in this note are all pre-accrual for the 2015 final dividend of £592m (2014: £496m).

(f) Sensitivity analysis

The following sensitivities are provided to give an indication of how the group's economic capital surplus as at 31 December 2015 would have changed in a variety of adverse events. These are all independent stresses to a single risk. In practice the balance sheet is impacted by combinations of stresses and the combined impact can be larger than adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse stresses will happen together.

	Impact on net of tax capital surplus 2015 £bn	Impact on economic capital coverage ratio 2015 %
Credit spreads widen by 100bps assuming an escalating addition to ratings[1,2]	**(0.4)**	**(8)**
Credit spreads tighten by 100bps assuming an escalating deduction to ratings[1,2]	**0.4**	**8**
A worsening in our expectation of future default and downgrade to 115% of our assumed best estimate level	**(0.3)**	**(12)**
20% fall in equity markets	**(0.3)**	**(4)**
40% fall in equity markets	**(0.6)**	**(6)**
20% rise in equity markets	**0.4**	**5**
15% fall in property markets	**(0.2)**	**(3)**
100bps increase in risk free rates[3]	**-**	**10**
100bps fall in risk free rates	**0.1**	**(9)**
1% reduction in annuitant base mortality	**(0.1)**	**(2)**
1% increase in annuitant base mortality	**0.1**	**2**

1. All spread sensitivities apply to Legal & General's corporate bond (and similar) holdings, with no change in the firm's long term default expectations.
2. The stress for AA bonds is twice that for AAA bonds, for A bonds it is three times, for BBB four times and so on, such that the weighted average spread stress for the portfolio is 100bps.
3. A 100bps increase in risk free rates would result in a significant reduction in Group own funds, which would be offset by a similar reduction in group ECR, resulting in net nil impact on surplus (when rounded to nearest £0.1bn).

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

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

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

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

	2015 %	2014 %
Interest Rate	4	6
Equity	13	15
Property	6	4
Credit[1]	48	44
Currency	-	3
Inflation	3	(2)
Total Market Risk[2]	**74**	70
Counterparty Risk	**1**	1
Life Mortality	-	-
Life Longevity[3]	4	10
Life Lapse	4	5
Life Catastrophe	4	3
Non-life underwriting	1	1
Health underwriting	-	1
Expense	1	1
Total Insurance Risk	**14**	21
Operational Risk	7	7
Miscellaneous[4]	4	1
Total Economic Capital Requirement	**100**	100

1. Credit risk is Legal & General's most significant exposure, arising predominantly from the c£40bn portfolio of bonds backing the group's annuity business.
2. In addition to credit risk the group also has significant exposure to other market risks, primarily due to the investment holdings within the shareholder funds but also the risk to fee income from assets backing unit linked and with-profits Savings business.
3. Longevity risk is Legal & General's most significant insurance risk exposure, arising from the annuity book on which the majority of the longevity risk is retained.
4. Miscellaneous includes the ECR for the pension scheme and the sectoral capital requirements for non-insurance regulated firms.

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

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

	2015 £bn
Economic Capital surplus as at 31 December	**7.6**
Different matching adjustment[1]	**(1.4)**
Risk margin vs Recapitalisation cost[2]	**-**
Longevity calibration[3]	**(0.3)**
Eligibility of Group own funds[4]	**(0.5)**
LGA on a D&A basis[5]	**0.1**
Solvency II surplus as at 31 December[6]	**5.5**

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

4.04 Investment portfolio

	Market value 2015 £m	Market value 2014 £m
Worldwide total assets	**747,944**	710,554
Client and policyholder assets	**(679,913)**	(638,117)
Non-unit linked with-profits assets	**(11,644)**	(15,242)
Investments to which shareholders are directly exposed	**56,387**	57,195

Analysed by investment class:

	Note	LGR investments 2015 £m	Other non profit insurance investments 2015 £m	LGC investments[1] 2015 £m	Other shareholder investments 2015 £m	Total 2015 £m	Total 2014 £m
Equities		**149**	**-**	**1,987**	**116**	**2,252**	2,265
Bonds	4.06	**39,368**	**2,367**	**1,427**	**754**	**43,916**	45,811
Derivative assets[2]		**3,627**	**-**	**36**	**-**	**3,663**	3,940
Property		**2,157**	**-**	**186**	**4**	**2,347**	2,030
Cash, cash equivalents, loans & receivables		**1,053**	**534**	**1,988**	**593**	**4,168**	3,018
Financial investments		**46,354**	**2,901**	**5,624**	**1,467**	**56,346**	57,064
Other assets		**-**	**-**	**41**	**-**	**41**	131
Total investments		**46,354**	**2,901**	**5,665**	**1,467**	**56,387**	57,195

1. Equity investments include CALA Group Limited and Peel Media Holdings Limited (MediaCityUK).
2. Derivative assets are shown gross of derivative liabilities of £2.7bn (2014: £2.7bn). Exposures arise from the use of derivatives for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management.

4.05 Direct Investments
(a) Analysed by asset class

	Direct[1] Investments 2015 £m	Traded[2] securities 2015 £m	Total 2015 £m	Direct[1] Investments 2014 £m	Traded[2] securities 2014 £m	Total 2014 £m
Equities	**432**	**1,820**	**2,252**	318	1,947	2,265
Bonds	**3,722**	**40,194**	**43,916**	2,983	42,828	45,811
Derivative assets	**-**	**3,663**	**3,663**	-	3,940	3,940
Property	**2,347**	**-**	**2,347**	2,030	-	2,030
Cash, cash equivalents, loans & receivables	**425**	**3,743**	**4,168**	241	2,777	3,018
Other assets	**41**	**-**	**41**	131	-	131
	6,967	**49,420**	**56,387**	5,703	51,492	57,195

1. Direct Investments constitute an agreement with another party and represent an exposure to untraded and often less volatile assets. Direct Investments include physical assets, bilateral loans and private equity but exclude hedge funds.
2. Traded securities are defined by exclusion. If an instrument is not a Direct Investment, then it is classed as a traded security.

(b) Analysed by segment

	LGR 2015 £m	LGC 2015 £m	LGA 2015 £m	Insurance 2015 £m	Total 2015 £m
Equities	**-**	**432**	**-**	**-**	**432**
Bonds	**3,336**	**93**	**293**	**-**	**3,722**
Property	**2,157**	**186**	**-**	**4**	**2,347**
Cash, cash equivalents, loans & receivables	**-**	**115**	**310**	**-**	**425**
Other assets	**-**	**41**	**-**	**-**	**41**
	5,493	**867**	**603**	**4**	**6,967**

	LGR 2014 £m	LGC 2014 £m	LGA 2014 £m	Insurance 2014 £m	Total 2014 £m
Equities	-	318	-	-	318
Bonds	2,586	168	229	-	2,983
Property	1,879	147	-	4	2,030
Cash, cash equivalents, loans & receivables	-	54	187	-	241
Other assets	118	13	-	-	131
	4,583	700	416	4	5,703

(c) Movement in the period

	Carrying value 01.01.15 £m	Additions £m	Disposals £m	Change in market value £m	**Carrying value 2015 £m**
Equities	318	101	(31)	44	**432**
Bonds	2,983	1,001	(228)	(34)	**3,722**
Property	2,030	256	(8)	69	**2,347**
Cash, cash equivalents, loans & receivables	241	166	(4)	22	**425**
Other assets	131	22	(153)	41	**41**
	5,703	1,546	(424)	142	**6,967**

4.06 Bond portfolio summary
(a) LGR analysed by sector

	AAA 2015 £m	AA 2015 £m	A 2015 £m	BBB 2015 £m	BB or below 2015 £m	LGR 2015 £m	LGR 2015 %
Sovereigns, Supras and Sub-Sovereigns	956	4,774	64	154	30	5,978	14
Banks:							
- Tier 1	17	35	-	-	26	78	-
- Tier 2 and other subordinated	-	-	92	138	2	232	1
- Senior	49	421	859	77	1	1,407	4
Financial Services:							
- Tier 1	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	3	33	8	4	48	-
- Senior	63	396	106	140	-	705	2
Insurance:							
- Tier 1	-	-	-	6	-	6	-
- Tier 2 and other subordinated	-	-	144	64	-	208	1
- Senior	-	14	316	118	-	448	1
Utilities	43	8	1,847	2,593	27	4,518	11
Consumer Services and Goods & Health Care	136	969	1,572	1,830	130	4,637	12
Technology and Telecoms	48	138	409	1,940	129	2,664	7
Industrials[1]	-	21	934	899	30	1,884	5
Oil and Gas	24	321	482	901	247	1,975	5
Property	-	516	269	868	-	1,653	4
Asset backed securities	46	222	53	32	38	391	1
Securitisations and debentures[2]	335	2,587	5,603	2,391	331	11,247	28
Lifetime mortgage loans[3]	-	-	-	207	-	207	1
CDOs[4]	-	552	469	14	47	1,082	3
Total £m	**1,717**	**10,977**	**13,252**	**12,380**	**1,042**	**39,368**	**100**
Total %	**4**	**28**	**34**	**31**	**3**	**100**	

1. Included within Industrials is a £455m exposure to Basic Resources.
2. Securitisations and debentures have been reanalysed in note 4.06(c).
3. Lifetime mortgage loans have increased in value since inception predominantly due to the accrual of interest on the loans.
4. The underlying reference portfolio has had no reference entity defaults during the period ended 31 December 2015. The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the reference portfolio, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses. The CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the market valuation.

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

	AAA 2014 £m	AA 2014 £m	A 2014 £m	BBB 2014 £m	BB or below 2014 £m	LGR 2014 £m	LGR 2014 %
Sovereigns, Supras and Sub-Sovereigns	1,048	6,326	145	241	-	7,760	19
Banks:							
- Tier 1	-	-	-	11	13	24	-
- Tier 2 and other subordinated	-	-	328	214	17	559	1
- Senior	12	416	1,105	109	25	1,667	4
Financial Services:							
- Tier 1	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	-	47	49	-	96	-
- Senior	51	443	145	307	-	946	2
Insurance:							
- Tier 1	-	4	19	105	-	128	-
- Tier 2 and other subordinated	-	-	207	156	-	363	1
- Senior	-	53	429	142	-	624	2
Utilities	-	47	3,283	2,184	47	5,561	14
Consumer Services and Goods & Health Care	137	809	1,497	1,612	71	4,126	10
Technology and Telecoms	24	95	734	1,504	191	2,548	6
Industrials[1]	-	200	883	1,016	21	2,120	6
Oil and Gas	19	342	608	1,211	6	2,186	5
Property	-	371	614	895	2	1,882	5
Asset backed securities	268	245	135	36	38	722	2
Securitisations and debentures[2]	377	2,032	3,969	1,714	213	8,305	20
CDOs[3]	-	539	477	55	49	1,120	3
Total £m	1,936	11,922	14,625	11,561	693	40,737	100
Total %	5	29	36	28	2	100	

1. Included within Industrials is a £501m exposure to Basic Resources.
2. Securitisations and debentures have been reanalysed in note 4.06(c).
3. The underlying reference portfolio has had no reference entity defaults during the period ended 31 December 2014. The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the reference portfolio, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses. The CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the market valuation.

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

	AAA 2015 £m	AA 2015 £m	A 2015 £m	BBB 2015 £m	BB or below 2015 £m	Other 2015 £m	Total 2015 £m	Total 2015 %
Sovereigns, Supras and Sub-Sovereigns	**1,981**	**5,022**	**112**	**367**	**62**	**5**	**7,549**	**16**
Banks:								
- Tier 1	**68**	**139**	**5**	**10**	**26**	**-**	**248**	**1**
- Tier 2 and other subordinated	**22**	**-**	**100**	**146**	**3**	**1**	**272**	**1**
- Senior	**105**	**721**	**992**	**98**	**3**	**1**	**1,920**	**4**
Financial Services:								
- Tier 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Tier 2 and other subordinated	**-**	**3**	**38**	**16**	**-**	**1**	**58**	**-**
- Senior	**65**	**415**	**172**	**198**	**7**	**-**	**857**	**2**
Insurance:								
- Tier 1	**-**	**-**	**-**	**6**	**-**	**-**	**6**	**-**
- Tier 2 and other subordinated	**-**	**3**	**146**	**68**	**1**	**1**	**219**	**-**
- Senior	**1**	**18**	**326**	**126**	**-**	**-**	**471**	**1**
Utilities	**42**	**17**	**1,900**	**2,677**	**42**	**13**	**4,691**	**11**
Consumer Services and Goods & Health Care	**170**	**1,004**	**1,707**	**1,993**	**210**	**4**	**5,088**	**12**
Technology and Telecoms	**61**	**169**	**472**	**2,027**	**151**	**1**	**2,881**	**7**
Industrials[1]	**-**	**38**	**1,039**	**1,075**	**67**	**2**	**2,221**	**5**
Oil and Gas	**27**	**342**	**517**	**958**	**280**	**1**	**2,125**	**5**
Property	**-**	**516**	**287**	**912**	**9**	**81**	**1,805**	**4**
Asset backed securities	**434**	**237**	**50**	**32**	**42**	**-**	**795**	**2**
Securitisations and debentures[2]	**358**	**2,592**	**5,714**	**2,412**	**334**	**11**	**11,421**	**27**
Lifetime mortgage loans[3]	**-**	**-**	**-**	**207**	**-**	**-**	**207**	**-**
CDOs[4]	**-**	**552**	**469**	**14**	**47**	**-**	**1,082**	**2**
Total £m	**3,334**	**11,788**	**14,046**	**13,342**	**1,284**	**122**	**43,916**	**100**
Total %	**8**	**27**	**32**	**30**	**3**	**-**	**100**	

1. Included within Industrials is a £455m exposure to Basic Resources.
2. Securitisations and debentures have been reanalysed in note 4.06(d).
3. Lifetime mortgage loans have increased in value since inception predominantly due to the accrual of interest on the loans.
4. The underlying reference portfolio has had no reference entity defaults during the period ended 31 December 2015. The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the reference portfolio, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses. The CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the market valuation.

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

	AAA 2014 £m	AA 2014 £m	A 2014 £m	BBB 2014 £m	BB or below 2014 £m	Other 2014 £m	Total 2014 £m	Total 2014 %
Sovereigns, Supras and Sub-Sovereigns	1,930	6,592	198	457	60	12	9,249	20
Banks:								
- Tier 1	-	-	-	13	13	-	26	-
- Tier 2 and other subordinated	13	-	344	245	19	-	621	1
- Senior	102	658	1,305	128	27	1	2,221	5
Financial Services:								
- Tier 1	-	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	-	62	56	2	12	132	-
- Senior	62	490	222	353	3	8	1,138	3
Insurance:								
- Tier 1	-	4	19	106	-	-	129	-
- Tier 2 and other subordinated	-	4	206	164	1	-	375	1
- Senior	1	76	447	154	-	26	704	2
Utilities	-	65	3,407	2,291	61	-	5,824	13
Consumer Services and Goods & Health Care	160	893	1,753	1,786	130	4	4,726	10
Technology and Telecoms	42	137	838	1,607	211	1	2,836	6
Industrials[1]	-	214	1,045	1,199	55	1	2,514	6
Oil and Gas	25	376	675	1,317	21	-	2,414	5
Property	-	373	630	947	8	168	2,126	5
Asset backed securities	710	297	142	43	42	-	1,234	3
Securitisations and debentures[2]	406	2,037	4,044	1,721	214	-	8,422	18
CDOs[3]	-	539	477	55	49	-	1,120	2
Total £m	3,451	12,755	15,814	12,642	916	233	45,811	100
Total %	8	28	34	27	2	1	100	

1. Included within Industrials is a £501m exposure to Basic Resources.
2. Securitisations and debentures have been reanalysed in note 4.06(d).
3. The underlying reference portfolio has had no reference entity defaults during the period ended 31 December 2014. The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the reference portfolio, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses. The CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the market valuation.

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

	AAA 2015 £m	AA 2015 £m	A 2015 £m	BBB 2015 £m	BB or below 2015 £m	LGR 2015 £m	LGR 2014 £m
Sovereigns, Supras and Sub-Sovereigns	-	678	4	-	-	682	151
Financial Services	-	449	1,263	341	113	2,166	1,348
Insurance	-	28	102	-	-	130	27
Utilities	-	83	1,569	113	-	1,765	826
Consumer Services and Goods & Health Care	-	-	257	82	16	355	297
Technology and Telecoms	-	-	-	-	1	1	-
Industrials	-	38	390	283	-	711	591
Oil and Gas	-	-	14	32	19	65	64
Property	-	73	328	1	-	402	408
Infrastructure / PFI / Social housing	-	299	448	465	20	1,232	1,279
Covered Bonds[1]	258	-	-	15	-	273	328
Whole Business Securitised	-	65	209	241	109	624	569
Residential Mortgage Backed Securities	77	435	114	42	-	668	670
Commercial Mortgage Backed Securities	-	333	321	438	-	1,092	577
Secured Bonds[2]	-	106	560	230	53	949	950
Other	-	-	24	108	-	132	220
Total	335	2,587	5,603	2,391	331	11,247	8,305

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

4.06 Bond portfolio summary (continued)
(d) Analysis of total group securitisations and debentures

	AAA 2015 £m	AA 2015 £m	A 2015 £m	BBB 2015 £m	BB or below 2015 £m	Other 2015 £m	Total 2015 £m	Total 2014 £m
Sovereigns, Supras and Sub-Sovereigns	**-**	**678**	**4**	**-**	**-**	**-**	**682**	151
Banks	**-**	**-**	**-**	**-**	**-**		**-**	11
Financial Services	**-**	**449**	**1,263**	**341**	**113**		**2,166**	1,356
Insurance	**-**	**29**	**103**	**-**	**-**		**132**	27
Utilities	**-**	**83**	**1,571**	**114**	**-**	**-**	**1,768**	835
Consumer Services and Goods & Health Care	**-**	**-**	**300**	**97**	**19**	**-**	**416**	297
Technology and Telecoms	**-**	**-**	**-**	**-**	**1**	**-**	**1**	-
Industrials	**-**	**38**	**390**	**283**	**-**	**-**	**711**	592
Oil and Gas	**-**	**-**	**14**	**32**	**19**	**-**	**65**	64
Property	**-**	**73**	**329**	**1**	**-**	**-**	**403**	408
Infrastructure / PFI / Social housing	**-**	**299**	**448**	**465**	**20**	**2**	**1,234**	1,280
Covered Bonds[1]	**264**	**-**	**-**	**15**	**-**		**279**	328
Whole Business Securitised	**-**	**65**	**210**	**242**	**109**		**626**	569
Residential Mortgage Backed Securities	**77**	**435**	**114**	**42**	**-**	**-**	**668**	670
Commercial Mortgage Backed Securities	**-**	**333**	**321**	**438**	**-**		**1,092**	577
Secured Bonds[2]	**-**	**107**	**560**	**230**	**53**	**9**	**959**	961
Other	**17**	**3**	**87**	**112**	**-**	**-**	**219**	296
Total	**358**	**2,592**	**5,714**	**2,412**	**334**	**11**	**11,421**	8,422

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

4.06 Bond portfolio summary (continued)
(e) Analysed by domicile

The tables below are based on the legal domicile of the security:

	LGR 2015 £m	**Total 2015 £m**	LGR 2014 £m	Total 2014 £m
Market value by region:				
United Kingdom	20,387	**21,073**	20,055	21,021
USA	9,543	**11,721**	9,515	11,839
Netherlands	1,663	**1,941**	1,910	2,182
France	1,284	**1,507**	1,412	1,726
Germany	284	**600**	378	682
Greece	-	**1**	-	-
Ireland	334	**360**	276	303
Italy	172	**286**	301	429
Portugal	-	**7**	1	11
Spain	126	**187**	212	260
Russia	-	**8**	19	37
Rest of Europe	1,695	**1,942**	1,857	2,164
Brazil	91	**102**	139	157
Rest of World	2,707	**3,099**	3,542	3,880
CDOs	1,082	**1,082**	1,120	1,120
Total	39,368	**43,916**	40,737	45,811

1. £1,047m (2014: £1,043m) of the CDOs are domiciled in Ireland and £35m (2014: £77m) are domiciled in the rest of the world.

Additional analysis of sovereign debt exposures:

	Sovereigns, Supras and Sub-Sovereigns			
	LGR 2015 £m	**Total 2015 £m**	LGR 2014 £m	Total 2014 £m
Market value by region:				
United Kingdom	4,305	**4,665**	5,946	6,267
USA	459	**792**	536	772
Netherlands	34	**237**	5	153
France	6	**90**	1	138
Germany	144	**322**	204	417
Greece	-	**1**	-	-
Ireland	-	**7**	-	8
Italy	1	**97**	2	96
Portugal	-	**7**	-	9
Spain	-	**31**	-	10
Russia	-	**8**	19	28
Rest of Europe	609	**739**	765	922
Brazil	30	**36**	55	64
Rest of World	390	**517**	227	365
Total	5,978	**7,549**	7,760	9,249

4.06 Bond portfolio summary (continued)
(f) Analysed by credit rating

	Externally rated 2015 £m	Internally rated[1] 2015 £m	LGR 2015 £m	**Externally rated 2015 £m**	**Internally rated[1] 2015 £m**	**Total 2015 £m**
AAA	1,711	6	1,717	**3,328**	**6**	**3,334**
AA	9,426	1,551	10,977	**10,237**	**1,551**	**11,788**
A	11,349	1,903	13,252	**12,143**	**1,903**	**14,046**
BBB	10,721	1,659	12,380	**11,683**	**1,659**	**13,342**
BB or below	1,022	20	1,042	**1,264**	**20**	**1,284**
Other	-	-	-	**-**	**122**	**122**
	34,229	5,139	39,368	**38,655**	**5,261**	**43,916**

1. Where external ratings are not available LGR bonds have been rated using an internal rating.

	Externally rated 2014 £m	Internally rated[1] 2014 £m	LGR 2014 £m	**Externally rated 2014 £m**	**Internally rated[1] 2014 £m**	**Total 2014 £m**
AAA	1,936	-	1,936	**3,451**	**-**	**3,451**
AA	10,357	1,565	11,922	**11,190**	**1,565**	**12,755**
A	13,231	1,394	14,625	**14,420**	**1,394**	**15,814**
BBB	10,360	1,201	11,561	**11,441**	**1,201**	**12,642**
BB or below	630	63	693	**853**	**63**	**916**
Other	-	-	-	**-**	**233**	**233**
	36,514	4,223	40,737	**41,355**	**4,456**	**45,811**

1. Where external ratings are not available LGR bonds have been rated using an internal rating.

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European Embedded Value

Group embedded value - summary

For the year ended 31 December 2015	Covered business: UK business £m	Covered business: Insurance overseas business £m	Covered business: LGA £m	Non-covered business £m	Total £m
At 1 January 2015					
Value of in-force business (VIF)	**6,118**	**147**	**518**	**-**	**6,783**
Shareholder net worth (SNW)	**3,519**	**325**	**209**	**139**	**4,192**
Embedded value at 1 January 2015	**9,637**	**472**	**727**	**139**	**10,975**
Exchange rate movements	**-**	**(31)**	**36**	**(6)**	**(1)**
Operating profit/(loss) after tax for the year	**1,046**	**11**	**(56)**	**92**	**1,093**
Non-operating profit/(loss) after tax for the year	**270**	**(35)**	**(18)**	**26**	**243**
Profit/(loss) for the year	**1,316**	**(24)**	**(74)**	**118**	**1,336**
Intra-group distributions[1]	**(692)**	**(201)**	**(54)**	**947**	**-**
Dividend distributions to equity holders of the company	**-**	**-**	**-**	**(701)**	**(701)**
Transfer to non-covered business[2]	**(25)**	**-**	**-**	**25**	**-**
Other reserve movements including pension deficit[3]	**56**	**-**	**(34)**	**(49)**	**(27)**
Embedded value at 31 December 2015	**10,292**	**216**	**601**	**473**	**11,582**
Value of in-force business[4,5]	**5,802**	**81**	**399**	**-**	**6,282**
Shareholder net worth[6,7]	**4,490**	**135**	**202**	**473**	**5,300**
Embedded value per share (p)[8]					**195**

Additional value of LGIM[9]

Indicative valuation including LGIM	2015 p per share	2015 £bn
EEV as reported	**195**	**11.6**
LGIM VIF	**26**	**1.6**
Total including LGIM	**221**	**13.2**

Estimated LGIM discounted cash flow valuation	2015 p per share	2015 £bn
Look-through value of profits on covered business	**5**	**0.3**
Net asset value	**14**	**0.8**
Current value of LGIM in group embedded value	**19**	**1.1**
LGIM VIF	**26**	**1.6**
Alternative discounted value of LGIM future cash flows	**45**	**2.7**

1. UK intra-group distributions primarily reflect a £700m (2014: £675m) dividend from Society to group and a £20m (2014: £nil) dividend from LGRe to group, partially offset by dividends of £28m (2014: £29m) from LGN to Society. Dividends of £54m (2014: £46m) from LGA and £1m (2014: £2m) from LGF were paid to group. The Insurance overseas business intragroup distribution also includes the impact of the LGF disposal and other related impacts.
2. The transfer to non-covered business represents the IFRS profits arising in the year from the provision of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look-through basis.
3. The other reserve movements primarily reflect movement in the pension deficit, the effect of reinsurance transactions between UK and US covered business, and movements in the share options scheme and employee scheme treasury shares.
4. Value of in-force business is shown net of cost of capital, which consists of £497m (2014: £545m) from UK covered business, £8m (2014: £60m) from Insurance overseas business and £14m (2014: £11m) from LGA.
5. The time value of the options and guarantees deduction included in value of in-force business is £36m (2014: £43m).
6. Shareholder net worth of Insurance overseas business is made up of £94m (2014: £90m) of free surplus and £41m (2014: £235m) of required capital.
7. Shareholder net worth of LGA is made up of £145m (2014: £161m) of free surplus and £57m (2014: £48m) of required capital.
8. The number of shares in issue at 31 December 2015 was 5,948,788,480 (2014: 5,942,070,229).
9. Excludes workplace savings results, which are reflected in the UK covered business.

Further analysis of the UK covered business can be found in Note 5.01.

Group embedded value - summary (continued)

For the year ended 31 December 2014	Covered business UK business £m	Covered business Insurance overseas business £m	Covered business LGA £m	Non-covered business £m	Total £m
At 1 January 2014					
Value of in-force business (VIF)	4,693	197	699	-	5,589
Shareholder net worth (SNW)	3,249	315	234	199	3,997
Embedded value at 1 January 2014	7,942	512	933	199	9,586
Exchange rate movements	-	(30)	44	(16)	(2)
Operating profit/(loss) after tax for the year	1,264	31	(68)	107	1,334
Non-operating profit/(loss) for the year	709	(11)	(11)	(5)	682
Profit /(loss) for the year	1,973	20	(79)	102	2,016
Intra-group distributions[1]	(641)	(30)	(46)	717	-
Dividend distributions to equity holders of the company	-	-	-	(580)	(580)
Transfer to non-covered business[2]	(26)	-	-	26	-
Other reserve movements including pension deficit[3]	389	-	(125)	(309)	(45)
Embedded value at 31 December 2014	9,637	472	727	139	10,975
Value of in-force business[4,5]	6,118	147	518	-	6,783
Shareholder net worth[6,7]	3,519	325	209	139	4,192
Embedded value per share (p)[8]					185

Additional value of LGIM[9]

Indicative valuation including LGIM	2014 p per share	2014 £bn
EEV as reported	185	11.0
LGIM VIF	27	1.6
Total including LGIM	212	12.6

Estimated LGIM discounted cash flow valuation	2014 p per share	2014 £bn
Look-through value of profits on covered business	6	0.4
Net asset value	8	0.5
Current value of LGIM in group embedded value	14	0.9
LGIM VIF	27	1.6
Alternative discounted value of LGIM future cash flows	41	2.5

1. UK intra-group distributions primarily reflect a £675m dividend paid from Society to group, and dividends of €35m from LGN and £5m from Nationwide Life paid to Society. Dividends of $76m from LGA and €2m from LGF were paid to group.
2. The transfer to non-covered business represents the IFRS profits arising in the year from the provision of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look-through basis.
3. The other reserve movements primarily reflect the effect of reinsurance transactions between UK and US covered business, pension deficit movement, movement in the savings related share options scheme and an intragroup capital contribution.
4. Value of in-force business is shown net of cost of capital, which consists of £545m from UK covered business, £60m from Insurance overseas business and £11m from LGA.
5. The time value of the options and guarantees deduction included in value of in-force business is £43m.
6. Shareholder net worth of Insurance overseas business is made up of £90m of free surplus and £235m of required capital.
7. Shareholder net worth of LGA is made up of £161m of free surplus and £48m of required capital.
8. The number of shares in issue at 31 December 2014 was 5,942,070,229.
9. Excludes workplace savings results, which are reflected in the UK covered business.

Further analysis of the UK covered business can be found in Note 5.01.

5.01 UK covered business embedded value reconciliation

For the year ended 31 December 2015	Shareholder net worth Free surplus £m	Required capital £m	Total £m	Value of in-force £m	Total embedded value £m
At 1 January 2015	**887**	**2,632**	**3,519**	**6,118**	**9,637**
Operating profit/(loss) after tax:					
- New business contribution[1]	**(175)**	**214**	**39**	**316**	**355**
- Expected return on VIF	**-**	**-**	**-**	**346**	**346**
- Expected transfer from VIF to SNW[2]	**936**	**(182)**	**754**	**(754)**	**-**
- Expected return on SNW	**76**	**131**	**207**	**-**	**207**
Generation of embedded value	**837**	**163**	**1,000**	**(92)**	**908**
- Experience variances	**162**	**(272)**	**(110)**	**18**	**(92)**
- Operating assumption changes[3]	**686**	**86**	**772**	**(521)**	**251**
- Development costs	**(21)**	**-**	**(21)**	**-**	**(21)**
Variances	**827**	**(186)**	**641**	**(503)**	**138**
Operating profit/(loss) after tax	**1,664**	**(23)**	**1,641**	**(595)**	**1,046**
Non-operating profit/(loss) after tax:					
- Economic variances	**62**	**(71)**	**(9)**	**184**	**175**
- Effect of tax rate changes and other taxation impacts[4]	**-**	**-**	**-**	**95**	**95**
Non-operating profit/(loss) after tax	**62**	**(71)**	**(9)**	**279**	**270**
Profit/(loss) for the year	**1,726**	**(94)**	**1,632**	**(316)**	**1,316**
Intra-group distributions[5]	**(692)**	**-**	**(692)**	**-**	**(692)**
Transfer to non-covered business[6]	**(25)**	**-**	**(25)**	**-**	**(25)**
Other reserve movements including pension deficit	**56**	**-**	**56**	**-**	**56**
Embedded value at 31 December 2015	**1,952**	**2,538**	**4,490**	**5,802**	**10,292**

1. The UK free surplus reduction of £175m to finance new business primarily reflects £214m additional required capital in relation to new business.
2. The increase in UK free surplus of £936m from the expected transfer from the in-force non profit business includes £754m of operational cash generation and a £182m reduction in required capital. The £1,117m operational cash generation from Insurance, Savings, LGR and LGIM reported in Note 2.01 also includes £28m of dividends from LGN, £1m dividend from LGF and £334m reflecting profit from non-covered business.
3.The release from Value of in-force to Shareholder net worth within Operating assumption changes is primarily driven by the extension of PS06/14 realistic reserving to unit linked business, to enable negative non-unit regulatory reserves for linked business.
4.This primarily reflects the implementation of the UK planned future reductions in the corporation tax rate to 18% on 1 April 2020.
5. Intra-group distributions primarily reflect a £700m dividend from Society to group and a £20m dividend from LGRe to group, partially offset by dividends of £28m from LGN to Society.
6. The transfer to non-covered business represents the IFRS profits arising in the year from the provision of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look-through basis.

The value of in-force business of £5,802m is comprised of £5,484m of non profit business and £318m of with-profits business.

5.01 UK covered business embedded value reconciliation (continued)

For the year ended 31 December 2014	Shareholder net worth Free surplus £m	Required capital £m	Total £m	Value of in-force £m	Total embedded value £m
At 1 January 2014	1,107	2,142	3,249	4,693	7,942
Operating profit/(loss) after tax:					
- New business contribution[1]	(340)	343	3	607	610
- Intra-group transfer from with-profit to non profit fund	-	-	-	80	80
- Expected return on VIF	-	-	-	317	317
- Expected transfer from VIF to SNW[2]	901	(213)	688	(688)	-
- Expected return on SNW	55	116	171	-	171
Generation of embedded value	616	246	862	316	1,178
- Experience variances	175	(83)	92	(6)	86
- Operating assumption changes	171	(109)	62	(36)	26
- Development costs	(26)	-	(26)	-	(26)
Variances	320	(192)	128	(42)	86
Operating profit after tax	936	54	990	274	1,264
Non-operating profit/(loss) after tax:					
- Economic variances	(359)	219	(140)	851	711
- Effect of tax rate changes and other taxation impacts[3]	(12)	-	(12)	10	(2)
Non-operating profit/(loss) after tax	(371)	219	(152)	861	709
Profit for the year	565	273	838	1,135	1,973
Intra-group distributions[4]	(641)	-	(641)	-	(641)
Transfer to non-covered business[5]	(26)	-	(26)	-	(26)
Other reserve movements including pension deficit[6]	(118)	217	99	290	389
Embedded value at 31 December 2014	887	2,632	3,519	6,118	9,637

1. The UK free surplus reduction of £340m to finance new business reflects £343m additional required capital in relation to new business.
2. The increase in UK free surplus of £901m from the expected transfer from the in-force covered business includes £688m of operational cash generation and a £213m reduction in required capital. The £1,026m operational cash generation from Insurance, Savings, LGR and LGIM per Note 2.01 also includes £29m dividend from LGN, £2m dividend from LGF and £307m primarily reflecting profit from non-covered business.
3. Reflects the implementation of the UK planned future reductions in the corporation tax rate to 20% on 1 April 2015.
4. Intra-group distributions primarily reflect £675m dividends paid from Society to group and dividends of €35m from LGN and £5m from Nationwide to Society.
5. The transfer to non-covered business represents the IFRS profits arising in the year from the provision of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look-through basis.
6. The other reserve movements reflect the pension deficit movement, the effect of reinsurance transactions between UK and US covered business and an intra-group capital contribution.

The value of in-force business of £6,118m is comprised of £5,778m of non profit business and £340m of with-profits business.

5.02 Reconciliation of shareholder net worth

	UK covered business 2015 £m	**Total 2015 £m**	UK covered business 2014 £m	Total 2014 £m
SNW of long-term operations (IFRS basis)	**4,897**	**5,931**	4,693	5,889
Other assets/(liabilities) (IFRS basis)	**-**	**473**	-	139
Shareholders' equity on the IFRS basis	**4,897**	**6,404**	4,693	6,028
Purchased interest in long term business	**(38)**	**(39)**	(46)	(49)
Deferred acquisition costs/deferred income liabilities	**(294)**	**(1,435)**	(201)	(1,255)
Deferred tax[1]	**(117)**	**367**	(16)	444
Other[2]	**42**	**3**	(911)	(976)
Shareholder net worth on the EEV basis	**4,490**	**5,300**	3,519	4,192

1. Deferred tax represents all tax which is expected to be paid under legislation in force at the balance sheet date.
2. Other primarily relates to the different treatment of annuities and the LGA Triple X securitisation between the EEV and IFRS basis, as well as profit transfer from the long-term fund to shareholder funds.

5.03 Profit/(loss) for the year

For the year ended 31 December 2015	Note	Covered business: UK business £m	Covered business: Insurance overseas business £m	Covered business: LGA £m	Non-covered business £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.04	**432**	**13**	**84**	**-**	**529**
Contribution from in-force business:						
- expected return[1]		**414**	**8**	**52**	**-**	**474**
- experience variances[2]		**(100)**	**(11)**	**6**	**-**	**(105)**
- operating assumption changes[3,4]		**306**	**6**	**(238)**	**-**	**74**
Development costs		**(25)**	**-**	**-**	**-**	**(25)**
Contribution from shareholder net worth[5]		**192**	**1**	**9**	**-**	**202**
Operating profit/(loss) on covered business		**1,219**	**17**	**(87)**	**-**	**1,149**
Business reported on an IFRS basis[6]		**-**	**-**	**-**	**161**	**161**
Total operating profit/(loss)		**1,219**	**17**	**(87)**	**161**	**1,310**
Economic variances[7]		**245**	**7**	**(27)**	**(44)**	**181**
Other variances[8]		**-**	**(41)**	**-**	**-**	**(41)**
Gains on non-controlling interests		**-**	**-**	**-**	**19**	**19**
Profit/(loss) before tax		**1,464**	**(17)**	**(114)**	**136**	**1,469**
Tax (expense)/credit on profit from ordinary activities		**(243)**	**(7)**	**40**	**(18)**	**(228)**
Effect of tax rate changes and other taxation impacts[9]		**95**	**-**	**-**	**-**	**95**
Profit/(loss) for the year		**1,316**	**(24)**	**(74)**	**118**	**1,336**

Operating profit on covered business before tax attributable to:	
LGR	**463**
LGIM[10]	**103**
LGC	**192**
Insurance	**311**
Savings	**150**
Total	**1,219**

	p
Earnings per share	
Based on profit attributable to equity holders of the company	**22.25**
Diluted earnings per share	
Based on profit attributable to equity holders of the company	**22.10**

1. The expected return on in-force for UK covered business is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the UK covered business was £6,118m in 2015 (2014: £4,693m). This is multiplied by the opening risk discount rate of 5.5% (2014: 6.8%) and the result grossed up at the notional attributed tax rate of 18% (2014: 20%) to give a return of £414m (2014: £397m). The same approach has been applied for Insurance overseas business.
2. UK covered business experience variances primarily reflect the impact from reduction of annuities in relation to reinsurance of bulk annuity transactions.
3. UK covered business operating assumption changes primarily reflect a change in mortality reserving assumptions in relation to unreported deaths of deferred annuitants; and the impact of release of prudence margin in the Sterling reserves, mainly in the Savings business; partially offset by enhancements to reinsurance modelling in our UK protection business, where recent contracts have been written on a risk premium basis (as opposed to level premium). The model change ensures that, for these treaties, sufficient prudence is being held in later years.
4. LGA operating assumption changes primarily reflect the impact of more conservative long-term assumptions on Post-Level Term mortality and shock lapse rates. This completes the assumption review exercise initiated in the US in 2014 after changes in industry-wide mortality tables.
5. Contribution from shareholder net worth reflects the investment returns on shareholder assets within covered businesses.
6. Non-covered business operating profit primarily reflects: LGIM business excluding workplace savings, general insurance, LGC and group non-covered business, which comprises group debt costs, investment projects and group expenses, partly offset by investment returns from non-covered shareholder assets.
7. The positive variance on UK covered business has resulted from a number of factors including favourable default experience, higher long term investment return rate (mainly in LGR), and the impact of reducing gilt holdings.
8. Other variances primarily reflects the recognition of the loss arising from the disposal of LGF.
9. This primarily reflects the implementation of the UK planned future reductions in the corporation tax rate to 18% on 1 April 2020.
10. LGIM figures represent the workplace savings results. Other areas of LGIM are not included within covered business.

5.03 Profit/(loss) for the year (continued)

For the year ended 31 December 2014	Note	Covered business UK business £m	Covered business Insurance overseas business £m	Covered business LGA £m	Non-covered business £m	Total £m
Business reported on an EEV basis:						
Contribution from new risks after cost of capital:						
- contribution from new business	5.04	753	7	90	-	850
- intra-group transfer from with-profit to non profit fund		100	-	-	-	100
Contribution from in-force business:						
- expected return[1]		397	27	66	-	490
- experience variances[2]		32	(11)	(23)	-	(2)
- operating assumption changes[3]		42	16	(241)	-	(183)
Development costs		(32)	-	-	-	(32)
Contribution from shareholder net worth		184	7	3	-	194
Operating profit / (loss) on covered business		1,476	46	(105)	-	1,417
Business reported on an IFRS basis[4]		-	-	-	164	164
Total operating profit / (loss)		1,476	46	(105)	164	1,581
Economic variances[5]		863	(18)	(17)	(38)	790
Gains on non-controlling interests		-	-	-	7	7
Profit / (loss) before tax		2,339	28	(122)	133	2,378
Tax (expense)/credit on profit from ordinary activities		(364)	(8)	43	(31)	(360)
Effect of tax rate changes and other taxation impacts[6]		(2)	-	-	-	(2)
Profit / (loss) for the year		1,973	20	(79)	102	2,016

Operating profit on covered business before tax attributable to:	
LGR	1,011
LGIM[7]	27
LGC	184
Insurance	232
Savings	22
Total	1,476

	p
Earnings per share	
Based on profit attributable to equity holders of the company	34.07
Diluted earnings per share	
Based on profit attributable to equity holders of the company	33.73

1. The expected return on in-force for UK covered business is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the UK covered business was £4,693m in 2014. This is adjusted for the effects of opening model changes of £(30)m to give an adjusted opening base VIF of £4,663m. This is then multiplied by the opening risk discount rate of 6.8% and the result grossed up at the notional attributed tax rate of 20% to give a return of £397m. The same approach has been applied for the Insurance overseas businesses.
2. UK covered business variance primarily reflects UK cost of capital unwind and favourable mortality experience for bulk annuities. LGA experience variance primarily relates to adverse mortality experience within term assurance and universal life products respectively.
3. UK covered business operating assumption change primarily reflects mortality assumption changes for non profit annuities. LGA operating assumption changes primarily incorporates an adjustment to our mortality assumptions to reflect the changes in industry-wide mortality tables (which were issued in the second half of 2014).
4. Non-covered business operating profit primarily reflect LGIM business excluding workplace savings, general insurance and LGC non-covered business.
5. The UK covered business positive variance has resulted from a number of factors including lower risk discount rate, favourable default experience and enhanced yield on annuity assets, offset by a lower risk free rate. Non-covered variance primarily reflects lower equity return from shareholder funds.
6. Other taxation impacts reflects the change in the treatment of deferred tax on in-force business to align with IFRS by removing the effect of discounting.
7. LGIM figures represent the workplace savings results, other areas of LGIM are not included in covered business.

5.04 New business by product[1]

For the year ended 31 December 2015	Annual premiums £m	Present value of annual premiums £m	Capital-isation factor[2]	Single premiums £m	PVNBP £m	Contri-bution from new business[3] £m	Margin %
UK Insurance[4]	231	1,306	5.7	-	1,306	130	9.9
Overseas Insurance	40	313	7.8	384	697	13	1.9
Insurance	**271**	**1,619**	**6.0**	**384**	**2,003**	**143**	**7.1**
Savings	**54**	**170**	**3.1**	**1,507**	**1,677**	**1**	**0.1**
LGR[5]	**n/a**	**-**	**n/a**	**2,721**	**2,721**	**266**	**9.8**
LGIM[6]	**1,068**	**4,148**	**3.9**	**1,219**	**5,367**	**35**	**0.6**
LGA	**70**	**692**	**9.9**	**-**	**692**	**84**	**12.1**
Total new business	**1,463**	**6,629**	**4.5**	**5,831**	**12,460**	**529**	**4.2**
Cost of capital						**49**	
Contribution from new business before cost of capital						**578**	

1. Covered business only.
2. The capitalisation factor is the present value of annual premiums divided by the amount of annual premiums.
3. The contribution from new business is defined as the present value at the point of sale of assumed profits from new business written in the period and then rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.
4. The UK Insurance margin reflects the benefits of stronger commercial focus and disciplined expense control during 2015.
5. LGR for 2015 includes bulk annuities' single premiums and contribution from new business on a net of quota share reinsurance basis to provide a more representative margin figure.
6. LGIM figures represent the workplace savings results, other areas of LGIM are not included in covered business.

For the year ended 31 December 2014	Annual premiums £m	Present value of annual premiums £m	Capital-isation factor[2]	Single premiums £m	PVNBP £m	Contri-bution from new business[3] £m	Margin %
UK Insurance	230	1,336	5.8	-	1,336	112	8.4
Overseas Insurance	41	300	7.3	394	694	7	1.0
Insurance	271	1,636	6.0	394	2,030	119	5.9
Savings	63	171	2.7	1,678	1,849	9	0.5
LGR	n/a	-	n/a	6,578	6,578	614	9.3
LGIM[4]	591	2,277	3.9	1,060	3,337	18	0.5
LGA	91	907	10.0	-	907	90	9.9
Total new business	1,016	4,991	4.9	9,710	14,701	850	5.8
Cost of capital						108	
Contribution from new business before cost of capital						958	

1. Covered business only.
2. The capitalisation factor is the present value of annual premiums divided by the amount of annual premiums.
3. The contribution from new business is defined as the present value at the point of sale of assumed profits from new business written in the period and then rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.
4. LGIM figures represent the workplace savings results, other areas of LGIM are not included in covered business.

5.05 Sensitivities

In accordance with the guidance issued by the European Insurance CFO Forum in October 2005, the table below shows the effect of alternative assumptions on the long term embedded value and new business contribution.

Effect on embedded value as at 31 December 2015

	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
Insurance, Savings and LGR[1]	**10,508**	**796**	**(709)**	**722**	**(444)**	**183**
LGA	**601**	**55**	**(45)**	**(19)**	**13**	**-**
Total covered business	**11,109**	**851**	**(754)**	**703**	**(431)**	**183**

	As published £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse rates £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
Insurance, Savings and LGR[1]	**10,508**	**(186)**	**116**	**95**	**(412)**	**65**
LGA	**601**	**-**	**13**	**(9)**	**n/a**	**209**
Total covered business	**11,109**	**(186)**	**129**	**86**	**(412)**	**274**

Effect on new business contribution for the year

	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
Insurance, Savings and LGR[1]	**445**	**67**	**(61)**	**50**	**(33)**	**21**
LGA	**84**	**6**	**(5)**	**2**	**(2)**	**-**
Total covered business	**529**	**73**	**(66)**	**52**	**(35)**	**21**

	As published £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse rates £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
Insurance, Savings and LGR[1]	**445**	**(7)**	**19**	**22**	**(37)**	**4**
LGA	**84**	**-**	**1**	**2**	**n/a**	**13**
Total covered business	**529**	**(7)**	**20**	**24**	**(37)**	**17**

1. Includes LGC and workplace savings.

Opposite sensitivities are broadly symmetrical.

The above sensitivity analyses do not reflect management actions which could be taken to reduce the impacts. Sensitivity to changes in assumptions may not be linear, and as such, they should not be extrapolated to changes of a much larger order. A 2% higher risk discount rate would result in a £1,194m negative impact on UK embedded value and a £107m negative impact on UK new business contribution for the year.

5.06 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 0.7% p.a. (0.7% p.a. at 31 December 2014) greater than the swap rate at that time (i.e. the long-term credit rate).

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 22bps at 31 December 2015 (21bps at 31 December 2014).

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.

Overseas covered business

Other actuarial assumptions have been set at levels commensurate with recent operating experience, including those for mortality, morbidity, persistency and maintenance expenses.

5.06 Assumptions (continued)

Economic assumptions

	As at 2015 % p.a.	As at 2014 % p.a.
Risk margin	**3.1**	3.3
Risk free rate[1]		
- UK	**2.4**	2.2
- Europe	**0.8**	0.6
- US	**2.3**	2.2
Risk discount rate (net of tax)		
- UK	**5.5**	5.5
- Europe	**3.9**	3.9
- US	**5.4**	5.5
Reinvestment rate (US)	**5.1**	5.0
Other UK business assumptions		
Equity risk premium	**3.3**	3.3
Property risk premium	**2.0**	2.0
Investment return (excluding annuities in LGR)		
- Fixed interest:		
-Gilts & non gilts	**2.0 - 2.7**	1.7 - 2.4
- Equities	**5.7**	5.5
- Property	**4.4**	4.2
Long-term rate of return on non profit annuities in LGR	**4.2**	3.6
Inflation[2]		
- Expenses/earnings	**3.8**	3.7
- Indexation	**3.3**	3.2

1. The risk free rate is the gross redemption yield on the 15 year gilt index. The Europe risk free rate is the 10 year ECB AAA-rated Euro area central government bond par yield. The LGA risk free rate is the 10 year US Treasury effective yield.
2. The LGR inflation rate has been set with reference to a curve.

Tax

The profits on the covered business, except for the profits on the shareholder capital held outside the long- term fund, are calculated on an after tax basis and are grossed up by the notional attributed tax rate for presentation in the income statement. For the UK, the after tax basis assumes the annualised current rate of 20.25% and subsequent planned future reductions in corporation tax to 18% from 1 April 2020. The tax rate used for grossing up is the long term corporate tax rate in the territory concerned, which for the UK is 18% (31 December 2014: 20%). The profits on the shareholder capital held outside the long-term fund are calculated before tax and therefore tax is calculated on an actual basis.

US, Netherlands and France covered business profits are also grossed up using the long term corporate tax rates of the respective territories i.e. the US is 35% (31 December 2014: 35%), France is 34.43% (31 December 2014: 34.43%) and the Netherlands is 25% (31 December 2014: 25%).

5.06 Assumptions (continued)

Stochastic calculations

The time value of options and guarantees is calculated using economic and non-economic assumptions consistent with those used for the deterministic embedded value calculations.

A single model has been used for UK and international business, with different economic assumptions for each territory reflecting the significant asset classes in each territory.

Government nominal interest rates are generated using a LIBOR Market Model projecting full yield curves at annual intervals. The model provides a good fit to the initial yield curve.

The total annual returns on equities and property are calculated as the return on 1 year bonds plus an excess return. The excess return is assumed to have a lognormal distribution. Corporate bonds are modelled separately by credit rating using stochastic credit spreads over the risk free rates, transition matrices and default recovery rates. The real yield curve model assumes that the real short rate follows a mean-reverting process subject to two normally distributed random shocks.

The significant asset classes are:
– UK with-profits business – equities, property and fixed rate bonds of various durations;
– UK annuity business – fixed rate and index-linked bonds of various durations; and
– International business – fixed rate bonds of various durations.

The risk discount rate is scenario dependent within the stochastic projection. It is calculated by applying the deterministic risk margin to the risk free rate in each stochastic projection.

Sensitivity calculations

A number of sensitivities have been produced on alternative assumption sets to reflect the sensitivity of the embedded value and the new business contribution to changes in key assumptions. Relevant details relating to each sensitivity are:

- 1% variation in discount rate – a one percentage point increase/decrease in the risk margin has been assumed in each case (for example a 1% increase in the risk margin would result in a 4.1% risk margin).
- 1% variation in interest rate environment – a one percentage point increased/decreased parallel shift in the risk free curve with consequential impacts on fixed asset market values, investment return assumptions, risk discount rate, including consequential changes to valuation bases.
- 1% higher equity/property yields – a one percentage point increase in the assumed equity/property investment returns, excluding any consequential changes, for example, to risk discount rates or valuation bases, has been assumed in each case (for example a 1% increase in equity returns would increase assumed total equity returns from 3.3% to 4.3%).
- 10% lower equity/property market values – an immediate 10% reduction in equity and property asset values.
- 10% lower maintenance expenses, excluding any consequential changes, for example, to valuation expense bases or potentially reviewable policy fees (for example a 10% decrease on a base assumption of £10 per annum would result in a £9 per annum expense assumption).
- 10% lower assumed persistency experience rates, excluding any consequential changes to valuation bases, incorporating a 10% decrease in lapse, surrender and premium cessation assumptions (for example a 10% decrease on a base assumption of 7% would result in a 6.3% lapse assumption).
- 5% lower mortality and morbidity rates, excluding any consequential changes to valuation bases but including assumed product repricing action where appropriate (for example if base experienced mortality is 90% of a standard mortality table then, for this sensitivity, the assumption is set to 85.5% of the standard table).

The sensitivities for covered business allow for any material changes to the cost of financial options and guarantees but do not allow for any changes to reserving bases or capital requirements within the sensitivity calculation, unless indicated otherwise above.

5.07 Methodology

Basis of preparation

The supplementary financial information has been prepared in accordance with the European Embedded Value (EEV) Principles issued in May 2004 by the European Insurance CFO Forum.

From 1 January 2016, the group is required to comply with the requirements established by the EU Solvency II Directive. The Solvency II reporting framework incorporates a best estimate of cash flows in relation to insurance assets and liabilities and consequently has replaced EEV reporting in the management information used internally to measure and monitor capital resources. Therefore, from 2016 the group will no longer be reporting EEV information.

In accordance with the October 2015 CFO Forum guidance on Solvency II, the Group has not reflected Solvency II requirements within the EEV results. Allowing for Solvency II could have had a significant impact on the EEV results, the impact of which has not been quantified.

The supplementary financial information has been audited by PricewaterhouseCoopers LLP.

Covered business

The group uses EEV methodology to value individual and group life assurance, pensions and annuity business written in the UK, Europe and the US. The UK covered business also includes non-insured self invested personal pension (SIPP) business.

The managed pension funds business has been excluded from covered business and is reported on an IFRS basis.

All other businesses are accounted for on the IFRS basis adopted in the primary financial statements.

There is no distinction made between insurance and investment contracts in our covered business as there is under IFRS.

5.07 Methodology (continued)

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.

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 Assurance Society Limited (Society). Profits arising on the provision of these services are valued on a look-through basis.

As the EEV methodology incorporates the future capitalised cost of these internal investment management services, the equivalent IFRS profits have been removed from the investment management (LGIM) segment and are instead included in the results of the Insurance, Savings and LGR segments on an EEV basis.

The capitalised value of future profits emerging from internal investment management services are therefore included in the embedded value and new business contribution calculations for the Insurance, Savings and LGR segments. However, the historical profits which have emerged continue to be reported in the shareholders' equity of the LGIM segment on an IFRS basis. Since the look-through into service companies includes only future profits and losses, current intra-group profits or losses must be eliminated from the closing embedded value, and in order to reconcile the profits arising in the financial period within each segment with the net assets on the opening and closing balance sheet, a transfer of IFRS profits for the period from the UK SNW is deemed to occur.

New business

New business premiums reflect income arising from the sale of new contracts during the reporting period and any changes to existing contracts, which were not anticipated at the outset of the contract.

In-force business comprises previously written single premium, annual premium, recurrent single premium contracts and payments in relation to existing longevity insurance. The longevity insurance product comprises the exchange of a stream of fixed leg payments for a stream of floating payments, with the value of the income stream being the difference between the two legs. New business annual premiums have been excluded for longevity insurance due to the unpredictable deal flow from this type of business.

New business contribution arising from the new business premiums written during the reporting period has been calculated on the same economic and operating assumptions used in the embedded value at the end of the financial period. This has then been rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.

The present value of future new business premiums (PVNBP) has been calculated and expressed at the point of sale. The PVNBP is equivalent to total single premiums plus the discounted value of annual premiums expected to be received over the term of the contracts using the same economic and operating assumptions used for the embedded value at the end of the financial period. The discounted value of longevity insurance regular premiums and quota share reinsurance single premiums are calculated on a net of reinsurance basis to enable a more representative margin figure.

The new business margin is defined as new business contribution at the end of the reporting period divided by the PVNBP. The premium volumes and projection assumptions used to calculate the PVNBP are the same as those used to calculate new business contribution.

Intra-group reinsurance arrangements are in place between the US and UK businesses, and it is expected that these arrangements will be periodically extended to cover recent new business. LGA new business premiums and contribution reflect the groupwide expected impact of LGA directly-written business.

5.07 Methodology (continued)

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 covered businesses is provided by assets backing the with-profits business or by the SNW. The SNW comprises all shareholders' capital within Society, including those funds retained within the long-term fund (collectively Society shareholder capital).

Society shareholder capital is either required to cover the EU solvency margin or is free surplus as its distribution to shareholders is not restricted.

For UK with-profits business, the required capital is covered by the surplus within the with-profits part of the fund and no effect is attributed to shareholders except for the burn-through cost, which is described later. This treatment is consistent with the Principles and Practices of Financial Management for this part of the fund.

For UK non profit business, the required capital will be maintained at no less than the level of the EU minimum solvency requirement. This level, together with the margins for adverse deviation in the regulatory reserves, is, in aggregate, in excess of internal capital targets assessed in conjunction with the Individual Capital Assessment (ICA) and the with-profits support account.

The initial strains relating to new non profit business, together with the related EU solvency margin, are supported by releases from existing non profit business and the Society shareholder capital. As a consequence, the writing of new business defers the release of capital to free surplus. The cost of holding required capital is defined as the difference between the value of the required capital and the present value of future releases of that capital. For new business, the cost of capital is taken as the difference in the value of that capital assuming it was available for release immediately and the present value of the future releases of that capital. As the investment return, net of tax, on that capital is less than the risk discount rate, there is a resulting cost of capital which is reflected in the value of new business.

For LGA, the Company Action Level (CAL) of capital has been treated as required capital for modelling purposes. The CAL is the regulatory capital level at which the company would have to take prescribed action, such as submission of plans to the state insurance regulator, but would be able to continue operating on the existing basis. The CAL is currently twice the level of capital at which the regulator is permitted to take control of the business.

For LGN, required capital has been set at 104% of EU minimum solvency margin for all products without FOGs. For those products with FOGs, capital of between 104% and 563% of the EU minimum solvency margin has been used. These capital requirements have been scaled up by a factor of 1.042 at the total level to ensure the total requirement meets the 160% Solvency I from the capital policy for the EEV, for the NBVA no scaling is applied. The level of capital has been determined using risk based capital techniques.

The contribution from new business for our international businesses reflects an appropriate allowance for the cost of holding the required capital.

5.07 Methodology (continued)

Financial options and guarantees

Under the EEV Principles an allowance for the time value of FOGs is required where a financial option exists which is exercisable at the discretion of the policyholder. These types of option principally arise within the with-profits part of the fund and their time value is recognised within the with-profits burn-through cost described below. Additional financial options for non profit business exist only for a small amount of deferred annuity business where guaranteed early retirement and cash commutation terms apply when the policyholders choose their actual retirement date.

Further financial guarantees exist for non profit business, in relation to index-linked annuities where capped or collared restrictions apply. Due to the nature of these restrictions and the manner in which they vary depending on the prevailing inflation conditions, they are also treated as FOGs and a time value cost is recognised accordingly.

The time value of FOGs has been calculated stochastically using a large number of real world economic scenarios derived from assumptions consistent with the deterministic EEV assumptions and allowing for appropriate management actions where applicable. The management action primarily relates to the setting of bonus rates. Future regular and terminal bonuses on participating business within the projections are set in a manner consistent with expected future returns available on assets deemed to back the policies within the stochastic scenarios.

In recognising the residual value of any projected surplus assets within the with-profits part of the fund in the deterministic projection, it is assumed that terminal bonuses are increased to exhaust all of the assets in the part of the fund over the future lifetime of the in-force with-profits policies. However, under stochastic modelling, there may be some extreme economic scenarios when the total projected assets within the with-profits part of the fund are insufficient to pay all projected policyholder claims and associated costs. The average additional shareholder cost arising from this shortfall has been included in the time value cost of FOGs and is referred to as the with-profits burn-through cost.

Economic scenarios have been used to assess the time value of the financial guarantees for non profit business by using the inflation rate generated in each scenario. The inflation rate used to project index-linked annuities will be constrained in certain real world scenarios, for example, where negative inflation occurs but the annuity payments do not reduce below pre-existing levels. The time value cost of FOGs allows for the projected average cost of these constrained payments for the index-linked annuities. It also allows for the small additional cost of the guaranteed early retirement and cash commutation terms for the minority of deferred annuity business where such guarantees have been written.

LGA FOGs relate to guaranteed minimum crediting rates and surrender values on a range of contracts, as well as impacts on no-lapse guarantees (NLG). The guaranteed surrender value of the contract is based on the accumulated value of the contract including accrued interest. The crediting rates are discretionary but related to the accounting income for the amortising bond portfolio. The majority of the guaranteed minimum crediting rates are between 3% and 4%. The assets backing these contracts are invested in US Dollar denominated fixed interest securities.

LGN separately provides for two types of guarantees: interest rate guarantees and maturity guarantees. Certain contracts provide an interest rate guarantee where there is a minimum crediting rate based on the higher of 1-year Euribor and the policy guarantee rate. This guarantee applies on a monthly basis. Certain other linked contracts provide a guaranteed minimum value at maturity where the maturity amount is the higher of the fund value and a guarantee amount. The fund values for both these contracts are invested in Euro denominated fixed interest securities.

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.

5.07 Methodology (continued)

Risk discount rate

The risk discount rate (RDR) is a combination of the risk free rate and a risk margin, which reflects the residual risks inherent in the group's covered businesses, after taking account of prudential margins in the statutory provisions, the required capital and the specific allowance for FOGs.

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

The WACC is derived from the group's cost of equity and debt, and the proportion of equity to debt in the group's capital structure measured using market values. Each of these three parameters is forward looking, although informed by historic information and appropriate judgements where necessary. The cost of equity is calculated as the risk free rate plus the equity risk premium for the chosen index multiplied by the company's beta. Forward-looking or adjusted betas make allowance for the observed tendency for betas to revert to 1 and therefore a weighted average of the historic beta and 1 tends to be a better estimate of the company's beta for the future period. We have computed the WACC using an arithmetical average of forward-looking betas against the FTSE 100 index.

The cost of debt used in the WACC calculations takes account of the actual locked-in rates for our senior and subordinated long term debt. All debt interest attracts tax relief at a rate of 18.5% (2014: 20.1%).

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

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, 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.