Stock Exchange Release
09 August 2017

STRONG FINANCIAL PERFORMANCE IN H1 2017: PROFIT BEFORE TAX[1] UP 41% TO £1.2BN

FINANCIAL HIGHLIGHTS[2]:

- **OPERATING PROFIT UP 27% TO £988M (H1 2016: £777M)**
- **PROFIT AFTER TAX UP 43% TO £952M (H1 2016: £667M)**
- **EARNINGS PER SHARE UP 41% TO 15.94P (H1 2016: 11.27P)**
- **INTERIM DIVIDEND[3] OF 4.30P PER SHARE (H1 2016: 4.00P)**
- **NET RELEASE FROM OPERATIONS FOR RETAINED BUSINESS[4] UP 6% TO £724M (H1 2016: £681M)**
- **RETURN ON EQUITY[5] OF 26.7% (H1 2016: 20.6%)**
- **SOLVENCY II SURPLUS[6] INCREASED BY £1.0BN TO £6.7BN (FY 2016: £5.7BN)**
- **SOLVENCY II COVERAGE RATIO[6] OF 186% (FY 2016: 171%)**
- **H1 2017 RESULTS INCLUDE BASE MORTALITY RELEASE[7] OF £126M**

BUSINESS HIGHLIGHTS:

- **LGR PRT[8] NEW ANNUITY BUSINESS OF £1.6BN (H1 2016: £0.7BN)**
- **LGR RETAIL[9] TOTAL SALES UP 98% TO £769M (H1 2016: £389M)**
- **LGIM AUM UP 13% AT £951.1BN (H1 2016: £841.5BN)**
- **LGIM EXTERNAL NET INFLOWS OF £21.7BN (H1 2016: £9.6BN)**
- **GROUP-WIDE DIRECT INVESTMENT UP 48% AT £11.8BN (H1 2016: £8.0BN)**
- **LGI GROSS PREMIUMS UP 6% TO £1,338M (H1 2016: £1,260M)**

Nigel Wilson, Group Chief Executive, said:

"L&G delivered 41% growth in EPS to 15.9p, 41% growth in profit before tax to £1.2 billion and a 26.7% Return on Equity. This includes a base mortality release of £126m as part of our review of longevity assumptions. Our consistently improving financial performance is due to: investing for the long term in our market leading businesses, excellent execution by my colleagues and delivering value for customers.

Our strategy, based around six long term macro and demographic growth drivers, not only allows us to grow L&G's business, but also the scale of our long term capital enables us to support inclusive growth across the UK. We are replicating our successful UK model with measured expansion in the US, where we are experiencing increasing customer acceptance and an ever improving financial performance.

Our business model has proven to be resilient to political, economic and regulatory uncertainties. We are not being complacent as we recognise that there are currently some structural weaknesses in the UK economy. Notwithstanding this we have tremendous momentum across our business, a strong AA- rated balance sheet and increasing access to global growth opportunities, therefore we remain confident in our ability to deliver growth."

1. Represents profit before tax attributable to equity holders.
2. The metrics within the Group's financial highlights are defined in the glossary, which includes Alternative Performance Measures, on pages 101 to 105 in this report.
3. A formulaic approach is used to set the interim dividend, being 30% of the prior year full year dividend.
4. Excludes businesses disposed of comprising Legal & General Netherlands, Suffolk Life, Cofunds and IPS.
5. Return on equity is calculated by dividing annualised profit after tax attributable to equity holders of the Company (twice the half-year number), by the average of shareholders' equity during the period.
6. Solvency II surplus and coverage ratio on a shareholder basis is adjusted for the Own Funds and SCR of the With-profits fund and the final salary pension schemes.
7. IFRS impact from base mortality release in LGR's £45.5bn of net longevity exposure.
8. PRT (Pension Risk Transfer) represents bulk annuities bought by entities that run final salary pension schemes to reduce their responsibilities by passing the assets and obligations to insurance providers. Figures disclosed exclude back-book transactions.
9. LGR Retail comprises the division's individual annuities and lifetime mortgage businesses (Legal & General Home Finance).

FINANCIAL SUMMARY

£m	H1 2017	H1 2016	Growth %
Analysis of operating profit			
Legal & General Retirement (LGR)	**566**	405	**40**
Legal & General Investment Management (LGIM)	**194**	171	**13**
Legal & General Capital (LGC)	**142**	135	**5**
Legal & General Insurance (LGI)	**151**	151	**-**
General Insurance	**15**	31	**(52)**
Savings	**52**	49	**6**
Operating profit from divisions	**1,120**	**942**	**19**
Group debt costs	**(92)**	(86)	**(7)**
Group investment projects and expenses[1]	**(40)**	(34)	**(18)**
Kingswood office closure provision	**-**	(45)	**n/a**
Operating profit	**988**	**777**	**27**
Investment and other variances (inc. minority interests)[2]	**175**	49	**n/a**
Profit before tax attributable to equity holders	**1,163**	**826**	**41**
Profit after tax	**952**	**667**	**43**
IFRS earnings per share (p)	**15.94**	**11.27**	**41**
Return on equity (%)[3]	**26.7**	**20.6**	**n/a**
Interim dividend per share (p)	**4.30**	**4.00**	**n/a**
Release from operations	**683**	655	**4**
New business surplus	**41**	72	**(43)**
Net release from operations	**724**	**727**	**-**
- *Retained business*	*724*	*681*	*6*
- *Disposed operations[4]*	-	*46*	*n/a*
Additional dividend from subsidiary in respect of base mortality release[5]	100	-	n/a
Total release	**824**	**727**	**13**

1. In H1 2017, we invested £12m (H1 2016: £16m) to deliver a reduction in operating costs and management expenses, to increase efficiencies and develop strategic initiatives.
2. Includes net profit on disposals in H1 2017 of £17m in relation to the disposal of Legal & General Netherlands (H1 2016: £4m profit in relation to the disposal of Suffolk Life). Cofunds and IPS disposal completed on 1 January 2017, however these businesses were classed as held for sale at 2016 year end with a £64m impairment loss recognised in the 2016 full year results.
3. Return on equity is calculated by dividing annualised profit after tax attributable to equity holders of the Company (twice the half-year number), by the average of shareholders' equity during the period.
4. Disposed operations comprise Legal & General Netherlands, Suffolk Life, Cofunds and IPS.
5. Represents subsidiary dividend from LGAS to Group, in addition to normal LGAS dividend, arising due to base mortality release in H1 2017.

COMMENTARY ON H1 2017 FINANCIAL PERFORMANCE

INCOME STATEMENT

Operating profit increased 27% to £988m (H1 2016: £777m), demonstrating the continued successful execution of our strategy.

LGR delivered a 40% increase in operating profit to £566m (H1 2016: £405m) driven by strong performance from our front and back books in LGR's Corporate and Retail divisions. This was supported by continuing greater than expected mortality experience and we have chosen to reflect that in our base mortality, contributing to a release of £126m. Excluding the base mortality release, growth in operating profit remained strong at 9%.

LGIM operating profit increased by 13% to £194m (H1 2016: £171m). Management fee revenues were up 15% to £382m (H1 2016: £332m) driven by strong external net inflows of £21.7bn (H1 2016: £9.6bn), and higher asset values throughout H1 2017. This was partially offset by planned investment to grow the business in our target international markets.

LGC operating profit increased by 5% to £142m (H1 2016: £135m) driven by growth in the overall equity portfolio size within the division's £3.9bn traded assets, and continued strong performance in the £1.3bn direct investment portfolio. Direct investments delivered £69m (H1 2016: £68m) operating profit.

LGI operating profit was flat year-on-year at £151m (H1 2016: £151m). US Protection operating profit increased 33% to £57m (H1 2016: £43m) driven by business growth and favourable mortality experience. This was offset by UK Protection operating profit decreasing by 13% to £90m (H1 2016: £103m) driven by adverse experience of £26m in our group protection business, which we previously highlighted in our full year 2016 results. UK retail protection continued to generate good profits through consistent performance.

General Insurance operating profit decreased 52% to £15m (H1 2016: £31m), primarily due to higher than expected costs from non-weather related claims in Q1, predominantly escape of water, in line with wider market experience.

Mature Savings operating profit remained robust at £52m (H1 2016: £55m) as we focus on managing costs whilst maintaining customer service levels.

Profit before tax attributable to equity holders increased 41% to £1,163m (H1 2016: £826m).

Profit before tax increased on the back of the 27% increase in operating profit. In addition, positive investment and other variances contributed £175m (H1 2016: £49m), demonstrating diversification benefits across the Group. This included £52m (H1 2016: £60m) primarily from the traded assets portfolio in LGC through outperformance of long term economic assumptions, as well as profit on disposals realised in the direct investments portfolio. Additionally, consistent with prior years, there was an accounting gain driven by the Group's defined benefit pension scheme reflecting accounting valuation differences arising on annuity assets held by the scheme. These gains were partially offset by a number of smaller variances in other divisions in the Group.

In H1 2017, the Group had a net profit on disposal of £17m (H1 2016: £4m) following the sale of Legal & General Netherlands in April.

Net release from operations for retained business[1] increased 6% to £724m (H1 2016: £681m), comprising £683m (H1 2016: £609m) release from operations and £41m (H1 2016: £72m) new business surplus. The prior year new business surplus, in H1 2016, benefitted in particular from the £2.9bn Aegon back-book transaction in LGR.

The base mortality release in H1 2017 resulted in an additional £100m subsidiary dividend to be remitted to the Group, contributing to a total release of £824m (H1 2016: £727m).

BALANCE SHEET

The Group's Solvency II surplus increased by £1.0bn to £6.7bn (FY 2016: £5.7bn) in the six months from the 2016 year end.

Our Solvency II coverage ratio[2] increased to 186% at H1 2017 (FY 2016: 171%), with net surplus generation contributing 6.0%. On a proforma calculation basis[2], our Solvency II coverage ratio increased from 165% at the end of 2016 to 180% at H1 2017. The surplus is the same on both bases. The Group remains focused on delivering appropriate returns on capital. In H1 2017, our Solvency II new business strain was £0.1bn.

The above incorporates management's estimate of the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at 30th June 2017 as we believe this provides the most up to date and meaningful view of our Solvency II position. In line with PRA guidance, a formal recalculation of the Group's TMTP will take place no later than 1st January 2018.

1. Excludes businesses disposed of comprising Legal & General Netherlands, Suffolk Life, Cofunds and IPS.
2. Solvency II coverage ratio on a shareholder basis excludes the SCR of the With-profits fund and the final salary pension schemes from both the Own Funds and SCR. The proforma calculation basis includes these items.

OUTLOOK

The Group's strategy is aligned to our six established long term growth drivers of: ageing demographics; globalisation of asset markets; creating new real productive assets; reform of the welfare state; technological innovation; and providing "today's capital". Our focus on attractive high growth markets, where we can leverage our expertise, and the clear synergies between our core divisions is expected to deliver further profit growth in the future. Our financial ambition is to achieve a similar performance in 2016-2020 as that achieved in 2011-2015; where EPS grew by 10% per annum and net release from operations by 10% per annum. We made a good start in 2016 with EPS rising by 17% and net release from operations by 12%. This has continued with a strong performance in H1 2017.

Although no business model can be fully immunised to market volatility, we believe the opportunities available to the Group, primarily in the UK and US, remain largely unchanged. Despite a number of potentially destabilising events in H1 2017 including a snap UK general election and the start of Brexit negotiations with the EU, our successful performance continues to demonstrate the resilience of our operating model and our focus on the excellent execution of our strategy.

In **LGR**, demand for pension de-risking strategies remains strong. We are currently quoting on c.£12bn of buy-in and buy-out deals in the UK, and in our US Pension Risk Transfer (PRT) franchise we continue to build on recent successes. The individual annuity market is growing post "Pension Freedoms" driven by demographic and regulatory trends. Our Aegon distribution agreement signed in October 2016 has delivered good levels of new business in H1 2017 in addition to our existing arrangements, and we expect to see continued positive growth in individual annuity sales in H2 2017. We have a 30% market share in lifetime mortgages with market volumes expected to grow to £3.0bn in 2017. With regard to reserving, as part of our normal processes, we will review the appropriateness of our longevity improvement assumptions at the year end. Based on our current view of the data and level of certainty, if recent mortality improvement experience continues, we would expect to fully reflect this in our assumptions over several years as the credibility of the data increases.

LGIM expects to maintain growth across the business. We are well placed to continue being a market leader in supporting Defined Benefit (DB) pension schemes as they de-risk. LGIM is gaining market share in the UK Defined Contribution (DC) and Retail markets. We expect the US business to continue its rapid growth and we are successfully expanding in other target regions. We will also continue to invest in technology and overseas distribution. LGIM has established a resilient business model that is well positioned to deal with the challenges facing the industry such as the FCA Asset Management Market Study, MiFID II and Brexit negotiations.

LGC is broadening its business and so far this year has committed over £200m in investment across all its chosen sectors. In Housing, CALA's growth outlook remains strong, and to complement this we are also expanding into Later Living and are reviewing opportunities in Affordable Housing. In Infrastructure, we are continuing to progress our strategic urban regeneration developments. In SME finance, Pemberton will be launching further new funding initiatives in H2 2017. We are also on track to meet our sales proceeds target of c.£250m from asset disposals, and our year-to-date sales have been achieved at or above our target IRR's. LGC's £3.9bn traded asset portfolio outperformed our long term assumptions in H1 2017.

In **LGI**, we expect to maintain good growth from US new business sales with H1 2017 17% higher than H1 2016. During H1 2017 our US business, in collaboration with colleagues from LGI UK, launched a direct to consumer sales channel including online apply, and work is ongoing to deliver digital transformation. In the UK we will continue to focus on the turnaround of our UK group protection business and growing our market leading retail protection business. We expect these management actions to become evident in H2 2017. We are confident the division will deliver growth in profits and gross premiums in H2 2017.

In **General Insurance**, we are growing the business, having won a number of new distribution agreements, and remain on track to deliver a c.10% increase in gross premiums in 2017. We are also developing new digital solutions for our customers. The actions taken on escape of water are expected to deliver improved profitability in future periods.

Our **Mature Savings** operation is largely closed to new business. We will continue to focus on customer service whilst actively managing costs on our £30bn assets under administration.

DIVIDEND

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

In line with Group's policy of using a formulaic approach to setting the interim dividend, being 30% of the prior year full year dividend, the Board has declared an interim dividend of 4.30p per share.

LEGAL & GENERAL RETIREMENT

FINANCIAL HIGHLIGHTS £m	H1 2017	H1 2016
Release from operations	**256**	204
New business surplus	**51**	79
Net release from operations	**307**	**283**
Experience variances, assumption changes, tax and non-cash movements	**259**	122
Operating profit	**566**	**405**
Investment and other variances	**38**	63
Profit before tax attributable to equity holders	**604**	**468**
Back book acquisitions	**-**	2,945
UK PRT	**1,504**	640
International PRT	**115**	45
Individual annuity single premiums	**345**	158
Lifetime mortgage advances	**424**	231
Longevity insurance[1]	**800**	-
Total LGR new business	**3,188**	**4,019**
Annuity net inflows (£bn)	**0.4**	2.6
Total annuity assets (£bn)	**55.6**	**51.0**

1. The £800m quoted represents the notional size of the transaction and is based on the present value of the fixed leg cashflows discounted at the LIBOR curve.

OPERATING PROFIT UP 40% TO £566M

LGR had a strong H1 2017 achieving further growth in profits and total new business volumes of £3.2bn (H1 2016: £4.0bn).

Release from operations increased 25% to £256m (H1 2016: £204m), reflecting the expected release of prudential margins from our growing £55.6bn annuity fund.

Net release from operations increased 8% to £307m (H1 2016: £283m) with new business surplus of £51m (H1 2016: £79m). New business surplus benefitted from securing attractive spreads on direct investments including lifetime mortgages, while H1 2016 benefitted in particular from the £2.9bn Aegon back-book transaction.

We achieved Solvency II new business strain of less than 4% against £1,964m new annuity business in H1 2017, within our target low to mid single digit range. UK annuity sales delivered a 8.9% new business margin on Solvency II capital.

Operating profit increased to £566m (H1 2016: £405m) driven by strong performance in the front and back books of LGR's Institutional and Retail divisions. Additionally, mortality experience for LGR's annuity book has been greater than expected for a number of years and we have chosen to reflect that in our base mortality, with a release of £126m of prudence within our reserves.

LGR's gross longevity exposure is £61.4bn across annuity and longevity insurance business. We have reinsured £15.9bn of longevity risk with 11 reinsurance counterparties, leaving a net exposure of £45.5bn.

LGR, in line with the industry, has two principal assumptions in relation to longevity: the level of mortality currently being experienced by pensioners (often referred to as "base" mortality), and the rate at which mortality will change in the future (the "improvement" or "trend" assumption). In preparing the half year results, we have not adjusted our assumptions for the rate of future longevity improvement; they remain consistent with those disclosed last year. As part of our normal processes we will review the appropriateness of longevity improvement assumptions at the year end. There is increasing evidence that the higher than expected level of recent mortality is in part due to medium or long-term influences rather than short-term events. In performing this review, consideration will be given as to whether, and over what period, to move to newer versions of the CMI model. We would expect to continue to apply caution in our assessment of the sustainability of any reduction in mortality improvements, with any release being recognised over several years as greater certainty emerges on the continuation of positive experience.

INCREASING DEMAND FOR DE-RISKING STRATEGIES

The need for products and services as a consequence of ageing populations is increasing, and our strategy is to be at the forefront of providing those products and services. Our core business themes of Global PRT for our institutional customers and Individual Retirement Choices for our retail customers are there to meet these substantial and growing needs.

LGR Institutional - Global PRT

In H1 2017, LGR Institutional completed £1,619m (H1 2016: £685m) of bulk annuity transactions and a longevity insurance transaction of £800m.

The UK pension de-risking market has made a steady start in 2017 with increased activity anticipated in H2. LGR closed a number of significant buy-ins and buy-outs in H1 2017, with UK PRT bulk annuity sales up £0.9bn to £1.5bn (H1 2016: £0.6bn). Of this, just under £1bn of assets transferred from liability driven investment (LDI) and fixed income customers in LGIM, further demonstrating the strength of L&G's de-risking proposition. In the US we completed three bulk deals in H1 2017 totalling $141m premiums. We also completed an £800m longevity insurance transaction in June 2017 which we have fully reinsured. We operate a capital efficient model, reinsuring approximately 80% of longevity risk on new UK PRT business to our panel of reinsurers.

We are currently quoting on c.£12bn of UK buy-in and buy-out deals. Whilst lower real yields increase the average pension fund deficit, the impact on pension funds depends on the amount of LDI hedging they have done, the extent to which equities have been switched to bonds, and the extent to which equities have been diversified globally, with or without currency hedging. We estimate that c.50% of the interest rate and inflation risk has been removed from the UK private sector defined benefit sector.

Legal & General is unique in being able to offer all possible pension risk transfer and DB pension de-risking solutions. We are recreating this disciplined approach in the US, with our US PRT business making further progress in 2017.

LGR Retail - Individual Retirement Choices

LGR's Retail business is playing an important role in our customers' retirement planning. In volatile times, the certainty of income and access to housing wealth we provide for those approaching or already in retirement is vital.

Individual annuity sales were up 118% at £345m (H1 2016: £158m) and LGR Retail now manages over £21bn in assets for its 550,000 individual annuity customers. In October 2016 we agreed to be Aegon's preferred supplier of annuity business and together with improved sales performance in the wider individual annuity sector, we remain on track to achieve further growth in H2 2017.

The combination of Freedom & Choice in Pensions and Solvency II has resulted in consolidation among individual annuity providers. We expect there to be further back-book consolidation opportunities over time and we will consider these as and when they arise.

Legal & General Home Finance has had a strong H1, writing £424m of lifetime mortgage advances in H1 2017 (H1 2016: £231m) representing a 30% market share, and now has approximately 16,000 customers in our market leading business. Our portfolio has an average customer age of 70 and the weighted average loan-to-value is c.28%. With an estimated £1.5 trillion of housing equity currently owned by the over 55s in the UK, the long-term growth characteristics of this market are strong, and we expect the market volume to reach £3bn in 2017, up from £2.2bn in 2016. We are also delivering solutions for customers with maturing interest-only mortgages.

ONGOING CREDIT AND ASSET MANAGEMENT

Credit portfolio management

LGR's £55.6bn asset portfolio backing its IFRS liabilities is well diversified. Within the £51.5bn bond portfolio, just over 2/3rds of the portfolio is A-rated or better, 30% BBB-rated and 1% sub-investment grade. The bond portfolio has 14% in gilts, 4% in Banks, and 4% in Energy, Oil & Gas. It is an objective of our fixed income fund managers in LGIM to manage the portfolio such that credit downgrades and defaults are avoided. We hold £2.7bn of IFRS credit default reserves against these assets.

Direct Investment

Our direct investment portfolio is secured through directly negotiated covenants and security or collateral. In H1 2017, LGR invested over £1.4bn in direct investments, including infrastructure, housing and lifetime mortgages. This portfolio is now £9.8bn (H1 2016: £6.6bn) including £1,433m in lifetime mortgages, and makes up c.15% of the assets within the annuity portfolio. The PRA has reviewed and approved the use of internal ratings within our Matching Adjustment (MA) process and c.59% of the direct investment portfolio is rated A and above.

With the Group's balance sheet size and the long term nature of LGR's liabilities, LGR is able to invest in assets of size and term that differentiates it from many other investors. The ability to self-manufacture attractive assets to back the annuities book, working with LGIM, LGC, or through lifetime mortgages, is an important feature of LGR's business.

LEGAL & GENERAL INVESTMENT MANAGEMENT

FINANCIAL HIGHLIGHTS £m	H1 2017	H1 2016
Management fee revenue[1]	**382**	332
Transactional revenue	**12**	16
Total revenue	**394**	**348**
Total costs[1]	**(200)**	(174)
Asset management operating profit	**194**	**174**
Workplace Savings operating result[2]	**-**	**(3)**
Operating profit	**194**	171
Investment and other variances	**(4)**	(8)
Profit before tax attributable to equity holders	**190**	**163**
Net release from operations	**154**	**134**
Cost:income ratio[3] (%)	**51**	50
External net flows (£bn)	**21.7**	9.6
Internal net flows (£bn)	**(1.1)**	0.3
Disposal of LGN[4] (£bn)	**(0.8)**	-
Total net flows (£bn)	**19.8**	**9.9**
Of which international (£bn)	**17.9**	6.7
Persistency (%)	**90**	91

£bn	H1 2017	H1 2016
Assets under management[5]	**951.1**	841.5
Of which:		
- International assets under management[5]	**198.3**	151.9
Assets under administration – Workplace Savings	**24.9**	**17.3**

1. Management fee revenue and total costs exclude income and costs of £8m in relation to provision of 3rd party market data (H1 2016: £5m each; FY 2016: £14m each).
2. Represents Workplace Savings admin only and excludes fund management profits.
3. Excluding Workplace Savings.
4. Legal & General Netherlands disposal completed on 6 April 2017.
5. 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.

OPERATING PROFIT UP 13% TO £194M

LGIM continues to expand its business across channels, regions and product lines. External net flows were strong at £21.7bn (H1 2016: £9.6bn), contributing to 13% growth in assets under management (AUM) to £951.1bn (H1 2016: £841.5bn). Revenues from management fees were up 15% to £382m (H1 2016: £332m), while transactional revenues were lower at £12m (H1 2016: £16m). Operating profit increased by 13% to £194m (H1 2016: £171m), reflecting AUM growth from flows and asset values, partially offset by planned investment to grow the business.

Workplace savings achieved a break-even operating result in H1 2017 (H1 2016: £(3)m), demonstrating increasing efficiencies as the platform continues to grow. This result is for the administration business only and the profits on the fund management services provided are included in the LGIM result.

The International business experienced strong net inflows of £17.9bn (H1 2016: £6.7bn) with all regions producing positive net flows. The DC business continued to expand, with total net inflows of £1.7bn (H1 2016: £0.8bn) driven by our bundled business, which offers investment and administration services to DC schemes. We are now the largest manager of DC assets in the UK. The retail business experienced net inflows of £1.7bn (H1 2016: £0.7bn) and was ranked first in UK net sales in Q2 2017 (Source: Pridham).

BREADTH OF INVESTMENT MANAGEMENT SOLUTIONS

Asset movements £bn	Index funds	Active fixed income	Solu-tions	Real assets	Active equities	Total AUM
At 1 January 2017	**319.8**	**134.8**	**411.9**	**19.6**	**8.1**	**894.2**
External inflows	25.4	8.3	16.0	0.8	0.1	50.6
External outflows	(29.7)	(3.0)	(9.0)	(0.5)	(0.1)	(42.3)
Overlay / advisory net flows	-	-	13.4	-	-	13.4
External net flows	**(4.3)**	**5.3**	**20.4**	**0.3**	**-**	**21.7**
Internal net flows	(0.3)	(0.4)	0.4	0.5	(1.3)	(1.1)
Disposal of LGN[1]	(0.3)	(0.5)	-	-	-	(0.8)
Total net flows	**(4.9)**	**4.4**	**20.8**	**0.8**	**(1.3)**	**19.8**
Cash management movements	-	4.1	-	-	-	4.1
Market and other movements	16.6	1.7	13.4	0.8	0.5	33.0
At 30 June 2017	**331.5**	**145.0**	**446.1**	**21.2**	**7.3**	**951.1**

1. Legal & General Netherlands disposal completed on 6 April 2017.

Total AUM increased 13% to £951.1bn (H1 2016: £841.5bn). Total external net inflows of £21.7bn (H1 2016: £9.6bn) represent c.2.4% of opening AUM. Positive flows across all channels, regions and most product lines demonstrate the breadth of LGIM's business model. LGIM delivered consistent strong performance for its active clients, with the majority of our funds outperforming their respective benchmarks over the past one, three and five years.

Solutions external net inflows were £20.4bn (H1 2016: £9.4bn), driven by DB pension schemes implementing a broader range of Liability Driven Investment (LDI) strategies, and DC schemes and retail customers seeking a range of Multi-Asset strategies. The de-risking of DB schemes presents the business with considerable opportunities, taking clients from traditional Index strategies, through LDI capabilities, to Solutions that combine LDI, Credit, Multi-Asset and Real Asset strategies, as well as PRT transactions in LGR.

Index external net outflows were £4.3bn (H1 2016: £2.4bn outflow). Net outflows were once again largely from UK DB clients switching to other products, primarily Solutions. However, there were strong net inflows from international and Retail clients as the Index business continues to expand in other channels and regions.

Net external inflows into Active Fixed Income of £5.3bn (H1 2016: £2.6bn) were driven primarily by institutional clients in the UK and US, and demand continues to grow from clients in other regions.

The Real Assets business has continued to expand, with especially strong growth in private credit. LGIM originated over £1bn of investments across real estate, infrastructure and corporate debt. LGIM continues to see success with its Build to Rent fund, with c.£1bn of capital raised. Real Assets AUM has grown to £21.2bn (H1 2016: £18.4bn).

The Retail business has performed well as the AUM increased to £26.8bn (H1 2016: £21.4bn) and the business has gained market share.

LARGEST UK DC ASSET MANAGER – £63BN AUM

LGIM has experienced a 20% increase in customers on its Workplace platform, with the number of members now 2.4m (H1 2016: 2.0m). Our Master Trust is the second largest and fastest growing in the UK. Net inflows into our workplace platform were £2.8bn (H1 2016: £1.8bn) and assets are now £24.9bn (H1 2016: £17.3bn). The number of pension schemes supported by the DC business has grown to 12,234 (H1 2016: 6,844). Total UK DC AUM increased by 26% to £62.8bn (H1 2016: £49.8bn).

INTERNATIONAL ASSETS UP 31% TO £198BN

LGIM's international businesses experienced record net inflows of £17.9bn (H1 2016: £6.7bn). Once again positive net flows took place in all regions. Net inflows in the US business were £8.6bn (H1 2016: £3.1bn) across Solutions, Active Fixed Income and Index funds. Net inflows were £6.6bn in Europe (H1 2016: £1.5bn), £2.5bn in the Gulf (H1 2016: £1.6bn) and £0.3bn in Asia (H1 2016: £0.5bn). Total International AUM was £198.3bn, a 31% increase (H1 2016: £151.9bn).

Additionally, we have established a regional office in Tokyo and trading and fund management capabilities in Hong Kong.

LEGAL & GENERAL CAPITAL

FINANCIAL HIGHLIGHTS £m	H1 2017	H1 2016
Net release from operations	**119**	**113**
Operating profit from:		
Direct investment	**69**	68
Traded investment portfolio	**73**	59
Treasury assets	**-**	8
Total operating profit	**142**	**135**
Investment and other variances	**52**	60
Profit before tax attributable to equity holders	**194**	**195**

DIRECT INVESTMENT PORTFOLIO[1] £m	H1 2017	H1 2016
UK Housing	**416**	377
Infrastructure	**731**	506
SME Finance	**201**	181
	1,348	**1,064**
TRADED PORTFOLIO £m		
Equities	**2,047**	1,630
Fixed income	**308**	499
Multi-asset	**140**	472
Cash	**1,443**	1,232
	3,938	**3,833**
LGC investment portfolio	**5,286**	**4,897**
Treasury assets at holding company	**1,504**	1,021
Total	**6,790**	**5,918**

1. Direct Investment portfolio includes two LGC assets valued at £98m which are classified as debtors as contracts have been exchanged as at 30 June 2017, and for which the proceeds were received shortly following that date. In addition it excludes £25m of Group shareholder investment property.

DIRECT INVESTMENT PORTFOLIO UP 27% TO £1.3BN

The Direct Investments portfolio increased by 27% to £1,348m (H1 2016: £1,064m). The portfolio delivered operating profit of £69m (H1 2016: £68m) and profit before tax of £53m (H1 2016: £51m), representing an annualised net portfolio return of 8.6% (H1 2016: 10.2%).

LGC's Direct Investment portfolio delivered a solid performance in H1 2017. In particular, Infrastructure performed strongly driven by a 44% increase in the portfolio. Profit before tax increased to £53m (H1 2016: £51m) driven by the maturing profile of the portfolio which has delivered positive variances from asset disposals.

So far this year LGC has committed over £200m in investments across all the target sectors. In our Infrastructure portfolio we have invested £72m, funding the further development of our existing investments, and in our SME portfolio we have deployed £25m in Pemberton's new UK Sterling Loan Fund and have committed £22m across three new early-stage venture capital funds. Additionally, in Housing we invested £39m in August into the Later Living sector.

PORTFOLIO DELIVERS REALISED PROFITS FROM DISPOSALS

In H1 2017, LGC completed, or exchanged contracts for, disposals which will generate proceeds of £164m, and remain on target to achieve the full year target of £250m of disposals, representing a significant increase from 2016. Disposals have been achieved at or above our target IRRs, demonstrating our ability to generate liquidity and profits for our shareholders.

Infrastructure assets increased to £731m (H1 2016: £506m)

During H1 2017, the urban regeneration business continued to grow. Our portfolio is maturing, with profits being realised on disposals and valuations increasing as projects are developed and letting of units is achieved.

In our £400m development in Cardiff, we are now funding the development of the second office building and have completed the disposal of One Central Square which is adjacent to BBC Wales' new HQ (acquired by LGR in 2015), delivering our target IRR's. The £240m Bracknell Town Centre development (The Lexicon) is progressing well towards the planned opening in September 2017 with over 90% of the retail space now let.

MediaCityUK (Salford) is trading well, delivering a strong valuation uplift with the completion of further leasing of the estate. The Newcastle Science Central project has submitted a planning application for the first of its grade A office buildings. The 100,000 sq ft office building will create modern workspace for over 1,200 people.

In Clean Energy, NTR[1] completed the construction of a further 3 UK onshore wind sites, taking the number of operational assets to 5 out of 11 assets. The €246m fund is 77% deployed and remains on target to be fully deployed by December 2017. We are working with NTR on the development of its second fund, expected to target €500m of equity investment in clean energy assets in H2 2017.

Housing assets increased to £416m (H1 2016: £377m)

CALA Homes[2] delivered another strong financial performance. In the twelve months to the end of June, CALA delivered revenue in excess of £700m representing an almost three fold increase since we acquired our shareholding in 2013.

The Build-to-Rent joint venture invested in new sites in Bath and Leeds and now has over 1,400 homes under development since inception in early 2016. Additionally, residents are now occupying the first scheme in Salford ahead of plan.

Legal & General Homes is launching the prime development in Crowthorne, Berkshire. The site has Outline Planning Permission for 1,000 new homes and building is expected to start in September once the on-site infrastructure has been delivered. Legal & General Homes Modular has produced its first units, and we have appointed a new CEO to optimise the production phase now the factory development is complete. There continues to be strong interest from prospective buyers.

SME Finance assets increased to £201m (H1 2016: £181m)

Pemberton[3] continues to grow and is targeting c.€3bn of AUM growth in 2017. This year three new funds are being launched: a second Euro Fund a follow-on fund to the successful first Euro Fund with a target size of €2bn; a new Trade Receivables fund; and a Strategic Opportunities fund.

LGC also committed £22m to three funds investing in early stage start-ups in the UK and Europe in a range of sectors including Fin Tech to establish an institutional presence in the VC market.

TRADED PORTFOLIO

LGC's traded investment portfolio, including treasury assets, delivered operating profit of £73m (H1 2016: £67m) and profit before tax of £141m (H1 2016: £144m).

The traded portfolio holds a diversified set of exposures across equities, fixed income, multi-asset funds and cash. The portfolio has performed above assumed returns over the first half of the year, benefiting from positive global equity market performance.

1. LGC owned a 25.0% share in the NTR fund management business and 47.0% in the NTR fund as at 30 June 2017.
2. LGC owned a 47.9% share in CALA Homes as at 30 June 2017.
3. LGC owned a 40.0% share in Pemberton as at 30 June 2017.

LEGAL & GENERAL INSURANCE

FINANCIAL HIGHLIGHTS £m	H1 2017	H1 2016
Release from operations	**166**	196
New business surplus	**3**	7
Net release from operations	**169**	**203**
- Retained business	169	155
- Disposed operations[1]	-	48
Operating profit	**151**	**151**
- UK	90	103
- US	57	43
- Netherlands[1]	4	5
Investment and other variances[2,3]	**7**	(100)
Profit before tax attributable to equity holders	**158**	**51**
LGI new business annual premiums	**153**	148
Retail Protection gross premiums	**609**	582
Group Protection gross premiums	**224**	233
US Protection gross premiums	**491**	420
Netherlands gross premiums	**14**	25
Total gross premiums	**1,338**	**1,260**

1. Legal & General Netherlands disposal completed on 6 April 2017.
2. Prior year investment variance of £(100)m) driven by a reduction in UK government bond yields of c.100bps which impacted the discount rate used to calculate the reserves for our UK protection liabilities.
3. H1 2017 includes a £17m gain resulting from the disposal of Legal and General Netherlands.

6% INCREASE IN GROSS PREMIUMS TO £1.3BN

Retail Protection gross premium income increased 5% to £609m (H1 2016: £582m) with new business annual premiums of £86m (H1 2016: £82m). We remain a leading provider of Retail Protection in the UK and benefit from a highly efficient automated underwriting model, delivering straight through processing for more than 80% of our customers, and a broad distribution reach. Our direct distribution channel continues to perform strongly and delivered Retail Protection new business APE of £16m (H1 2016: £16m) accounting for c.19% of new business APE. Group Protection gross premium income was £224m (H1 2016: £233m) with new business of £28m (H1 2016: £36m).

LGI US gross premium income increased 3% (17% on a sterling basis) to $618m (H1 2016: $601m) driven by new annual premiums increasing 17% to $48m (H1 2016: $41m). LGI US is the second largest provider of US term life assurance through the brokerage channel[4] and has 1.2m policies in force (H1 2016: 1.2m).

Legal & General Mortgage Club facilitated £29bn of mortgages in H1 2017 (H1 2016: £26bn) through strong partnerships with top lenders and over 10,000 mortgage brokers. As the largest participant in the intermediated mortgage market in the UK, we are involved in one in five of all UK mortgage transactions. Legal & General Surveying Services continues to deliver a strong performance, completing over 262k surveys (H1 2016: 250k).

SUSTAINED DIVISIONAL OPERATING PROFIT AND STRONG US GROWTH

LGI US operating profit increased 16% (up 33% on a sterling basis) to $72m (H1 2016: $62m), due to business growth and favourable mortality experience. LGI US delivered a strong Solvency II new business margin of 12.8%.

LGI UK operating profit decreased 13% to £90m (H1 2016: £103m), as consistent performance from our UK retail protection business was offset by the previously anticipated adverse experience of £26m in group protection, where our use of reinsurance is significantly lower than on our retail protection book leading to greater volatility in claims results.

The adverse experience arose primarily in a relatively small number of income protection schemes. A range of actions have been taken to address the issues arising, including pricing action at scheme renewals. The impact of these actions

4. By annual premium equivalent as at 31 March 2017.

will take time to be fully reflected in our experience, so we expect some adverse experience to continue emerging but at a reduced level in the second half of 2017.

Retail protection continued to generate good profits reflecting the consistent performance of this business and its leading market position in 2016. We continue to develop our Retail Protection proposition and enhance our underwriting approaches to place us in a strong position to win additional distribution deals in order to support our market share and profitability levels.

UK protection sales delivered a 9.1% new business margin on Solvency II capital reflecting competitive pressures in both UK markets.

Net release from retained business in LGI increased by 9% to £169m (H1 2016: £155m). LGI US net release from operations increased by 14% (31% on a sterling basis) to $100m (H1 2016: $88m). This represents the annual dividend paid by LGI US to the Group in February 2017.

DIGITAL INNOVATION

Our UK retail protection business benefits from high levels of automation and self-service capabilities which we have continued to enhance during 2017 with further functionality delivered to our advisers. We are also increasingly using predictive analytics and improved underwriting approaches to reduce the time it takes for advisers and their customers to apply for policies. The digital transformation of our US Protection business is just beginning but will catch up fast, fully using the wealth of experience and capabilities we have from digitising our UK business. Our focus in 2017 is developing online applications including automated underwriting to deliver a better customer experience, scalability, reduced unit costs and enhanced risk management.

Our use of innovative digital marketing approaches has been helping us engage more effectively with customers, contributing to a 56% increase in direct business over the last 3 years. Further significant focus on this area, in both UK and US, will take place in H2 2017 and subsequent years as we use the latest technology and techniques to improve customer engagement. LGI recently launched an easy and engaging way to obtain a life insurance quote in the US. SelfieQuote.com provides a life insurance estimate by determining an individual's age, and body mass index (BMI) using a selfie photo. We are the first in the life insurance industry to roll out this approach, which is an example of how technology can improve the application process for consumers.

We see increasing opportunities for technology innovation to help customers engage with financial services. To pursue these growth opportunities we have recently established a Fintech business area within LGI that will include our existing fintech business, Investment Discounts Online (IDOL), and other fintech start-up businesses that we will fund and collaborate with.

GENERAL INSURANCE

FINANCIAL HIGHLIGHTS £m	H1 2017	H1 2016
Net release from operations	**12**	**25**
Experience variances, assumption changes, tax and non-cash movements	**3**	6
Operating profit	**15**	**31**
Investment and other variances	**6**	10
Profit before tax attributable to equity holders	**21**	**41**
General Insurance gross premiums	**173**	156
Combined operating ratio (%)	**95**	85

11% GROWTH IN GROSS PREMIUMS TO £173M

Gross premiums increased 11% to £173m (H1 2016: £156m) despite the pressures of a competitive market. Our direct business delivered gross premiums of £63m in H1 2017, representing 17% growth on H1 2016 and now accounts for 36% of gross premiums (H1 2016: £54m, 35% of gross premiums).The General Insurance business has won five distribution agreements in the last two years with UK financial institutions. We are on track to increase gross premiums by over 10% by the end of 2017.

Operating profit decreased to £15m (H1 2016: £31m) with a combined operating ratio of 95% (H1 2016: 85%). This was primarily due to increased costs from non-weather related claims in Q1, predominantly escape of water, in line with wider market experience. We have taken action across pricing, underwriting and claims management to address this and have seen improved claims experience in Q2. We will continue to monitor this closely and will take further action if required. In contrast, the H1 2016 comparator benefitted from better than expected claims experience during that period.

SAVINGS

FINANCIAL HIGHLIGHTS £m	H1 2017	H1 2016
Release from operations	**53**	51
New business strain	**(2)**	(3)
Net release from operations	**51**	**48**
Experience variances, assumption changes, tax and non-cash movements	**1**	1
Operating profit	**52**	**49**
- Mature Savings	52	55
- Disposed operations[1]	-	(6)
Investment and other variances[2]	**(7)**	4
Profit before tax attributable to equity holders	**45**	**53**

1. Disposed operations comprises Suffolk Life which was sold on 25 May 2016, and Cofunds and IPS which was sold on 3 January 2017.
2. H1 2016 includes a £4m gain resulting from the disposal of Suffolk Life.

ROBUST OPERATING PROFIT

Net release from operations was higher reflecting market conditions, with lower new business strain as the book declines.

Operating profit in Mature Savings remains robust at £52m (H1 2016: £55m). Reducing unit costs, whilst maintaining customer service levels, has been achieved through the introduction of robotics, and further automation.

Mature Savings had outflows of £(1.5)bn (H1 2016: £(1.3)bn), with assets under administration of £30.2bn in H1 2017 (H1 2016: £29.4bn).

Mature Savings outflows increased year on year due to our products’ maturity profile. Since the introduction of the Pensions Reform legislation we have seen an increase in the proportion of customers wishing to take their pension pots as cash withdrawals, with c.80% electing to take cash payments. Our average payment size is £14k.

DISPOSALS

On 6th April 2017, the Group completed the sale of Legal & General Nederland Levensverzekering Maatschappij N.V. to Chesnara plc for total consideration of €161m resulting in a £17m profit on disposal.

On 1st January 2017, the Group completed the sale of Cofunds and IPS to Aegon for total consideration of £147.5m. The Cofunds business was acquired in stages between 2005 and 2013, for a total cash consideration of £153m. Investment in Cofunds subsequent to the acquisition as well as our IPS platform, including capitalised costs in respect of the Retail Distribution Review, resulted in an impairment loss of £64m recognised in 2016.

The impact of these disposals improved the Group's H1 2017 Solvency II coverage ratio by 2.5%.

BORROWINGS

Legal & General continues to have a strong liquidity position including amounts required for working capital and derivative collateral purposes. The Group's outstanding core borrowings total £3.5bn (H1 2016: £3.1bn). There is also a further £0.6bn (H1 2016: £0.4bn) of operational borrowings including £0.2bn (H1 2016: £0.2bn) of non-recourse borrowings.

The Group accessed the US dollar market in March 2017 for the first time and issued $850m of Tier 2 subordinated debt with a coupon of 5.25%. The proceeds were utilised to refinance the Group's £600m Tier 1 notes with a coupon of 6.385% which were called in May 2017. This inaugural issue has given the Group access to an alternative source of debt financing away from the Group's traditional European institutional investor base. In April 2017 the Group accessed the US dollar market again when it issued $500m of Tier 2 subordinated debt in private placement format with a coupon of 5.55%, reflecting the longer duration compared to the March 2017 issue.

Group debt costs of £92m (H1 2016: £86m) reflect an average cost of debt of 5.0% per annum (H1 2016: 5.4% per annum) on average nominal value of debt balances of £3.7bn (H1 2016: £3.2bn).

TAXATION - EFFECTIVE TAX RATE OF 18.1%

Equity holders' Effective Tax Rate (%)	H1 2017	H1 2016
Equity holders' total Effective Tax Rate	**18.1**	19.2
Annualised rate of UK corporation tax	**19.25**	20.00

In H1 2017, the Group's effective tax rate was lower than the UK corporation tax rate. This reflects the overall positive impact from differences between the measurement of accounting and taxable profits.

SOLVENCY II

As at 30th June 2017, the Group had an estimated Solvency II surplus of £6.7bn over its Solvency Capital Requirement, corresponding to a Solvency II coverage ratio of 186% on a shareholder basis.

Capital (£bn)	H1 2017[1]	FY 2016[1]
Own Funds	**14.5**	13.6
Solvency Capital Requirement (SCR)	**(7.8)**	(7.9)
Solvency II surplus	**6.7**	**5.7**
SCR coverage ratio (%)	**186**	**171**

1. Solvency II position on a shareholder basis and before the accrual of the 2017 interim dividend (H1 2017) and 2016 final dividend (FY 2016).

Analysis of movement from 1 January to 30 June 2017 (£bn)	Solvency II surplus
Surplus arising from back-book (including release of SCR)	0.6
Release of Risk Margin[2]	0.2
Amortisation of TMTP[3]	(0.2)
Operational surplus generation	**0.6**
New business strain	(0.1)
Net surplus generation	**0.5**
Dividends paid – 2016 final dividend	(0.6)
Operating variances	0.5
Market movements	0.1
Subordinated debt	0.5
Total surplus movement (after dividends paid in the period)	**1.0**

2. Based on the risk margin in force at 31 December 2016 and does not include the release of any risk margin added by new business written in 2017.
3. TMTP amortisation based on a linear run down of the end-2016 TMTP of £5.9bn (net of tax, £7bn before tax) which was management's estimate of the TMTP on end-2016 market conditions.

The increase in surplus reflects the surplus generated over the first six months of 2017 net of dividends paid of £0.6bn and interest payments on the Group's debt of £0.1bn. The net surplus generation was £0.5bn, after allowing for six months' amortisation of the opening Transitional Measures on Technical Provisions (TMTP). New business strain was £0.1bn. The total surplus generation includes a positive investment variance of £0.1bn reflecting market movements over 2017, in particular an increase in risk free rates and narrowing of credit spreads.

Operating variances include the impact of experience variances, changes to valuation and capital calibration assumptions, and other management actions including changes in asset mix, matching adjustment optimisation, hedging strategies, M&A activities (sale of Cofunds and Legal & General Netherlands contributed £0.1bn surplus), and update to the longevity assumptions.

The above incorporates management's estimate of the impact of recalculating the Transitional Measures for Technical Provisions (TMTP) as at 30th June 2017 as we believe this provides the most up to date and meaningful view of our Solvency II position. In line with PRA guidance, a formal recalculation of the Group's TMTP will take place no later than 1st January 2018.

When stated on a proforma basis, including the SCR attributable to our With-profits fund of £0.5bn and the final salary pension schemes of £0.2bn in both the Group's Own Funds and the SCR, the Group's coverage ratio was 180% (FY 2016: 165%).

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

The table below gives a reconciliation of the Group's IFRS Release from operations and Solvency II Operational surplus generation in H1 2017:

	£bn
IFRS Release from operations	**0.7**
Expected release of IFRS prudential margins	(0.3)
Release of IFRS specific reserves	-
Solvency II investment margin	0.1
Release of Solvency II Capital Requirement and Risk Margin less TMTP amortisation	0.2
Other Solvency II items and presentational differences	(0.1)
Solvency II Operational surplus generation	**0.6**

The table below gives a reconciliation of the Group's IFRS New business surplus to Solvency II New business strain in H1 2017:

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

SENSITIVITY ANALYSIS

	Impact on net of tax Solvency II capital surplus H1 2017 £bn	Impact on net of tax Solvency II coverage ratio H1 2017 %
Credit spreads widen by 100bps assuming an escalating addition to ratings	**0.3**	**8**
Credit migration[1]	**(0.6)**	**(8)**
15% fall in property markets	**(0.3)**	**(3)**
100bps increase in risk free rates	**1.0**	**24**
50bps fall in risk free rates	**(0.5)**	**(11)**

1. Credit migration stress covers the cost of an immediate big letter downgrade on c.20% of annuity portfolio bonds, or 3 times level expected in the next 12 months.

The above sensitivity analysis does not reflect all of the management actions which could be taken to reduce the impacts. In practice, the Group actively manages its asset and liability positions to respond to market movements. These results all allow (on an approximate basis) for the recalculation of estimated TMTP as at 30th June 2017 where the impact of the stress would cause this to change materially. The impacts of these stresses are not linear therefore these results should not be used to interpolate or extrapolate the impact of a smaller or larger stress. The results of these tests are indicative of the market conditions prevailing at the balance sheet date. The results would be different if performed at an alternative reporting date.

SOLVENCY II NEW BUSINESS CONTRIBUTION

Management estimates of the value of new business and the margin as at 30th June 2017 are shown below:

	PVNBP	Contribution from new business	Margin %
LGR[1](£m)	**1,859**	**166**	**8.9**
UK Protection Total (£m)	**754**	**69**	**9.1**
- Retail protection	632	61	9.6
- Group protection	122	8	6.5
US Protection (£m)	**376**	**48**	**12.8**

1. UK annuity business.

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

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

All assumptions and methodologies that would have a material impact on the margin for these contracts are unchanged from end 2016 other than the cost of currency hedging which has been updated to reflect current market conditions and hedging activity in light of Solvency II.

PRINCIPAL RISKS AND UNCERTAINTIES

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

RISKS AND UNCERTAINTIES	TREND, OUTLOOK AND MITIGATION
Reserves and our assessment of capital requirements may require revision as a result of changes in experience, regulation or legislation. The writing of long-term insurance business requires the setting of assumptions for long term trends in factors such as mortality, lapse rates, valuation interest rates, expenses and credit defaults. Actual experience may require recalibration of these assumptions impacting profitability. Management estimates are also required in the derivation of Solvency II capital metrics. These include modelling simplifications to reflect that it is not possible to perfectly model the external environment, with adjustment necessitated where new data emerges. Forced changes in reserves can also arise from regulatory or legislative intervention impacting capital requirements and profitability.	We undertake significant analysis of the variables associated with writing long-term insurance business to ensure that a suitable premium is charged for the risks we take on, and that reserves continue to remain appropriate for factors including mortality, lapse rates, valuation interest rates, expenses and credit defaults. We remain, however, inherently exposed to certain extreme events which could require us to adjust our reserves. For example, in our annuities business, while recent trend data continues to suggest the rate of longevity improvement may be slowing, we're inherently exposed to the risk that a dramatic advance in medical science beyond that anticipated leads to an unexpected change in life expectancy. This could require adjustment to reserves as improvements in mortality emerge. In our protection businesses, the emergence of new factors with potential to cause widespread mortality/morbidity or significant policy lapse rates may similarly require us to re-evaluate reserves. To mitigate these risks we remain focused on developing a comprehensive understanding of longevity science and continue to evolve and develop our underwriting capabilities for protection business. Our continued selective use of reinsurance also acts to reduce the impacts of these risk factors.
Investment market performance and conditions in the broader economy may adversely impact earnings, profitability or surplus capital. The performance and liquidity of investment markets, interest rate movements and inflation impact the value of investments we hold in shareholders' funds and those to meet the obligations from insurance business, with the movement in certain investments directly impacting profitability. Interest rate movements and inflation can also change the value of our obligations. We use a range of techniques to manage mismatches between assets and liabilities. However, loss can still arise from adverse markets. Interest rate expectations leading to falls in the risk free yield curve can also create a greater degree of inherent volatility to be managed in the Solvency II balance sheet, than the underlying economic position would dictate, potentially impacting capital requirements and surplus capital. In addition, significant falls in investment values can reduce fee income to our investment management business.	Whilst the global economic outlook generally remains positive, we continue to monitor a range of risk factors that could trigger a reappraisal of asset values or influence a change in broader central bank monetary policies. In the US, financial markets have responded favourably to a pro-growth pro-business agenda, nevertheless, political and policy uncertainties remain; in China, private debt levels leading to a disorderly default and a contraction in global growth remains a credible, if more remote risk; and in the UK, a lengthy period of negotiation and an uncertain "Brexit" outcome has potential to create on-going volatility for financial markets and the broader UK economy in which we operate. Although we cannot fully eliminate the downside impacts from these and other risk factors on our earnings, profitability or surplus capital, as part of our on-going business planning activity we continue to model a broad range of economic and financial market scenarios so as to try to ensure our strategies will remain resilient in projected conditions.

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

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

We continue to actively manage our exposure to default risks within our bond portfolios, setting selection criteria and exposure limits, and using the capabilities of LGIM's global credit team to ensure the risks are effectively controlled, and if appropriate, trade out to improve credit quality. We also seek to closely manage risks to our Solvency II balance sheet through monitoring factors that could give rise to a heightened level of default risk. However, we can never completely eliminate default risks or their impacts, although we seek to hold a strong balance sheet that we believe to be prudent for a range of adverse scenarios. Current factors that could lead to an increase in the level of default risk if they were to occur include a material deterioration in economic conditions; a renewed banking crisis within the Euro zone area; and default on debt linked to emerging markets.

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

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

The financial services sector continues to see significant regulatory driven change, both from the EU and from within the UK. Our internal control framework seeks to ensure on-going compliance with relevant legislation and regulation and we are progressing our responses to EU driven financial services regulation including UCITS V, MiFID II and PRIIPS. We have also established a programme of action to meet the requirements of the EU General Data Protection Directive (GDPR) which comes into force in May 2018. As a predominantly UK and US focused business, a potential loss by the UK financial services sector of EU regulatory pass-porting rights has limited direct impact, however, we are monitoring potential implications on market infrastructure and ensuring appropriate contingency plans are established. Within the UK the FCA published its final report on the Asset Management Market Study in June 2017 and continues with its thematic review activities across the sector to ensure the fair treatment of customers. We remain supportive of such regulation where it ensures trust and confidence and is a positive force on business, and whilst we believe we have appropriate frameworks in place to develop outcomes that meet the needs of all stakeholders, we are exposed to the inherent risk that thematic reviews of historic industry practices lead to unanticipated additional costs and we cannot completely eliminate the risk that controls may fail, resulting in sanction against the group.

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

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

There is already strong competition in all our markets, and although we have had considerable past success at building scale to offer low cost products, we recognise that markets remain attractive to new entrants. We are also cognisant of the potential for entry by scale overseas competitors who may have lower return on capital requirements and be unconstrained by Solvency II. We continue to execute a strategy that has digital technologies at its heart, with digital platforms an integral part of our protection, auto-enrolled pensions and individual retirement businesses, ensuring focus on customer engagement and the digital experience.

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

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

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

ENQUIRIES

Investors:

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

Media:

Graeme Wilson	Tulchan Communications	020 7353 4200
Sheebani Chothani	Tulchan Communications	020 7353 4200

NOTES

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

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

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

PARTICIPANT DIAL-IN NUMBERS

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

2017 Financial Calendar	Date
Ex-dividend date (interim dividend)	**17th August 2017**
Record date	**18th August 2017**
Last day for DRIP elections	**1st September 2017**
Payment date of 2017 interim dividend	**21st September 2017**

DEFINITIONS

Definitions are included in the Glossary on pages 101 to 105 of this release.

FORWARD LOOKING STATEMENTS

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

GOING CONCERN STATEMENT

The Group's business activities, together with the factors likely to affect its future development, performance and position in the current economic climate are set out in this Interim Management Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Results. Principal risks and uncertainties are detailed on pages 18 to 20. In addition, the financial statements include, amongst other things, notes on the Group's objectives, policies and process for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit and liquidity risk.

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

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

DIRECTOR'S RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge that:

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

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

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

iv. The directors of Legal & General Group Plc are listed in the Legal & General Group Plc Annual Report and Accounts for 31 December 2016, with the exception of Mark Gregory who resigned as Chief Financial Officer on 9 March 2017 and Richard Meddings and Rudy Markham who both resigned as non-executive directors on 25 May 2017. Stuart Jeffrey Davies joined the Board as Chief Financial Officer on 9 March 2017, Kerrigan Procter joined the Board as Chief Executive Officer, Legal & General Retirement on 9 March 2017 and Toby Strauss joined the Board as non-executive director on 1 January 2017. A list of current directors is maintained on the Legal & General Group Plc website: legalandgeneralgroup.com.

By order of the Board

Nigel Wilson	Stuart Jeffrey Davies
Group Chief Executive	Group Chief Financial Officer
8 August 2017	8 August 2017

NOTES

Operating profit

For the six months ended 30 June 2017

	Notes	**30.06.17 £m**	30.06.16 £m	Full year 31.12.16 £m
From continuing operations				
Legal & General Retirement (LGR)	2.02	**566**	405	809
Legal & General Investment Management (LGIM)	2.03	**194**	171	366
Legal & General Capital (LGC)	2.05	**142**	135	257
Legal & General Insurance (LGI)	2.02	**151**	151	319
- UK and Other		94	108	234
- US		57	43	85
General Insurance	2.04	**15**	31	52
Savings	2.02	**52**	49	99
Operating profit from divisions		**1,120**	942	1,902
Group debt costs[1]		**(92)**	(86)	(172)
Group investment projects and expenses[2]	2.06	**(40)**	(34)	(102)
Kingswood office closure costs		**-**	(45)	(66)
Operating profit		**988**	777	1,562
Investment and other variances	2.07	**169**	50	13
Gains/(losses) on non-controlling interests		**6**	(1)	7
Profit before tax attributable to equity holders		**1,163**	826	1,582
Tax expense attributable to equity holders of the company	2.14	**(211)**	(159)	(317)
Profit for the period		**952**	667	1,265
Profit attributable to equity holders of the company		**946**	668	1,258
		p	p	p
Earnings per share[3]	2.10	**15.94**	11.27	21.22
Diluted earnings per share[3]	2.10	**15.88**	11.23	21.13

1. Group debt costs exclude interest on non recourse financing.
2. Group investment projects and expenses in H1 17 include restructuring costs of £12m (H1 16: £16m; FY 16: £54m).
3. All earnings per share calculations are based on profit attributable to equity holders of the company.

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

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

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

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

LGI represents business in retail protection, group protection, networks, Legal & General Netherlands (LGN) (which was sold during April 2017) and protection business written in the USA (LGI US).

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

The General Insurance segment comprises short-term protection.

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

During 2017, changes have been made to the organisational structure. Investment Discounts On Line Limited (the IDOL) has been transferred to LGI from LGR. Comparatives have been amended accordingly. The impact of this reclassification has been to reduce LGR H1 16 operating profit by £1m (FY 16: reduce by £2m), and increase LGI (UK and Other) H1 16 operating profit by £1m (FY 16: increase by £2m).

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

IFRS and Release from Operations

2.01 Reconciliation of release from operations to operating profit before tax

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

For the six months ended 30 June 2017	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other[2] £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR[3]	**256**	**51**	**307**	**59**	**104**	**(3)**	**-**	**467**	**99**	**566**
LGIM	**165**	**(11)**	**154**	**-**	**(2)**	**1**	**-**	**153**	**41**	**194**
- LGIM excluding Workplace Savings (admin only)	153	-	153	-	-	-	-	153	41	194
- Workplace Savings (admin only)[4]	12	(11)	1	-	(2)	1	-	-	-	-
LGC	**119**	**-**	**119**	**-**	**-**	**-**	**-**	**119**	**23**	**142**
LGI	**166**	**3**	**169**	**(28)**	**23**	**(13)**	**(43)**	**108**	**43**	**151**
- UK and Other[3]	86	3	89	(28)	23	(13)	4	75	19	94
- US	80	-	80	-	-	-	(47)	33	24	57
General Insurance	**12**	**-**	**12**	**-**	**-**	**-**	**-**	**12**	**3**	**15**
Savings	**53**	**(2)**	**51**	**-**	**2**	**(11)**	**-**	**42**	**10**	**52**
Total from divisions	**771**	**41**	**812**	**31**	**127**	**(26)**	**(43)**	**901**	**219**	**1,120**
Group debt costs	**(74)**	**-**	**(74)**	**-**	**-**	**-**	**-**	**(74)**	**(18)**	**(92)**
Group investment projects and expenses	**(14)**	**-**	**(14)**	**-**	**-**	**-**	**(18)**	**(32)**	**(8)**	**(40)**
Total	**683**	**41**	**724**	**31**	**127**	**(26)**	**(61)**	**795**	**193**	**988**
Attributable to:										
Retained business	**683**	**41**	**724**	**31**	**127**	**(26)**	**(64)**	**792**	**192**	**984**
Disposed operations	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**3**	**1**	**4**

1. Release from operations includes dividends remitted from LGN of £nil (H1 16: £48m; FY 16: £70m) within the LGI (UK and Other) line and US dividends of £80m (H1 16: £61m; FY 16: £63m) within the LGI (US) line.
2. International and other includes £10m (H1 16: £13m; FY 16: £43m) of restructuring costs (£12m before tax) (H1 16: £16m before tax; FY 16: £54m before tax) within the Group investment projects and expenses line.
3. During 2017, changes have been made to the organisational structure. The IDOL business has been transferred to LGI from LGR. Comparatives have been amended accordingly. The impact of this reclassification has been to reduce LGR H1 16 release from operations by £1m (FY 16: reduce by £1m) and increase LGI (UK and Other) H1 16 release from operations by £1m (FY 16: increase by £1m).
4. This represents Workplace Savings admin only and excludes fund management profits.

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

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

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

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

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

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

For the six months ended 30 June 2016	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other[2] £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR[3]	204	79	283	(11)	48	13	-	333	72	405
LGIM	145	(11)	134	1	-	(1)	-	134	37	171
- LGIM excluding Workplace Savings (admin only)	136	-	136	-	-	-	-	136	38	174
- Workplace Savings (admin only)[4]	9	(11)	(2)	1	-	(1)	-	(2)	(1)	(3)
LGC	113	-	113	-	-	-	-	113	22	135
LGI	196	7	203	(16)	17	(13)	(87)	104	47	151
- UK and Other[3]	135	7	142	(16)	17	(13)	(44)	86	22	108
- US	61	-	61	-	-	-	(43)	18	25	43
General Insurance	25	-	25	-	-	-	-	25	6	31
Savings	51	(3)	48	-	5	(14)	-	39	10	49
Total from divisions	734	72	806	(26)	70	(15)	(87)	748	194	942
Group debt costs	(69)	-	(69)	-	-	-	-	(69)	(17)	(86)
Group investment projects and expenses	(10)	-	(10)	-	-	-	(17)	(27)	(7)	(34)
Kingswood office closure costs[5]	-	-	-	-	-	-	(36)	(36)	(9)	(45)
Total	655	72	727	(26)	70	(15)	(140)	616	161	777
Attributable to:										
Retained business	609	72	681	(26)	70	(12)	(96)	617	161	778
Disposed operations	46	-	46	-	-	(3)	(44)	(1)	-	(1)

1. Operational cash generation includes dividends remitted from LGN of £48m within the LGI (UK and Other) line and LGI (US) of £61m.
2. International and other includes £13m of restructuring costs (£16m before tax) within the group investment projects and expenses line.
3. LGI (UK and Other) includes the IDOL business which was previously reported in LGR. Comparatives have been restated accordingly.
4. This represents Workplace Savings admin only and excludes fund management profits.
5. The Kingswood office closure costs reflect expenditure in relation to rent and rates, as well as the write-off of previously capitalised expenditure.

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

For the year ended 31 December 2016	Release from operations[1] £m	New business surplus/ (strain) £m	Net release from operations £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other[2] £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGR	432	159	591	34	40	6	-	671	138	809
LGIM	308	(22)	286	(1)	-	-	-	285	81	366
- LGIM excluding Workplace Savings (admin only)	290	-	290	-	-	-	-	290	82	372
- Workplace Savings (admin only)[3]	18	(22)	(4)	(1)	-	-	-	(5)	(1)	(6)
LGC	214	-	214	-	-	-	-	214	43	257
LGI	318	23	341	(11)	5	(29)	(79)	227	92	319
- UK and Other	255	23	278	(11)	5	(29)	(57)	186	48	234
- US	63	-	63	-	-	-	(22)	41	44	85
General Insurance	42	-	42	-	-	-	-	42	10	52
Savings	104	(5)	99	4	8	(32)	-	79	20	99
Total from divisions	1,418	155	1,573	26	53	(55)	(79)	1,518	384	1,902
Group debt costs	(138)	-	(138)	-	-	-	-	(138)	(34)	(172)
Group investment projects and expenses	(24)	-	(24)	-	-	-	(59)	(83)	(19)	(102)
Kingswood office closure costs[4]	-	-	-	-	-	-	(53)	(53)	(13)	(66)
Total	1,256	155	1,411	26	53	(55)	(191)	1,244	318	1,562
Attributable to:										
Retained business	1,186	155	1,341	26	53	(50)	(133)	1,237	315	1,552
Disposed operations	70	-	70	-	-	(5)	(58)	7	3	10

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

2.02 Analysis of LGR, LGI and Savings operating profit

	LGR 30.06.17 £m	**LGI 30.06.17 £m**	**Savings 30.06.17 £m**	LGR 30.06.16 £m	LGI 30.06.16 £m	Savings 30.06.16 £m
Net release from operations	**307**	**169**	**51**	283	203	48
Experience variances						
Persistency[1]	**-**	**(13)**	**-**	-	1	-
Mortality/morbidity[2]	**3**	**(16)**	**-**	2	(15)	-
Expenses	**(6)**	**2**	**1**	(7)	3	2
Project and development costs	**(2)**	**(1)**	**(2)**	(1)	(1)	-
Other[3]	**64**	**-**	**1**	(5)	(4)	(2)
Total experience variances	**59**	**(28)**	**-**	(11)	(16)	-
Changes to valuation assumptions						
Persistency	**-**	**-**	**-**	-	-	5
Mortality/morbidity[4]	**104**	**25**	**-**	48	2	-
Expenses	**-**	**-**	**-**	-	25	-
Other	**-**	**(2)**	**2**	-	(10)	-
Total changes in valuation assumptions	**104**	**23**	**2**	48	17	5
Movement in non-cash items						
Deferred tax	**-**	**-**	**-**	-	1	-
Acquisition expense tax relief [5]	**-**	**(9)**	**(1)**	-	(13)	(2)
Deferred Acquisition Costs (DAC)[6]	**-**	**-**	**(15)**	-	-	(15)
Deferred Income Liabilities (DIL)[6]	**-**	**-**	**5**	-	-	6
Other	**(3)**	**(4)**	**-**	13	(1)	(3)
Total non-cash movement items and other	**(3)**	**(13)**	**(11)**	13	(13)	(14)
International and other[7]	**-**	**(43)**	**-**	-	(87)	-
Operating profit after tax	**467**	**108**	**42**	333	104	39
Tax gross up	**99**	**43**	**10**	72	47	10
Operating profit before tax	**566**	**151**	**52**	405	151	49

1. The H1 17 LGI persistency experience variance primarily reflects a higher number of group protection scheme renewals than anticipated, coupled with retail protection negative lapse experience and cancellations.
2. LGI mortality/morbidity experience variance in H1 17 primarily reflects adverse claims experience on the group protection book of business.
3. The H1 17 positive LGR other experience variance is primarily due to the £60m release of reserves from moving to finalised PRT scheme data, and a £16m model change to improve consistency between deferred and immediate annuity liability valuation models. This is partially offset by a £12m negative impact from prudent mortality experience assumptions during the period where full death data is not yet available.
4. The H1 17 LGR mortality/morbidity valuation assumption changes primarily reflect an update of the portfolio base mortality assumptions following the review of mortality rates seen over the last few years. The LGI mortality/morbidity valuation assumption changes reflects an improvement in individual protection mortality reserving basis modelling. The H1 16 mortality/morbidity valuation assumption change in LGR primarily reflects a change in the treatment to historic longevity insurance deals where future fees in excess of prudent estimates of longevity and expense experience are now included as an offset to IFRS reserves.
5. Net release from operations for LGI and Savings recognises tax relief from prior year acquisition expenses, which are spread evenly over seven years under relevant 'I-E' tax legislation in the period the cash flows actually occur. In contrast, operating profit typically recognises the value of these future cash flows in the same period as the underlying expense as deferred tax amounts. The reconciling amounts arising from these items are included in the table above. Following the removal of new retail protection business from the 'I-E' tax regime, and the removal of commission from new insured savings business under the Retail Distribution Review at the end of 2012, no material amount of deferred tax assets arise on new acquisition expenses and the value of these future cash flows for post-2013 acquisition expenses have been reflected within net release from operations. The residual prior year acquisition expenses will run off predictably to 2018.
6. The DAC in Savings represents the amortisation charges offset by new acquisition costs deferred in the year. The DIL reflects initial fees on insured savings business which relate to the future provision of services and are deferred and amortised over the anticipated period in which these services are provided.
7. LGI Other in H1 17 reflects the difference between the dividend (release from operations) remitted from LGA of £80m (H1 2016: dividends remitted from LGN of £48m and LGA of £61m) and the LGA and India operating profit after tax (H1 16: LGN, LGA and India operating profit after tax).

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

	LGR Full year 31.12.16 £m	LGI Full year 31.12.16 £m	Savings Full year 31.12.16 £m
Net release from operations	591	341	99
Experience variances			
Persistency	2	(2)	-
Mortality/morbidity[1]	47	(34)	-
Expenses	(9)	4	7
Project and development costs	(21)	2	(4)
Other	15	19	1
Total experience variances	34	(11)	4
Changes to valuation assumptions			
Persistency[2]	-	(52)	5
Mortality/morbidity[3]	40	4	-
Expenses[4]	-	53	-
Other	-	-	3
Total valuation assumption changes	40	5	8
Movement in non-cash items			
Deferred tax	-	-	1
Acquisition expense tax relief [5]	-	(27)	(3)
Deferred Acquisition Costs (DAC)[6]	-	-	(28)
Deferred Income Liabilities (DIL)[6]	-	-	9
Other	6	(2)	(11)
Total non-cash movement items	6	(29)	(32)
International and other[7]	-	(79)	-
Operating profit after tax	671	227	79
Tax gross up	138	92	20
Operating profit before tax	809	319	99

1. The LGR mortality/morbidity experience variance reflects higher than expected annuitant deaths experience over FY 16. LGI mortality/morbidity experience variance in FY 16 primarily reflects adverse claims experience on the group protection book of business.
2. The LGI persistency valuation assumption change in FY 16 is the result of a review of prudence within the lapse assumption for level and decreasing term assurance products.
3. The mortality/morbidity valuation assumption change in LGR primarily reflects a change in the treatment to historic longevity insurance deals where future fees in excess of prudent estimates of longevity and expense experience are now included as an offset to IFRS reserves.
4. The LGI expense valuation assumption change is the result of the reduction in unit costs following recent expense savings actions, together with a review of the prudence within renewal expenses on our protection products.
5. Net release from operations for LGI and Savings recognises tax relief from prior year acquisition expenses, which are spread evenly over seven years under relevant 'I-E' tax legislation in the period the cash flows actually occur. In contrast, operating profit typically recognises the value of these future cash flows in the same period as the underlying expense as deferred tax amounts. The reconciling amounts arising from these items are included in the table above. Following the removal of new retail protection business from the 'I-E' tax regime, and the removal of commission from new insured savings business under the Retail Distribution Review at the end of 2012, no material amount of deferred tax assets arise on new acquisition expenses and the value of these future cash flows for post-2013 acquisition expenses have been reflected within net release from operations. The residual prior year acquisition expenses will run off predictably to 2018.
6. The DAC in Savings represents the amortisation charges offset by new acquisition costs deferred in the year. The DIL reflects initial fees on insured savings business which relate to the future provision of services and are deferred and amortised over the anticipated period in which these services are provided.
7. LGI Other in FY 16 reflects the difference between the dividend (release from operations) remitted from LGN and LGI (US) of £70m and £63m respectively and the LGN, LGI (US) and India operating profit after tax.

2.03 LGIM operating profit

	30.06.17 £m	30.06.16 £m	Full year 31.12.16 £m
Investment management revenue (excluding 3rd party market data)[1]	**382**	332	700
Investment management transactional revenue[2]	**12**	16	30
Investment management expenses (excluding 3rd party market data)[1]	**(200)**	(174)	(358)
Workplace Savings (admin only) operating loss[3]	**-**	(3)	(6)
Total LGIM operating profit	**194**	171	366

1. Investment management revenue and expenses excludes income and costs of £8m in relation to provision of 3rd party market data (H1 16: £5m each; FY 16: £14m each).
2. Transactional revenue includes execution fees, asset transition income, trigger fees, arrangement fees on property transactions and performance fees for property funds.
3. This represents Workplace Savings admin only and excludes fund management profits.

2.04 General Insurance operating profit and combined operating ratio

	30.06.17 £m	30.06.16 £m	Full year 31.12.16 £m
General Insurance operating profit[1]	**15**	31	52
General Insurance combined operating ratio (%)[2]	**95**	85	89

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

2.05 LGC operating profit

	30.06.17 £m	30.06.16 £m	Full year 31.12.16 £m
Direct investments	**69**	68	121
Traded portfolio including treasury operations	**73**	67	136
Total LGC operating profit	**142**	135	257

2.06 Group investment projects and central expenses

	30.06.17 £m	30.06.16 £m	Full year 31.12.16 £m
Group investment projects and central expenses	**(28)**	(18)	(48)
Restructuring costs[1]	**(12)**	(16)	(54)
Total group investment projects and expenses	**(40)**	(34)	(102)

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

2.07 Investment and other variances

	30.06.17 £m	30.06.16 £m	Full year 31.12.16 £m
Investment variance[1]	**198**	58	147
M&A related[2]	**6**	(4)	(102)
Other[3]	**(35)**	(4)	(32)
Total investment and other variances	**169**	50	13

1. H1 17 investment variance is positive, primarily driven by the outperformance of UK equity markets to expectations. The defined benefit pension scheme variance of £111m contained within this line (H1 16: £31m; FY 16: £29m) primarily reflects the impact of the acquisition of annuities as an asset of the scheme from LGR, and the interest rate difference between the IAS 19 and annuity discount rates. A segmental analysis of Investment and other variances can be found in note 2.09 (a).
2. M&A related includes gains and losses, expenses and intangible amortisation relating to acquisitions and disposals. H1 17 includes the £17m net gain resulting from the disposal of Legal & General Netherlands. (H1 16: includes the £4m net gain resulting from the disposal of subsidiaries during the period; FY 16: includes the £60m net loss resulting from the classification of Cofunds as held for sale (£64m loss) and the disposal of Suffolk Life (£4m gain)).
3. Other includes new business start-up costs and other non-investment related variance items.

Consolidated Income Statement
For the six months ended 30 June 2017

	Notes	**30.06.17 £m**	30.06.16 £m	Full year 31.12.16 £m
Income				
Gross written premiums	4.02	**3,716**	5,492	10,325
Outward reinsurance premiums		**(866)**	(719)	(1,573)
Net change in provision for unearned premiums		**(11)**	6	4
Net premiums earned		**2,839**	4,779	8,756
Fees from fund management and investment contracts		**481**	523	1,068
Investment return		**15,457**	36,978	67,824
Operational income		**141**	243	321
Total income	2.09	**18,918**	42,523	77,969
Expenses				
Claims and change in insurance liabilities		**3,449**	11,377	17,896
Reinsurance recoveries		**(494)**	(1,454)	(2,745)
Net claims and change in insurance liabilities		**2,955**	9,923	15,151
Change in provisions for investment contract liabilities		**13,618**	30,569	58,578
Acquisition costs		**377**	375	793
Finance costs		**106**	98	198
Other expenses		**468**	748	1,569
Transfers to/(from) unallocated divisible surplus		**84**	(174)	(187)
Total expenses		**17,608**	41,539	76,102
Profit before tax		**1,310**	984	1,867
Tax expense attributable to policyholder returns		**(147)**	(158)	(285)
Profit before tax attributable to equity holders		**1,163**	826	1,582
Total tax expense		**(358)**	(317)	(602)
Tax expense attributable to policyholder returns		**147**	158	285
Tax expense attributable to equity holders	2.14	**(211)**	(159)	(317)
Profit for the period	2.09	**952**	667	1,265
Attributable to:				
Non-controlling interests	2.20	**6**	(1)	7
Equity holders of the company		**946**	668	1,258
Dividend distributions to equity holders of the company during the period	2.16	**616**	592	830
Dividend distributions to equity holders of the company proposed after the period end	2.16	**256**	238	616

		p	p	p
Earnings per share[1]	2.10	**15.94**	11.27	21.22
Diluted earnings per share[1]	2.10	**15.88**	11.23	21.13

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

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2017

	30.06.17 £m	30.06.16 £m	31.12.16 £m
Profit for the period	**952**	667	1,265
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses on defined benefit pension schemes	**(89)**	(62)	(138)
Tax on actuarial losses on defined benefit pension schemes	**16**	12	17
Actuarial gains on defined benefit pension schemes transferred to unallocated divisible surplus	**33**	23	51
Tax on actuarial gains on defined benefit pension schemes transferred to unallocated divisible surplus	**(6)**	(4)	(6)
Total items that will not be reclassified to profit or loss subsequently	**(46)**	(31)	(76)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations	**(44)**	116	190
Movement in cross-currency hedge	**20**	-	-
Net change in financial investments designated as available-for-sale	**28**	66	(4)
Tax on net change in financial investments designated as available-for-sale	**(10)**	(23)	1
Total items that may be reclassified to profit or loss subsequently	**(6)**	159	187
Other comprehensive (expense)/income after tax	**(52)**	128	111
Total comprehensive income for the period	**900**	795	1,376
Total comprehensive income attributable to:			
Non-controlling interests	**6**	(1)	7
Equity holders of the company	**894**	796	1,369

Consolidated Balance Sheet

As at 30 June 2017

	Notes	30.06.17 £m	30.06.16[1] £m	31.12.16[1] £m
Assets				
Goodwill		**11**	79	11
Purchased interest in long term businesses and other intangible assets		**133**	251	155
Deferred acquisition costs		**2,032**	2,007	2,105
Investment in associates and joint ventures		**305**	237	283
Property, plant and equipment		**69**	97	76
Investment property	2.13/3.04	**8,714**	8,227	8,150
Financial investments	2.13/3.04	**435,861**	403,237	428,544
Reinsurers' share of contract liabilities		**5,300**	4,955	5,593
Deferred tax asset	2.14	**5**	5	5
Current tax recoverable		**358**	271	297
Other assets		**11,262**	10,900	5,022
Assets of operations classified as held for sale	2.12	**-**	-	2,265
Cash and cash equivalents		**15,805**	12,842	15,348
Total assets		**479,855**	443,108	467,854
Equity				
Share capital	2.17	**149**	149	149
Share premium		**985**	978	981
Employee scheme treasury shares		**(40)**	(32)	(30)
Capital redemption and other reserves		**211**	211	212
Retained earnings		**5,910**	5,285	5,633
Attributable to owners of the parent		**7,215**	6,591	6,945
Non-controlling interests	2.20	**350**	292	338
Total equity		**7,565**	6,883	7,283
Liabilities				
Participating insurance contracts		**5,579**	5,864	5,794
Participating investment contracts		**5,180**	5,260	5,271
Unallocated divisible surplus		**719**	693	661
Value of in-force non-participating contracts		**(145)**	(135)	(206)
Participating contract liabilities		**11,333**	11,682	11,520
Non-participating insurance contracts		**61,097**	58,437	60,779
Non-participating investment contracts		**325,059**	300,605	321,177
Non-participating contract liabilities		**386,156**	359,042	381,956
Core borrowings	2.18	**3,499**	3,064	3,071
Operational borrowings	2.19	**553**	411	430
Provisions		**1,358**	1,205	1,328
Deferred tax liabilities	2.14	**840**	729	813
Current tax liabilities		**171**	120	117
Payables and other financial liabilities	2.15	**43,709**	36,756	37,347
Other liabilities		**509**	617	594
Net asset value attributable to unit holders		**24,162**	22,599	21,573
Liabilities of operations classified as held for sale	2.12	**-**	-	1,822
Total liabilities		**472,290**	436,225	460,571
Total equity and liabilities		**479,855**	443,108	467,854

1. H1 16 and FY 16 Cash Equivalents and Financial Investments values have been restated. Refer to footnote 1 in the Consolidated Cash Flow Statement.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves[1] £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
As at 1 January 2017	**149**	**981**	**(30)**	**212**	**5,633**	**6,945**	**338**	**7,283**
Total comprehensive (expense)/income for the period	**-**	**-**	**-**	**(6)**	**900**	**894**	**6**	**900**
Options exercised under share option schemes	**-**	**4**	**-**	**-**	**-**	**4**	**-**	**4**
Net movement in employee scheme treasury shares	**-**	**-**	**(10)**	**(3)**	**1**	**(12)**	**-**	**(12)**
Dividends	**-**	**-**	**-**	**-**	**(616)**	**(616)**	**-**	**(616)**
Movement in third party interests	**-**	**-**	**-**	**-**	**-**	**-**	**6**	**6**
Currency translation differences	**-**	**-**	**-**	**8**	**(8)**	**-**	**-**	**-**
As at 30 June 2017	**149**	**985**	**(40)**	**211**	**5,910**	**7,215**	**350**	**7,565**

1. Capital redemption and other reserves include Share-based payments £57m (H1 16: £64m; FY 16: £60m), Foreign exchange £99m (H1 16: £81m; FY 16: £135m), Capital redemption £17m (H1 16: £17m; FY 16: £17m), Available-for-sale reserves £17m (H1 16: £48m; FY 16: £(1)m) and Hedging reserves £21m (H1 16: £1m; FY 16: £1m).

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

For the year ended 31 December 2016	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves £m	Retained earnings £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
As at 1 January 2016	149	976	(30)	89	5,220	6,404	289	6,693
Total comprehensive income for the year	-	-	-	187	1,182	1,369	7	1,376
Options exercised under share option scheme	-	5	--		-	5	-	5
Net movement in employee scheme treasury shares	-	-	-	(9)	6	(3)	-	(3)
Dividends	-	-	-	-	(830)	(830)	-	(830)
Movement in third party interests	-	-	-	-	-	-	42	42
Currency translation differences	-	-	-	(55)	55	-	-	-
As at 31 December 2016	149	981	(30)	212	5,633	6,945	338	7,283

Consolidated Cash Flow Statement

For the six months ended 30 June 2017

	Notes	**30.06.17 £m**	30.06.16[1] £m	Full year 31.12.16[1] £m
Cash flows from operating activities				
Profit for the period		**952**	667	1,265
Adjustments for non cash movements in net profit for the period				
Realised and unrealised (gains) on financial investments and investment properties		**(9,588)**	(31,213)	(53,262)
Investment income		**(5,396)**	(5,164)	(9,390)
Interest expense		**106**	98	198
Tax expense		**358**	317	602
Other adjustments		**33**	(7)	(45)
Net (increase)/decrease in operational assets				
Investments held for trading or designated as fair value through profit or loss		**418**	485	(11,210)
Investments designated as available-for-sale		**(4)**	327	246
Other assets		**(6,116)**	(7,947)	(2,658)
Net increase/(decrease) in operational liabilities				
Insurance contracts		**259**	8,921	12,910
Transfer to unallocated divisible surplus		**57**	(200)	(232)
Investment contracts		**3,790**	19,164	39,747
Value of in-force non-participating contracts		**62**	49	(22)
Other liabilities		**10,517**	10,674	17,023
Cash used in operations		**(4,552)**	(3,829)	(4,828)
Interest paid		**(104)**	(75)	(198)
Interest received		**2,353**	2,740	4,863
Tax paid[2]		**(298)**	(217)	(424)
Dividends received		**2,851**	2,622	4,676
Net cash flows from operating activities		**250**	1,241	4,089
Cash flows from investing activities				
Net acquisition of plant, equipment and intangibles		**(30)**	(29)	(45)
Disposal of subsidiaries[3]	2.11	**286**	(340)	(272)
Investment in joint ventures		**-**	(17)	(63)
Net cash flows from/(used in) investing activities		**256**	(386)	(380)
Cash flows from financing activities				
Dividend distributions to ordinary equity holders of the company during the period	2.16	**(616)**	(589)	(830)
Proceeds from issue of ordinary share capital		**3**	3	5
Purchase of employee scheme shares (net)		**9**	2	-
Proceeds from borrowings		**1,211**	253	219
Repayment of borrowings		**(619)**	(315)	(342)
Net cash flows used in financing activities		**(12)**	(646)	(948)
Net increase in cash and cash equivalents		**494**	209	2,761
Exchange (losses)/gains on cash and cash equivalents		**(37)**	89	182
Cash and cash equivalents at 1 January (before reallocation of held for sale cash)		**15,348**	12,544	12,544
Cash and cash equivalents (before reallocation of held for sale cash)		**15,805**	12,842	15,487
Cash and cash equivalents classified as held for sale	2.12	**-**	-	(139)
Cash and cash equivalents at 30 June/31 December		**15,805**	12,842	15,348

1. Following a review of certain short dated instruments held by the group, certain assets have been reclassified from Cash and Cash Equivalents to Financial Instruments as their tenure is greater than 3 months. These amounts totalled £6,114m at H1 16 and £10,369m at FY 16. There is a net nil impact on the Consolidated Income Statement. The reclassification has resulted in an adjustment to the Investments held for trading or designated as fair value through profit or loss in the Consolidated Cash Flow Statement of £2,408 at H1 16 and (£1,847m) at FY 16.
2. Tax comprises UK corporation tax paid of £151m (H1 16: £108m; FY 16: £249m), overseas corporate taxes of £8m (H1 16: £5m; FY 16: £16m), and withholding tax of £139m (H1 16: £104m; FY 16: £159m).
3. Net cash flows from disposals includes cash received of £286m (H1 16: £74m; FY 16: £144m) less cash and cash equivalents disposed of £nil (H1 16: £414m; FY 16: £416m).

The group's Consolidated Cash Flow Statement includes all cash and cash equivalent flows. The closing cash position includes £679m (H1 16: £601m; FY 16: £731m) relating to the with-profit fund policyholders and £12,687m (H1 16: £10,201m; FY 16: £11,764m) relating to unit-linked policyholders.

2.08 Basis of preparation

The group's financial information for the six months ended 30 June 2017 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and with IAS 34, 'Interim Financial Reporting'. The group's financial information has also been prepared in line with the accounting policies and methods of computation which the group expects to adopt for the 2017 year end. These policies are consistent with the principal accounting policies which were set out in the group's 2016 consolidated financial statements which were consistent with IFRSs issued by the International Accounting Standards Board as adopted by the European Commission for use in the European Union.

The preparation of the interim management report includes the use of estimates and assumptions which affect items reported in the consolidated balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. The economic and non-economic actuarial assumptions used to establish the liabilities in relation to insurance and investment contracts are significant. For half-year financial reporting, economic assumptions have been updated to reflect market conditions. Non-economic assumptions are consistent with those used in the 31 December 2016 financial statements except for the changes outlined in Note 2.02.

The results for the six months ended 30 June 2017 are unaudited but have been reviewed by PricewaterhouseCoopers LLP. The interim results do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The results from the full year 2016 have been taken from the group's 2016 Annual Report and Accounts, restated as described in footnote 1 of the Consolidated Cash Flow Statement. Therefore, these interim accounts should be read in conjunction with the 2016 Annual Report and Accounts that have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and adopted by the European Commission for use in the European Union. PricewaterhouseCoopers LLP reported on the 2016 financial statements, and their report was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The group's 2016 Annual Report and Accounts has been filed with the Registrar of Companies.

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

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

Future accounting developments
Revenue from Contracts with Customers
IFRS 15, 'Revenue from Contracts with Customers', issued in May 2014, is effective, for annual periods beginning on or after 1 January 2018. This standard provides clear guidance over when and how much revenue should be recognised. It provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. An assessment is currently on-going to determine the impact upon the group, focussing in particular on our investment management business including the assessment of performance fees. The standard does not apply to business classified as insurance contracts. The group does not intend to early adopt this standard.

Insurance Contracts
IFRS 17, 'Insurance Contracts' was issued in May 2017 and is effective for annual periods beginning on or after 1 January 2021 (subject to EU endorsement). The standard provides a comprehensive approach for accounting for insurance contracts including their valuation, income statement presentation and disclosure. The group has mobilised a project to assess the financial and operational implications of the standard.

Financial Instruments
In July 2014, the IASB issued IFRS 9, 'Financial Instruments' which is effective for annual periods beginning on or after 1 January 2018. The ISAB subsequently issued 'Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which allows entities which meet certain requirements to defer their implementation of IFRS 9 (subject to EU endorsement) until adoption of IFRS 17 or 1 January 2021, whichever is the earlier. As disclosed in the 31 December 2016 financial statements, the group will qualify, and expects to apply this deferral of IFRS 9.

The impact of IFRS 9 on the group's financial statements will depend on the interaction of the asset classification and measurement with the insurance contract measurement at the date of transition, particularly for liabilities which are measured using locked in discount rates.

Leases
In January 2016, the IASB issued IFRS 16, 'Leases', effective for annual periods beginning on or after 1 January 2019, subject to EU endorsement. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts, bringing commitments in relation to operating leases (as currently defined in IAS 17, 'Leases') onto the balance sheet. The impact of the standard on lessor accounting is significantly smaller with the provisions remaining closely aligned to those in IAS 17 although the IASB have issued updated guidance on the definition of a lease. An assessment of the impacts of the standard on the group's financial statements will be completed in due course. The group does not intend to early adopt this standard.

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

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

2.09 Segmental analysis

Reportable segments

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

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

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

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

LGI represents UK retail protection, group protection and network business, Legal & General Netherlands (LGN) (which was sold during April 2017) and protection business written in the USA (LGI US).

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

The General Insurance segment comprises short-term protection.

During 2017, changes have been made to the organisational structure. The IDOL business has been transferred to LGI from LGR. Comparatives have been amended accordingly. The impact of this reclassification has been to reduce LGR H1 16 release from operations by £1m (FY 16: reduce by £1m) and increase LGI (UK and Other) H1 16 release from operations by £1m (FY 16: increase by £1m).

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

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

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

For the six months ended 30 June 2017	LGR £m	LGIM £m	LGC £m	LGI[1] £m	General Insurance £m	Savings £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	**566**	**194**	**142**	**151**	**15**	**52**	**(132)**	**988**
Investment and other variances[1]	**38**	**(4)**	**52**	**7**	**6**	**(7)**	**77**	**169**
Gains attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**6**	**6**
Profit/(loss) before tax attributable to equity holders	**604**	**190**	**194**	**158**	**21**	**45**	**(49)**	**1,163**
Tax (expense)/credit attributable to equity holders of the company	**(108)**	**(40)**	**(25)**	**(41)**	**(4)**	**(9)**	**16**	**(211)**
Profit/(loss) for the period	**496**	**150**	**169**	**117**	**17**	**36**	**(33)**	**952**

For the six months ended 30 June 2016	LGR[2] £m	LGIM £m	LGC £m	LGI[2] £m	General Insurance £m	Savings[1] £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	405	171	135	151	31	49	(165)	777
Investment and other variances[1]	63	(8)	60	(100)	10	4	21	50
Loss attributable to non-controlling interests	-	-	-	-	-	-	(1)	(1)
Profit/(loss) before tax attributable to equity holders	468	163	195	51	41	53	(145)	826
Tax (expense)/credit attributable to equity holders of the company	(82)	(35)	(24)	(30)	(6)	(10)	28	(159)
Profit/(loss) for the period	386	128	171	21	35	43	(117)	667

For the year ended 31 December 2016	LGR[2] £m	LGIM £m	LGC £m	LGI[2] £m	General Insurance £m	Savings[1] £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	809	366	257	319	52	99	(340)	1,562
Investment and other variances[1]	37	(32)	162	(124)	16	(51)	5	13
Gains attributable to non-controlling interests	-	-	-	-	-	-	7	7
Profit/(loss) before tax attributable to equity holders	846	334	419	195	68	48	(328)	1,582
Tax (expense)/credit attributable to equity holders of the company	(148)	(68)	(52)	(72)	(13)	(22)	58	(317)
Profit/(loss) for the period	698	266	367	123	55	26	(270)	1,265

1. H1 17 Investment and other variances - LGI includes the £17m net gain resulting from the disposal of subsidiaries during the period (H1 16: Savings includes the £4m net gain resulting from the disposal of subsidiaries during the period; FY 16: Savings includes the £60m net loss resulting from the disposal of subsidiaries during the year).
2. During 2017, changes have been made to the organisational structure. The IDOL business has been transferred to LGI from LGR. Comparatives have been restated accordingly. The impact of this reclassification has been to reduce LGR H1 16 operating profit by £1m and profit before tax by £1m (FY 16: reduce LGR operating profit by £2m and profit before tax by £1m). LGI operating profit and profit before tax are showing corresponding increases.

2.09 Segmental analysis (continued)
(b) Income

For the six months ended 30 June 2017	**LGR £m**	**LGIM[1] £m**	**LGI £m**	**General Insurance £m**	**Savings £m**	**LGC and other[2] £m**	**Total £m**
Internal income	**-**	**78**	**-**	**-**	**-**	**(78)**	**-**
External income	**2,810**	**12,988**	**896**	**167**	**1,436**	**621**	**18,918**
Total income	**2,810**	**13,066**	**896**	**167**	**1,436**	**543**	**18,918**

For the six months ended 30 June 2016	LGR[3] £m	LGIM[1,4] £m	LGI £m	General Insurance £m	Savings[4] £m	LGC and other[2,4] £m	Total £m
Internal income	-	66	-	-	-	(66)	-
External income	9,075	24,129	1,182	159	2,368	5,610	42,523
Total income	9,075	24,195	1,182	159	2,368	5,544	42,523

For the year ended 31 December 2016	LGR[3] £m	LGIM[1,4] £m	LGI £m	General Insurance £m	Savings[4] £m	LGC and other[2,4] £m	Total £m
Internal income	-	139	-	-	-	(139)	-
External income	13,831	49,812	2,257	326	4,406	7,337	77,969
Total income	13,831	49,951	2,257	326	4,406	7,198	77,969

1. LGIM internal revenue relates to investment management services provided to other segments.
2. LGC and other includes LGC, inter-segmental eliminations and group consolidation adjustments.
3. During 2017, changes have been made to the organisational structure. The IDOL business has been transferred to LGI from LGR. Comparatives have been amended accordingly. The impact of this reclassification has been to reduce LGR H1 16 external income by £8m (FY 16: reduce by £20m) with corresponding increases in LGI external income.
4. An internal transaction (H1 16: £79m; FY 16: £175m) has been reclassified between LGIM, Savings and LGC and other internal and external income.

2.10 Earnings per share
(a) Earnings per share

	Profit after tax 30.06.17 £m	**Earnings per share[1] 30.06.17 p**	**Adjusted profit after tax 30.06.17 £m**	**Adjusted earnings per share[1,2] 30.06.17 p**	Profit after tax 30.06.16 £m	Earnings per share[1] 30.06.16 p	Adjusted profit after tax 30.06.16 £m	Adjusted earnings per share[1,2] 30.06.16 p
Operating profit after tax	**795**	**13.40**	**795**	**13.40**	616	10.39	616	10.39
Investment and other variances	**151**	**2.54**	**134**	**2.26**	52	0.88	48	0.81
Earnings per share based on profit attributable to equity holders	**946**	**15.94**	**929**	**15.66**	668	11.27	664	11.20

	Profit after tax Full year 31.12.16 £m	Earnings per share[1] Full year 31.12.16 p	Adjusted profit after tax Full year 31.12.16 £m	Adjusted earnings per share[1,2] Full year 31.12.16 p
Operating profit after tax	1,244	20.98	1,244	20.98
Investment and other variances	14	0.24	72	1.22
Earnings per share based on profit attributable to equity holders	1,258	21.22	1,316	22.20

1. Earnings per share is calculated by dividing profit after tax derived from continuing operations by the weighted average number of ordinary shares in issue during the period, excluding employee scheme treasury shares.
2. Adjusted earnings per share has been calculated after excluding the net current year profit after tax of £17m, resulting from the disposal of L&G Netherlands. (H1 16: excluding the net gain of £4m, resulting from the disposal of Suffolk Life; FY 16: excluding the net loss after tax of £58m, resulting from the disposal of Suffolk Life and the classification of Cofunds as held for sale).

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

	Number of shares 30.06.17 m	Profit after tax 30.06.17 £m	Earnings per share[1] 30.06.17 p	Adjusted profit after tax 30.06.17 £m	Adjusted earnings per share[1,2] 30.06.17 p
Profit attributable to equity holders of the company	**5,933**	**946**	**15.94**	**929**	**15.66**
Net shares under options allocable for no further consideration	**25**	**-**	**(0.06)**	**-**	**(0.06)**
Diluted earnings per share	**5,958**	**946**	**15.88**	**929**	**15.60**

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

	Number of shares Full year 31.12.16 m	Profit after tax Full year 31.12.16 £m	Earnings per share[1] Full year 31.12.16 p	Adjusted profit after tax Full year 31.12.16 £m	Adjusted earnings per share[1,2] Full year 31.12.16 p
Profit attributable to equity holders of the company	5,929	1,258	21.22	1,316	22.20
Net shares under options allocable for no further consideration	24	-	(0.09)	-	(0.09)
Diluted earnings per share	5,953	1,258	21.13	1,316	22.11

1. For diluted earnings per share, the weighted average number of ordinary shares in issue, excluding employee scheme treasury shares, is adjusted to assume conversion of all potential ordinary shares, such as share options granted to employees.
2. Adjusted earnings per share has been calculated after excluding the net current year profit after tax of £17m, resulting from the disposal of Netherlands (H1 16: excluding the net £4m gain resulting from the disposal of Suffolk Life; FY 16: excluding the net loss after tax of £58m, resulting from the disposal of Suffolk Life and the classification of Cofunds as held for sale).

2.11 Disposals

During H1 17, the group made the following disposals:

-On 1 January 2017, the group completed the disposal of Cofunds Limited (Cofunds) to Aegon for £141m, net of transaction costs. The sale included the Investor Portfolio Service (IPS) platform as well as Cofunds' retail and institutional business. The group carrying value of the investment was £141m resulting in a net nil impact to the group.

-On 6 April 2017, the group completed the sale of Legal & General Netherland Levensvervekering Maatschappij N.V. (LGN) to Chesnara plc (Chesnara) for €161.0m (£137m). The group carrying value of the investment was £118m, resulting in a current year profit £17m, net of transaction costs £2m. A further £3m of transaction costs were incurred in the prior year.

2.12 Held for sale

In H1 17 no assets or liabilities have been classified as held for sale.

The FY 16 balances related to planned disposals of Investment property, LGN and Cofunds, which were disposed of in 2017 (detailed in note 2.11).

	30.06.17 £m	30.06.16 £m	31.12.16 £m
Assets classified as held for sale			
Purchased interest in long term business and other intangible assets	-	-	85
DAC	-	-	12
Property, plant and equipment	-	-	11
Investment property	-	-	95
Financial investments	-	-	1,861
Reinsurers' share of contract liabilities	-	-	1
Cash and cash equivalents	-	-	139
Other assets[1]	-	-	62
Total assets of the disposal groups	-	-	2,266
Liabilities classified as held for sale			
Insurance contract liabilities	-	-	1,709
Tax liabilities	-	-	26
Payables and other financial liabilities	-	-	28
Other liabilities[1]	-	-	147
Total liabilities of the disposal groups	-	-	1,910
Total net assets of the disposal groups	-	-	356

1. Included in the FY 16 other assets is £1m, and in other liabilities, £88m, which are both balances with other group entities that are eliminated on the Consolidated Balance Sheet.

2.13 Financial investments and investment property

	30.06.17 £m	30.06.16[1] £m	31.12.16[1] £m
Equities	**194,754**	176,194	191,025
Unit trusts	**7,584**	6,594	6,969
Debt securities[2]	**219,989**	203,114	215,331
Accrued interest	**1,449**	1,403	1,536
Derivative assets[3]	**11,513**	15,424	13,121
Loans and receivables	**572**	508	562
Financial investments	**435,861**	403,237	428,544
Investment property[4]	**8,714**	8,227	8,150
Total financial investments and investment property	**444,575**	411,464	436,694

1. H1 16 and FY 16 Cash Equivalents and Financial Investments values have been restated. Refer to footnote 1 in the Consolidated Cash Flow Statement.

2. A detailed analysis of debt securities, which shareholders are directly exposed to, is disclosed in note 4.06.

3. 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 £7,597m (H1 16: £9,543m; FY 16: £8,294m) held on behalf of unit linked policyholders.

4. A detailed analysis of investment property, which shareholders are directly exposed to, is disclosed in note 4.07.

(a) Fair value hierarchy

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

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

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

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

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

There have been no significant transfers between level 1 and level 2 for the period 30 June 2017 (30 June 2016: £nil; 31 December 2016: £nil).

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

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

For the six months ended 30 June 2017	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Equity securities	**2,352**	**1,718**	**2**	**632**
Debt securities	**4,533**	**1,030**	**3,105**	**398**
Accrued interest	**24**	**6**	**15**	**3**
Derivative assets	**50**	**25**	**25**	**-**
Investment property	**200**	**-**	**-**	**200**
Non profit non-unit linked				
Equity securities	**268**	**264**	**4**	**-**
Debt securities	**51,067**	**8,127**	**35,781**	**7,159**
Accrued interest	**469**	**40**	**417**	**12**
Derivative assets	**3,773**	**74**	**3,694**	**5**
Investment property	**2,687**	**-**	**-**	**2,687**
With-profits				
Equity securities	**3,241**	**3,014**	**18**	**209**
Debt securities	**6,741**	**2,888**	**3,848**	**5**
Accrued interest	**56**	**18**	**38**	**-**
Derivative assets	**93**	**40**	**53**	**-**
Investment property	**740**	**-**	**-**	**740**
Unit linked				
Equity securities	**196,477**	**192,628**	**3,370**	**479**
Debt securities	**157,648**	**105,951**	**51,690**	**7**
Accrued interest	**900**	**349**	**551**	**-**
Derivative assets	**7,597**	**607**	**6,990**	**-**
Investment property	**5,087**	**-**	**-**	**5,087**
Total financial investments and investment property at fair value[1]	**444,003**	**316,779**	**109,601**	**17,623**

1. This table excludes loans and receivables of £572m, which are held at amortised cost.

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

For the six months ended 30 June 2016	Total[1] £m	Level 1[1] £m	Level 2[1] £m	Level 3 £m
Shareholder				
Equity securities	2,331	2,025	-	306
Debt securities	5,255	2,317	2,581	357
Accrued interest	34	16	15	3
Derivative assets	62	6	56	-
Investment property	200	-	-	200
Non profit non-unit linked				
Equity securities	56	52	4	-
Debt securities	47,675	7,124	37,108	3,443
Accrued interest	496	38	453	5
Derivative assets	5,661	325	5,326	10
Investment property	2,257	-	-	2,257
With-profits				
Equity securities	3,607	3,382	1	224
Debt securities	7,122	3,696	3,416	10
Accrued interest	69	29	40	-
Derivative assets	158	40	118	-
Investment property	920	-	-	920
Unit linked				
Equity securities	176,794	173,351	3,062	381
Debt securities	143,063	98,817	44,246	-
Accrued interest	803	295	508	-
Derivative assets	9,543	225	9,318	-
Investment property	4,850	-	-	4,850
Total financial investments and investment property at fair value[2]	410,956	291,738	106,252	12,966

1. H1 16 and FY 16 Cash Equivalents and Financial Investment values have been restated. Refer to footnote 1 in the Consolidated Cash Flow Statement.
2. This table excludes loans and receivables of £508m, which are held at amortised cost.

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

For the year ended 31 December 2016	Total[1] £m	Level 1[1] £m	Level 2[1] £m	Level 3 £m
Shareholder				
Equity securities	1,928	1,478	1	449
Debt securities	4,945	1,513	3,046	386
Accrued interest	31	7	21	3
Derivative assets	82	59	23	-
Investment property	162	-	-	162
Non profit non-unit linked				
Equity securities	393	389	4	-
Debt securities	49,380	8,351	37,067	3,962
Accrued interest	496	42	448	6
Derivative assets	4,611	115	4,474	22
Investment property	2,442	-	-	2,442
With-profits				
Equity securities	3,432	3,216	9	207
Debt securities	6,827	3,467	3,349	11
Accrued interest	63	22	41	-
Derivative assets	134	31	103	-
Investment property	738	-	-	738
Unit linked				
Equity securities	192,242	188,769	3,028	445
Debt securities	154,178	106,224	47,954	-
Accrued interest	946	333	613	-
Derivative assets	8,294	332	7,962	-
Investment property	4,808	-	-	4,808
Total financial investments and investment property at fair value[2]	436,132	314,348	108,143	13,641

1. H1 16 and FY 16 Cash Equivalents and Financial Investment values have been restated. Refer to footnote 1 in the Consolidated Cash Flow Statement.
2. This table excludes loans and receivables of £562m, which are held at amortised cost.

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

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

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

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

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

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

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

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

	Equity securities 30.06.17 £m	**Other financial invest-ments[1] 30.06.17 £m**	**Investment property 30.06.17 £m**	**Total 30.06.17 £m**	Equity securities 30.06.16 £m	Other financial invest-ments[1] 30.06.16 £m	Investment property 30.06.16 £m	Total 30.06.16 £m
As at 1 January	**1,101**	**4,390**	**8,150**	**13,641**	863	1,456	8,082	10,401
Total gains / (losses) for the period								
recognised in profit:								
- in other comprehensive income	**-**	**7**	**-**	**7**	-	15	-	15
- realised and unrealised								
(losses) / gains[2]	**(23)**	**234**	**217**	**428**	9	269	(51)	227
Purchases / Additions	**156**	**1,283**	**402**	**1,841**	260	586	283	1,129
Sales / Disposals	**(34)**	**(39)**	**(166)**	**(239)**	(244)	(112)	(87)	(443)
Transfers into level 3[3]	**118**	**1,714**	**101**	**1,933**	26	1,670	-	1,696
Transfers out of level 3[3]	**-**	**(5)**	**-**	**(5)**	(3)	(56)	-	(59)
Other	**2**	**5**	**10**	**17**	-	-	-	-
As at 30 June	**1,320**	**7,589**	**8,714**	**17,623**	911	3,828	8,227	12,966

1. Other financial investments comprise debt securities, lifetime mortgages and derivative assets.
2. The realised and unrealised gains and losses have been recognised in investment return in the Consolidated Income Statement.
3. The group holds regular discussions with its pricing providers to determine whether transfers between levels of the fair value hierarchy have occurred. The above transfers occurred as a result of this process. In H1 17, transfers into level 3 include £874m of private placement and £795m of income strips, which were previously classified as level 2. In H1 16, transfers into level 3 included £1.6bn of commercial real estate loans, which were previously classified as level 2.

	Equity securities Full year 31.12.16 £m	Other financial invest-ments[1] Full year 31.12.16 £m	Investment property Full year 31.12.16 £m	Total Full year 31.12.16 £m
As at 1 January	863	1,456	8,082	10,401
Total gains / (losses) for the year				
recognised in profit:				
- in other comprehensive income	-	5	-	5
- realised and unrealised				
gains / (losses)[2]	40	350	(78)	312
Purchases / Additions	473	1,161	692	2,326
Sales / Disposals	(302)	(139)	(494)	(935)
Transfers into level 3[3]	22	1,590	-	1,612
Transfers out of level 3[3]	-	(33)	-	(33)
Transfers to held for sale	-	-	(53)	(53)
Other	5	-	1	6
As at 31 December	1,101	4,390	8,150	13,641

1. Other financial investments comprise debt securities, lifetime mortgages and derivative assets.
2. The realised and unrealised gains and losses have been recognised in investment return in the Consolidated Income Statement.
3. The group holds regular discussion with its pricing providers to determine whether transfers between levels of the fair value hierarchy have occurred. The above transfers occurred as result of this process. In 2016, transfers into level 3 included £1.6bn of commercial real estate loans, which were previously classified as level 2.

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

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

For the six months ended 30 June 2017 Financial instruments and investment property	Main assumptions	Reasonably possible alternative assumptions Current fair value £m	Increase in fair value £m	Decrease in fair value £m
Assets				
Shareholder				
- Unquoted investments in property vehicles[1]	Property yield	**565**	**15**	**(15)**
- Untraded and other debt securities[2]	Cash flows; expected defaults	**401**	**4**	**(4)**
- Unquoted and other securities[2]	Cash flows; expected defaults	**67**	**3**	**(3)**
- Investment property[1]	Property yield	**200**	**23**	**(23)**
Non profit non-linked				
- Lifetime mortgage loans	Market spreads; LTVs	**1,433**	**77**	**(83)**
- Untraded and other debt securities[2]	Cash flows; expected defaults	**3,602**	**102**	**(100)**
- Commercial real estate loans	Cash flows; expected defaults	**2,136**	**43**	**(43)**
- Investment property[1]	Cash flows; property yield	**2,687**	**138**	**(138)**
- Other	Cash flows	**5**	**-**	**-**
With-profits				
- Unquoted investments in property vehicles[1]	Property yield	**209**	**13**	**(13)**
- Untraded and other debt securities[2]	Cash flows; expected defaults	**5**	**-**	**-**
- Investment property[1]	Cash flows; Property yield	**740**	**38**	**(38)**
Unit linked				
- Unquoted investments in property vehicles[1]	Cash flows; Property yield	**92**	**6**	**(6)**
- Suspended securities	Estimated recoverable amount	**26**	**-**	**-**
- Untraded and other debt securities[3]	Cash flows; expected defaults	**7**	**-**	**-**
- Unquoted and other securities[2]	Cash flows; expected defaults	**361**	**18**	**(18)**
- Investment property[1]	Cash flows; Property yield	**5,087**	**256**	**(256)**
Total		**17,623**	**736**	**(740)**

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

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

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

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

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

For the year ended 31 December 2016 Financial instruments and investment property	Main assumptions	Current fair value £m	Reasonably possible alternative assumptions Increase in fair value £m	Reasonably possible alternative assumptions Decrease in fair value £m
Assets				
Shareholder				
Unquoted investments in property vehicles[1]	Property yield	292	19	(19)
Untraded and other debt securities[2]	Cash flows; expected defaults	474	12	(12)
Unquoted and other securities[2]	Cash flows; expected defaults	72	2	(3)
Investment property[1]	Property yield	162	8	(9)
Non profit non-linked				
Lifetime mortgage loans	Market spreads; LTVs	852	10	(18)
Untraded and other debt securities[2]	Cash flows; expected defaults	1,270	2	(2)
Commercial real estate loans	Cash flows; expected defaults	1,776	11	(16)
Investment property[1]	Property yield	2,442	127	(127)
Other	Cash flows	92	-	-
With-profits				
Private equity investment vehicles	Price earnings multiple	8	-	-
Unquoted investments in property vehicles[1]	Property yield	200	12	(12)
Untraded and other debt securities[2]	Cash flows; expected defaults	10	-	-
Investment property[1]	Property yield	738	38	(38)
Unit linked				
Unquoted investments in property vehicles[1]	Property yield	87	5	(5)
Untraded and other debt securities[2]	Cash flows; expected defaults	23	-	-
Unquoted and other securities[2]	Cash flows; expected defaults	335	17	(17)
Investment property[1]	Property yield	4,808	235	(235)
Total		13,641	498	(513)

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

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

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

	30.06.17 £m	30.06.16 £m	Full year 31.12.16 £m
Profit before tax attributable to equity holders	**1,163**	826	1,582
Tax calculated at 19.25% (H1 16: 20.00%; FY 16: 20.00%)	**224**	165	316
Adjusted for the effects of:			
Recurring reconciling items:			
Income not subject to tax	**(6)**	(4)	(12)
Higher/(lower) rate of tax on profits taxed overseas	**3**	4	7
Non-deductible expenses	**-**	2	4
Differences between taxable and accounting investment gains	**(4)**	(2)	(11)
Non-recurring reconciling items:			
Income not subject to tax[1]	**(4)**	(1)	(1)
Non-deductible expenses	**1**	-	17
Differences between taxable and accounting investment gains	**-**	(3)	(14)
Adjustments in respect of prior years	**(3)**	-	13
Impact of reduction in UK corporate tax rate to 17% from 2020 on deferred tax balances	**-**	(2)	(2)
Tax attributable to equity holders	**211**	159	317
Equity holders' effective tax rate[2]	**18.1%**	19.2%	20.0%

1. Includes gains relating to M&A activity which are non taxable.

2. Equity holders' effective tax rate is calculated by dividing the tax attributable to equity holders over profit before tax attributable to equity holders. Refer to note 2.08 for detail on the methodology of the split of policyholder and equity holders' tax.

2.14 Tax (continued)
(b) Deferred tax

Deferred tax (liabilities)/assets	**30.06.17 £m**	30.06.16 £m	31.12.16 £m
Deferred acquisition expenses	**(414)**	(392)	(429)
- UK	**(43)**	(48)	(45)
- Overseas	**(371)**	(344)	(384)
Difference between the tax and accounting value of insurance contracts	**(288)**	(305)	(286)
- UK	**(134)**	(125)	(123)
- Overseas	**(154)**	(180)	(163)
Realised and unrealised gains on investments	**(275)**	(210)	(255)
Excess of depreciation over capital allowances	**16**	16	15
Excess expenses[1]	**40**	62	49
Accounting provisions and other	**(51)**	(29)	(51)
Trading losses[2]	**63**	88	80
Pension fund deficit	**77**	71	82
Purchased interest in long-term business	**(3)**	(25)	(13)
Net deferred tax liabilities	**(835)**	(724)	(808)
Analysed by:			
- UK deferred tax asset	**2**	5	5
- Overseas deferred tax asset	**3**	-	-
- UK deferred tax liability	**(316)**	(206)	(291)
- Overseas deferred tax liability	**(524)**	(523)	(522)
Net deferred tax liabilities[3]	**(835)**	(724)	(808)

1. The reduction in the UK deferred tax asset on excess expenses reflects the unwind of the spread acquisition expenses.
2. Trading losses include UK trade and US operating losses of £8m (H1 16: £7m; FY 16: £5m) and £55m (H1 16: £81m; FY 16: £75m) respectively. The reduction in the deferred tax asset primarily reflects utilisation of brought forward US operating losses against US profits.
3. On the Consolidated Balance Sheet, the net deferred tax liability has been split between an asset of £5m and a liability of £840m where the relevant items cannot be offset.

2.15 Payables and other financial liabilities

	30.06.17 £m	30.06.16 £m	Full year 31.12.16 £m
Derivative liabilities	**7,376**	15,473	9,014
Repurchase agreements[1]	**28,076**	17,295	23,163
Other	**8,257**	3,988	5,170
Payables and other financial liabilities	**43,709**	36,756	37,347

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

Fair value hierarchy

As at 30 June 2017	**Total £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Amortised cost £m**
Derivative liabilities	**7,376**	**482**	**6,894**	**-**	**-**
Repurchase agreements	**28,076**	**-**	**-**	**-**	**28,076**
Other	**8,257**	**2,550**	**15**	**179**	**5,513**
Payables and other financial liabilities	**43,709**	**3,032**	**6,909**	**179**	**33,589**

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

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

Future commission costs are modelled using expected cash flows, incorporating expected future persistency. They have therefore been classified as level 3 liabilities. The entire movement in the balance has been reflected in the Consolidated Income Statement during the year. A reasonably possible alternative persistency assumption would have the effect of increasing the liability by £5m (H1 16: £4m; FY 16: £5m).

Significant transfers between levels

There have been no significant transfers between levels 1, 2 and 3 for the period ended 30 June 2017 (30 June 2016 and 31 December 2016: no significant transfers between levels 1, 2 and 3).

2.16 Dividends

	Dividend 30.06.17 £m	Per[1] share 30.06.17 p	Dividend 30.06.16 £m	Per[1] share 30.06.16 p	Full year Dividend 31.12.16 £m	Full year Per[1] share 31.12.16 p
Ordinary share dividends paid in the period:						
- Prior year final dividend	**616**	**10.35**	592	9.95	592	9.95
- Current year interim dividend	**-**	**-**	-	-	238	4.00
	616	**10.35**	592	9.95	830	13.95
Ordinary share dividend proposed[2]	**256**	**4.30**	238	4.00	616	10.35

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 in the Consolidated Balance Sheet.

2.17 Share capital

	Number of shares 30.06.17	Number of shares 30.06.16	Number of shares Full year 31.12.16
As at 1 January	**5,954,656,466**	5,948,788,480	5,948,788,480
Options exercised under share option schemes:			
- Savings related share option scheme	**2,061,874**	3,465,839	5,867,986
As at 30 June / 31 December	**5,956,718,340**	5,952,254,319	5,954,656,466

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 which are authorised and are no longer at the discretion of the company.

2.18 Core Borrowings

	Carrying amount 30.06.17 £m	**Fair value 30.06.17 £m**	Carrying amount 30.06.16 £m	Fair value 30.06.16 £m	Carrying amount 31.12.16 £m	Fair value 31.12.16 £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities (Tier 1)	**-**	**-**	626	615	615	609
5.875% Sterling undated subordinated notes (Tier 2)	**410**	**432**	412	412	411	418
5.25% US Dollar subordinated notes 2047 (Tier 2)	**658**	**700**	-	-	-	-
5.55% US Dollar subordinated notes 2052 (Tier 2)	**387**	**399**	-	-	-	-
10% Sterling subordinated notes 2041 (Tier 2)	**311**	**406**	310	392	310	403
5.5% Sterling subordinated notes 2064 (Tier 2)	**589**	**651**	589	534	589	603
5.375% Sterling subordinated notes 2045 (Tier 2)	**602**	**670**	602	607	602	627
Client fund holdings of group debt[1]	**(33)**	**(33)**	(33)	(32)	(31)	(31)
Total subordinated borrowings	**2,924**	**3,225**	2,506	2,528	2,496	2,629
Senior borrowings						
Sterling medium term notes 2031-2041	**602**	**848**	602	801	609	845
Client fund holdings of group debt[1]	**(27)**	**(27)**	(44)	(58)	(34)	(34)
Total senior borrowings	**575**	**821**	558	743	575	811
Total core borrowings	**3,499**	**4,046**	3,064	3,271	3,071	3,440

1. £60m (H1 16: £77m; FY 16: £65m) of the group's subordinated and senior borrowings are currently held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total core borrowings in the table above.

All of the group's core borrowings are measured using amortised cost. The presented fair values of the group's core borrowings reflect quoted prices in active markets and they 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 were called at par on 2 May 2017.

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

5.25% US Dollar subordinated notes 2047
On 21 March 2017, Legal & General Group Plc issued $850m of 5.25% dated subordinated notes. The notes are callable at par on 21 March 2027 and every five years thereafter. If not called, the coupon from 21 March 2027 will be reset to the prevailing USD mid-swap rate plus 3.687% pa. These notes mature on 21 March 2047. They are treated as tier 2 own funds for Solvency II purposes.

5.55% US Dollar subordinated notes 2052
On 24 April 2017, Legal & General Group Plc issued $500m of 5.55% dated subordinated notes. The notes are callable at par on 24 April 2032 and every five years thereafter. If not called, the coupon from 24 April 2032 will be reset to the prevailing USD mid-swap rate plus 4.19% pa. These notes mature on 24 April 2052. They are treated as tier 2 own funds for Solvency II purposes.

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

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

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

2.19 Operational borrowings

	Carrying amount 30.06.17 £m	**Fair value 30.06.17 £m**	Carrying amount 30.06.16 £m	Fair value 30.06.16 £m	Carrying amount 31.12.16 £m	Fair value 31.12.16 £m
Short term operational borrowings						
Euro Commercial paper	**322**	**322**	103	103	216	216
Bank loans and overdrafts	**20**	**20**	69	69	6	6
Total short term operational borrowings	**342**	**342**	172	172	222	222
Non recourse borrowings						
LGV 6/LGV 7 Private Equity Fund Limited Partnership	**-**	**-**	42	42	-	-
Consolidated Property Limited Partnerships	**211**	**211**	197	197	208	208
Total non recourse borrowings	**211**	**211**	239	239	208	208
Total operational borrowings	**553**	**553**	411	411	430	430

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 £342m (H1 16: £172m; FY 16: £222m.). Short term operational borrowings comprise Euro Commercial paper, bank loans and overdrafts.

Non recourse borrowings

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

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

Syndicated credit facility

As at 30 June 2017, the group had in place a £1.00bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2021.

2.20 Non-controlling interests

Non-controlling interests represent third party interests in direct equity investments as well as investments in private equity and property investment vehicles which are consolidated in the group's results. The majority of the non-controlling interests in 2017 are in relation to investments in the Leisure Fund Unit Trust, the Performance Retail Unit Trust, the Legal & General UK Property Ungeared Fund Limited Partnership, and Thorpe Park Developments Limited.

2.21 Foreign exchange rates

Principal rates of exchange used for translation are:

Period end exchange rates	**At 30.06.17**	At 30.06.16	At 31.12.16
United States Dollar	**1.30**	1.34	1.24
Euro	**1.14**	1.20	1.17

Average exchange rates	**01.01.17 - 30.06.17**	01.01.16 - 30.06.16	01.01.16 - 31.12.16
United States Dollar	**1.26**	1.43	1.36
Euro	**1.16**	1.28	1.22

2.22 Related party transactions

There were no material transactions between key management and the Legal & General group of companies during the period. All transactions between the group and its key management are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment defined benefit plans were £36m (H1 16: £34m; FY 16: £75m) for all employees.

At 30 June 2017, 30 June 2016 and 31 December 2016 there were no loans outstanding to officers of the company.

Key management personnel compensation

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

	30.06.17 £m	30.06.16 £m	31.12.16 £m
Salaries	**2**	2	9
Social security costs	**1**	1	2
Post-employment benefits	**-**	-	-
Share-based incentive awards	**2**	2	5
Key management personnel compensation	**5**	5	16
Number of key management personnel	**16**	16	15

The group has the following related party transactions:

- Annuity contracts issued by Society for consideration of £161m (H1 16: £4m; FY 16: £3m) purchased by the group's UK defined benefit pension schemes during the period, priced on an arm's length basis;

- Investments in venture capital, property and financial investments held via collective investment vehicles. All transactions between the group and these collective investment vehicles are on commercial terms which are no more favourable than those available to companies in general. The net investments into associate investment vehicles totalled £10m during the period (H1 16: 27m; FY 16: £47m). The group received investment management fees of £1m during the period (H1 16: £1m; FY 16: £2m). Distributions from these investment vehicles to the group totalled £15m (H1 16: £6m; FY 16: £20m);

- Loans outstanding from CALA at 30 June 2017 total £68m (30 June 2016: £63m; 31 December 2016: £65m);

- The equity investment in Pemberton is now fully drawn at £18m. A commitment of £220m was previously made to Pemberton's inaugural European Mid-Market Debt Fund, of which £125m was drawn as at 30 June 2017. In addition, a £50m commitment was made to the Pemberton U.K. Mid-Market Direct Lending Fund, of which £25m has been drawn down to date;

- Loans outstanding from MediaCity at 30 June 2017 total £55m (H1 2016: £55m; FY 2016: £55m);

- Preference shares outstanding from Thorpe Park at 30 June 2017 total £30m (H1 16: £12m; FY 16: £18m);

- A 50/50 joint venture in Access Development Partnership, developing build to rent properties. LGC has a total commitment of £150m, of which £28m has been drawn down to date;

- A 46% investment in Accelerated Digital Ventures, a venture investment company, for a total commitment of £34m, of which £17m has been drawn to date;

- Further contingent capital commitments of £2m for NTR Asset Management Europe DAC, with a total commitment of £5m. A commitment of £103m to the NTR Wind 1 Limited fund, of which £80m has been drawn to date;

2.23 Pension costs

The Legal & General Group UK Pension and Assurance Fund and the Legal & General Group UK Senior Pension Scheme are defined benefit pension arrangements and account for all UK and the majority of worldwide assets of, and contributions to, such arrangements. The schemes were closed to future accrual on 31 December 2015. At 30 June 2017, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Society) has been estimated at £347m (30 June 2016: £306m; 31 December 2016: £374m). These amounts have been recognised in the financial statements with £219m charged against shareholder equity (30 June 2016: £193m; 31 December 2016: £236m) and £128m against the unallocated divisible surplus (30 June 2016: £113m; 31 December 2016: £138m).

2.24 Contingent liabilities, guarantees and indemnities

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

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

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

Group companies have given warranties, indemnities and guarantees as a normal part of their business and operating activities or in relation to capital market transactions or corporate disposals. Legal & General Group Plc has provided indemnities and guarantees in respect of the liabilities of group companies in support of their business activities including Pension Protection Fund compliant guarantees in respect of certain group companies' liabilities under the group pension fund and scheme. The Society 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.

2.25 Independent review report to Legal & General Group Plc – IFRS

Report on the consolidated interim financial statements

Our conclusion

We have reviewed Legal & General Group Plc's consolidated interim financial statements (the "interim financial statements") in the Interim Management Statement of Legal & General Group Plc for the 6 month period ended 30 June 2017. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, ‘Interim Financial Reporting’, as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom’s Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Consolidated Balance Sheet as at 30 June 2017;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the period then ended;
- the Consolidated Cash Flow Statement for the period then ended;
- the Condensed Consolidated Statement of Changes in Equity for the period then ended; and
- the explanatory notes to the interim financial statements (pages 25 to 61).

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

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

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

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

What a review of interim financial statements involves

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

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

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

PricewaterhouseCoopers LLP
Chartered Accountants
London
8 August 2017

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

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

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Asset and premium flows

3.01 Legal & General investment management total assets

For the six months ended 30 June 2017	Index £bn	Active fixed income £bn	Solutions[1] £bn	Real assets £bn	Active equities £bn	Total AUM £bn
At 1 January 2017	**319.8**	**134.8**	**411.9**	**19.6**	**8.1**	**894.2**
External inflows	25.4	8.3	16.0	0.8	0.1	50.6
External outflows	(29.7)	(3.0)	(9.0)	(0.5)	(0.1)	(42.3)
Overlay/advisory net flows	-	-	13.4	-	-	13.4
External net flows[2]	**(4.3)**	**5.3**	**20.4**	**0.3**	**-**	**21.7**
Internal net flows	(0.3)	(0.4)	0.4	0.5	(1.3)	(1.1)
Disposal of LGN[5]	(0.3)	(0.5)	-	-	-	(0.8)
Total net flows	**(4.9)**	**4.4**	**20.8**	**0.8**	**(1.3)**	**19.8**
Cash management movements[3]	-	4.1	-	-	-	4.1
Market and other movements[2]	16.6	1.7	13.4	0.8	0.5	33.0
At 30 June 2017[4]	**331.5**	**145.0**	**446.1**	**21.2**	**7.3**	**951.1**
Assets attributable to:						
External						**853.2**
Internal						**97.9**
Assets attributable to:						
UK						**752.8**
International						**198.3**

For the six months ended 30 June 2016	Index £bn	Active fixed income £bn	Solutions[1] £bn	Real assets £bn	Active equities £bn	Total AUM £bn
At 1 January 2016	**274.3**	**106.8**	**338.2**	**18.3**	**8.5**	**746.1**
External inflows	17.6	4.8	9.3	0.8	-	32.5
External outflows	(20.0)	(2.2)	(6.6)	(0.7)	(0.1)	(29.6)
Overlay/advisory net flows	-	-	6.7	-	-	6.7
External net flows[2]	**(2.4)**	**2.6**	**9.4**	**0.1**	**(0.1)**	**9.6**
Internal net flows	(0.4)	0.7	(0.1)	0.1	-	0.3
Total net flows	**(2.8)**	**3.3**	**9.3**	**0.2**	**(0.1)**	**9.9**
Cash management movements[3]	-	(0.6)	-	-	-	(0.6)
Market and other movements[2]	28.9	16.3	41.6	(0.1)	(0.6)	86.1
At 30 June 2016[4]	**300.4**	**125.8**	**389.1**	**18.4**	**7.8**	**841.5**
Assets attributable to:						
External						**749.8**
Internal						**91.7**
Assets attributable to:						
UK						**689.6**
International						**151.9**

1. Solutions include liability driven investments, multi-asset funds, and include £280.8bn at 30 June 2017 (30 June 2016: £244.0bn) of derivative notionals associated with the Solutions business.
2. External net flows exclude movements in short-term solutions assets, with maturity as determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 30 June 2017 was £81.7bn (30 June 2016: £71.0bn) and the movement in these assets is included in market and other movements for Solutions assets.
3. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.
4. Total assets under management have been reconciled to the financial investments and investment property held on the Consolidated Balance Sheet in note 3.04.
5. L&G Netherlands was sold on 6 April 2017 to Chesnara Plc.

Asset and premium flows

3.01 Legal & General investment management total assets

For the year ended 31 December 2016	Index £bn	Active fixed income £bn	Solu-tions[1] £bn	Real assets £bn	Active equities £bn	Total AUM £bn
At 1 January 2016	**274.3**	**106.8**	**338.2**	**18.3**	**8.5**	**746.1**
External inflows[5]	35.2	10.8	19.9	1.4	-	67.3
External outflows[5]	(45.0)	(6.5)	(12.4)	(1.2)	(0.2)	(65.3)
Overlay/advisory net flows	-	-	27.2	-	-	27.2
External net flows[2]	**(9.8)**	**4.3**	**34.7**	**0.2**	**(0.2)**	**29.2**
Internal net flows	(0.3)	1.5	-	0.7	0.1	2.0
Total net flows	**(10.1)**	**5.8**	**34.7**	**0.9**	**(0.1)**	**31.2**
Cash management movements[3]	-	(0.7)	-	-	-	(0.7)
Market and other movements[2,5]	55.6	22.9	39.0	0.4	(0.3)	117.6
At 31 December 2016[4]	**319.8**	**134.8**	**411.9**	**19.6**	**8.1**	**894.2**
Assets attributable to:						
External						**796.7**
Internal						**97.5**
Assets attributable to:						
UK						**716.8**
International						**177.4**

1. Solutions include liability driven investments, multi-asset funds and included £251.8bn at 31 December 2016 of derivative notionals associated with the Solutions business.
2. External net flows exclude movements in short-term solutions assets, with maturity as determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 31 December 2016 was £52.6bn, and the movement in these assets is included in Market and other movements for Solutions assets.
3. Cash management movements include external holdings in money market funds and other cash mandares held for clients' liquidity management purposes.
4. Total assets under management have been reconciled to the financial investments and investment property held on the Consolidated Balance Sheet in note 3.04.
5. Switches between asset classes are included in the gross inflows and outflows, and moved out of Market and other movements.

Asset and premium flows

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

For the year ended 31 December 2016	Index £bn	Active fixed income £bn	Solu-tions[1] £bn	Real assets £bn	Active equities £bn	Total AUM £bn
At 1 January 2016	**274.3**	**106.8**	**338.2**	**18.3**	**8.5**	**746.1**
External inflows[5]	17.6	4.8	9.3	0.8	-	32.5
External outflows[5]	(20.0)	(2.2)	(6.6)	(0.7)	(0.1)	(29.6)
Overlay/ advisory net flows	-	-	6.7	-	-	6.7
External net flows[2]	**(2.4)**	**2.6**	**9.4**	**0.1**	**(0.1)**	**9.6**
Internal net flows	(0.4)	0.7	(0.1)	0.1	-	0.3
Total net flows	**(2.8)**	**3.3**	**9.3**	**0.2**	**(0.1)**	**9.9**
Cash management movements[3]	-	(0.6)	-	-	-	(0.6)
Market and other movements[5]	28.9	16.3	41.6	(0.1)	(0.6)	86.1
At 30 June 2016	**300.4**	**125.8**	**389.1**	**18.4**	**7.8**	**841.5**
External inflows[5]	17.6	6.0	10.6	0.6	-	34.8
External outflows[5]	(25.0)	(4.3)	(5.8)	(0.5)	(0.1)	(35.7)
Overlay / advisory net flows	-	-	20.5	-	-	20.5
External net flows[2]	**(7.4)**	**1.7**	**25.3**	**0.1**	**(0.1)**	**19.6**
Internal net flows	0.1	0.8	0.1	0.6	0.1	1.7
Total net flows	**(7.3)**	**2.5**	**25.4**	**0.7**	**-**	**21.3**
Cash management movements[3]	-	(0.1)	-	-	-	(0.1)
Market and other movements[5]	26.7	6.6	(2.6)	0.5	0.3	31.5
At 31 December 2016[4]	**319.8**	**134.8**	**411.9**	**19.6**	**8.1**	**894.2**

1. Solutions include liability driven investments, multi-asset funds, and include £251.8bn at 31 December 2016 of derivative notionals associated with the Solutions business.
2. External net flows exclude movements in short term solutions assets, with maturity as determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 31 December 2016 was £52.6bn and the movement in these assets is included in Market and other movements for Solutions assets.
3. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.
4. Total assets under management have been reconciled to the financial investments and investment property on the Consolidated Balance Sheet in note 3.04.
5. Switches between asset classes are included in the gross inflows and outflows, and moved out of Market and other movements.

	As at 30.06.17 £bn	As at 30.06.16 £bn	As at 31.12.16 £bn
Total assets attributable to:			
External	**853.2**	749.8	796.7
Internal	**97.9**	91.7	97.5
Total assets attributable to:			
UK	**752.8**	689.6	716.8
International	**198.3**	151.9	177.4

Asset and premium flows

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

	6 months to 30.06.17 £bn	6 months to 31.12.16 £bn	6 months to 30.06.16 £bn
LGIM total external AUM net flows[1]	**21.7**	19.5	9.6
Attributable to:			
International	**17.9**	7.8	6.7
UK Institutional			
- Defined contribution	**1.7**	1.2	0.8
- Defined benefit	**0.4**	9.8	1.4
UK Retail	**1.7**	0.7	0.7

1. External net flows exclude movements in short term overlay assets, with maturity as determined by client agreements and cash management movements.

3.04 Assets under management reconciliation to Consolidated Balance Sheet financial assets

	As at 30.06.17 £bn	As at[1] 31.12.16 £bn	As at[1] 30.06.16 £bn
Assets under management	**951.1**	894.2	841.5
Derivative notionals[2]	**(280.8)**	(251.8)	(244.0)
Third party assets[3]	**(225.1)**	(234.7)	(202.3)
Derivative liabilities	**7.4**	9.0	15.4
Other[4]	**(8.0)**	20.0	0.9
Total group financial investments and investment property	**444.6**	436.7	411.5

1. H1 16 and FY16 Cash Equivalents and Financial Investments values have been restated. Refer to footnote 1 in the Consolidated Cash Flow Statement.
2. Derivative notionals are included in the assets under management but not for IFRS reporting and are thus removed.
3. Third party assets are those that LGIM manage on behalf of others, for which the group does not have the risks or rewards and thus are not included on the IFRS balance sheet.
4. Other includes assets that are managed by third parties on behalf of the group and cash and broker balances.

3.05 Assets under administration

For the six months ended 30 June 2017	Platforms[1] £bn	Suffolk Life £bn	Mature Retail Savings[2] £bn	Consolidation adjustment[3] £bn	Total Savings £bn	Netherlands £bn	LGIM Workplace £bn	LGIM Retail Investments[4] £bn	Annuities[5] £bn
At 1 January 2017	**83.6**	**-**	**30.7**	**(4.9)**	**109.4**	**1.8**	**20.8**	**25.4**	**54.4**
Gross inflows	-	-	0.4	-	0.4	-	3.4	2.4	2.0
Gross outflows	-	-	(1.9)	-	(1.9)	-	(0.6)	(1.6)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(1.6)
Net flows	**-**	**-**	**(1.5)**	**-**	**(1.5)**	**-**	**2.8**	**0.8**	**0.4**
Market and other movements	-	-	1.0	-	1.0	-	1.3	1.3	0.8
Disposals[1,7]	(83.6)	-	-	4.9	(78.7)	(1.8)	-	-	-
At 30 June 2017	**-**	**-**	**30.2**	**-**	**30.2**	**-**	**24.9**	**27.5**	**55.6**

For the six months ended 30 June 2016	Platforms[1] £bn	Suffolk Life £bn	Mature Retail Savings[2] £bn	Consolidation adjustment[3] £bn	Total Savings £bn	Netherlands £bn	LGIM Workplace £bn	LGIM Retail Investments[4] £bn	Annuities[5] £bn
As at 1 January 2016	**76.9**	**8.6**	**29.6**	**(6.8)**	**108.3**	**1.6**	**14.7**	**22.6**	**43.4**
Gross inflows[1]	2.2	0.5	0.5	(0.2)	3.0	0.1	2.3	3.0	4.0
Gross outflows	(2.9)	(0.3)	(1.8)	0.3	(4.7)	(0.1)	(0.5)	(3.2)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(1.4)
Net flows	**(0.7)**	**0.2**	**(1.3)**	**0.1**	**(1.7)**	**-**	**1.8**	**(0.2)**	**2.6**
Market and other movements	1.3	-	1.1	-	2.4	0.2	0.8	0.9	5.0
Disposals[6]	-	(8.8)	-	1.8	(7.0)	-	-	-	-
At 30 June 2016	**77.5**	**-**	**29.4**	**(4.9)**	**102.0**	**1.8**	**17.3**	**23.3**	**51.0**

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

1. Prior period platforms gross inflows included Cofunds institutional net flows. At 31 December 2016 Platforms comprised £39.4bn (30 June 2016: £37.2bn) of retail assets and £44.2bn (30 June 2016: £40.3bn) of assets held on behalf of institutional clients. At 31 December 2016 platforms AUA comprised ISAs: £21.4bn (30 June 2016: £20.1bn); onshore bonds £2.8bn (30 June 2016 £2.8bn); offshore bonds £0.1bn (30 June 2016 £0.1bn); platform SIPPs £3.9bn (30 June 2016 £3.6bn) and non-wrapped funds £54.0bn (30 June 2016 £49.5bn). Platforms was sold in January 2017 to Aegon as part of the sale of Cofunds.
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. Retail Investments include £2.4bn (30 June 2016: £1.8bn) of LGIM unit trust assets held on the Cofunds platform and £3.7bn (30 June 2016: £3.4bn) of LGIM unit trust assets held on the IPS platform. The Cofunds and IPS platforms were sold in January 2017.
5. Annuities exclude LGRe and LGA assets.
6. Suffolk Life was sold on 25 May 2016 to Curtis Banks Group plc.
7. Legal & General Netherlands was sold on 6 April 2017 to Chesnara Plc.

Asset and premium flows

3.06 Assets under administration half-yearly progression

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

1. Platforms gross inflows include Cofunds institutional net flows. Total 2016 Platforms comprise £39.4bn (30 June 2016: £37.2bn) of retail assets and £44.2bn (30 June 2016: £40.3bn) of assets held on behalf of institutional clients.

2. Platforms AUA comprise ISAs: £21.4bn (30 June 2016: £20.1bn); onshore bonds £2.8bn (30 June 2016 £2.8bn); offshore bonds £0.1bn (30 June 2016 £0.1bn); platform SIPPs £3.9bn (30 June 2016 £3.6bn) and non-wrapped funds £54.0bn (30 June 2016 £49.5bn).

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

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

5. At 31 December 2016 Retail Investments included £2.4bn (30 June 2016: £1.8bn) of LGIM unit trust assets held on our Cofunds platform and £3.7bn (30 June 2016: £3.4bn) of LGIM unit trust assets held on our IPS platform.

6. Annuities exclude LGRe and LGI US assets.

7. Suffolk Life was sold on 25 May 2016 to Curtis Banks Group plc.

3.07 LGR new business

	6 months to 30.06.17 £m	6 months to 31.12.16 £m	6 months to 30.06.16 £m
Backbook acquisitions	**-**	-	2,945
Pension risk transfer			
- UK	**1,504**	2,698	640
- USA	**115**	302	45
Individual Annuities	**345**	220	158
Lifetime Mortgage Advances	**424**	389	231
Longevity Insurance[1]	**800**	900	-
Total LGR new business	**3,188**	4,509	4,019

1. The H1 17 value represents a reinsured longevity insurance deal transacted in June 2017. The figure quoted represents the notional size of the transaction and is based on the present value of the fixed leg cash flows discounted at the LIBOR curve. The first year's fixed cash flow is £33.8m.

3.08 Insurance new business

	6 months to 30.06.17 £m	6 months to 31.12.16 £m	6 months to 30.06.16 £m
UK Retail Protection	**86**	88	82
UK Group Protection	**28**	22	36
Netherlands Protection	**1**	2	2
US Protection	**38**	34	28
Total Insurance new business	**153**	146	148

3.09 Gross written premiums on Insurance business

	6 months to 30.06.17 £m	6 months to 31.12.16 £m	6 months to 30.06.16 £m
UK Retail Protection	**609**	597	582
UK Group Protection	**224**	100	233
General Insurance	**173**	170	156
Netherlands Protection	**14**	27	25
US Protection	**491**	477	420
Longevity Insurance	**175**	160	161
Total gross written premiums on insurance business	**1,686**	1,531	1,577

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4.01 Group regulatory capital – Solvency II Directive

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

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

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

The table below shows the estimated group Own Funds, Solvency Capital Requirement and Surplus Own Funds of the group, based on the Partial Internal Model, Matching Adjustment and Transitional Measures on Technical Provisions, including a management estimate of the recalculated Transitional Measures for Technical Provisions (Estimated TMTP) at end June 2017 as we believe this provides the most up to date and meaningful view of our Solvency II position. In line with PRA guidance, a formal recalculation of the Group's TMTP will take place no later than 1 January 2018.

(a) Capital position

As at 30 June 2017 the group had a Solvency II surplus of £6.7bn (FY 16: £5.7bn) over its Solvency Capital Requirement, corresponding to a coverage ratio on a "shareholder view" basis of 186% (31 December 2016: 171%). The shareholder view of the Solvency II capital position is as follows:

	30.06.17 £bn	31.12.16 £bn
Core tier 1 Own Funds	**11.6**	11.0
Tier 1 subordinated liabilities[1]	**-**	0.6
Tier 2 subordinated liabilities[2]	**3.1**	2.1
Eligibility restrictions	**(0.2)**	(0.1)
Own Funds[3,4]	**14.5**	13.6
Solvency Capital Requirement (SCR)	**(7.8)**	(7.9)
Solvency II surplus	**6.7**	5.7
SCR coverage ratio[5]	**186%**	171%

1. Tier 1 subordinated liabilities of £0.6bn were repaid on 2 May 2017.
2. Tier 2 subordinated liabilities include $1.35bn of USD subordinated notes issued in 2017.
3. Own Funds do not include an accrual for the dividend of £256m (FY 16: £616m) declared after the balance sheet date.
4. Own Funds include risk margin of £6.1bn (FY 16: £6.4bn) and Estimated TMTP of £6.3bn (FY 16: £7bn).
5. Coverage ratio uses unrounded inputs.

The "shareholder view" basis excludes the SCR for the with-profits fund and the final salary pension schemes from both Own Funds and SCR. On a proforma basis the coverage ratio at 30 June 2017 would have been 180% (31 December 2016: 165%).

(b) Methodology

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

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

Liabilities are valued on a best estimate market consistent basis, with the application of a Solvency II Matching Adjustment for valuing annuity liabilities. This incorporates changes to the Internal Model and Matching Adjustment between June 2016 and June 2017 and the estimated impacts of a recalculation of the TMTP (Estimated TMTP) recalculated based on end June 2017 economic conditions as we believe this provides the most up to date and meaningful view of our Solvency II position. The Estimated TMTP of £6.3bn (FY 16: £7.0bn) has been amortised to 30 June 2017.

The liabilities include a Risk Margin of £6.1bn (FY 16: £6.4bn) which represents an allowance for the cost of capital for a purchasing insurer taking on the portfolio of liabilities and residual risks that are deemed to be not hedgeable under Solvency II, following the 1-in-200 stress event. This is calculated using a cost of capital of 6% as prescribed by the European Insurance and Occupational Pensions Authority (EIOPA).

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

4.01 Group regulatory capital – Solvency II Directive (continued)

(b) Methodology (continued)

All material EEA insurance firms, including Legal & General Assurance Society Limited (the Society), Legal & General Insurance Limited, and Legal & General Assurance (Pensions Management) Limited (LGIM's insurance subsidiary) are incorporated into the group's Solvency II Internal Model assessment of required capital, assuming diversification of the risks between and within those firms. These firms, as well as the non-EEA insurance firm (Legal & General Reinsurance Company Limited (LGRe) based in Bermuda) contribute over 96% of the group's SCR.

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

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

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

Allowance is made within the Solvency II balance sheet for the group's defined benefit pension schemes using results on an IFRS basis. Within the SCR an allowance is made by stressing the IFRS result position using the same Internal Model basis as for the insurance firms.

(c) Assumptions

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

(i) assumptions required to derive the present value of best estimate liability cash flows. Non-market assumptions are consistent with those underlying the group's IFRS disclosures, but with the removal of any prudence margins. Future investment returns and discount rates are those defined by EIOPA, which means that the risk free rates used to discount liabilities are market swap rates, with a 16 basis points (FY 16: 17 basis points) deduction to allow for a credit risk adjustment for sterling denominated liabilities. For annuities that are eligible, the liability discount rate includes a Matching Adjustment. This Matching Adjustment varies between the Society and LGRe and by the currency of the relevant liabilities.

At 30 June 2017 the Matching Adjustment for UK GBP was 115 basis points (31 December 2016: 124 basis points) after deducting an allowance for the EIOPA fundamental spread equivalent to 54 basis points (31 December 2016: 58 basis points).

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

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

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

4.01 Group regulatory capital – Solvency II Directive (continued)

(d) Analysis of change

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

	30.06.17 surplus £bn	31.12.16 surplus £bn
Surplus arising from back-book (including release of SCR)	**0.6**	1.2
Release of Risk Margin[1]	**0.2**	0.3
Amortisation of TMTP[2]	**(0.2)**	(0.3)
Operational Surplus Generation[3]	**0.6**	1.2
New Business Strain	**(0.1)**	(0.1)
Net Surplus Generation	**0.5**	1.1
Dividends paid[4]	**(0.6)**	(0.8)
Operating variances[5]	**0.4**	0.2
M&A[6]	**0.1**	-
Market movements[7]	**0.1**	(0.3)
Subordinated debt[8]	**0.5**	-
Total Surplus movement (after dividends paid in the period)	**1.0**	0.2

1. Based on the risk margin in force at end 2016 and does not include the release of any risk margin added by new business written in 2017.
2. TMTP amortisation based on a linear run down of the end-2016 TMTP of £5.9bn (net of tax, £7bn before tax) which was management's estimate of the TMTP on end-2016 market conditions.
3. Release of surplus generated by in-force business and includes management actions which at the start of the year could have been reasonably expected to take place. For H1 17 these are to deliver further eligible assets and liabilities into the Matching Adjustment portfolio in respect of a small amount of pension risk transfer business, an increase in direct investments allocation to the annuity back-book and amendments of certain FX hedging activities in the LGR portfolio.
4. Dividends paid are the amounts from the 2016 final dividend declaration paid in H1 17 (FY 16: 2015 final and 2016 interim dividend declarations).
5. Operating variances include the impact of experience variances, changes to valuation and capital calibration assumptions, changes to planned volumes of new business, tax rate changes, PRA approval of changes to the Internal Model and Matching Adjustment and other management actions including changes in asset mix, hedging strategies, Matching Adjustment optimisation and update to the longevity assumptions.
6. M&A reflects sale of Cofunds and LGN.
7. Market Movements is the impact of changes in investment market conditions over the period and changes to future economic assumptions. It also includes the capital impact of investment portfolio changes implemented by LGC. Market movements for June 2017 include a reduction to the Risk Margin of £0.2bn (net of tax), offset by management's estimate of a decrease in the Estimated TMTP of £0.2bn (net of tax). FY 16 included an increase to the risk margin of £1.1bn (net of tax) offset by an increase in the Estimated TMTP of £1.0bn (net of tax).
8. Movement in subordinated debt includes $1.35bn US Dollar subordinated notes issued and £0.6bn of sub-debt redeemed.

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

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

4.01 Group regulatory capital – Solvency II Directive (continued)
(e) Reconciliation of IFRS Net Release from Operations to Solvency II Net Surplus Generation

Reconciliation of the group's IFRS Release from Operations to Solvency II Operational Surplus Generation.

	30.06.17 £bn	31.12.16 £bn
IFRS Release from Operations	**0.7**	1.3
Expected release of IFRS prudential margins	**(0.3)**	(0.5)
Releases of IFRS specific reserves[1]	**-**	(0.1)
Solvency II investment margin[2,3]	**0.1**	0.2
Release of Solvency II Capital Requirement and Risk Margin less TMTP amortisation[4]	**0.2**	0.4
Other Solvency II items and presentational differences	**(0.1)**	(0.1)
Solvency II Operational Surplus Generation	**0.6**	1.2

1. Release of prudence from IFRS specific reserves which are not included in Solvency II (e.g. long term expense margin or new business closure reserves).
2. Release of prudence related to differences between the EIOPA-defined Fundamental Spread and Legal & General's best estimate default assumption.
3. Expected market returns earned on LGR's free assets in excess of risk free rates over the period.
4. Solvency II Operational Surplus Generation includes management actions which at the start of 2017 were expected to take place within the group plan. These were limited to actions by LGR to deliver further eligible assets into the Matching Adjustment portfolio and other asset based management actions.

(ii) Reconciliation of the group's IFRS New Business Surplus to Solvency II New Business Strain.

	30.06.17 £bn	31.12.16 £bn
IFRS New Business Surplus	**-**	0.2
Removal of requirement to set up prudential margins above best estimate on New Business	**0.2**	0.5
Set up of Solvency II Capital Requirement on New Business	**(0.2)**	(0.7)
Set up of Risk Margin on New Business	**(0.1)**	(0.1)
Solvency II New Business Strain	**(0.1)**	(0.1)

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

	30.06.17 £bn	31.12.16 £bn
IFRS shareholders' equity	**7.2**	6.9
Remove DAC, goodwill and other intangible assets and liabilities	**(1.9)**	(2.1)
Add subordinated debt treated as available capital[1]	**2.9**	2.5
Insurance contract valuation differences[2]	**7.1**	7.9
Difference in value of net deferred tax liabilities	**(0.3)**	(0.5)
SCR for with-profits fund and final salary pension schemes	**(0.7)**	(0.7)
Other[3]	**0.4**	(0.3)
Eligibility restrictions[4]	**(0.2)**	(0.1)
Own Funds[5]	**14.5**	13.6

1. Treated as available capital on the Solvency II balance sheet as the liabilities are subordinate to policyholder claims.
2. Differences in the measurement of liabilities between IFRS and Solvency II. This includes value of shareholder transfers of £0.3bn at H1 17 (FY 16: £0.2bn).
3. Reflects valuation differences on other assets and liabilities, predominately in respect of borrowings measured at fair value under Solvency II.
4. Relating to the surplus of with-profits fund and Own Funds of non-insurance regulated entities, subject to local regulatory rules.
5. Own Funds do not include an accrual for the dividend of £256m (FY 16: £616m) declared after the balance sheet date.

4.01 Group regulatory capital – Solvency II Directive (continued)

(g) Sensitivity analysis

The following sensitivities are provided to give an indication of how the group's Solvency II surplus as at 30 June 2017 would have changed in a variety of adverse events. These are all independent stresses to a single risk. In practice, the balance sheet is impacted by combinations of stresses and the combined impact can be larger than adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse stresses will happen together.

	Impact on net of tax Solvency II capital surplus 30.06.17 £bn	**Impact on net of tax Solvency II coverage ratio 30.06.17 %**	Impact on net of tax Solvency II capital surplus 31.12.16 £bn	Impact on net of tax Solvency II coverage ratio 31.12.16 %
Credit spreads widen by 100bps assuming an escalating addition to ratings[1,2]	**0.3**	**8**	0.2	7
Credit migration[3]	**(0.6)**	**(8)**	(0.6)	(8)
15% fall in property markets	**(0.3)**	**(3)**	(0.2)	(3)
100bps increase in risk free rates	**1.0**	**24**	1.0	22
50bps fall in risk free rates[4]	**(0.5)**	**(11)**	(0.5)	(10)

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

The above sensitivity analysis does not reflect all management actions which could be taken to reduce the impacts. In practice, the group actively manages its asset and liability positions to respond to market movements. These results all allow (on an approximate basis) for the recalculation of Estimated TMTP as at 30 June 2017 where the impact of the stress would cause this to change materially.

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

4.02 Estimated Solvency II new business contribution

(a) New business by product[1]

For the six months ended 30 June 2017	**PVNBP £m**	**Contri-bution from new business[2] £m**	**Margin[3] %**
LGR - UK annuity business	**1,859**	**166**	**8.9**
UK Protection Total	**754**	**69**	**9.1**
- Retail protection	632	61	9.6
- Group protection	122	8	6.5
US Protection[4]	**376**	**48**	**12.8**

1. Selected lines of business only.
2. The contribution from new business is defined as the present value at the point of sale of expected future Solvency II surplus emerging from new business written in the period using the risk discount rate applicable at the end of the reporting period.
3. Margin uses unrounded inputs.
4. In local currency, US Protection reflects PVNBP of $489m and a contribution from new business of $62m.

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

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

4.02 Estimated Solvency II new business contribution (continued)
(b) Assumptions

The key economic assumptions as at 30 June 2017 are as follows:

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

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

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

- The assumed future pre-tax returns on fixed interest and RPI linked securities are set by reference to the portfolio yield on the relevant backing assets held at market value at the end of the reporting period. The calculated return takes account of derivatives and other credit instruments in the investment portfolio. The returns on fixed and index-linked assets are calculated net of an allowance for default risk which takes account of the credit rating and the outstanding term of the assets. The allowance for corporate and other unapproved credit asset defaults within the new business contribution is based on a level rate deduction from the expected returns for the overall annuities portfolio of 18 basis points.

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

Tax

The profits on the new business are calculated on an after tax basis and are grossed up by the notional attributed tax rate. For the UK, the after tax basis assumes the annualised current rate of 19.25% and subsequent enacted future reductions in corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020 onwards. The tax rate used for grossing up is the long term corporate tax rate in the territory concerned, which for the UK is 17%.

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

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

Basis of preparation

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

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

Description of methodology

The objective of the Solvency II new business contribution is to provide shareholders with information on the long term contribution of new business written in H1 17.

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

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

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

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

Comparison to EEV new business contribution

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

Projection assumptions

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

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

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

Tax

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

Risk discount rate

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

The risk free rates have been based on a swap curve net of the EIOPA-specified Credit Risk Adjustment 16 basis points for UK and 15basis points for US (FY 16: 17 basis points for UK and 15 basis points for US).

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

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

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

The cost of debt used in the WACC calculations takes account of the actual locked-in rates for our senior and subordinated long term debt. All debt interest attracts tax relief at a time adjusted rate of 17.5% (FY 16: 17.7%).

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

(d) PVNBP to gross written premiums reconciliation

	Notes	**30.06.17 £bn**	31.12.16 £bn
PVNBP	4.02(a)	**3.0**	8.8
Effect of capitalisation factor		**(1.0)**	(1.8)
New business premiums from selected lines		**2.0**	7.0
Other[1]		**1.3**	1.9
Total LGR, Insurance and LGI US new business	3.07/3.08	**3.3**	8.9
Annualisation impact of regular premium long-term business		**(0.1)**	(0.1)
IFRS gross written premiums from existing long-term insurance business		**1.4**	2.5
IFRS gross written premiums from Savings business		**0.1**	0.2
Deposit accounting for lifetime mortgage advances		**(0.4)**	(0.6)
General Insurance gross written premiums	3.09	**0.2**	0.3
Future premiums on longevity swap new business		**(0.8)**	(0.9)
Total gross written premiums		**3.7**	10.3

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

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.

The Economic Capital results are estimated.

The table below shows the estimated group Own Funds, Economic Capital Requirement and Surplus Own Funds based on group's Economic Capital model.

(a) Capital position

As at 30 June 2017, the group had an estimated Economic Capital surplus of £9.2bn (FY 16: £8.3bn), corresponding to an Economic Capital coverage ratio of 247% (31 December 2016: 230%). The Economic Capital position is as follows:

	30.06.17 £bn	31.12.16 £bn
Core tier 1 Own Funds	**12.2**	11.9
Tier 1 subordinated liabilities[1]	**-**	0.6
Tier 2 subordinated liabilities[2]	**3.2**	2.1
Own Funds[3]	**15.4**	14.6
Economic Capital Requirement (ECR)[4]	**(6.2)**	(6.3)
Surplus Own Funds	**9.2**	8.3
ECR coverage ratio[5]	**247%**	230%

1. Tier 1 subordinated liabilities of £0.6bn were repaid on 2 May 2017.
2. Tier 2 subordinated liabilities include $1.35bn of USD subordinated notes issued in 2017.
3. Economic Capital Own Funds do not include an accrual for the dividend of £256m (FY 16: £616m) declared after the balance sheet date.
4. The EC balance sheet and ECR are not subject to audit.
5. Coverage ratio uses unrounded inputs.

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

(b) Methodology

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

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

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

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

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

All material insurance firms, including Legal & General Assurance Society Limited, Legal & General Insurance Limited and Legal & General Assurance (Pensions Management) Limited (LGIM's insurance subsidiary) are incorporated into the group's Economic Capital model assessment of required capital, assuming diversification of the risks between the different firms within the group and between the risks to which they are exposed. These firms, as well as the non-EEA insurance firms (Legal & General America (LGI US) and Legal & General Reinsurance Company Limited based in Bermuda) contribute over 98% of the group's ECR.

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

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

4.04 Investment portfolio

	Market value 30.06.17 £m	Market[1] value 30.06.16 £m	Market[1] value 31.12.16 £m
Worldwide total assets	**952,100**	846,140	903,886
Client and policyholder assets[1]	**(864,740)**	(766,397)	(821,978)
Non-unit linked with-profits assets	**(11,551)**	(12,478)	(11,924)
Investments to which shareholders are directly exposed	**75,809**	67,265	69,984

Analysed by investment class:

	Notes	**LGR investments 30.06.17 £m**	**Other non profit insurance investments 30.06.17 £m**	**LGC investments 30.06.17 £m**	**Other shareholder investments 30.06.17 £m**	**Total 30.06.17 £m**	Total[1] 30.06.16 £m	Total[1] 31.12.16 £m
Equities[2]		**268**	**-**	**2,473**	**135**	**2,876**	2,594	2,558
Bonds	4.06	**51,536**	**1,717**	**2,347**	**493**	**56,093**	53,436	54,852
Derivative assets[3]		**3,773**	**-**	**47**	**3**	**3,823**	5,723	4,693
Property	4.07	**2,687**	**-**	**175**	**25**	**2,887**	2,457	2,604
Cash, cash equivalents, loans & receivables		**1,823**	**458**	**1,286**	**326**	**3,893**	2,545	3,362
Financial investments		**60,087**	**2,175**	**6,328**	**982**	**69,572**	66,755	68,069
Other assets[4]		**5,859**	**-**	**364**	**14**	**6,237**	510	1,915
Total investments		**65,946**	**2,175**	**6,692**	**996**	**75,809**	67,265	69,984

1. H1 16 and FY 16 Cash Equivalents and Financial Investments values have been restated. Refer to footnote 1 in the Consolidated Cash Flow Statement.
2. Equity investments include a total of £256m in respect of CALA Group Limited, Peel Media Holdings Limited (MediaCityUK), NTR Wind Management Ltd and Access Development Partnership (H1 16: £207m; FY 16: £237m).
3. Derivative assets are shown gross of derivative liabilities of £2.4bn (H1 16: £5.0bn; FY 16: £2.9bn). 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. Other assets include reverse repurchase agreements of £6,202m (H1 16: £464m; FY 16: £1,883m).

4.05 Direct Investments
(a) Analysed by asset class

	Direct[1] Investments 30.06.17 £m	**Traded[2] securities 30.06.17 £m**	**Total 30.06.17 £m**	Direct[1] Investments 30.06.16 £m	Traded[2,3] securities 30.06.16 £m	Total[3] 30.06.16 £m	Direct[1] Investments 31.12.16 £m	Traded[2,3] securities 31.12.16 £m	Total[3] 31.12.16 £m
Equities	**650**	**2,226**	**2,876**	508	2,086	2,594	595	1,963	2,558
Bonds[4]	**7,722**	**48,371**	**56,093**	4,914	48,522	53,436	6,256	48,596	54,852
Derivative assets	**-**	**3,823**	**3,823**	-	5,723	5,723	-	4,693	4,693
Property[5]	**2,887**	**-**	**2,887**	2,457	-	2,457	2,604	-	2,604
Cash, cash equivalents, loans & receivables	**496**	**3,397**	**3,893**	466	2,079	2,545	518	2,844	3,362
Other assets	**35**	**6,202**	**6,237**	46	464	510	32	1,883	1,915
	11,790	**64,019**	**75,809**	8,391	58,874	67,265	10,005	59,979	69,984

1. Direct Investments, which generally constitute an agreement with another party, represent an exposure to untraded and often less volatile asset classes. Direct Investments also include physical assets, bilateral loans and private equity, but exclude hedge funds.

2. Traded securities are defined by exclusion. If an instrument is not a Direct Investment, then it is classed as a traded security.

3. H1 16 and FY 16 Cash Equivalents and Financial Investments values have been restated. Refer to footnote 1 in the Consolidated Cash Flow Statement.

4. Direct Investment bonds include lifetime mortgages of £1,433m (H1 16: £440m; FY 16: £852m).

5. A further breakdown of property is provided in note 4.07.

(b) Analysed by segment

	LGR 30.06.17 £m	**LGC 30.06.17 £m**	**LGI (US) 30.06.17 £m**	**LGI (UK and Other) 30.06.17 £m**	**Total 30.06.17 £m**
Equities	**-**	**650**	**-**	**-**	**650**
Bonds[1]	**7,094**	**267**	**361**	**-**	**7,722**
Property[2]	**2,687**	**200[3]**	**-**	**-**	**2,887**
Cash, cash equivalents, loans & receivables[4]	**31**	**123**	**342**	**-**	**496**
Other assets	**-**	**35**	**-**	**-**	**35**
	9,812	**1,275**	**703**	**-**	**11,790**

1. Direct Investment bonds include lifetime mortgages of £1,433m (H1 16: £440m; FY 16: £852m).
2. A further breakdown of property is provided in note 4.07.
3. Included in LGC property is £25m of shareholder investment property as noted in note 4.04.
4. Cash, cash equivalents, loans & receivables only include loans and receivables.

	LGR 30.06.16 £m	LGC 30.06.16 £m	LGI (US) 30.06.16 £m	LGI (UK and Other) 30.06.16 £m	Total 30.06.16 £m
Equities	-	508	-	-	508
Bonds[1]	4,372	197	345	-	4,914
Property[2]	2,257	196	-	4	2,457
Cash, cash equivalents, loans & receivables[3]	20	117	329	-	466
Other assets	-	46	-	-	46
	6,649	1,064	674	4	8,391

1. Direct Investments bonds include lifetime mortgages of £440m.
2. A further breakdown of property is provided in note 4.07.
3. Cash, cash equivalents, loans & receivables only include loans and receivables.

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

	LGR 31.12.16 £m	LGC 31.12.16 £m	LGI (US) 31.12.16 £m	LGI (UK and Other) 31.12.16 £m	Total 31.12.16 £m
Equities	-	595	-	-	595
Bonds[1]	5,655	228	373	-	6,256
Property[2]	2,442	162	-	-	2,604
Cash, cash equivalents, loans & receivables[3]	33	120	365	-	518
Other assets	-	32	-	-	32
	8,130	1,137	738	-	10,005

1. Direct Investments bonds include lifetime mortgages of £852m.
2. A further breakdown of property is provided in note 4.07.
3. Cash, cash equivalents, loans & receivables only include loans and receivables.

(c) Movement in the period

	Carrying value 01.01.17 £m	**Additions £m**	**Disposals £m**	**Change in market value £m**	**Carrying value 30.06.17 £m**
Equities	**595**	**35**	**-**	**20**	**650**
Bonds[1]	**6,256**	**1,345**	**(15)**	**136**	**7,722**
Property	**2,604**	**377**	**(198)**	**104**	**2,887**
Cash, cash equivalents, loans & receivables[2]	**518**	**-**	**(6)**	**(16)**	**496**
Other assets	**32**	**2**	**-**	**1**	**35**
	10,005	**1,759**	**(219)**	**245**	**11,790**

1. Direct Investment bonds include lifetime mortgages of £1,433m (H1 16: £440m; FY 16: £852m).
2. Cash, cash equivalents, loans & receivables only include loans and receivables.

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

	AAA 30.06.17 £m	AA 30.06.17 £m	A 30.06.17 £m	BBB 30.06.17 £m	BB or below 30.06.17 £m	LGR 30.06.17 £m	LGR 30.06.17 %
Sovereigns, Supras and Sub-Sovereigns	**1,058**	**9,718**	**297**	**230**	**31**	**11,334**	**23**
Banks:							
- Tier 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Tier 2 and other subordinated	**211**	**49**	**58**	**35**	**-**	**353**	**1**
- Senior	**3**	**363**	**1,227**	**34**	**-**	**1,627**	**3**
- Covered	**254**	**-**	**-**	**-**	**-**	**254**	**-**
Financial Services:							
- Tier 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Tier 2 and other subordinated	**-**	**129**	**109**	**58**	**-**	**296**	**1**
- Senior	**-**	**580**	**66**	**114**	**-**	**760**	**1**
Insurance:							
- Tier 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Tier 2 and other subordinated	**-**	**110**	**-**	**52**	**-**	**162**	**-**
- Senior	**-**	**55**	**487**	**76**	**-**	**618**	**1**
Consumer Services and Goods:							
- Cyclical	**-**	**335**	**1,071**	**1,676**	**160**	**3,242**	**6**
- Non-cyclical	**177**	**558**	**1,329**	**2,050**	**97**	**4,211**	**8**
- Health care	**3**	**32**	**195**	**155**	**-**	**385**	**1**
Infrastructure:							
- Social	**86**	**841**	**3,380**	**1,005**	**20**	**5,332**	**10**
- Economic	**-**	**29**	**913**	**1,402**	**43**	**2,387**	**5**
Technology and Telecoms	**56**	**139**	**724**	**2,014**	**86**	**3,019**	**6**
Industrials	**-**	**148**	**705**	**381**	**12**	**1,246**	**2**
Utilities	**-**	**80**	**4,867**	**3,370**	**16**	**8,333**	**16**
Energy	**-**	**-**	**102**	**482**	**16**	**600**	**1**
Commodities	**-**	**-**	**302**	**523**	**20**	**845**	**2**
Oil and Gas	**-**	**278**	**481**	**670**	**163**	**1,592**	**3**
Property	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Real estate	**-**	**369**	**482**	**1,199**	**53**	**2,103**	**4**
Structured finance ABS / RMBS / CMBS / Other	**134**	**588**	**485**	**47**	**55**	**1,309**	**3**
Lifetime mortgage loans[1]	**721**	**522**	**99**	**91**	**-**	**1,433**	**3**
CDOs	**-**	**21**	**60**	**14**	**-**	**95**	**-**
Total £m	**2,703**	**14,944**	**17,439**	**15,678**	**772**	**51,536**	**100**
Total %	**5**	**30**	**34**	**30**	**1**	**100**	

1. The credit ratings attributed to lifetime mortgages are allocated in accordance with the internal matching adjustment structuring.

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

	AAA[1] 30.06.16 £m	AA[1] 30.06.16 £m	A[1] 30.06.16 £m	BBB[1] 30.06.16 £m	BB or below[1] 30.06.16 £m	LGR[1] 30.06.16 £m	LGR[1] 30.06.16 %
Sovereigns, Supras and Sub-Sovereigns	1,032	8,618	329	233	29	10,241	21
Banks:							
- Tier 1	-	-	-	-	6	6	-
- Tier 2 and other subordinated	-	-	159	242	15	416	1
- Senior	2	496	1,155	82	-	1,735	4
- Covered	250	2	-	16	-	268	1
Financial Services:							
- Tier 1	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	86	49	64	3	202	-
- Senior	6	363	144	128	11	652	1
Insurance:							
- Tier 1	-	-	-	1	-	1	-
- Tier 2 and other subordinated	-	32	136	78	26	272	1
- Senior	8	44	538	136	-	726	2
Consumer Services and Goods							
- Cyclical	-	337	912	1,788	148	3,185	7
- Non-cyclical	149	423	1,371	1,069	101	3,113	6
- Health care	3	-	175	138	-	316	1
Infrastructure:							
- Social	96	971	3,102	679	240	5,088	11
- Economic	-	28	806	1,037	30	1,901	4
Technology and Telecoms	46	156	535	2,269	92	3,098	6
Industrials	-	94	685	373	53	1,205	3
Utilities	-	99	4,746	2,957	24	7,826	15
Energy	-	-	107	544	31	682	1
Commodities	-	-	294	454	91	839	2
Oil and Gas	-	169	578	612	261	1,620	3
Property	-	-	-	-	-	-	-
Real estate	-	436	349	689	435	1,909	4
Structured finance ABS / RMBS / CMBS / Other	135	761	271	89	48	1,304	3
Lifetime mortgage loans[2]	-	-	-	440	-	440	1
CDOs[3]	-	722	366	14	-	1,102	2
Total £m[1]	1,727	13,837	16,807	14,132	1,644	48,147	100
Total %	4	29	35	29	3	100	

1. H1 16 and FY 16 Cash Equivalents and Financial Investments values have been restated. Refer to footnote 1 in the Consolidated Cash Flow Statement.
2. Lifetime mortgage loans have increased in value since inception predominantly due to the accrual of interest on the loans.
3. The underlying reference portfolio has had no reference entity defaults during the period. The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the reference portfolio, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses. The CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the market valuation.

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

	AAA[1] 31.12.16 £m	AA[1] 31.12.16 £m	A[1] 31.12.16 £m	BBB[1] 31.12.16 £m	BB or below[1] 31.12.16 £m	LGR[1] 31.12.16 £m	LGR[1] 31.12.16 %
Sovereigns, Supras and Sub-Sovereigns	912	9,961	285	229	34	11,421	24
Banks:							
- Tier 1	-	-	-	-	12	12	-
- Tier 2 and other subordinated	211	49	62	41	-	363	1
- Senior	8	436	1,201	59	-	1,704	3
- Covered	259	-	16	-	-	275	1
Financial Services:							
- Tier 1	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	87	59	56	-	202	-
- Senior	-	371	125	110	-	606	1
Insurance:							
- Tier 1	-	-	-	1	-	1	-
- Tier 2 and other subordinated	-	45	3	68	-	116	-
- Senior	8	88	485	76	-	657	1
Consumer Services and Goods:							
- Cyclical	-	389	1,088	1,755	165	3,397	7
- Non-cyclical	260	647	1,380	1,373	115	3,775	8
- Health care	3	13	15	10	1	42	-
Infrastructure:							
- Social	-	624	3,259	926	148	4,957	10
- Economic	-	-	873	1,313	44	2,230	4
Technology and Telecoms	57	203	610	2,104	84	3,058	6
Industrials	-	142	741	362	37	1,282	3
Utilities	-	101	4,903	3,142	12	8,158	16
Energy	-	-	106	554	31	691	1
Commodities	-	-	304	475	77	856	2
Oil and Gas	-	281	544	633	180	1,638	3
Property	-	-	1	6	-	7	-
Real estate	-	305	628	1,063	48	2,044	4
Structured finance ABS / RMBS / CMBS / Other	121	671	572	46	49	1,459	3
Lifetime mortgage loans[2]	388	322	91	51	-	852	2
CDOs	-	-	59	14	-	73	-
Total £m	2,227	14,735	17,410	14,467	1,037	49,876	100
Total %	4	30	35	29	2	100	

1. H1 16 and FY 16 Cash Equivalents and Financial Investments values have been restated. Refer to footnote 1 in the Consolidated Cash Flow Statement.

2. The credit ratings attributed to lifetime mortgages are allocated in accordance with the internal matching adjustment structuring.

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

	UK 30.06.17 £m	US 30.06.17 £m	EU excluding UK 30.06.17 £m	Rest of the World 30.06.17 £m	LGR 30.06.17 £m
Sovereigns, Supras and Sub-Sovereigns	9,024	704	1,105	501	11,334
Banks	931	688	497	118	2,234
Financial Services	383	68	605	-	1,056
Insurance	154	555	16	55	780
Consumer Services and Goods:					
- Cyclical	772	2,049	290	131	3,242
- Non-cyclical	1,359	2,564	279	9	4,211
- Health care	1	384	-	-	385
Infrastructure:					
- Social	5,012	284	-	36	5,332
- Economic	1,917	205	29	236	2,387
Technology and Telecoms	591	1,356	659	413	3,019
Industrials	204	568	335	139	1,246
Utilities	3,862	1,237	2,322	912	8,333
Energy	-	498	6	96	600
Commodities	8	290	22	525	845
Oil and Gas	187	396	465	544	1,592
Property	-	-	-	-	-
Real estate	1,686	379	10	28	2,103
Structured finance ABS / RMBS / CMBS / Other	947	42	302	18	1,309
Lifetime mortgages	1,433	-	-	-	1,433
CDOs	-	21	-	74	95
Total	28,471	12,288	6,942	3,835	51,536

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

	UK[1] 30.06.16 £m	US[1] 30.06.16 £m	EU excluding UK[1] 30.06.16 £m	Rest of the World[1] 30.06.16 £m	LGR[1] 30.06.16 £m
Sovereigns, Supras and Sub-Sovereigns	7,909	680	982	670	10,241
Banks	1,050	752	420	203	2,425
Financial Services	419	109	315	11	854
Insurance	276	597	46	80	999
Consumer Services and Goods:					
- Cyclical	604	2,207	216	158	3,185
- Non-cyclical	1,131	1,735	177	70	3,113
- Health care	37	270	9	-	316
Infrastructure:					
- Social	4,800	251	-	37	5,088
- Economic	1,688	71	28	114	1,901
Technology and Telecoms	553	1,282	869	394	3,098
Industrials	171	583	281	170	1,205
Utilities	3,437	1,181	2,348	860	7,826
Energy	-	571	10	101	682
Commodities	19	282	24	514	839
Oil and Gas	183	520	338	579	1,620
Property	-	-	-	-	-
Real estate	1,448	391	12	58	1,909
Structured finance ABS / RMBS / CMBS / Other	1,051	33	201	19	1,304
Lifetime mortgages	440	-	-	-	440
CDOs[2]	-	-	1,031	71	1,102
Total	25,216	11,515	7,307	4,109	48,147

1. H1 16 and FY 16 Cash Equivalents and Financial Investments values have been restated. Refer to footnote 1 in the Consolidated Cash Flow Statement.
2. The underlying reference portfolio has had no reference entity defaults during the period. The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the reference portfolio, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses. The CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the counterparty valuation.

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

	UK[1] 31.12.16 £m	US[1] 31.12.16 £m	EU excluding UK[1] 31.12.16 £m	Rest of the World[1] 31.12.16 £m	LGR[1] 31.12.16 £m
Sovereigns, Supras and Sub-Sovereigns	9,128	782	1,003	508	11,421
Banks	948	680	537	189	2,354
Financial Services	389	76	342	1	808
Insurance	176	528	15	55	774
Consumer Services and Goods:					
- Cyclical	783	2,229	255	130	3,397
- Non-cyclical	1,142	2,419	201	13	3,775
- Health care	4	37	1	-	42
Infrastructure:					
- Social	4,785	137	-	35	4,957
- Economic	1,934	74	-	222	2,230
Technology and Telecoms	582	1,305	746	425	3,058
Industrials	148	656	301	177	1,282
Utilities	3,673	1,191	2,387	907	8,158
Energy	-	589	6	96	691
Commodities	16	290	27	523	856
Oil and Gas	183	485	417	553	1,638
Property	-	7	-	-	7
Real estates	1,629	340	17	58	2,044
Structured finance ABS / RMBS / CMBS / Other	1,016	50	375	18	1,459
Lifetime mortgages[2]	852	-	-	-	852
CDOs	-	-	-	73	73
Total	27,388	11,875	6,630	3,983	49,876

1. H1 16 and FY 16 Cash Equivalents and Financial Investments values have been restated. Refer to footnote 1 in the Consolidated Cash Flow Statement.
2. The credit ratings attributed to lifetime mortgages are allocated in accordance with the internal matching adjustment structuring.

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

	AAA 30.06.17 £m	AA 30.06.17 £m	A 30.06.17 £m	BBB 30.06.17 £m	BB or below 30.06.17 £m	Other 30.06.17 £m	Total 30.06.17 £m	Total 30.06.17 %
Sovereigns, Supras and Sub-Sovereigns	**1,334**	**10,381**	**322**	**314**	**81**	**-**	**12,432**	**22**
Banks:								
- Tier 1	**-**	**-**	**-**	**1**	**1**	**-**	**2**	**-**
- Tier 2 and other subordinated	**211**	**49**	**70**	**46**	**4**	**-**	**380**	**1**
- Senior	**11**	**992**	**2,233**	**51**	**1**	**-**	**3,288**	**6**
- Covered	**310**	**-**	**-**	**-**	**-**	**-**	**310**	**-**
Financial Services:								
- Tier 1	**2**	**-**	**-**	**-**	**-**	**-**	**2**	**-**
- Tier 2 and other subordinated	**-**	**129**	**109**	**64**	**-**	**-**	**302**	**1**
- Senior	**-**	**591**	**100**	**132**	**11**	**-**	**834**	**1**
Insurance:								
- Tier 1	**-**	**-**	**-**	**1**	**-**	**-**	**1**	**-**
- Tier 2 and other subordinated	**-**	**113**	**4**	**56**	**-**	**-**	**173**	**-**
- Senior	**-**	**71**	**493**	**80**	**-**	**-**	**644**	**1**
Consumer Services and Goods:								
- Cyclical	**-**	**358**	**1,124**	**1,698**	**230**	**-**	**3,410**	**6**
- Non-cyclical	**191**	**591**	**1,398**	**2,143**	**134**	**-**	**4,457**	**7**
- Health Care	**3**	**31**	**222**	**172**	**6**	**-**	**434**	**1**
Infrastructure:								
- Social	**86**	**841**	**3,383**	**1,005**	**20**	**-**	**5,335**	**10**
- Economic	**-**	**29**	**940**	**1,405**	**43**	**-**	**2,417**	**4**
Technology and Telecoms	**71**	**158**	**779**	**2,062**	**122**	**-**	**3,192**	**6**
Industrials	**-**	**151**	**786**	**482**	**68**	**-**	**1,487**	**3**
Utilities	**-**	**87**	**4,931**	**3,428**	**34**	**-**	**8,480**	**15**
Energy	**-**	**-**	**102**	**515**	**31**	**-**	**648**	**1**
Commodities	**-**	**-**	**312**	**537**	**41**	**-**	**890**	**2**
Oil and Gas	**-**	**287**	**514**	**695**	**204**	**-**	**1,700**	**3**
Property	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Real estate	**-**	**369**	**491**	**1,254**	**63**	**-**	**2,177**	**4**
Structured finance ABS / RMBS / CMBS / Other	**305**	**620**	**531**	**59**	**55**	**-**	**1,570**	**3**
Lifetime mortgage loans[1]	**721**	**522**	**99**	**91**	**-**	**-**	**1,433**	**3**
CDOs	**-**	**21**	**60**	**14**	**-**	**-**	**95**	**-**
Total £m	**3,245**	**16,391**	**19,003**	**16,305**	**1,149**	**-**	**56,093**	**100**
Total %	**6**	**29**	**34**	**29**	**2**	**-**	**100**	

1. The credit ratings attributed to lifetime mortgages are allocated in accordance with the internal matching adjustment structuring.

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

	AAA[1] 30.06.16 £m	AA[1] 30.06.16 £m	A[1] 30.06.16 £m	BBB[1] 30.06.16 £m	BB or below[1] 30.06.16 £m	Other[1] 30.06.16 £m	Total[1] 30.06.16 £m	Total[1] 30.06.16 %
Sovereigns, Supras and Sub-Sovereigns	1,747	9,427	405	458	83	1	12,121	22
Banks:								
- Tier 1	-	-	-	1	6	-	7	-
- Tier 2 and other subordinated	-	-	172	256	15	1	444	1
- Senior	6	1,000	1,635	104	1	1	2,747	5
- Covered	303	2	-	16	-	-	321	1
Financial Services:								
- Tier 1	-	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	86	50	70	3	3	212	-
- Senior	6	381	169	157	22	163	898	2
Insurance:								
- Tier 1	-	-	1	1	-	-	2	-
- Tier 2 and other subordinated	-	35	140	89	26	1	291	1
- Senior	23	46	547	143	-	-	759	1
Consumer Services and Goods & Health Care								
- Cyclical	-	350	1,018	1,922	204	9	3,503	7
- Non-cyclical	159	439	1,439	1,162	123	-	3,322	6
- Health Care	3	8	208	161	8	1	389	1
Infrastructure:								
- Social	122	971	3,105	679	240	-	5,117	10
- Economic	-	28	807	1,041	30	37	1,943	4
Technology and Telecoms	58	185	599	2,391	119	3	3,355	6
Industrials	-	106	779	505	98	5	1,493	2
Utilities	-	108	4,813	3,056	36	3	8,016	15
Energy	-	-	107	576	42	-	725	1
Commodities	-	-	314	472	104	-	890	2
Oil and Gas	-	197	631	676	301	2	1,807	3
Property	-	-	3	7	2	3	15	-
Real estate	-	436	358	739	442	-	1,975	4
Structured finance ABS / RMBS / CMBS / Other	337	785	282	90	48	-	1,542	3
Lifetime mortgage loans[2]	-	-	-	440	-	-	440	1
CDOs[3]	-	722	366	14	-	-	1,102	2
Total £m	2,764	15,312	17,948	15,226	1,953	233	53,436	100
Total %	5	29	34	28	4	-	100	

1. H1 16 and FY 16 Cash Equivalents and Bond values have been restated. Refer to footnote 1 in the Consolidated Cash Flow Statement.
2. Lifetime mortgage loans have increased in value since inception predominantly due to the accrual of interest on the loans.
3. The underlying reference portfolio has had no reference entity defaults during the period. The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the reference portfolio, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses. The CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the market valuation.

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

	AAA[1] 31.12.16 £m	AA[1] 31.12.16 £m	A[1] 31.12.16 £m	BBB[1] 31.12.16 £m	BB or below[1] 31.12.16 £m	Other[1] 31.12.16 £m	Total[1] 31.12.16 £m	Total[1] 31.12.16 %
Sovereigns, Supras and Sub-Sovereigns	1,206	10,535	370	387	102	-	12,600	24
Banks:								
- Tier 1	-	-	-	1	12	-	13	-
- Tier 2 and other subordinated	211	49	73	54	-	-	387	1
- Senior	16	1,076	2,067	133	12	-	3,304	6
- Covered	259	-	16	-	-	-	275	1
Financial Services:								
- Tier 1	-	-	-	-	-	-	-	-
- Tier 2 and other subordinated	-	87	59	63	-	-	209	-
- Senior	-	381	147	129	3	112	772	1
Insurance:								
- Tier 1	-	-	2	4	-	-	6	-
- Tier 2 and other subordinated	-	48	8	72	1	-	129	-
- Senior	29	88	495	80	-	-	692	1
Consumer Services and Goods:								
- Cyclical	-	409	1,167	1,809	244	-	3,629	7
- Non-cyclical	300	665	1,454	1,474	148	-	4,041	7
- Health care	3	30	45	44	8	-	130	-
Infrastructure:								
- Social	-	624	3,262	926	148	-	4,960	9
- Economic	-	-	903	1,318	44	-	2,265	4
Technology and Telecoms	73	238	662	2,162	123	-	3,258	6
Industrials	-	146	840	487	107	-	1,580	3
Utilities	-	108	4,967	3,193	28	-	8,296	15
Energy	-	5	106	575	44	-	730	1
Commodities	-	-	313	478	98	-	889	2
Oil and Gas	-	290	582	692	236	-	1,800	3
Property	-	-	12	60	6	-	78	-
Real estate	-	305	629	1,067	53	-	2,054	4
Structured finance ABS / RMBS / CMBS / Other	341	729	617	90	53	-	1,830	3
Lifetime mortgage loans[2]	388	322	91	51	-	-	852	2
CDOs	-	-	59	14	-	-	73	-
Total £m	2,826	16,135	18,946	15,363	1,470	112	54,852	100
Total %	5	29	35	28	3	-	100	

1. H1 16 and FY 16 Cash Equivalents and Financial Investments values have been restated. Refer to footnote 1 in the Consolidated Cash Flow Statement.

2. The credit ratings attributed to lifetime mortgages are allocated in accordance with the internal matching adjustment structuring.

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

	UK 30.06.17 £m	US 30.06.17 £m	EU excluding UK 30.06.17 £m	Rest of the World 30.06.17 £m	Total 30.06.17 £m
Sovereigns, Supras and Sub-Sovereigns	**9,600**	**965**	**1,236**	**631**	**12,432**
Banks	**1,858**	**793**	**920**	**409**	**3,980**
Financial Services	**384**	**124**	**630**	**-**	**1,138**
Insurance	**161**	**583**	**19**	**55**	**818**
Consumer Services and Goods:					
- Cyclical	**782**	**2,153**	**336**	**139**	**3,410**
- Non-cyclical	**1,374**	**2,769**	**291**	**23**	**4,457**
- Health care	**10**	**424**	**-**	**-**	**434**
Infrastructure:					
- Social	**5,015**	**283**	**-**	**37**	**5,335**
- Economic	**1,920**	**232**	**29**	**236**	**2,417**
Technology and Telecoms	**597**	**1,499**	**668**	**428**	**3,192**
Industrials	**218**	**775**	**345**	**149**	**1,487**
Utilities	**3,874**	**1,344**	**2,341**	**921**	**8,480**
Energy	**-**	**546**	**6**	**96**	**648**
Commodities	**10**	**313**	**27**	**540**	**890**
Oil and Gas	**193**	**436**	**496**	**575**	**1,700**
Property	**-**	**-**	**-**	**-**	**-**
Real estate	**1,687**	**444**	**14**	**32**	**2,177**
Structured Finance ABS / RMBS / CMBS / Other	**950**	**246**	**349**	**25**	**1,570**
Lifetime mortgages	**1,433**	**-**	**-**	**-**	**1,433**
CDOs	**-**	**21**	**-**	**74**	**95**
Total	**30,066**	**13,950**	**7,707**	**4,370**	**56,093**

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

	UK[1] 30.06.16 £m	US[1] 30.06.16 £m	EU excluding UK[1] 30.06.16 £m	Rest of the World[1] 30.06.16 £m	Total[1] 30.06.16 £m
Sovereigns, Supras and Sub-Sovereigns	8,421	991	1,862	847	12,121
Banks	1,408	876	737	498	3,519
Financial Services	588	162	349	11	1,110
Insurance	286	629	57	80	1,052
Consumer Services and Goods:					
- Cyclical	638	2,402	284	179	3,503
- Non-cyclical	1,141	1,917	181	83	3,322
- Health care	47	332	10	-	389
Infrastructure:					
- Social	4,802	277	1	37	5,117
- Economic	1,730	70	29	114	1,943
Technology and Telecoms	566	1,435	932	422	3,355
Industrials	195	787	329	182	1,493
Utilities	3,450	1,268	2,432	866	8,016
Energy	-	613	10	102	725
Commodities	21	302	26	541	890
Oil and Gas	209	571	396	631	1,807
Property	5	3	6	1	15
Real estate	1,449	449	17	60	1,975
Structured Finance ABS / RMBS / CMBS / Other	1,055	267	201	19	1,542
Lifetime mortgages	440	-	-	-	440
CDOs	-	-	1,031	71	1,102
Total	26,451	13,351	8,890	4,744	53,436

1. H1 16 and FY 16 Cash Equivalents and Financial Investments values have been restated. Refer to footnote 1 in the Consolidated Cash Flow Statement.

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

	UK[1] 31.12.16 £m	US[1] 31.12.16 £m	EU excluding UK[1] 31.12.16 £m	Rest of the World[1] 31.12.16 £m	Total[1] 31.12.16 £m
Sovereigns, Supras and Sub-Sovereigns	9,569	1,038	1,264	729	12,600
Banks	1,625	803	1,005	546	3,979
Financial Services	500	124	355	2	981
Insurance	189	566	17	55	827
Consumer Services and Goods					
- Cyclical	794	2,410	272	153	3,629
- Non-cyclical	1,155	2,650	208	28	4,041
- Health care	18	106	6	-	130
Infrastructure					
- Social	4,788	137	-	35	4,960
- Economic	1,937	102	1	225	2,265
Technology and Telecoms	589	1,467	753	449	3,258
Industrials	166	904	312	198	1,580
Utilities	3,687	1,293	2,401	915	8,296
Energy	1	598	14	117	730
Commodities	16	292	33	548	889
Oil and Gas	190	574	450	586	1,800
Property	-	71	4	3	78
Real estate	1,631	345	17	61	2,054
Structured finance ABS / RMBS / CMBS / Other	1,020	323	469	18	1,830
Lifetime mortgage loans	852	-	-	-	852
CDOs	-	-	-	73	73
Total	28,727	13,803	7,581	4,741	54,852

1. H1 16 and FY 16 Cash Equivalents and Financial Investments values have been restated. Refer to footnote 1 in the Consolidated Cash Flow Statement.

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

	Externally rated 30.06.17 £m	**Internally rated[2] 30.06.17 £m**	**LGR 30.06.17 £m**	**Externally rated 30.06.17 £m**	**Internally rated[2] 30.06.17 £m**	**Total Group 30.06.17 £m**
AAA	**1,573**	**1,130**	**2,703**	**2,115**	**1,130**	**3,245**
AA	**13,205**	**1,739**	**14,944**	**14,579**	**1,812**	**16,391**
A	**14,511**	**2,928**	**17,439**	**15,971**	**3,032**	**19,003**
BBB	**13,103**	**2,575**	**15,678**	**13,516**	**2,789**	**16,305**
BB or below	**691**	**81**	**772**	**989**	**160**	**1,149**
Other	**-**	**-**	**-**	**-**	**-**	**-**
	43,083	**8,453**	**51,536**	**47,170**	**8,923**	**56,093**

	Externally rated[1] 30.06.16 £m	Internally rated[1, 2] 30.06.16 £m	LGR[1] 30.06.16 £m	Externally rated[1] 30.06.16 £m	Internally rated[1, 2] 30.06.16 £m	Total[1] 30.06.16 £m
AAA	1,719	8	1,727	2,756	8	2,764
AA	12,136	1,701	13,837	13,606	1,706	15,312
A	14,506	2,301	16,807	15,570	2,378	17,948
BBB	12,497	1,635	14,132	13,375	1,851	15,226
BB or below	1,102	542	1,644	1,348	605	1,953
Other	-	-	-	233	-	233
	41,960	6,187	48,147	46,888	6,548	53,436

	Externally rated[1] 31.12.16 £m	Internally rated[1, 2] 31.12.16 £m	LGR[1] 31.12.16 £m	Externally rated[1] 31.12.16 £m	Internally rated[1, 2] 31.12.16 £m	Total Group [1] 31.12.16 £m
AAA	1,839	388	2,227	2,438	388	2,826
AA	13,499	1,236	14,735	14,632	1,503	16,135
A	14,637	2,773	17,410	16,063	2,883	18,946
BBB	12,405	2,062	14,467	13,068	2,295	15,363
BB or below	960	77	1,037	1,322	148	1,470
Other	-	-	-	-	112	112
	43,340	6,536	49,876	47,523	7,329	54,852

1. H1 16 and FY 16 Cash Equivalents and Financial Investments values have been restated. Refer to footnote 1 in the Consolidated Cash Flow Statement
2. Where external ratings are not available an internal rating has been used where it is practicable to do so.

4.07 Property analysis
(a) Property exposure within Direct Investments

(i) Group property Direct Investments by status

	LGR[1] At 30.06.17 £m	LGC At 30.06.17 £m	LGI (UK and Other) At 30.06.17 £m	Total At 30.06.17 £m	%
Fully let	**2,687**	**8**	**-**	**2,695**	**93**
Development	**-**	**144**[2]	**-**	**144**	**5**
Land	**-**	**48**	**-**	**48**	**2**
	2,687	**200**	**-**	**2,887**	**100**

1. The fully let LGR property includes £2.3bn let to investment grade tenants.
2. Included in LGC Development is £25m of Other shareholder investment property as noted in note 4.04.

	LGR[1] At 30.06.16 £m	LGC At 30.06.16 £m	LGI (UK and Other) At 30.06.16 £m	Total At 30.06.16 £m	%
Fully let	2,257	58	4	2,319	94
Development	-	95	-	95	4
Land	-	43	-	43	2
	2,257	196	4	2,457	100

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

	LGR[1] At 31.12.16 £m	LGC At 31.12.16 £m	LGI (UK and Other) At 31.12.16 £m	Total At 31.12.16 £m	%
Fully let	2,442	16	-	2,458	94
Development	-	101	-	101	4
Land	-	45	-	45	2
	2,442	162	-	2,604	100

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

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Glossary

* These items represent an alternative performance measure.

Adjusted earnings per share*

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

Ad valorem fees

On-going Management fees earned on assets under management, overly assets and advisory assets as defined below

Adjusted return on equity*

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

Adjusted operating profit*

Operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes and exceptional items. Adjusted operating profit further removes exceptional restructuring costs to demonstrate the profitability before these costs which are non-recurring in nature.

Advisory assets

These are assets on which Global Index Advisors (GIA) provide advisory services. Advisory assets are beneficially owned by GIA's clients and all investment decisions pertaining to these assets are also made by the clients. These are different from Assets under Management (AUM) defined below.

Alternative performance measures (APMs)

An alternative performance measure is a financial measure of historic or future financial performance, financial position, or cash flows, other than a financial measure defined under IFRS or the regulations of Solvency II. The group uses a range of these metrics to provide a better understanding of the underlying performance of the group. Where appropriate, reconciliations of alternative performance measures to IFRS measures are provided. All APMs defined within this glossary are marked with an asterisk.

Annuity

Regular payments from an insurance company made for an agreed period of time (usually up to the depth of the recipient) in return for either cash lump sum or a series of premiums which the policyholder has paid to the insurance company during their working lifetime.

Annual premium

Premiums that are paid regularly over the duration of the contract such as protection policies.

Assets under administration (AUA)*

Assets administered by Legal & General which are beneficially owned by clients. Services provided in respect of assets under administration are of an administrative nature, including safekeeping, collecting investment income, settling purchase and sales transactions and record keeping.

Assets under management (AUM)*

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

Back book acquisition

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

Bundled DC solution

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

Bundled pension schemes

Where the fund manager bundles together the investment provider role and third-party administrator role, together with the role of selecting funds and providing investment education, into one proposition.

Deduction and aggregation (D&A)

A method of calculating group solvency on a Solvency II basis, whereby the assets and liabilities of certain entities are excluded from the group consolidation. The net contribution from those entities to group own funds is included as an asset on the group's Solvency II balance sheet. Regulatory approval has been provided to recognise the (re)insurance subsidiaries of LGI US on this basis.

Direct investments

Direct investments, which generally constitute an agreement with another party and represent an exposure to untraded and often less volatile asset classes. Direct investments also include physical assets, bilateral loans and private equity, but exclude hedge funds.

Earnings per share (EPS)

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

Economic capital*

Economic capital is the capital that an insurer holds internally as a result of its own assessment of risk. It differs from regulatory capital, which is determined by regulators. It represents an estimate of the amount of economic losses an insurer could withstand and still remain solvent with a target level of confidence over a specified time horizon.

Economic Capital Requirement (ECR)

The amount of Economic Capital required to cover the losses occurring in a 1-in-200 year risk event.

Economic Capital Surplus*

The excess of Eligible Own Funds on an economic basis over the Economic Capital Requirement. This represents the amount of capital available to the company in excess of that required to sustain it in a 1-in-200 year risk event.

ECR coverage ratio*

The Eligible Own Funds on an economic basis divided by the Economic Capital Requirement (ECR). This represents the number of times that the ECR is covered by Eligible Own Funds.

Eligible Own Funds

Eligible Own Funds represents the capital available to cover the group's Economic or Solvency II Capital Requirement. Eligible Own Funds comprise the excess of the value of assets over liabilities, as valued on an Economic Capital or Solvency II basis, plus high quality hybrid capital instruments, which are freely available (fungible and transferable) to absorb losses wherever they occur across the group. Eligible own funds (shareholder view basis) excludes the contribution to the groups solvency capital requirement of with-profits fund and final salary pension schemes.

Escape of Water

Escape of water is a type of home insurance claim relating to leakage from fixed water tanks, apparatus (e.g. washing machine) or pipes.

Euro Commercial paper

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

General insurance combined operating ratio

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

Gross written premiums (GWP)

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

Index tracker

Index tracker funds invest in most or all of the same shares, and in a similar proportion, as the index they are tracking, for example the FTSE 100 index. Index tracker funds aim to produce a return in line with a particular market sector, for example, Europe or technology. They are also sometimes known as 'tracker funds'.

ICAV – Irish Collective Asset-Management Vehicle

A legal structure investment funds, based in Ireland and aimed at European investment funds looking for a simple, tax-efficient investment vehicle.

IFRS profit before tax (PBT)

PBT measures profit attributable to shareholders incorporating actual investment returns experienced during the year but before the payment of tax.

Key performance indicators (KPIs)

These are measures by which the development, performance or position of the business can be measured effectively. The group Board reviews the KPIs annually and updates them where appropriate.

Lifetime mortgages

An equity release product aimed at people aged 60 years and over. It is a mortgage loan secured against the customer's house. Customers do not make any monthly payments and continue to own and live in their house until they move into long term care or on death. A no negative equity guarantee exists such that if the house value on repayment is insufficient to cover the outstanding loan, any shortfall is borne by the lender.

Long dated debt

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

Matching adjustment

An adjustment to the discount rate used for annuity liabilities in Economic Capital and Solvency II balance sheets. This adjustment reflects the fact that the profile of assets held is sufficiently well-matched to the profile of the liabilities, that those assets can be held to maturity, and that any excess return over risk-free (that is not related to defaults) can be earned regardless of asset value fluctuations after purchase.

Net release from operations*

Net release from operations is defined as release from operations plus new business surplus/(strain). Net release from operations was previously referred to as Net Cash and provides information on the underlying release of prudent margins from the back book.

New business surplus/(strain)*

The net impact of writing new business on the IFRS position, including the benefit/cost of acquiring new business and the setting up of reserves, for UK non profit annuities, workplace savings, protection and savings, net of tax. This metric provides an understanding of the impact of new contracts on the IFRS profit for the year.

Operating profit*

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

Overlay assets

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

Platform

Online Services used by intermediaries and consumers to view and administer their investment portfolios. Platforms usually provide facilities for buying and selling investments (including, in the UK products such as Individual Savings Accounts(ISAs), Self-Invested Personal Pensions (SIPPs) and life insurance) and for viewing and individual's entire portfolio to assess asset allocation and risk exposure.

Pension risk transfer (PRT)

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

Present value of future new business premiums (PVNBP)*

PVNBP is equivalent to total single premiums plus the discounted value of annual premiums expected to be received over the term of the contracts using the same economic and operating assumptions used for the new business value at the end of the financial period. The discounted value of longevity insurance regular premiums and quota share reinsurance single premiums are calculated on a net of reinsurance basis to enable a more representative margin figure. PVNBP therefore provides an estimate of the present value of the premiums associated with new business written in the year.

Recapitalisation Cost*

An additional liability required in the L&G Economic Capital balance sheet, to allow for the cost of recapitalising the balance sheet following a 1-in-200 year risk event, in order to maintain confidence that our future liabilities will be met. This is calculated using a cost of capital that reflects the long term average rates at which it is expected that the group could raise debt and allows for diversification between all group entities.

Real assets

Real assets encompass a wide variety of tangible debt and equity investments, primarily real estate, infrastructure and energy. They have the ability to serve as stable sources of long term income in weak markets, while also providing capital appreciation opportunities in strong markets.

Release from operations*

The expected release of IFRS surplus from in-force business for the UK non-profit Insurance and Savings and LGR businesses, the shareholder's share of bonuses on with-profits business, the post-tax operating profit on other UK businesses, including the medium term expected investment return on LGC invested assets, and dividends remitted from LGI US and Legal & General Netherlands. 2015 included dividends remitted from Legal & General France, which was disposed of on 31 December 2015. Release from operations was previously referred to as operational cash generation.

Return on equity (ROE)*

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

Single premiums*

Single premiums arise on the sale of new contracts where the terms of the policy do not anticipate more than one premium being paid over its lifetime, such as in individual and bulk annuity deals.

Solvency II

Taking effect from 1 January 2016, the Solvency II regulatory regime is a harmonised prudential framework for insurance firms in the EEA. This single market approach is based on economic principles that measure assets and liabilities to appropriately align insurers' risk with the capital they hold to safeguard policyholder.

Solvency II new business contribution

Reflects present value at the point of sale of expected future Solvency II surplus emerging from new business written in the period using the risk discount rate applicable at the end of the reporting period.

Solvency II Risk Margin

An additional liability required in the Solvency II balance sheet, to ensure the total value of technical provisions is equal to the current amount a (re)insurer would have to pay if it were to transfer its insurance and reinsurance obligations immediately to another (re)insurer. The value of the risk margin represents the cost of providing an amount of Eligible Own Funds equal to the Solvency Capital Requirement (relating to non-market risks) necessary to support the insurance and reinsurance obligations over the lifetime thereof.

Solvency II Surplus

The excess of Eligible Own Funds on a regulatory basis over the Solvency Capital Requirement. This represents the amount of capital available to the company in excess of that required to sustain it in a 1-in-200 year risk event.

Solvency Capital Requirement (SCR)

The amount of Solvency II capital required to cover the losses occurring in a 1-in-200 year risk event.

SCR (shareholder view basis)

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

SCR coverage ratio

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

SCR coverage ratio (proforma basis)*

The proforma basis solvency II coverage incorporates the estimated impacts of a recalculation of the Transitional Measures for Technical Provisions recalculated based on end of period economic conditions, changes to the Internal Model and Matching Adjustment and management's updated Solvency I basis. This includes the solvency capital requirement in relation to the Society's ring-fenced with-profits fund and our defined benefit pension schemes in both Eligible Own Funds and the SCR in the calculation of the SCR coverage ratio.

SCR coverage ratio (shareholder view basis)*

In order to represent a shareholder view of group solvency position, the solvency capital requirement in relation to the Society's ring-fenced with-profits fund and our defined benefit pension schemes is excluded from both Eligible Own Funds and the SCR in the calculation of the SCR coverage ratio. This incorporates the estimated impacts of a recalculation of the Transitional Measures for Technical Provisions based on end of period economic conditions.

Total shareholder return (TSR)

TSR is a measure used to compare the performance of different companies' stocks and shares over time. It combines the share price appreciation and dividends paid to show the total return to the shareholder.

Transitional Measures on Technical Provisions (TMTP)

This is an adjustment to Solvency II technical provisions to bring them into line with the pre-Solvency II equivalent as at 1 January 2016 when the regulatory basis switched over, to smooth the introduction of the new regime. This will decrease linearly over the 16 years following Solvency II implementation but may be recalculated to allow for changes impacting the relevant business, subject to agreement with the PRA.

Unbundled DC solution

When investment services and administration services are supplied by separate providers. Typically the sponsoring employer will cover administration costs and scheme members the investment costs.