Legal & General
INVESTMENT MANAGEMENT

LEGAL AND GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

Company Number 01006112

REPORT AND FINANCIAL STATEMENTS

31 December 2017

LEGAL AND GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

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Registered Office:
One Coleman Street
London, EC2R 5AA

Registered in England and Wales No. 01006112

STRATEGIC REPORT

The directors present their Strategic Report for Legal and General Assurance (Pensions Management) Limited (the Company) for the year ended 31 December 2017.

The principal business of the Company is the management of unitised and segregated pension funds. The Company is a limited company incorporated in England and Wales and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

Business review

The Company is the largest external pension fund management business in the UK, offering a range of investment products to both UK and international clients. Its main source of income relates to management fees generated by the value of assets under management, which increased by 5% during 2017, leading to a £36.5m increase in fees from fund management.

Growth in fee income supported increased investment in infrastructure and other costs associated with strategic objectives such as product launches and development of new market opportunities. Profit before tax increased by 5% during the year.

The directors regularly review a range of performance indicators, including:

- Profit before tax for the year was £226m (2016: £205m);
- Assets under management at the year end were £437bn (2016: £415bn), including segregated funds of £128bn, which do not appear on the Statement of Financial Position of the Company.

Outlook and future developments

The Company expects to maintain strong momentum and diversification into high growth markets. We are well placed to retain our market-leading position in UK defined benefit (DB) pension solutions and have also positioned the business to achieve rapid growth in defined contribution (DC) and other markets.

Ongoing uncertainty around the global economic outlook is expected to continue to cause volatility in financial markets. The effects of Brexit remain to be seen, but they have the potential to increase volatility and restrict global trade, all of which can impact market liquidity and demand for investment products. However, a low risk appetite in the marketplace opens opportunities for fund managers providing investment solutions that mitigate the risk of DB pension liabilities. Furthermore, as the responsibility for retirement saving continues to shift from employers to individuals, the market for DC solutions continues to strengthen.

The external environment is expected to remain strongly competitive, with significant fee pressure across the book of business as clients, consultants and regulators all focus on profitability in a low yield environment. Whilst pricing pressure is something that is being experienced across the asset management industry, we believe the Company is extremely well placed to manage these pressures given our focus on delivering solutions that are tailored to meet client objectives in a cost efficient way.

Strategic overview

The Company offers clients a wide range of products and looks to expand this offering as more bespoke solutions are designed in order to satisfy client needs. The size and range of our funds provides the scale and diversity that fund managers need to offer clients a complete suite of services for DB schemes to support them along their de-risking journey. Additionally, the Company continues to reposition its business toward a growing DC proposition, developing its product offerings and distribution models to meet the requirements of the changing marketplace.

The Legal & General Group (the Group) has identified the following six long-term growth drivers as reflecting global trends that are shaping the market within which the Group and Company operate.

- Ageing demographics – We can help DB pension scheme trustees take action to reduce pension liabilities and support pension schemes through the de-risking journey.

- Welfare reforms – Filling the demand for private pensions means continuing growth in the DC market, as employers shift the risk of pension provision to individuals. Our strategy continues to focus on tapping into the growing DC market.

- Creating real assets – The Group seeks to invest in real assets as part of its overall strategy of investing in higher performing risk-adjusted asset classes. The Company participates in this through its unit-linked property investments.

- Globalisation of asset markets – Asset markets around the world are becoming increasingly homogenous, creating opportunities for internationalising our successful investment management capabilities.

Strategic overview (continued)

- Technological innovation – The Group seeks to be a market leader in offering digital access to investments whilst offering excellence in service delivery and maintaining low costs through efficient digital operating models. The Company's digital strategy focuses on enhancing capabilities and scalability to meet the challenges of these changing operating models.
- Today's capital – The Group looks to use its long-term capital to invest in the UK economy, creating jobs and investment capital to fund growth.

Principal risks and uncertainties

The Company, in the course of its business activities, is exposed to risk and uncertainty. The principal risks and uncertainties facing the Company are:

- Market and broader economic conditions;
- Sector performance and reputation;
- Regulatory and legislative changes;
- Counterparty default/third party failure;
- Failure to maximise opportunities;
- Operational and reputational risk; and
- Cyber crime

Information on how the principal risks and uncertainties of the Company are managed is provided in Note 2 of the financial statements.

By order of the board

C Singleton
for and on behalf of Legal & General Co Sec Limited
Company Secretary
6 March 2018

LEGAL AND GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

DIRECTORS' REPORT

The directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2017. The business review and discussion of future developments required by the Companies Act is disclosed in the Strategic Report on page 2.

The Company is domiciled in the United Kingdom and registered in England and Wales. Its ultimate parent company is Legal & General Group Plc.

Events after the reporting period

There are no significant events after the reporting period.

Result for the year and dividend

The results of the Company are set out on page 10. Dividends of £150.0m were declared in 2017 (2016: £100.0m). Details of the dividends declared are set out in Note 10.

Share capital

The Company's issued share capital is £100,000 (2016: £100,000). There were no changes to the issued share capital during the reporting year.

Directorate

The directors of the Company, who were in office during the year and up to the date of signing the financial statements, together with their dates of appointment and resignation, where appropriate, are shown below:

M J Zinkula	(Chairman)
S G Boylan, ACA	
J C Browne, FIA	
S Aitken	
Pauline Plunkett, FIA	(appointed 24/5/2017)
M Walsh	
C De Marco	(resigned 31/1/2017)

Financial risk management

The Company's exposure to financial risk through its financial assets is provided in Note 29 of the financial statements.

Directors' insurance

The ultimate parent company, Legal & General Group Plc, maintains an appropriate level of Directors' and Officers' liability insurance which is reviewed annually.

Independent auditors

PricewaterhouseCoopers LLP are expected to continue as external auditors of the Company until the Annual General Meeting of Legal & General Group plc on 17 May 2018 at which point they are expected to resign as auditors of the Company and Group. KPMG LLP are expected to be formally appointed as auditors of the Company and Group from this date.

Statement of Directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

Each of the directors, who held office, at the date the Directors' report is approved, confirms that:

a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

b) the director has taken all the steps that the director ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the board

C Singleton
for and on behalf of Legal & General Co Sec Limited
Company Secretary
6 March 2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEGAL AND GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

Opinion

In our opinion, Legal and General Assurance (Pensions Management) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

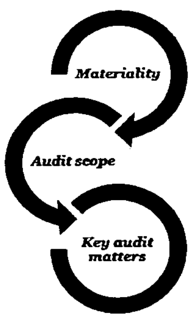
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview



- Overall materiality of £11.3m based on 5% of profit before tax.

  In accordance with guidance on the audit of insurers issued in the United Kingdom issued by the Financial Reporting Council we have applied a higher materiality of £3,149m solely for the purpose of identifying and evaluating the effect of misstatements that are likely only to lead to a reclassification between line items within assets and liabilities.
- We have performed a full scope audit of the Legal and General Assurance (Pensions Management) Limited in accordance with our materiality and risk assessment.
- Risk of Fraud in Revenue Recognition.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEGAL AND GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to, the Companies Act 2006 and the Prudential Regulation Authority's regulations, and the UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, enquiries of management and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Risk of Fraud in Revenue Recognition Refer to Accounting Policies on page 16. We consider the risk to be significant where amounts are judgemental when based on the valuation of underlying assets. There is a presumption that management has the opportunity to manipulate revenue through top up manual journals.	We have performed the following with regards to the risk of fraud in revenue recognition. - Tested a sample of journal entries focused on revenue journals. - Considered the accounting treatment and the accounting policies for the recognition of revenue. - Recalculated a sample of management fees with reference to underlying agreements. Performed controls testing over: - Assets Under Management - Calculation of management fees From the evidence obtained we did not note instances of fraud in revenue recognition.

How we tailored the audit scope

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

Materiality

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

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	Overall £11.3m for all balances other than policyholder assets and liabilities and associated income statement line items for which £3,149m is applied.
How we determined it	5% of profit before tax for all balances other than policyholder assets and liabilities and associated income statement line items and 1% of total assets for those financial statement line items.
Rationale for benchmark applied	The Company's primary objective is to generate profit through earning investment management fees. As such we deem that profit before tax is the most appropriate benchmark in determining materiality. The Company manages pension assets on behalf of its clients in a series of unit linked pooled and segregated funds. As a result, any liability owed to its clients is covered by the assets held by the entity and the investment return derived on the associated assets is offset by the change in provisions for investment contract liabilities. In accordance with guidance on the audit of insurers issued in the United Kingdom issued by the Financial Reporting Council we have applied a higher materiality based on 1% of total assets solely for the purpose of identifying and evaluating the effect of misstatements that are likely only to lead to a reclassification between line items within assets and liabilities.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £157.3m on policyholder assets and liabilities and £0.6m for all other balances as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEGAL AND GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 1 March 1985 to audit the financial statements for the year ended 31 December 1985 and subsequent financial periods. The period of total uninterrupted engagement is 33 years, covering the years ended 31 December 1985 to 31 December 2017.

Philip Watson

Philip Watson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 March 2018

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

Continuing operations	Note	2017 £m	2016 £m
Revenue			
Fees from fund management and investment contracts		**411.4**	374.9
Investment return	3	**29,102.6**	55,099.1
Total revenue		**29,514.0**	55,474.0
Expenses			
Claims and change in insurance liabilities		**-**	0.2
Reinsurance recoveries		**-**	(0.2)
Net claims and change in insurance liabilities	4	**-**	-
Change in provisions for investment contract liabilities	22	**28,970.9**	54,962.8
Finance costs		**3.2**	1.7
Other expenses	5	**241.5**	224.8
Total expenses		**29,215.6**	55,189.3
Profit before income tax		**298.4**	284.7
Income tax expense attributable to policyholder returns	9	**(72.4)**	(79.9)
Profit before income tax attributable to owners of the parent		**226.0**	204.8
Total income tax expense	9	**(117.5)**	(114.6)
Income tax expense attributable to policyholder returns	9	**72.4**	79.9
Income tax expense attributable to equity holders	9	**(45.1)**	(34.7)
Profit and total comprehensive income for the year		**180.9**	170.1
Dividend distributions to owners of the parent during the year	10	**150.0**	100.0

There is no other comprehensive income for the year. The profit for the year attributble to owners of the parent also reflects the total comprehensive income of the Company.

The notes on pages 14 to 38 form an integral part of these financial statements.

LEGAL AND GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	2017 £m	2016 (Restated) £m
Assets			
Investment property	11	**3,358.2**	2,808.8
Financial investments	12	**308,578.7**	294,610.5
Reinsurers' share of contract liabilities	16	**2.6**	3.1
Income tax recoverable	17	**362.1**	225.7
Other assets	18	**1,453.6**	1,304.2
Cash and cash equivalents	19	**1,690.9**	1,887.5
Total assets		**315,446.1**	300,839.8
Equity			
Share capital	20	**0.1**	0.1
Retained earnings		**386.9**	356.0
Total equity		**387.0**	356.1
Liabilities			
Non-participating insurance contracts	21	**2.6**	3.1
Non-participating investment contracts	22	**308,788.7**	294,398.0
Non-participating contract liabilities		**308,791.3**	294,401.1
Senior borrowings	23	**86.9**	6.2
Income tax liabilities	17	**66.6**	27.6
Payables and other financial liabilities	24	**5,920.0**	5,953.7
Other liabilities	25	**194.3**	95.1
Total liabilities		**315,059.1**	300,483.7
Total equity and liabilities		**315,446.1**	300,839.8

The notes on pages 14 to 38 form an integral part of these financial statements.

The 2016 income tax asset has been restated to remove an income tax liability of £9.3m which had previously been netted off against income tax recoverable. This amount is now included within income tax liabilities after 12 months as although it will crystallise only when the asset is realised, is expected to become due to a separate tax authority.

The financial statements on pages 10 to 13 and the notes to financial statements on pages 14 to 38 were approved by the board of directors on 6 March 2018 and were signed on their behalf by:

M J Zinkula
Chairman

S G Boylan
Director

Legal and General Assurance (Pensions Management) Limited
Registered in England and Wales
Company number: 01006112

LEGAL AND GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital £m	Retained earnings £m	Total equity £m
As at 1 January 2017	**0.1**	**356.0**	**356.1**
Profit and total comprehensive income for the year	-	**180.9**	**180.9**
Dividends	-	**(150.0)**	**(150.0)**
As at 31 December 2017	**0.1**	**386.9**	**387.0**

	Share capital £m	Retained earnings £m	Total equity £m
As at 1 January 2016	0.1	285.9	286.0
Profit and total comprehensive income for the year	-	170.1	170.1
Dividends	-	(100.0)	(100.0)
As at 31 December 2016	0.1	356.0	356.1

LEGAL AND GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Profit for the year		**180.9**	170.1
Adjustments			
Realised and unrealised (gains)/losses on financial investments and investment properties	3	**(22,415.6)**	(48,694.9)
Investment income	3	**(6,496.9)**	(6,174.3)
Interest expense		**3.3**	1.6
Net decrease/(increase) in operational assets			
Investments held for trading or designated as fair value through profit or loss		**7,897.0**	6,081.6
Other assets		**(285.3)**	417.8
Net (decrease)/increase in operational liabilities			
Investment contracts		**8,343.1**	35,983.6
Other liabilities		**6,366.5**	6,523.0
Cash used in operations		**(6,407.0)**	(5,691.5)
Interest paid		**(3.3)**	(1.6)
Tax paid net of repayments received[1]		**(215.0)**	(166.0)
Interest received		**1,806.7**	1,908.6
Dividends received		**4,691.2**	4,206.7
Net cash flows (used in) / generated from operating activities		**(127.4)**	256.2
Cash flows from financing activities			
Dividend distributions to the parent during the year	10	**(150.0)**	(140.0)
Additional/(repayment of) borrowings		**80.8**	2.0
Net cash flows used in financing activities		**(69.2)**	(138.0)
Net increase/(decrease) in cash and cash equivalents		**(196.6)**	118.2
Cash and cash equivalents at 1 January		**1,887.5**	1,769.3
Cash and cash equivalents at 31 December	19	**1,690.9**	1,887.5

The cash flow statement includes all cash and cash equivalent flows, including those relating to the long term fund policyholders.

1. Tax paid comprises UK corporation tax paid of £37.2m (2016: £26.3m) and overseas withholding tax net of repayments received of £177.8m (2016: £139.7m).

1 Summary of significant accounting policies

(a) Reporting entity

The Company is a limited company, incorporated and domiciled in the United Kingdom. The address of its registered office is One Coleman Street, London, United Kingdom, EC2R 5AA.

The Company has selected accounting policies which state fairly its financial position and financial performance for the reporting period. The accounting policies have been consistently applied to all years presented, unless otherwise stated.

The principal accounting policies adopted in preparing these financial statements are set out below.

(b) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union, and with those parts of the UK Companies Act 2006 applicable to companies reporting under IFRS. The financial statements also comply with IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations as issued by the IASB. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and financial assets and financial liabilities at fair value through profit and loss, with the exception of most derivatives, which are classified as held for trading.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of the Company's assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Financial assets and financial liabilities are disclosed gross in the balance sheet unless a legally enforceable right of offset exists and there is an intention to settle recognised amounts on a net basis. Income and expenses are not offset in the Statement of Comprehensive Income unless required or permitted by any accounting standard or IFRIC interpretation, as detailed in the applicable accounting policies of the Company.

After making enquires, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements. A summary of the key policies are set out below.

(c) Changes in accounting policy and disclosure

Certain standards, amendments and interpretations to existing standards have been published which will become mandatory for future accounting periods but which the Company has not adopted early, as follows:

- In May 2017, the IASB issued IFRS 17, 'Insurance Contracts', which is effective for annual periods beginning on or after 1 January 2021. The standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The Company is participating in a larger Legal & General Group initiative to implement this standard and determine anticipated impacts.

- In July 2014, the IASB issued IFRS 9, 'Financial Instruments' which is effective for annual periods beginning on or after 1 January 2018. Amendments to IFRS 4, 'Insurance Contracts', published September 2016, allow entities whose activities are predominantly connected with insurance a temporary exemption from applying IFRS 9 until adoption of IFRS 17 or 1 January 2021, whichever is the earlier. The Company intends to apply this deferral.

- 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. A review of impact on the Company suggests that no significant change to revenue will result from implementation of the standard.

1 Summary of significant accounting policies (continued)

(c) *Changes in accounting policy and disclosure (continued)*

- 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 now 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. Whilst a small impact on the value of liabilities and assets held in the property funds under management, these changes are expected to be immaterial to the value of the total unit-linked assets and liabilities carried on the Company's balance sheet. The Company does not intend to early adopt this standard.

- Amendments to IAS 40, 'Investment Property', issued in December 2016, clarify that to transfer a property to or from an investment property classification, there must be a change in use supported by evidence. As the Company has only investment property, no impact is expected to result from the application of this amendment.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

(d) Use of judgements and estimates

The Company uses a number of judgements and estimates in preparing these financial statements. The key judgements are product classification and the accounting basis for financial instruments, including fair value of financial instruments and tax receivable balances. These are further elaborated in the relevant notes below.

(e) Long term insurance contracts

(i) Insurance contract liabilities

Under current IFRS requirements, insurance contract liabilities are measured using UK Generally Accepted Accounting Principles (GAAP), as permitted by IFRS 4, 'Insurance contracts'. Insurance contract liabilities are determined following an annual investigation of the Long Term Fund (LTF) in accordance with guidance set out under Solvency II.

(ii) Business provision

The long term business provision, together with related reinsurance recoveries, is established on the basis of current information. Such provision is subject to subsequent reassessment as changes to underlying factors such as mortality and morbidity occur. These factors are discussed in more detail in Note 21.

(f) Investment contracts

(i) Revenue from investment contracts

Fees charged for investment management services are recognised as revenue as the services are provided and are measured at the fair value of consideration received or receivable.

(ii) Claims

Claims are not included in the Statement of Changes in Equity but are deducted from investment contract liabilities. The movement in investment contract liabilities consists of claims incurred in the period less the corresponding elimination of the policyholder liability originally recognised in the Statement of Financial Position and the investment return credited to policyholders.

(iii) Investment contract liabilities

Non-participating investment contracts consist of unit linked contracts. Amounts received in respect of unit-linked investment contracts, which principally involve the transfer of financial risk, are accounted for using deposit accounting, under which amounts collected are credited directly to the Statement of Financial Position, as an adjustment to the liability to the policyholder.

Liabilities under unit-linked contracts are recognised as and when the units are created and are dependent on the value of the underlying financial assets and/or investment property.

1 Summary of significant accounting policies (continued)

(f) Investment contracts (continued)

(iii) Investment contract liabilities (continued)

Unit-linked contracts which transfer significant insurance risk, including guaranteed benefits, are classified as insurance contracts and are carried in the Statement of Financial Position at an amount determined by the valuation of the related units on the valuation date.

Unit-linked contracts which principally involve the transfer of financial risk are classified as investment contracts and are carried in the Statement of Financial Position at fair value. The related financial liabilities are valued in accordance with the assets and this value is equivalent to the amount payable on demand without penalty.

(g) Reinsurance

The Company cedes insurance premiums and risk in order to limit the potential for losses and to provide financing. Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured. Reinsurance assets include balances due from reinsurers for paid and unpaid losses and loss adjustment expenses, ceded unearned premiums and ceded future life policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded as an asset in the Statement of Financial Position unless a right of offset exists.

(h) Financial investments

The Company holds financial investments and investment property to back insurance and investment contracts on behalf of policyholders and as Company capital.

The Company's policy is to measure investments at fair value through profit or loss (FVTPL). All derivatives are classified as held for trading (HFT).

Certain financial investments held by the Company are designated as FVTPL as their performance is evaluated on a total return basis, consistent with asset performance reporting to the Group Investment and Market Risk Committee and the Group's investment strategy. Assets designated as FVTPL include debt securities and equity instruments which would otherwise have been classified as Available For Sale (AFS) under IAS 39, 'Financial instruments: recognition and measurement'. Assets backing participating and non-participating policyholder liabilities outside the US are designated as FVTPL. For participating contracts the assets are managed on a fair value basis to maximise the total return to policyholders over the contract life. The Company's non-participating investment contract liabilities are measured on the basis of current information and are designated as FVTPL to avoid an accounting mismatch in the Statement of Comprehensive Income.

The fair values of quoted financial investments are based on bid prices, which management believes to be representative of fair value. If the market for a financial investment is not active, the Company establishes fair value by using valuation techniques such as recent arm's length transactions, consensus market pricing, reference to similar listed investments, discounted cash flow models or option pricing models. Financial investments classified as HFT and FVTPL are measured at fair value with gains and losses reflected in the Statement of Comprehensive Income. Transaction costs are expensed as incurred. Financial investments include accrued income. The valuation of financial investments is discussed further in Note 13.

(h) Investment property

Investment property comprises land and buildings which are held for long term rental yields and capital growth. It is carried at fair value with changes in fair value recognised in the Statement of Comprehensive Income within investment return. Investment property in the UK is valued monthly by external chartered surveyors at open market values in accordance with the 'Appraisal and Valuation Manual' of The Royal Institution of Chartered Surveyors or using internal valuations and estimates during the intervening period. In the event of a material change in market conditions between the valuation date and Statement of Financial Position date, an internal valuation is performed and adjustments made to reflect any material changes in fair value. The valuation of investment property is discussed further in Note 13.

(i) Loans and receivables

Loans and receivables are initially measured at fair value plus acquisition costs and subsequently measured at amortised cost using the effective interest method.

1 Summary of significant accounting policies (continued)

(j) Impairment policy

The Company reviews the carrying value of its financial assets (other than those held at FVTPL) at each Statement of Financial Position date. If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the Statement of Comprehensive Income.

Assets which are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

(k) *Cash and cash equivalents*

Cash and cash equivalents include cash in hand, deposits held at call with banks, treasury bills and other short term highly liquid investments with original maturities of three months or less.

(l) Derivative financial instruments

The Company's activities expose it to the financial risks of changes in foreign exchange, inflation, credit and interest rates. The Company uses derivatives such as foreign exchange forward contracts and exchange traded instruments to hedge these exposures.

Where the risks and characteristics of derivatives embedded in other contracts are not closely related to those of the host contract and the whole contract is not carried at fair value, the derivative is separated from that host contract and measured at fair value, with fair value movements reflected within investment return, unless the embedded derivative itself meets the definition of an insurance contract.

(m) Income taxes

The tax shown in the Statement of Comprehensive Income comprises current and deferred tax and has been apportioned between that attributable to policyholders and that attributable to equity holders. Where applicable, the judgements made and uncertainties considered in arriving at tax balances disclosed in the financial statements are discussed in Note 9.

(i) Tax rates

To calculate the current tax on profits, the rate of tax used is 19.25% (2015: 20%), which is the average rate of corporation tax applicable for the year unless losses can be acquired from another group company at a rate lower than the standard rate of corporation tax.

(ii) Current tax

Current tax comprises tax payable on current period profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous periods. Current tax is recognised in the Statement of Comprehensive Income.

The total income tax expense for the period includes income tax suffered by the Company in respect of policyholder returns, which is not related to profits earned by equity holders for the period. The income tax expense in the Statement of Comprehensive Income has therefore been apportioned between the element attributable to policyholder returns and the element attributable to equity holders' profits (equity holder tax).

(iii) Deferred income tax

Deferred tax is provided in full on all timing differences. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered in future. Deferred tax assets and liabilities are not discounted.

Deferred tax is measured using tax rates expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and law which have been enacted or substantively enacted at the date of the Statement of Financial Position.

Deferred income tax is provided on temporary differences arising on investments, except where the Company controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future (or if it will, then it will not generate any incremental tax liability for the Company).

1 Summary of significant accounting policies (continued)

(n) Income taxes (continued)

(iii) Deferred income tax (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(n) Share capital

An equity instrument is any contract which evidences a residual interest in the net assets of an entity. It follows that a financial instrument is treated as equity if:

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on unfavourable terms; and
- the instrument is either a non-derivative which contains no contractual obligation to deliver a variable number of own equity instruments, or is a derivative which will be settled only by the Company exchanging a fixed amount of cash, or other financial assets, for a fixed number of its own equity instruments.

(o) Dividend recognition

A dividend distribution to the Company's shareholder is recognised as a liability in the period in which the dividends are authorised and no longer at the discretion of the Company.

(p) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

(q) Payables and other financial liabilities

Payables and other financial liabilities comprise derivative liabilities, collateral received from banks and other liabilities. The derivative liabilities comprise a variety of exchange traded and over-the-counter derivative financial instruments, including futures, options, forward currency contracts and swaps such as interest rate swaps, cross-currency swaps and credit default swaps measured at fair value.

(r) Foreign currency transactions

Transactions denominated in foreign currencies are translated into Sterling, the Company's functional currency, at the rates of exchange prevailing at the time of the transactions where available or a monthly average otherwise. Assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange prevailing at the Statement of Financial Position date with the exception of non-monetary items which are maintained at historic rates. Foreign currency transactions which are covered by specific forward exchange contracts are translated into Sterling at the contracted exchange rates. The interest differential reflected in forward contracts is taken to the Statement of Comprehensive Income. Other exchange gains and losses are also recognised in the Statement of Comprehensive Income.

(s) Investment return

The reporting of investment return comprises investment income, unrealised gains and losses from financial investments held at FVTPL and realised gains and losses from all financial assets.

Investment income includes dividends, interest and rent. Dividends are accrued on an ex-dividend basis. Interest and rent are included on an accruals basis from the last coupon or payment date through to the next coupon or payment date. Interest income for financial assets which are not classified as FVTPL is recognised using the effective interest method.

1 Summary of significant accounting policies (continued)

(t) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs. Borrowings classified as liabilities are subsequently stated at amortised cost. The difference between the net proceeds and the redemption value is recognised in the Statement of Comprehensive Income over the borrowing period using the effective interest method.

(u) Other expenses

Other expenses comprise primarily the costs incurred in designing, manufacturing and distributing the Company's products, together with corporate expenses. Other costs are accounted for as they arise.

2 Principal risks and uncertainties

The Company's business involves the acceptance and management of risk. The principal risks and uncertainties facing the Company are described below.

Market and broader economic conditions

The Company invests on behalf of its clients across a broad range of investment assets. The performance and liquidity of investment markets as well as interest rate movements and inflation can impact the value of these investments. This in turn may impact the earnings, profitability and capital requirements of the Company. Significant falls in investment asset values can impact fee income from investment management activities, whilst broader economic conditions can influence the demands for investment products and the period over which the business is retained.

Ongoing uncertainty around the global economic outlook is expected to continue to cause volatility in financial markets as they respond to changes in growth projections and interest rates as well as global political events and new regulatory interventions. There is the potential for disruptive asset price shifts should markets reappraise the degree to which the economic outlook has been priced into asset values. Furthermore, geopolitical events also have the potential to increase market volatility and restrictions on global trade, which may impact productivity and incomes, and adversely affect market sentiment. Brexit's impact on the value of UK markets and the effects of financial services transfers to markets remaining within the EU remains to be seen.

Broader geo-political events can also lead to conditions that have the potential to create illiquidity in bond markets which would exaggerate the impacts of any significant market corrections. Volatility in markets and any increases in trading that this may drive could also lead to higher operational losses. A more extreme market shock may adversely impact asset prices as well as the ability of the Company to execute hedging strategies on behalf of policy holders which ensure that the profile of asset and liability cash flows is appropriately matched, whilst economic shocks may impact consumer attitudes in the markets in which the Company operates.

The Company's principal business channel is the Corporate Pensions market, and uncertainty in this market could limit both new client mandates and contributions from existing clients. Furthermore, competitor activity and changes in market product shape and client requirements can impact achievement of new business targets. 2017 has seen the trend for reduced inflow from DB pension schemes continuing, but the Company has seen continued growth and relatively steady fee rates despite predictions that 2017 would see significant pressure on rates. However, the Company's business plan includes the expectation of fee pressure in the near term as clients, consultants and regulators all focus on profitability in a low yield environment.

The Company uses a range of risk management strategies to manage volatility in returns from investment assets and the broader effects of adverse market conditions, whilst continuing to invest in line with client and fund guidelines. The effect of market and economic conditions upon fee income is mitigated through the utilisation of a low cost scalable business model combined with both the development of specialist offerings that meet specific client needs and also the maintenance of a diversified portfolio of products. This framework has operated well during the market events of recent years, and the risks inherent in renewed or extreme adverse market conditions, the reliance upon expert personnel, and the shift toward more specialist and segregated funds are considered in business plan modelling.

As in previous years, the Company models its business plans across a broad range of economic scenarios and takes account of alternative economic outlooks within its overall business strategy. Additionally, Own Risk Self-Assessment (ORSA) processes play a key part in business planning, ensuring a clear link between capital adequacy and the nature of the risks to which the Company is exposed.

2 Principal risks and uncertainties (continued)

Sector performance and reputation

Events in the financial services sector outside the control of the Company and the Legal & General Group may impact earnings and profitability due to their potential impact on the value of funds under management. The Company seeks wherever practicable to mitigate the effects of these contagion risks. Historically such events have included:

- Failings by competitors;
- Actions by regulators within the industry;
- Shock events such as significant market failures; and
- Adverse performance of investment markets.

During recent years, investor confidence in a number of financial services institutions has wavered. Although controls within the Company have allowed the effects of uncertainty in markets to be managed, a residual lack of confidence in the sector may impact future profitability. Tightening regulation and continuing negative media coverage of the financial services sector may adversely lower consumers' confidence in the value of investment products with resulting impacts on the environment in which the Company operates. There is also contagion risk to the Company from events that may arise in the parent Legal & General Group. Lack of confidence in the Company and the Group is mitigated by the retention of sufficient capital to avoid the need to rely on parental support in all but the most extreme circumstances and by effective ongoing capital management.

The Company and Group actively engage with regulators as well as promoting effective governance to support understanding of the risk drivers in the relevant markets and provide clarity on areas where they believe the industry needs to change. For example, Legal & General Investment Management Limited (LGIM) has continued to produce a market leading statement on stewardship.

Regulatory and legislative changes

The markets in which the Company operates are highly regulated, with regulation and legislation defining the overall framework for the design, marketing and distribution of products; the acceptance and administration of business; and the prudential capital that regulated companies should hold. Legislation and government fiscal policy can also influence the period of retention of products and required reserves for future liabilities. The prominence of the risk increases where change is implemented without prior engagement with the asset management sector. Additionally, as the Group operates within a global market, there is a continuing international dimension which brings with it exposure to the effects of regulatory and legislative change in Europe and other overseas markets. Fundamental changes in regulation, such as those that may arise from market events, may also impact strategies.

There also continues to be a significant pipeline of globally driven regulatory change. The Markets in Financial Instruments Directive (MiFID) II and General Data Protection Regulation (GDPR) will be implemented in 2018 and are expected to bring about market infrastructure changes as well as impacting the way that investment firms do business and expanding the scope of products and services subject to regulation. Other key legislation includes the Packaged Retail and Insurance-based Investment Products (PRIIPS) Regulation, which may affect the cost of providing insurance-based investment products. Furthermore, the long term impact on regulation of Brexit is still unclear. The Company has a book of business based in the EU written under OLAB, and there remains a risk that unless local regulatory approval for the Company's plans can be achieved that this business line is under threat. The FCA programme of thematic reviews of industry practices may also lead to increased business costs and challenges to current business practices.

The Company is supportive of regulation in the markets in which it operates as a means to build trust and confidence in the industry. The Company remains vigilant of the risk that future legislative and regulatory change may have unintended consequences for the sectors in which it operates. The Company seeks to actively participate with Government and regulatory bodies to assist in the evaluation of change so as to develop outcomes that meet the needs of all stakeholders. Internally, we evaluate the impact of all legislative and regulatory change as part of our formal risk identification and assessment processes, through the Risk and Compliance Committee and the Company's Board. The Company cannot, however, completely eliminate the risks that controls may fail or that historic accepted practices may be reappraised by regulators, which could result in regulatory sanctions.

2 Principal risks and uncertainties (continued)

Counterparty default/third party failure

The Company and its client funds are exposed to default risk in respect of the issuers of corporate debt and financial instruments, through money markets and as part of its banking arrangements. Counterparty risk may also arise in the investment settlement process and from custodian, collateral global clearing and stock lending activities. Third party risk arises with regard to reliance upon external suppliers of certain administration and IT development services.

Credit spreads have continued to show volatility as concerns over bank profitability have combined with increased regulatory pressure on bank balance sheets. The increasing move to bail-in legislation and the gradual removal of sovereign support, as well as continued volatility in the economic environment also presents an increased risk that suppliers of bespoke services to the Group may fail and banks are increasingly reluctant to expose their own balance sheets. Although the Company continues to assess the occurrence of a major bank default or Sovereign event as being a more unlikely outcome than in previous years, the risk and associated uncertainties remain.

The Company seeks to limit the potential exposure to loss from counterparty and third party failure through financial strength based pre-selection criteria for those counterparties with which the Group will do business and the setting of pre-defined risk based limits on concentrations. This includes a number of defined policies and procedures covering different types of counterparty exposure. Service providers are also subject to rigorous selection criteria. However, in extreme conditions an event causing widespread default may impact the Group's profitability, whilst the loss of critical suppliers may impact operational effectiveness.

Failure to maximise opportunities

The markets in which the Company operates are subject to change, and significant changes require the review and realignment of elements of our business strategy. A failure to understand the business implications of an upcoming change and to develop or to effectively execute appropriate strategic realignments may impact the achievement of short- and long-term business objectives.

The nature of the products and structures in which pension and investment clients choose to invest their assets are influenced by a number of factors outside the immediate control of the Company, including government policy, taxation, competitor activity, social conditions, distribution models and the general economic environment. Uncertainty in any of these factors may have a detrimental effect on the markets in which the Company operates and potential earnings. In particular, significant changes in government policy that relate to pension provision or significant price pressure from competitors may lead to a re-assessment by clients and consultants as to how their future investment activity should be delivered and result in significant moves of assets away from the Company.

There remains considerable uncertainty as to the long term growth of the UK defined benefit pension market, and the format of consultant led vehicles continues to come under threat from a platform based model, fiduciary management and the need to provide more flexible workplace pension solutions. This has continued in 2017 and has been accompanied by moderate fee pressure in the local government and sovereign wealth markets. The Company continues to monitor closely government, industry and competitor activity. Many of the current strategic initiatives, including the development of a range of income generating funds and developing a platform-friendly defined contribution product, are aimed at ensuring that the Company can continue to offer products demanded by its core client base.

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

The Company also recognises that there is potential for entry into its markets by scale overseas competitors who may be unconstrained by Solvency II and have lower return on capital requirements.

2 Principal risks and uncertainties (continued)

Operational and reputational risk

The Company operates within a framework of internal controls to minimise the risk of unanticipated loss or reputational damage. However, no system of internal control can completely eliminate the risk of error and financial loss. Poor or inefficient business processing can also lead to increased cost and operational errors with associated reputational damage and loss of assets.

The Company's plans for growth will inherently increase the profile of operational risk across the business. Accordingly, as the Company grows, it continues to invest in system capabilities and business processes to meet the expectations of customers; comply with regulatory, legal and financial reporting requirements; and mitigate the risks of loss or reputational damage from operational risk events. To deliver this, a number of strategic change initiatives are being implemented.

The Company has a well-established and embedded risk governance model that seeks to ensure that business management is actively engaged in ensuring an appropriate control environment for managing the risks inherent in the business. The Risk function led by the Chief Risk Officer provides both expert advice and guidance on the required control environment, together with objectively challenging the way risks are being managed. The Internal Audit function, which reports to the Group Audit Committee, provides independent assurance on the adequacy and effectiveness of controls.

The Company also operates within a robust divisional cost control framework where all cost initiatives and change programmes are reviewed and prioritised by a governance committee and the costs monitored by Finance.

Cyber Crime

As the Company and its business partners increasingly digitalise operations, there arises inherent exposure to the risk that third parties may seek to disrupt on-line business operations, steal customer data or perpetrate acts of fraud using digital media. A significant cyber event could result in reputational damage and financial loss.

The financial services sector has seen attempts by third parties to seek and exploit perceived vulnerabilities in IT systems. Potential threats include denial of service attacks, network intrusions to steal data for the furtherance of financial crime, and the electronic diversion of funds.

We are focused on maintaining a robust and secure IT environment that protects customer and corporate data and minimises the potential for the perpetration of criminal acts. Processes exist to evaluate the security of systems and proactively address emerging threats. A detailed project to enhance Identity Access Management is now being implemented.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

3 Investment return

	2017 £m	2016 £m
Financial Investment return		
- Interest	**1,800.8**	1,925.6
- Dividends receivable	**4,696.1**	4,248.7
- Unrealised gains	**1,605.1**	42,502.6
- Realised gains	**20,777.0**	6,241.7
- Derivative (losses)/gains	**(67.5)**	49.4
Financial investment return	**28,811.5**	54,968.0
Investment property return		
- Rental income	**190.1**	180.6
- Unrealised gains/(losses)	**89.9**	(69.1)
- Realised gains	**11.1**	19.6
Property investment return	**291.1**	131.1
Total investment return	**29,102.6**	55,099.1

4 Net claims and change in insurance liabilities

	Long term insurance 2017 £m	Total 2017 £m	Long term insurance 2016 £m	Total 2016 £m
Claims paid				
- gross	**0.5**	**0.5**	0.5	0.5
- reinsurance recoveries	**(0.5)**	**(0.5)**	(0.5)	(0.5)
	-	**-**	-	-
Change in insurance liabilities				
- gross	**(0.5)**	**(0.5)**	(0.3)	(0.3)
- reinsurance recoveries	**0.5**	**0.5**	0.3	0.3
Net claims and change in insurance liabilities	**-**	**-**	-	-

Further analysis of the insurance contract liabilities is provided in Note 21.

5 *Other expenses*

	Note	2017 £m	2016 £m
Auditors' remuneration	6	**0.3**	0.3
Other administrative expenses		**241.2**	224.5
Total other expenses		**241.5**	224.8

6 *Auditors' remuneration*

	2017 £m	2016 £m
Remuneration receivable by the Company's auditors for the audit of the Company's financial statements	**0.3**	0.3
Total remuneration	**0.3**	0.3

The remuneration includes £94k (2016: £162k) in relation to the supply of services for the audit of regulatory returns. The prior year number has changed to reflect amounts allocated from Legal & General Group Plc.

7 Employee information

The Company does not have direct employees. Staff members supporting the Company are employed by either the parent company Legal & General Investment Management (Holdings) Limited (LGIMH) or an affiliate, Legal & General Resources Limited. The Company is recharged a portion of the costs incurred.

8 Foreign exchange and exchange rates

Principal rates of exchange used for translation into sterling at the end of the year:

	2017 Year end	2016 *Year end*
United States Dollar	**1.35**	1.24
Euro	**1.13**	1.17

9 Income tax expense

	2017 £m	2016 £m
Current tax		
UK corporation tax at 19.25% (2016: 20%)		
- Current tax for the year	**115.0**	119.7
- Adjustments in respect of prior years' tax	**2.5**	(5.1)
Total current tax	**117.5**	114.6
Total income tax expense	**117.5**	114.6
Represented by:		
Income tax expense attributable to policyholder returns	**72.4**	79.9
Income tax expense attributable to equity holders	**45.1**	34.7
Total income tax expense	**117.5**	114.6

The equity holders' effective rate of tax for the year of 19.95% (2016: 16.94%) is higher (2016: lower) than the standard corporation tax rate applicable to companies operating in the UK of 19.25% (2016: 20%). The differences are explained below:

	2017 £m	2016 £m
Profit from continuing operations before income tax attributable to owners of the parent	**226.0**	204.8
Equity holders' income tax expense calculated at 19.25% (2016: 20%)	**43.5**	41.0
Effects of:		
Disallowable expenditure for tax purposes	**-**	(0.3)
Adjustments in respect of prior years' tax referable to equity holders	**1.6**	(5.1)
Net impact of double tax relief claimed	**-**	(0.9)
Income tax expense attributable to equity holders	**45.1**	34.7

10 Dividends

	Per share 2017 £	**Total 2017 £m**	Per share 2016 £	Total 2016 £m
Ordinary share dividends declared in the year				
- second interim dividend	**1,200.0**	**120.0**	-	-
- first interim dividend	**300.0**	**30.0**	1,000.0	100.0
Total Dividends	**1,500.0**	**150.0**	1,000.0	100.0

Of the dividends declared in the year, £nil (2016: £nil) was still to be paid at year end.

11 Investment property

	Unit linked Total 2017 £m	Unit linked Total 2016 £m
Fair value at 1 January	**2,808.8**	2,833.4
Additions	**484.4**	108.1
Disposals	**(71.6)**	(79.6)
Fair value gain/(loss)	**117.1**	(64.0)
Realised gain	**19.5**	10.9
Fair value at 31 December	**3,358.2**	2,808.8

12 Financial Investments

	Note	Shareholder 2017 £m	Unit linked 2017 £m	Total 2017 £m
Financial investments at fair value designated as:				
Fair value through profit or loss		**262.6**	**300,948.1**	**301,210.7**
Held for trading		**-**	**7,368.0**	**7,368.0**
Total financial investments	(i)	**262.6**	**308,316.1**	**308,578.7**
Expected to be received within 12 months				**45,888.4**
Expected to be received after 12 months				**262,690.3**

	Note	Shareholder 2016 £m	Unit linked 2016 £m	Total 2016 £m
Financial investments at fair value designated as:				
Fair value through profit or loss		262.0	287,201.3	287,463.3
Held for trading		-	7,147.2	7,147.2
Total financial investments	(i)	262.0	294,348.5	294,610.5
Expected to be received within 12 months				40,293.4
Expected to be received after 12 months				254,317.1

Investment risks on unit linked assets are borne by the policyholders. The remaining risks are outlined in the risk management note (see Note 29)

(i) Financial investments at fair value

	Note	Shareholder 2017 £m	Unit linked 2017 £m	Total 2017 £m
Equity securities		**-**	**217,317.9**	**217,317.9**
Debt securities		**262.6**	**83,036.5**	**83,299.1**
Accrued interest		**-**	**593.7**	**593.7**
Derivative assets	15	**-**	**7,368.0**	**7,368.0**
Total investments at fair value		**262.6**	**308,316.1**	**308,578.7**

	Note	Shareholder 2016 £m	Unit linked 2016 £m	Total 2016 £m
Equity securities		-	201,215.7	201,215.7
Debt securities		262.0	85,356.8	85,618.8
Accrued interest		-	628.8	628.8
Derivative assets	15	-	7,147.2	7,147.2
Total investments at fair value		262.0	294,348.5	294,610.5

13 Fair value hierarchy

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions in the absence of observable market information. The Company 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 inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
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).

(a) Fair value assets

The following table presents the Company's assets by IFRS 7 hierarchy levels:

(i) Financial investments

For the year ended 31 December 2017	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Debt securities	262.6	262.6	-	-
Unit linked				
Equity securities	217,317.9	216,675.7	13.0	629.2
Debt securities	83,036.5	54,900.8	28,134.9	0.8
Accrued interest	593.7	198.5	395.2	-
Derivative assets	7,368.0	67.3	7,300.7	-
Total financial investments	308,578.7	272,104.9	35,843.8	630.0

For the year ended 31 December 2016	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Shareholder				
Debt securities	262.0	262.0	-	-
Unit linked				
Equity securities	201,215.7	200,719.5	28.7	467.5
Debt securities	85,356.8	56,725.6	28,631.2	-
Accrued interest	628.8	179.9	448.9	-
Derivative assets	7,147.2	250.0	6,897.2	-
Total financial investments	294,610.5	258,137.0	36,006.0	467.5

(ii) Investment Property

For the year ended 31 December 2017	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Investment Property	3,358.2	-	-	3,358.2
Total investment property	3,358.2	-	-	3,358.2

For the year ended 31 December 2016	Total £m	Level 1 £m	Level 2 £m	Level 3 £m
Investment Property	2,808.8	-	-	2,808.8
Total investment property	2,808.8	-	-	2,808.8

13 Fair value hierarchy (continued)

(b) Level 3 assets measured at fair value

Level 3 assets where internal models are used to represent a small proportion of assets to which policyholders are exposed, comprise both property and unquoted equities, the latter including investments in private equity, property vehicles and suspended securities.

In many situations, inputs used to measure the fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, the Company 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 Company has classified within level 3.

The Company determines the fair values of certain financial assets and liabilities based on quoted market prices, where available. The Company 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 Company'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 Company'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. 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 independently of the risk taker. These inputs and outputs are reviewed and approved by a valuation committee.

	Equity securities 2017 £m	**Debt Securities 2017 £m**	**Investment Property 2017 £m**	**Total 2017 £m**
As at 1 January 2017	**467.5**	**-**	**2,808.8**	**3,276.3**
Total gains for the year recognised:				
- realised (losses)/gains in profit and loss	**(5.3)**	**-**	**19.5**	**14.2**
- unrealised gains in profit and loss	**48.6**	**-**	**117.1**	**165.7**
Purchases	**129.0**	**0.8**	**484.4**	**614.2**
Sales	**(36.4)**	**-**	**(71.6)**	**(108.0)**
Transfers into level 3	**25.8**	**-**	**-**	**25.8**
As at 31 December 2017	**629.2**	**0.8**	**3,358.2**	**3,988.2**

	Equity securities 2016 £m	Debt Securities 2016 £m	Investment Property 2016 £m	Total 2016 £m
As at 1 January 2016	264.8	1.4	2,833.4	3,099.6
Total gains for the year recognised:				
- realised gains in profit and loss	(1.6)	-	10.9	9.3
- unrealised gains in profit and loss	(19.8)	-	(64.0)	(83.8)
Purchases	246.7	-	108.1	354.8
Sales	(22.9)	(1.4)	(79.6)	(103.9)
Transfers into level 3	0.3	-	-	0.3
As at 31 December 2016	467.5	-	2,808.8	3,276.3

13 Fair value hierarchy (continued)

(c) Effect on changes in significant unobservable inputs (level 3) to reasonably possible alternative assumptions

As discussed above, the 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.

Financial instruments	Valuation Basis/ Technique	Main assumptions	Current fair value 2017 £m	Reasonably possible alternative assumptions: Increase in fair value 2017 £m	Reasonably possible alternative assumptions: Decrease in fair value 2017 £m
Assets					
Unit linked	(i)	(ii)			
- Unquoted investments in property vehicles			157.2	7.9	(7.9)
- Suspended securities			0.8	-	-
- Unquoted securities			472.0	23.6	(23.6)
- Investment Property			3,358.2	167.9	(167.9)
Total			3,988.2	199.4	(199.4)

Financial instruments	Valuation Basis/ Technique	Main assumptions	Current fair value 2016 £m	Reasonably possible alternative assumptions: Increase in fair value 2016 £m	Reasonably possible alternative assumptions: Decrease in fair value 2016 £m
Assets					
Unit linked	(i)	(ii)			
- Unquoted investments in property vehicles			132.4	6.6	(6.6)
- *Suspended securities*			1.2	0.1	(0.1)
- Unquoted securities			333.8	16.7	(16.7)
- Other			0.1	-	-
- Investment Property			2,808.8	140.4	(140.4)
Total			3,276.3	163.8	(163.8)

(i) Unquoted investments in property vehicles and direct holdings in investment property are valued by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. Valuation techniques may include discounted cash flow calculations using net current rent, and estimated and terminal values; they may also include yield methodology calculations using market rental values capitalised with a market capitalisation rate. Both of these are then further validated against actual market transactions to produce a final valuation.

(ii) Values are based on estimated rental values and income yields. For the alternative assumptions the market values have been flexed by + and - 5%.

14 Interests in structured entities and related undertakings

A structured entity is an entity that has been designed so that voting or similar rights are not the dominating factor in deciding who controls the entity, such as when voting rights might relate to administrative tasks only and the relevant activities are directed by means of contractual arrangement. The Company has interests in investment vehicles which are classified as consolidated structured entities. These interests are detailed below.

All of the Company's holdings in investment vehicles are subject to the terms and conditions of the respective investment vehicle's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investment vehicles. The investment manager makes investment decisions after extensive due diligence of the underlying investment vehicle, including consideration of its strategy and the overall quality of the underlying investment vehicle's manager.

All of the investment vehicles in the investment portfolio are managed by portfolio managers who are compensated by the respective investment vehicles for their services. Such compensation generally consists of an asset based fee and is reflected in the valuation of the investment vehicles.

The Company only has interests in structured entities to the extent needed to gain exposure to assets on behalf of unit-linked policyholders. The Company does not provide any guarantees or other support to these entities. The Company's exposure is limited to the amounts recognised in the Statement of Financial Position.

Interests in structured entities

The Company holds investments in various structured entities which are collective investment schemes registered in and authorised by various jurisdictions in the UK and EU. Some of these entities are consolidated by Legal & General Group Plc, as outlined below. The following amounts are included in the Statement of Financial Position within Financial Investments.

Financial Investments	2017 £m	2016 £m
Investment funds not consolidated by Legal and General Group Plc	**3,596.4**	1,385.1
Analysed as:		
Unit Trusts	**3,447.5**	1,136.5
ETFs	**148.9**	248.6
Investment Vehicles consolidated by Legal & General Group Plc	**40,571.9**	33,244.4
Analysed as:		
Legal & General Investment Management Funds ICVC	**1,580.0**	1,458.6
Legal & General SICAV	**2,836.2**	2,777.7
LGIM Liquidity Funds Plc	**4,203.3**	4,510.3
L&G Authorised Contractual Scheme	**1.4**	1.2
LGIM (Ireland) Risk Management Solutions Plc	**31,951.0**	24,496.6
Total	**44,168.3**	34,629.5

Interests in related undertakings

The Company also holds interests in the following property vehicles, which are held at fair value and included on the Statement of Financial Position within Financial investments.

Vehicle name	Vehicle type	Year end reporting date	Registered Address	% of equity shares held	Total value of equity and reserves £m	Net profit for 2017 £m
Procession House One Unit Trust	Property Unit Trust	31/12/2017	44 Esplanade, St Helier, Jersey	99.99%	68.3	1.0
Kingsland Industrial Limited (In Liquidation) (Formerly Brixton (Jersey) Limited)	Property Vehicle	31/12/2017	Third Floor, Kensington Chambers, 46/50 Kensington Place, St Helier, Jersey	100.00%	68.9	-
Atlantic Quay Three Limited	Property Vehicle	31/12/2017	12 Castle Street, St Helier, Jersey	100.00%	19.8	-

15 Derivative assets and liabilities

	Fair values Assets 2017 £m	Fair values Liabilities 2017 £m	Fair values Assets 2016 £m	Fair values Liabilities 2016 £m
Unit linked derivatives:				
Interest rate contracts - held for trading	**6,646.3**	**(1,980.4)**	6,912.2	(2,097.3)
Forward foreign exchange contracts - held for trading	**661.6**	**(548.1)**	224.3	(539.8)
Equity/index derivatives - held for trading	**60.1**	**(2,044.8)**	10.6	(2,135.8)
Inflation rate contracts - held for trading	**-**	**(481.0)**	0.1	(472.3)
Total unit linked derivatives	**7,368.0**	**(5,054.3)**	7,147.2	(5,245.2)
Total derivative assets and liabilities	**7,368.0**	**(5,054.3)**	7,147.2	(5,245.2)

16 Reinsurers' share of contract liabilities

	Note	Shareholder 2017 £m	Total 2017 £m
Reinsurers' share of:			
Insurance contract liabilities	21	**2.6**	**2.6**
Reinsurers' share of contract liabilities		**2.6**	**2.6**

	Note	Shareholder 2016 £m	Total 2016 £m
Reinsurers' share of:			
Insurance contract liabilities	21	3.1	3.1
Reinsurers' share of contract liabilities		3.1	3.1

17 Income tax

	2017 £m	2016 Restated £m
Tax due within 12 months	**183.0**	85.4
Tax due after 12 months	**179.1**	140.3
Income tax recoverable	**362.1**	225.7

	2016 £m	2016 £m
Tax due within 12 months	**26.3**	18.3
Tax due after 12 months	**40.3**	9.3
Income tax liabilities	**66.6**	27.6

The 2016 asset due after 12 months has been restated to show separately a related liability that was presented net in the 2016 financial statements and accounts, which although it will crystallise only when the asset is realised, is expected to become due to a separate tax authority.

18 Other assets

	Shareholder 2017 £m	Unit linked 2017 £m	Total 2017 £m
Accrued interest and rent	-	53.9	53.9
Prepayments and accrued income	153.6	282.9	436.5
Intercompany balances	-	2.2	2.2
Receivable from brokers/dealers	-	478.7	478.7
Other receivables	74.2	408.1	482.3
Other assets	**227.8**	**1,225.8**	**1,453.6**

	Shareholder 2016 £m	Unit linked 2016 £m	Total 2016 £m
Accrued interest and rent	-	49.8	49.8
Prepayments and accrued income	145.5	285.5	431.0
Intercompany balances	0.6	-	0.6
Receivable from brokers/dealers	-	516.4	516.4
Other receivables	29.9	276.5	306.4
Other assets	176.0	1,128.2	1,304.2

19 Cash and cash equivalents

	Shareholder 2017 £m	Unit linked 2017 £m	Total 2017 £m
Cash at bank and in hand	34.3	623.8	658.1
Cash equivalents	11.5	1,021.3	1,032.8
Cash and cash equivalents	**45.8**	**1,645.1**	**1,690.9**

	Shareholder 2016 £m	Unit linked 2016 £m	Total 2016 £m
Cash at bank and in hand	92.1	400.4	492.5
Cash equivalents	101.0	1,294.0	1,395.0
Cash and cash equivalents	193.1	1,694.4	1,887.5

20 Share capital

	Number of shares '000	2017 £m	2016 £m
Issued share capital:			
As at 31 December: fully paid ordinary shares of £1 each	**100**	**0.1**	0.1

The Company's issued share capital is £100,000 (2016: £100,000). There were no changes to the issued share capital during the reporting year.

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

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

21 Insurance contract liabilities

(i) Analysis of insurance contract liabilities

	Notes	Gross 2017 £m	Reinsurance 2017 £m	Gross 2016 £m	Reinsurance 2016 £m
Non-participating insurance contracts	(iii)	**2.6**	**(2.6)**	3.1	(3.1)
Insurance contract liabilities		**2.6**	**(2.6)**	3.1	(3.1)

(ii) Non-participating insurance contracts

The principal assumptions underlying the calculation of the long term business provision are:

	2017 £m	2016 £m
Valuation rate of interest	**2.62%**	2.41%
Mortality table	**For ages 90 and below: 72.9% - 77.8% PCMA00/ PCFA00[1]**	For ages 90 and below: 70.4% - 83.5% PCMA00/ PCFA001
	For ages above 105, bespoke mortality rates used	For ages above 100, bespoke mortality rates used
	For ages between 91 and 105, mortality rates are calculated to give a smooth progression from the base table to the bespoke rates.	For ages between 90 and 100, mortality rates are calculated to give a smooth progression from the base table to the bespoke rates.
	An additional IFRS margin of 1% is included to allow for uncertainty around high age rates at ages 91 and above.	An additional IFRS margin of 1% is included to allow for uncertainty around high age rates at ages 91 and above.

1 The range of percentages given here is in respect only of non-bulk annuities business.

2017

For vested annuities, mortality rates allow for future improvement, commencing 1 January 2010, as per CMIB's mortality improvement model (CMI 2013 adjusted) with the following parameters:

- Males: Long term rate of 2% p.a. up to age 85, tapering to 0% at 120
- Females: Long term rate of 1.5% p.a. up to age 85, tapering to 0% at 120

2016

For vested annuities, mortality rates allow for future improvement, commencing 1 January 2010, as per CMIB's mortality improvement model (CMI 2013 adjusted) with the following parameters:

- Males: Long term rate of 2% p.a. up to age 85, tapering to 0% at 120
- Females: Long term rate of 1.5% p.a. up to age 85, tapering to 0% at 120

(iii) Movement in non-participating insurance contract liabilities

	Gross 2017 £m	Reinsurance 2017 £m	Gross 2016 £m	Reinsurance 2016 £m
As at 1 January	**3.1**	**(3.1)**	3.4	(3.4)
Liabilities discharged in the year	**(0.5)**	**0.5**	(0.3)	0.3
As at 31 December	**2.6**	**(2.6)**	3.1	(3.1)

22 Investment contract liabilities

(i) Analysis of investment contract liabilities

	Notes	Gross 2017 £m	Gross 2016 £m
Non-participating investment contracts	(iii)	**308,788.7**	294,398.0
Investment contract liabilities	(ii)	**308,788.7**	294,398.0
Expected to be settled within 12 months (net of reinsurance)		**45,695.8**	40,038.1
Expected to be settled after 12 months (net of reinsurance)		**263,092.9**	254,359.9

(ii) Movement in investment contract liabilities

	Gross 2017 £m	Gross 2016 £m
As at 1 January	**294,398.0**	252,923.5
Reserves in respect of new business	**39,642.9**	28,943.3
Amounts paid on surrenders and maturities during the year	**(54,223.1)**	(42,431.6)
Investment return and related benefits	**28,970.9**	54,962.8
As at 31 December	**308,788.7**	294,398.0

(iii) Non-participating investment contract liability fair value hierarchy

The £308,788.7m (2016: £294,398.0m) of non-participating investment contracts are unit linked in structure. These contracts are classified as 'Level 1' in the fair value hierarchy, as their value is calculated as the publicly quoted unit price by the number of units in an active market in issue.

There have been no significant transfers between levels of the hierarchy during the year.

23 Senior Borrowings

(i) Analysis by type

	Unit linked borrowings 2017 £m	Total 2016 £m
Opening balance	**6.2**	4.2
Repayment of borrowings	**(6.2)**	(4.2)
Proceeds from borrowings	**86.9**	6.2
Closing balance	**86.9**	6.2

The risks associated with unit linked borrowings are retained by the policyholders. Borrowings are short term overdrafts that relate to trading movements in the unit linked funds.

24 *Payables and other financial liabilities*

	2017 £m	2016 £m
Derivative liabilities	**5,054.3**	5,245.2
Payable to Brokers	**266.9**	195.2
Other	**598.8**	513.3
Payables and other financial liabilities	**5,920.0**	5,953.7

Fair value hierarchy

As at 31 December 2017	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	**5,054.3**	**77.2**	**4,977.1**	-	-
Payable to Brokers	**266.9**	-	-	-	**266.9**
Other	**598.8**	-	-	-	**598.8**
Payables and other financial liabilities	**5,920.0**	**77.2**	**4,977.1**	-	**865.7**

As at 31 December 2016	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	5,245.2	550.6	4,694.6	-	-
Payable to Brokers	195.2	-	-	-	195.2
Other	513.3	-	-	-	513.3
Payables and other financial liabilities	5,953.7	550.6	4,694.6	-	708.5

There have been no significant transfers between levels.

25 Other liabilities

	2017 £m	2016 £m
Accruals	**11.2**	4.3
Other intra-group Creditors	**183.1**	90.8
Other liabilities	**194.3**	95.1
Settled within 12 months	**194.3**	95.1

26 Related party transactions

There were no material transactions between directors or key managers and the Legal & General group of companies. All transactions between the Group, its directors and key managers are on commercial terms which are no more favourable than those available to employees in general. The aggregate allocated compensation for directors is as follows:

	2017 £000	2016 £000
Salaries	**1,322.6**	1,693.0
Post-employment benefits	**33.2**	15.7
Key management personnel compensation	**1,355.8**	1,708.7
Number of key management personnel	**7**	8

The members of the Board of Directors are listed on page 4 of these financial statements. For the year ended 31 December 2016, key management personnel compensation included social security costs. These costs should not have been included in the analysis, as they are not an employee benefit. The tables above and in note 27 have therefore been restated to exclude these costs. The restatement has no impact on either Total expenses nor Profit before income tax in the Company's Statement of Comprehensive Income for the year ended 31 December 2016.

Under a management agreement, LGIMH supplies and makes charges for administrative and staff expenses to the Company. The amount of this recharge is £72.1m (2016: £54.6m). The year end outstanding balance is £34.1m (2016: £14.4m). This includes amounts owed for services provided by fellow subsidiaries.

The Company receives investment management services from Legal & General Investment Management Limited, a fellow subsidiary of LGIMH, for its shareholder and unit-linked assets. The charge for shareholder assets is £25k (2016: £50k). The year end outstanding balance is £6k (2016: nil). The charge for unit linked assets is £90.2m (2016: £96.4m). The year end outstanding balance is £7.2m (2016: £2.2m).

The Company's reinsured non-participating insurance contracts are reinsured by Legal & General Assurance Society ("LGAS").

The Company's investment contract liabilities include £20.8bn (2016: £14.8bn) of investments in the Company's funds held by LGAS. For LGAS the fees invoiced were £6.9m (2016: £10.5m), there were no year end outstanding fees at the end of the year (2016: £3.2m).

The Company holds £4.2bn (2016: £4.5bn) worth of equity assets in LGIM Liquidity Funds Plc, £31.6bn (2016:£24.5bn) in LGIM (Ireland) Risk Management Solutions Plc, £1.6bn (2016: £1.5bn) in Legal & General Investment Management Funds ICVC, £1.4m (2016: £1.2m) in L & G Authorised Contractual Scheme, and £2.8bn (2016: £2.8bn) in Legal & General SICAV.

The Company has a remuneration agreement with LGIM Corporate Director Ltd in relation to fees charged for assets invested within the LGIM (Ireland) Risk Management Solutions fund, the Legal & General Investment Management Funds ICVC and Legal & General SICAV. The charge for 2017 is £28.2m (2016: £19.8m). The year end outstanding balance is £2.4m (2016: £7.9m)

The Company entered into a remuneration agreement with Legal & General (Unit Trust Managers) Limited in November 2017 in relation to rebates on fund management fees charged on funds in which the Company has purchased units. Fees charged for 2017 are £12k.

The Company entered into a remuneration agreement with LGIM Real Assets (Operator) Limited in October 2017 in relation to fund management fees charged on property funds in which the Company has purchased units. Fees charged for 2017 are £577k.

The Company declared £150.0m (2016: £100.0m) in dividends to its parent company, LGIMH. The year end outstanding balance is £nil (2016: £nil).

The Company entered into an agreement with Legal & General Finance plc in September 2016 which allows for a revolving credit loan facility to a maximum of £100m, which was increased to a maximum of £180m in November 2017. Outstanding borrowings under this agreement at year end were £50m (2016: £41m). Interest accrued and payable during 2017 was £81k (2016: £16k)

27 Directors' emoluments

	2017 £000	2016 £000
Short-term employee benefits	**1,043.0**	1,094.7
Post-employment benefits[1]	**33.2**	15.8
Other long-term benefits	**-**	42.2
Termination benefits	**-**	281.2
Share-based incentive awards	**279.6**	274.8
	1,355.8	1,708.7

These figures represent that portion of the directors' emoluments allocated in respect of their services to the Company. No fees were paid by the Company to the directors. Directors are not employees of the Company, but their services are reflected in a management charge levied by the parent. Emoluments relate to salaries and performance bonuses. For the year ended 31 December 2016, key management personnel compensation included social security costs. These costs should not have been included in the analysis, as they are not an employee benefit. The table above has therefore been restated to exclude these costs. The restatement has no impact on either Total expenses nor Profit before income tax in the Company's Statement of Comprehensive Income for the year ended 31 December 2016.

Retirement benefits are accruing to no directors under a defined benefit pension scheme (2016: no directors). 7 directors (2016: 8 directors) are/were members of a defined contribution pension scheme.

Share based incentive awards includes share options vested during the year.

One director exercised share options under the Group's share schemes in the year (2016: 2 directors).

	2017 £000	2016 £000
Highest paid director:		
Emoluments	**437.9**	534.2
Other long-term benefits	**-**	-
Post-employment benefits	**1.0**	1.2
	438.9	535.4

Defined contribution/benefit pension scheme payments of the highest paid director were £6.7k (2016: £1.2k)

Directors' emoluments for the Group during the year have been attributed to the Company on the basis of the time spent on Company business by each director.

Directors' loans

At 31 December 2017 there were no loans to directors (2016: none).

Directors' transactions and arrangements

No director had any material interest in any contract or arrangement of significance in relation to the business of the Company during 2017.

28 Guarantees and Financial Commitments

(i) Capital commitments

	2017 £m	2016 £m
Authorised and contracted commitments not provided for in respect of investment property development, payable after 31 December		
- Long term business	**85.0**	143.2
	85.0	143.2

(ii) Operating lease commitments

At 31 December 2017, the company had lease agreements in respect of land and buildings and other assets for which the payments extend over a number of years:

	2017 £m	2016 £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
- Not later than 1 year	**1.6**	1.5
- Later than 1 year and not later than 5 years	**6.0**	5.9
- Later than 5 years	**176.7**	175.1
	184.3	182.5
The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:		
- Not later than 1 year	**173.5**	146.2
- Later than 1 year and not later than 5 years	**627.7**	527.8
- Later than 5 years	**1,797.3**	1,375.6
	2,598.5	2,049.6

(iii) Relating to leasehold properties

	2017 £m	2016 £m
The future aggregate minimum lease receivable under non-cancellable operating leases are as follows:		
- Not later than 1 year	**13.7**	14.4
- Later than 1 year and not later than 5 years	**48.4**	50.1
- Later than 5 years	**41.2**	47.8
	103.3	112.3

29 Financial Risk Management

For unit linked contracts, the Company matches all the liabilities with assets in the portfolio on which the unit prices are based. There is therefore no material interest, price, currency or credit risk for the Company on these contracts. For non unit-linked investments, the risks are shown below.

a) Credit risk is the risk that the Company is exposed to loss if another party fails to perform its financial obligations to the Company. The Company holds corporate bonds, government securities and short term deposits as capital. Significant exposures are managed by the application of concentration limits.

The credit profile of the Company's assets which are exposed to credit risk is shown in table below. The credit rating bands are provided by independent rating agencies. Government securities comprise exclusively UK Gilts.

i) Shareholder assets exposure to credit risk

As at 31 December 2017	AA £m	A £m	Unrated £m	Total £m
Government securities	**262.6**	**-**	**-**	**262.6**
Total debt Securities	**262.6**	**-**	**-**	**262.6**
Cash and cash equivalents	**45.7**	**0.1**	**-**	**45.8**
Financial assets	**308.3**	**0.1**	**-**	**308.4**

As at 31 December 2016	AA £m	A £m	Unrated £m	Total £m
Government securities	262.0	-	-	262.0
Total debt Securities	262.0	-	-	262.0
Cash and cash equivalents	123.1	70.0	-	193.1
Financial assets	385.1	70.0	-	455.1

b) Interest Risk - Assuming a 1% change in interest rates, the value of the government and other fixed rate securities could be expected to fall by £0.8m or rise by £0.3m.

c) Price Risk - The Company is susceptible to market price risk arising from uncertainties about future prices of the instruments. The Company's market price risk is managed through a UK Government Gilts portfolio.

30 Management of capital resources

The Company is required to measure and monitor its capital resources on a regulatory basis and to comply with the capital requirements established by the Solvency II (SII) Framework Directive and adopted by the Prudential Regulation Authority (PRA). Under the SII regime, capital is managed such that the total available own funds exceeds a minimum Solvency Capital Requirement calculated in accordance with the regulations. The Company's capital requirement reflects the nature and scale of the Company's risk exposures and is determined using an internal model approved by the PRA. Given that the Company writes predominantly unit-linked business, most of the investment risks (including asset default risk) are carried by the policyholder.

The Company aims to manage its capital resources to maintain financial strength, and policyholder security. The Company is well capitalised and has not raised capital externally or from Group resources.

The value of shareholder equity on the IFRS basis as at the balance sheet date is £387.0m (2016: £356.1m).

Details about the Solvency II regulatory capital requirements and levels of capital held on that basis may be found in the Company's Solvency and Financial Condition Report which is available on the Group website.. The Company has not breached any regulatory requirements at any time during the year.

31 Ultimate parent undertaking

The immediate parent company is Legal & General Investment Management (Holdings) Limited, a company incorporated in England & Wales.

The ultimate parent company is Legal & General Group Plc, a company incorporated in England & Wales.

Legal & General Group Plc is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2017. The consolidated financial statements of the ultimate holding company, Legal & General Group Plc, are available on the Group website, www.legalandgeneralgroup.com or from the Company Secretary at the Registered Office, One Coleman Street, London, EC2R 5AA.