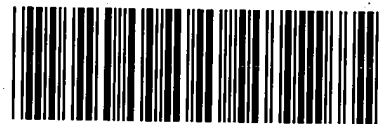


Company Number 05935873

**Legal & General Pensions Limited**  
**Report and Accounts 2015**

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## Strategic Report

The directors present their strategic report on the Company for the year ended 31 December 2015.

### Principal activities

The Company is a wholly owned subsidiary of Legal & General Assurance Society Limited ('the Parent'). The directors consider the ultimate controlling party to be Legal & General Group Plc ('the Group'). The principal activity of the Company has been the transaction of long term reinsurance business in the UK. Until 31 December 2015, the Company was an Insurance Special Purpose Vehicle (ISPV) and therefore had no formal requirement to hold a regulatory solvency margin. However, the assets needed to be compliant with the prudent person principles set out in INSPRU 3.1.61AR. With effect from 31 December 2015, the Company commuted its reinsurance business, ceased to conduct reinsurance business, and became an investment SPV. The Company's registered office is at One Coleman Street, London, EC2R 5AA and is registered in England and Wales under company number 05935873 and domiciled in the UK.

### Review of the business

Building on the success of record bulk purchase annuities (BPA) transaction volumes in 2014, bulk annuity sales of £2bn have been reinsured in the year. This includes two further pension buy-ins with ICI amounting to £1bn, following the £3.6bn buy in deal in 2014. Whilst the individual annuity market continues to be challenging with volumes declining 36% compared to last year, the launch of new products has allowed diversification. Following the successful acquisition of New Life Home Finance by Legal & General Group Plc in April 2015 £0.2bn of lifetime mortgage securities have been acquired. The Company has continued to enter into selective longevity reinsurance transactions during the year.

On 31 December 2015, the Company undertook a transaction to restructure the existing reinsurance arrangements between the Company and the Parent and the various asset portfolios held by the Company.

The restructure involved the recapture and termination of the existing reinsurance arrangement between the Company and the Parent. Under the terms of the recapture, the Parent commuted the reinsurance liabilities of the Company and as consideration for recapturing these liabilities, received transfers of the Company's existing assets, associated liabilities and the novation to the parent of the Company's outward reinsurance contract notes and Loan notes.

The reinsurance liabilities commuted with the Parent under the recapture were valued at £42,854m and the premium paid to the Parent in consideration was £40,806m, giving rise to a profit of £2,048m to the Company on the recapture transaction.

On 31 December 2015, the Company ceased all insurance operations and has applied for the PRA to cancel its insurance permissions. The Company will operate as an Investment Special Purpose Vehicle holding investment property assets backing notes issued by the Company to its Parent. To complete this series of transactions, the board intends to distribute the remaining equity of the Company to its shareholder at the earliest opportunity after the necessary steps have been undertaken to ensure that the reserves are distributable.

As noted above, the Company has issued Loan Notes linked to the property assets held to its immediate parent in settlement of the balance due on recapture.

For investment properties with Notes linked to them, the Company will recognise in full the rental income and expenses associated with these assets, subject to expense and liquidity support provided by the Company's Parent. The Company will continue to be responsible for managing the assets but does not have the authority to sell the assets without the prior consent of the note holder.

### Principal risks and uncertainties

Prior to the recapture, outlined above, the Company's business primarily involved the acceptance and management of risks in respect of the non profit pensions, annuity, and overseas life assurance business of the Parent. A detailed review of the Company's exposure to risks up to the point of recapture and post recapture, together with the framework for their management is set out in Note 33 of the financial statements. The principal risks and uncertainties faced by the Company relate to its activities as an Investment Special Purpose Vehicle.

#### 1) Property Tenant Default Risk

The Company is inherently exposed to the risk of default by a borrower or tenant. The risk increases with a deterioration in economic conditions or events impacting particular industry sectors. The Company seeks to mitigate the risk through taking security over underlying property and continuously monitoring the abilities of tenants to meet obligations.

#### 2) Counterparty and third party risks

For property holdings (sale and leaseback), yields are based on the individual characteristics of each lease including its rental yield, adjusted for prudence and the possibility of default. Default rates used in the calculations vary by tenant category.

Processes are in place to ensure that assumptions are subject to critical challenge, with potential variances from assumptions being stress tested as part of the Company's processes to assess adequacy of prudential capital. However, extreme shifts in financial markets of the broader economic environment may require certain assumptions to be recalibrated impacting the Company's profitability.

## Strategic Report (continued)

### 3) Operational risk

The Company's business processes can be complex with significant reliance placed upon a combination of IT systems and manual processes. The Company has constructed a framework of internal controls to minimise the risk of unanticipated loss or damage to our reputation. The Company seeks to continually review and improve our framework. The Legal & General Group Internal Audit function also provides independent assurance on the adequacy and effectiveness of our internal controls. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage.

As mentioned above, on 31 December 2015, the Company undertook a series of transactions to restructure the existing reinsurance arrangements between the Company and the Parent and the corresponding asset portfolios held by Company. The Company applied a rigorous project management framework to govern the transfer process, which included the performance of regular operational effectiveness assessments and confirmations over the completeness and accuracy of the assets and liabilities transitioned. Whilst these measures serve to minimise the risk of future error arising or being detected, no system of internal control can eliminate the risk entirely.

### Key performance indicators

The directors review a range of performance indicators in monitoring the performance of the Company with the following regarded as key performance indicators:

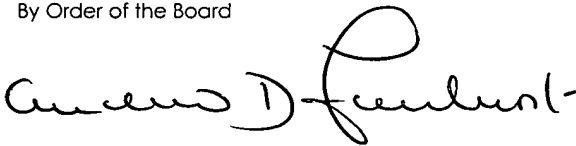
**IFRS Profit before tax** - £3,606m (2014: £192m) - This measures the profit or loss in a single period before deducting tax. This gives an insight into the Company's ability to generate cash flows to support dividends during a period.

**Shareholder funds** - £3,799m (2014: £1,261m) - This represents the net assets that remain once all the Company's liabilities have been accounted for. It also equates to the capital of the Company.

**Net cash flows from operating activities** - £171m (2014: £255m) - This represents the cash generated by the Company from on-going, regular business activities.

Further details of the Group's key performance indicators can be found in the Financial Review section of the Strategic Report in the Group's published financial statements.

By Order of the Board



A. D. Fairhurst  
For and on behalf of Legal & General Co Sec Limited  
Company Secretary  
10 March 2016

## Directors' Report

The directors present their annual report together with the audited financial statements of Legal & General Pensions Limited ('the Company') for the year ended 31 December 2015.

### Results for the year and dividend

The results of the Company are set out on page 8.

No final dividend is proposed for 2015 (2014: nil). An interim dividend of £347m was paid during the year (2014: £240m).

### Financial risk management objectives

The Company's exposure to financial risk through its financial assets and liabilities is provided in detail in Notes 32 & 33 of the financial statements.

### Directorate

The directors of the Company, who were in office during the year and up to the date of signing the financial statements, are shown below:

N. D. Wilson (Chairman)  
M. J. Gregory  
K. W. Procter

Directors resigning during the year were:

T. S. J. Ground (appointed 24/02/2015, resigned 16/11/2015)  
R. Lee (resigned 23/03/2015)  
A. Ricketts (appointed 29/05/2015, resigned 14/10/2015)  
P. R. Stanworth (resigned 18/05/2015)

### Directors' indemnity and insurance

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The ultimate parent company, Legal & General Group Plc, maintains an appropriate level of Directors' and Officers' liability insurance which is reviewed annually.

### Independent auditors

The Company has appointed PricewaterhouseCoopers LLP as independent auditors.

There is no requirement under the Companies Act or the Company's Articles of Association to hold an Annual General Meeting or present the Company's Report and Accounts to the shareholders.

### Future developments

As described in the Strategic Report above, on 31 December 2015, the Company became an Investment Special Purpose Vehicle, as going forward it continues to manage certain investment properties, following the recapture and termination of the reinsurance arrangements between the Company and the Parent and the third party reinsurers.

## Directors' Report (continued)

### 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. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). 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 IFRSs as adopted by the European Union and IFRSs as issued by the IASB 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.

Each of the directors who held office at the date of approval of the Directors' Report confirms that:

- (a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) he has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given in accordance with Section 418 (2) of the Companies Act 2006.

By Order of the Board



A. D. Fairhurst  
For and on behalf of Legal & General Co Sec Limited  
Company Secretary  
10 March 2016

# ***Independent auditors' report to the members of Legal & General Pensions Limited***

## **Report on the financial statements**

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### **Our opinion**

In our opinion, Legal & General Pensions Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **What we have audited**

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The financial statements, included within the Report and Accounts 2015 (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2015;
- the Statement of Comprehensive Income for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

## **Opinion on other matter prescribed by the Companies Act 2006**

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In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Other matters on which we are required to report by exception**

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### **Adequacy of accounting records and information and explanations received**

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### **Directors' remuneration**

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Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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## Responsibilities for the financial statements and the audit

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### Our responsibilities and those of the directors

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 and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Thomas Robb (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
10 March 2016



**Statement of Comprehensive Income**

For the year ended 31 December 2015

<b>Discontinued Operations</b>	<b>Notes</b>	<b>2015 £m</b>	<b>2014 £m</b>
<b>Revenue</b>			
Gross written premiums	1E/2	3,605	10,071
Outward reinsurance premiums	1G	(1,082)	(4,582)
<b>Net premiums earned</b>		<b>2,523</b>	<b>5,489</b>
Investment return	1S/3	(220)	5,786
Profit on recapture of long term insurance business	11	2,048	-
Operational income	1T	1	35
Finance income	1S	47	-
<b>Total revenue</b>		<b>4,399</b>	<b>11,310</b>
<b>Expenses</b>			
Claims and change in insurance liabilities		837	15,272
Reinsurance recoveries		(581)	(4,921)
<b>Net claims and change in insurance liabilities</b>	1E/4	<b>256</b>	<b>10,351</b>
Acquisition costs	1E	15	19
Finance costs	1S	-	376
Other expenses	1U/5	522	372
<b>Total expenses</b>		<b>793</b>	<b>11,118</b>
<b>Profit before income tax</b>		<b>3,606</b>	<b>192</b>
Total income tax expense	1M/9	(721)	(25)
<b>Profit for the year attributable to equity holders of the Company</b>		<b>2,885</b>	<b>167</b>
Other comprehensive income after tax		-	-
<b>Total comprehensive income for the year attributable to equity holders of the Company</b>		<b>2,885</b>	<b>167</b>

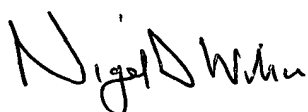
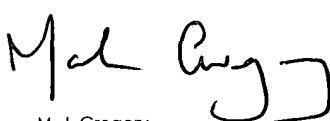
**Balance Sheet**

As at 31 December 2015

	Notes	2015 £m	2014 £m
<b>Assets</b>			
Deferred acquisition costs	1E/12	-	94
Investment property	1H/13	1,367	1,172
Financial investments	1H/13	25	46,489
Reinsurers' share of contract liabilities	1G/19(i)	-	4,408
Deferred tax asset	1M/15	-	30
Income tax recoverable	1M	5	-
Other assets	16	4,520	709
Cash and cash equivalents	1J/17	12	194
<b>Total assets</b>		<b>5,929</b>	<b>53,096</b>
<b>Equity</b>			
Share capital	1N/18	300	300
Retained earnings		3,499	961
<b>Total shareholders' equity</b>		<b>3,799</b>	<b>1,261</b>
<b>Liabilities</b>			
Non-participating insurance contracts	1E/19(i)	-	44,789
Borrowings	1L/21	-	2
Deferred tax liabilities	1M/15	1	-
Income tax liabilities	1M	647	-
Payables and other financial liabilities	1Q/22	1,467	7,010
Other liabilities	23	15	34
<b>Total liabilities</b>		<b>2,130</b>	<b>51,835</b>
<b>Total equity and liabilities</b>		<b>5,929</b>	<b>53,096</b>

The notes on pages 12 to 47 are an integral part of these financial statements.

The financial statements on pages 8 to 11 were approved by the board of directors on 10 March 2016 and were signed on their behalf by:


N. D. Wilson  
Chairman

M. J. Gregory  
Director

**Statement of Changes in Equity**

	Notes	Share capital £m	Retained earnings £m	Total equity £m
<b>For the year ended 31 December 2015</b>				
<b>As at 1 January</b>		<b>300</b>	<b>961</b>	<b>1,261</b>
Total comprehensive income for the year		-	<b>2,885</b>	<b>2,885</b>
Dividends	10	-	<b>(347)</b>	<b>(347)</b>
<b>As at 31 December</b>		<b>300</b>	<b>3,499</b>	<b>3,799</b>
<b>For the year ended 31 December 2014</b>				
<b>As at 1 January</b>		<b>300</b>	<b>1,034</b>	<b>1,334</b>
Total comprehensive income for the year		-	<b>167</b>	<b>167</b>
Dividends	10	-	<b>(240)</b>	<b>(240)</b>
<b>As at 31 December</b>		<b>300</b>	<b>961</b>	<b>1,261</b>

**Cash Flow Statement**

For the year ended 31 December 2015

Discontinued Operations	Notes	2015 £m	2014 £m
<b>Cash flows from operating activities</b>			
Profit for the year		2,885	167
<b>Adjustments for non-cash movements in profit for the year</b>			
Realised and unrealised (gains)/losses on financial investments and investment properties		2,389	(4,357)
Investment income		(2,059)	(1,399)
Interest (income)/ expense		(47)	376
Income tax expense		721	25
<b>Net (increase) / decrease in operational assets</b>			
Investments held for trading or designated as fair value through profit or loss		40,127	(7,515)
Other assets		4,546	(4,421)
<b>Net increase / (decrease) in operational liabilities</b>			
Insurance contracts		(44,789)	12,035
Other liabilities		(5,689)	4,020
<b>Cash used in operations</b>		(1,916)	(1,069)
Interest received		2,118	1,337
Income tax paid		(48)	-
Dividends (paid)/ received		17	(13)
<b>Net cash flows from operating activities</b>		171	255
<b>Cash flows from investing activities</b>			
Net acquisition of property, plant and equipment		-	(14)
<b>Net cash flows from investing activities</b>		-	(14)
<b>Cash flows from financing activities</b>			
Dividend distributions to ordinary equity holders of the Company during the year		(347)	(240)
Repayment of borrowings		(2)	-
<b>Net cash flows from financing activities</b>		(349)	(240)
Net increase/(decrease) in cash and cash equivalents		(178)	1
Exchange gains/(losses) on cash and cash equivalents		(4)	4
Cash and cash equivalents at 1 January		194	189
<b>Cash and cash equivalents at 31 December</b>	17	12	194

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

**1. Accounting policies****A Basis of preparation**

The Company financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board (IASB) as adopted by the European Union, and with those parts of the UK Companies Act 2006 applicable to companies reporting under IFRS. The Company's 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 (including derivative instruments) at fair value through profit and loss.

These separate financial statements contain information about Legal & General Pensions Limited as an individual company and do not contain consolidated financial information. The Company is included in the group accounts of Legal & General Group Plc and has taken advantage of the exemption under Section 400 of the Companies' Act 2006.

The Company presents its balance sheet in order of liquidity. However for each asset and liability line item, which combines amounts expected to be recovered or settled before and after 12 months from the balance sheet date, disclosure of the split is made by way of a note.

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

After making enquiries, 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. On 31 December 2015, the Company undertook the recapture and termination of the existing reinsurance arrangements between the Company and the Parent and the novation to the Parent of the Company's outward reinsurance contracts. Income and expenditure in the Statement of Comprehensive income and the Cash Flow Statement all relates to the recaptured reinsurance arrangements and has therefore been classified as arising from discontinued operations.

A discontinued operation is a component of the enterprise that has been disposed of, or is classified as 'held for sale', and:

- represents a separate major line of business or geographical area of operations; and
- is part of a single, co-ordinated plan to dispose of this separate major line of business or geographical area of operations;  
or
- is a subsidiary acquired exclusively with a view to resale

Any gain or loss from the sale of assets is recognised in the Statement of Comprehensive Income. When an operation is classified as a discontinued operation, the Statement of Comprehensive Income is re-presented as if the operation had been discontinued from the start of the comparative year.

Whilst £1,367m of investment properties have been retained, the business of reinsurance has been discontinued and a new investment business has been started. Therefore, all investment income for the year has been classified as discontinued.

**B Use of estimates**

The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the Balance Sheet and the Statement of Comprehensive Income and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly. This is particularly relevant to the following:

**The determination of fair values of investment property (Notes 1H and 13)**

Investment property in the UK is valued bi-annually by external chartered surveyors at open market values in accordance with the 'Appraisal and Valuation Manual' of The Royal Institution of Chartered Surveyors or using internal valuations and estimates during the intervening period. Outside the UK, valuations are produced in conjunction with external qualified professional valuers in the countries concerned. In the event of a material change in market conditions between the valuation date and balance sheet date, an internal valuation is performed and adjustments made to reflect any material changes in fair value.

**The determination of fair values of unquoted and illiquid financial investments (Notes 1H and 13)**

For unquoted financial investments, the Company obtains pricing information from a range of pricing services and brokers. Where there are indications that there is no active market, the Company seeks further evidence of the fair value from alternative pricing sources and market information. Priority is given to publicly available prices from independent sources when available, but overall, the source of pricing and/or the valuation technique is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and, if applicable, enterprise valuation and may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments.

**1. Accounting policies (continued)****Estimation of deferred acquisition costs (Notes 1E and 12)**

Significant costs are incurred in connection with acquiring new business, such as initial commission and the indirect costs of obtaining and processing new business. These costs are capitalised and amortised in accordance with the Company's accounting policies. The recoverability of these assets is measured and impaired if the projected future margins are less than the carrying value of the assets. To the extent that the future margins differ from those anticipated, an adjustment to the carrying value of the deferred acquisition cost assets will be necessary.

**Tax balances (Notes 1M, 9 and 15)**

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. The judgements made, and uncertainties considered, in arriving at tax balances in the financial statements are discussed in Note 9.

Deferred tax assets are recognised for temporary differences and unused tax losses. The recognition of a deferred tax asset in respect of tax losses is supported by management's best estimate of future taxable profits to absorb the losses in future years. These taxable profit projections are based on assumptions consistent with those used for European Embedded Value (EEV) reporting purposes. Deferred tax assets and liabilities are offset to the extent it is permissible under IAS 1. The net movement in deferred tax assets and liabilities during the year is disclosed in Note 15.

**Insurance contract liabilities (Notes 1E, 1G and 19) and associated balances**

The determination of long term business liabilities can never be definitive as to the timing or the amount of claims and are therefore subject to regular reassessment. The significant estimates and assumptions used in calculating insurance liabilities are disclosed in Note 19.

**C Summary of significant accounting policies**

The Company has selected accounting policies which state fairly its financial position and financial performance for a 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.

**D Product classification**

The Company's products were classified for accounting purposes as non-participating insurance contracts. Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract.

**E Long term insurance contracts****Premium income**

Premiums are recognised as revenue when due for payment.

**Claims**

Death claims are accounted for on notification of death. Surrenders for non-linked policies are accounted for when payment is made. Critical illness claims are accounted for when admitted. All other claims and surrenders are accounted for when payment is due. Claims payable include the direct costs of settlement.

**Acquisition costs**

Acquisition costs comprise direct costs, such as initial commission, and the indirect costs of obtaining and processing new business. Acquisition costs which are incurred during a financial year are deferred by use of an asset which is amortised over the period during which the costs are expected to be recoverable, and in accordance with the expected incidence of future related margins.

**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 in accordance with regulatory requirements.

For non-participating insurance contracts, the liabilities are calculated on the basis of current information using the gross premium valuation method. This brings into account the full premiums receivable under contracts written, having prudent regard to expected lapses and surrenders, estimated renewal and maintenance costs and contractually guaranteed benefits. For unit linked insurance contract liabilities the provision is based on the fund value together with an allowance for any excess of future expenses over charges where appropriate.

**F Liability adequacy tests**

The Company performs liability adequacy testing on its insurance liabilities to ensure that the carrying amount of liabilities (less related deferred acquisition costs) is sufficient to cover current estimates of future cash flows. When performing the liability adequacy test, the Company discounts all contractual cash flows and compares this amount with the carrying value of the liability. Any deficiency is immediately charged to the income statement, initially reducing deferred acquisition costs and then by establishing a provision for losses.

**1. Accounting policies (continued)****G Reinsurance**

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

**H Investments****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 income.

Investment property in the UK is valued quarterly 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.

Outside the UK, valuations are produced in conjunction with external qualified professional valuers in the countries concerned. In the event of a material change in market conditions between the valuation date and balance sheet date, an internal valuation is performed and adjustments made to reflect any material changes in fair value.

**Financial investments**

The Company classifies its financial investments on initial recognition as held for trading (HFT), designated at fair value through profit or loss (FVTPL), or loans and receivables. Initial recognition of financial investments is on the trade date.

The Company's policy is to measure investments at FVTPL. All derivatives other than those designated as hedges are classified as 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 Company'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 non-participating policyholder liabilities are designated as FVTPL. 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 current bid prices. 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.

Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which represent current best practice, developed by the Association Française des Investisseurs en Capital, the British Venture Capital Association and the European Private Equity and Venture Capital Association. The techniques used for determining fair value include earnings multiples, the price of a recent investment or a net asset basis.

Financial investments classified as HFT and FVTPL are measured at fair value with gains and losses reflected in the income statement. Transaction costs are expensed as incurred.

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

**I Impairment policy**

The Company reviews the carrying value of its financial assets (other than those held at FVTPL) at each balance sheet date. If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the income statement. There must be objective evidence of impairment as a result of one or more events which have occurred after the initial recognition of the asset. Impairment is only recognised if the loss event has an impact on the estimated future cash flows of assets held at amortised cost.

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.

**J 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 3 months or less.

**1. Accounting policies (continued)****K Derivative financial instruments**

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

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.

**L Borrowings**

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

**M Tax**

The tax shown in the Statement of Comprehensive Income comprises current and deferred tax.

**Current income 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 income statement unless it relates to items which are recognised in other comprehensive income.

**Deferred income tax**

Deferred tax is calculated on differences between the accounting value of assets and liabilities and their respective tax values. Deferred tax is also recognised in respect of unused tax losses to the extent it is probable that future taxable profits will arise against which the losses can be utilised. Deferred tax is charged or credited to the income statement, except when it relates to items recognised in other comprehensive income.

Deferred tax assets and liabilities are not discounted.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, 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).

**N Share capital****Equity instruments**

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.

**Dividend recognition**

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

**O 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.

**P Receivables under finance leases**

On creation of a finance lease, the leased asset is derecognised from the balance sheet and replaced with a debtor equivalent to the present value of the minimum lease payments receivable at the balance sheet date. Finance income is recognised in the income statement on a straight line basis, reflecting the periodic rate of return on the Company's net investment in the lease.



**1. Accounting policies (continued)****Q Payables and other financial liabilities**

Payables and other financial liabilities comprise derivative liabilities, collateral received from banks, funds withheld from group companies, group related rental income notes, residual value notes 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. The funds withheld payable is measured with reference to the underlying value of the financial investments and accordingly, is measured at fair value. The group related rental and residual value notes are measured based on the corresponding underlying property portfolio. The rental income notes are structured in such a way to ensure compliance with the Solvency II matching adjustment regulatory requirements.

**R Foreign currency transactions, liabilities and assets**

Foreign currency transactions as well as liabilities and assets are translated into the functional currency using the exchange rate prevailing at the date of the transactions. Foreign exchange gains and losses are recognised in the income statement, except when recognised in equity as qualifying cash flow or net investment hedges.

**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 return relating to funds withheld from other Group companies is recognised as income with a corresponding expense reported within finance costs.

Investment income includes dividends, interest and rent. Dividends are accrued on an ex-dividend basis. Interest and rent are included on an accruals basis. Interest income for financial assets which are not classified as FVTPL is recognised using the effective interest method.

**T Operational income**

Operational income includes income received from other Group companies and waivers of loans due to other Group companies.

**U Other expenses**

Other expenses comprise administrative expenses, management fees payable, corporate expenses and other charges. Other costs are accounted for as they arise.

**V Standards, amendments and interpretations to published standards that are not yet effective**

Certain standards, amendments and interpretations to existing standards have been published which are mandatory for the Company's accounting periods beginning on or after 1 January 2015 or later periods but which the Company has not adopted early, as follows:

**IFRS 9**

In July 2014, the IASB issued IFRS 9, 'Financial Instruments' which is effective for annual periods beginning on or after 1 January 2018, subject to EU endorsement and the IASB's consideration of its exposure draft, "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts". On adoption, IFRS 9 contains three key elements:

- A principle-based model for classification and measurement of financial instruments driven by cash flow characteristics and the business model in which an asset is held. Financial assets are classified under either amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL);
- A single expected loss impairment model that will require more timely recognition of expected credit losses on assets classified as amortised cost or FVOCI. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised, and it lowers the threshold for recognition of full lifetime expected losses;
- A substantially-reformed model for hedge accounting with enhanced disclosures about risk management activities, enabling entities to better reflect these activities in their financial statements.

There are no other IFRS standards, amendments and interpretations that are not yet effective that would be expected to have a material impact on the Company.

**2 Analysis of revenue**

All premiums written in the year of £3,605m (2014: £10,071m) relate to inwards reinsurance of long term business written in the UK, and are classified as non-participating premiums.

**3 Investment return**

	2015 £m	2014 £m
Financial investment return <sup>1</sup>	302	5,748
Property investment return <sup>2</sup>	(522)	38
<b>Investment return</b>	<b>(220)</b>	<b>5,786</b>

1. Financial investment return includes fair value gains and losses, dividends and interest. Net loss (excluding interest and dividend income) of £1,245m (2014: £3,891m gain) arose on financial investments designated as FVTPL and a loss of £135m (2014: £558m gain) arose on derivative contracts classified as HFT. Investment income of £nil (2014: £nil) arose on loans and receivables.

2. Property investment return includes £91m (2014: £58m) of rental income.

**4 Net claims and change in insurance liabilities**

	2015 £m	2014 £m
Claims paid		
- gross	3,227	3,237
- reinsurance recoveries	(820)	(543)
	<b>2,407</b>	<b>2,694</b>
Change in insurance liabilities		
- gross	(2,390)	12,035
- reinsurance recoveries	239	(4,378)
<b>Net claims and change in insurance liabilities</b>	<b>256</b>	<b>10,351</b>

**5 Other expenses**

	2015 £m	2014 £m
Other administrative expenses	522	372
<b>Total other expenses</b>	<b>522</b>	<b>372</b>

The Company does not have direct staff costs. Other group entities contract staff for the needs of the Company's activities and then recharge a proportion of those costs to the Company. The recharged costs are part of "Other administrative expenses" above. Refer to Note 7 Employee information.

**6 Auditors' remuneration**

	2015 £m	2014 £m
Remuneration receivable by the Company's auditor for the audit of the Company's financial statements	0.3	0.3
<b>Total auditors' remuneration</b>	<b>0.3</b>	<b>0.3</b>

The disclosure of fees payable to the auditor and its associates for other (non-audit services) has not been made because this has been disclosed in the consolidated financial statements of the Group.

**7 Employee information**

The Company does not have direct employees since they are employed by a fellow subsidiary of Legal & General Group Plc. The Company is recharged a proportion of the staff costs.

**8 Foreign exchange and exchange rates**

Profit for the year includes foreign exchange gains and losses on financial instruments. The profit for the year also includes foreign exchange profit of £24m (2014: profit of £23m) arising on conversion of monetary assets and liabilities to functional currencies.

Principal rates of exchange used for translation are:

	2015	2014
United States Dollar	1.47	1.56
Euro	1.36	1.29

**9 Income tax expense**

	2015 £m	2014 £m
<b>Current tax</b>	<b>686</b>	<b>-</b>
<b>Deferred tax</b>		
- Origination and reversal of temporary differences	35	25
- Reduction in UK Corporate tax rate to 18% (2014: 20%)	-	2
<b>Total deferred tax</b>	<b>35</b>	<b>27</b>
Adjustment to tax in respect of prior years	-	(2)
<b>Total income tax expense</b>	<b>721</b>	<b>25</b>

The income tax for the year differs from the standard corporation tax rate applicable to companies operating in the UK of 20.25% (2014: 21.5%). The differences are explained below:

	2015 £m	2014 £m
Profit before income tax	3,606	192
Tax calculated at 20.25% (2014: 21.5%)	730	41
<i>Effects of:</i>		
Disallowable expenditure for tax purposes	(3)	1
Income not subject to tax	(6)	(15)
Adjustment to tax in respect of prior years	-	(2)
Impact of reduction in UK corporate tax rate to 18% (2014: 20%)	-	2
Other	-	(2)
<b>Income tax expense attributable to equity holders</b>	<b>721</b>	<b>25</b>
<b>Total income tax expense</b>	<b>721</b>	<b>25</b>

Following the 2013 Finance Act, the standard rate of Corporation Tax in the UK changed from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015. To calculate the current tax on UK profits, the rate of tax used is 20.25% (2014: 21.5%), which is the UK average rate of corporation tax applicable for the year.

Following the 2015 Finance Act, the standard rate of Corporation Tax in the UK is due to reduce to 19% from 1 April 2017 and to 18% from 1 April 2020. The reduction in the rate of corporation tax has been taken into account in calculating the closing deferred tax balances.

**10 Dividends**

	Per share 2015 p	Total 2015 £m	Per share 2014 p	Total 2014 £m
Ordinary share dividends paid in the year				
- Current year dividend	115.67	347	80.00	240

**11 Recapture of long term insurance business**

On 31 December 2015, the Company undertook a series of transactions to restructure the existing reinsurance arrangements between the Company and Legal & General Assurance Society Limited ('the Parent') and the various asset portfolios held by the Company.

The restructure involved the recapture and termination of the existing reinsurance arrangements between the Company and the Parent and the novation to the Parent of the Company's outward reinsurance contracts. Under the terms of the recapture, the Parent recaptured the reinsurance liabilities of the Company and as consideration for recapturing these liabilities, received transfers of the Company's existing assets and associated liabilities.

A summary of the profit arising on the recapture is given below:

	2015 £m
Gross reinsurance liabilities transferred on recapture	42,854
Consideration payable on recapture	(40,806)
<b>Profit on recapture of long term business</b>	<b>2,048</b>

**12 Deferred acquisition costs****Analysis of Insurance deferred acquisition costs**

	2015 £m	2014 £m
<b>As at 1 January</b>	<b>94</b>	<b>95</b>
Acquisition costs deferred	1	7
Amortisation charged to income	(12)	(8)
<b>As at 31 December 2015 Pre recapture</b>	<b>83</b>	<b>94</b>
Amount transferred as part of recapture	(83)	-
<b>As at 31 December 2015 Post capture</b>	<b>-</b>	<b>-</b>
To be amortised within 12 months	-	7
To be amortised after 12 months	-	87

There are no deferred acquisition costs relating to reinsurance ceded.

**13 Financial investments and Investment property****(I) Financial investments at fair value**

	Notes	Shareholder 2015 £m	Non profit non-unit linked 2015 £m	Total 2015 £m
<b>Financial investments at fair value designated as:</b>				
Fair value through profit or loss		-	25	25
Held for trading	14	-	-	-
<b>Financial investments at fair value</b>		-	25	25
Investment property		-	1,367	1,367
Loans and receivables	(ii)	-	-	-
<b>Total financial investments and Investment property</b>	(ii)	-	1,392	1,392
Expected to be received within 12 months				-
Expected to be received after 12 months				1,392

	Notes	Shareholder 2014 £m	Non profit non-unit linked 2014 £m	Total 2014 £m
<b>Financial investments at fair value designated as:</b>				
Fair value through profit or loss		774	41,954	42,728
Held for trading	14	-	3,761	3,761
<b>Financial investments at fair value</b>		774	45,715	46,489
Investment property		-	1,172	1,172
<b>Total financial investments and Investment property</b>	(ii)	774	46,887	47,661
Expected to be received within 12 months				2,308
Expected to be received after 12 months				45,353

The risks associated with financial investments are outlined in note 33.

Financial investments include £Nil (2014: £340m) of debt securities pledged as collateral against derivative liabilities. No assets were used as collateral in 2015. (2014: Treasury Gills and Cash having a residual maturity of up to 61 years). The Company is entitled to receive all of the cash flows from the asset during the period when it is pledged as collateral. The Company can decide to substitute an asset which is designated as collateral at any time, provided the relevant terms and conditions of the International Swap Dealers Association agreement and CSA agreements are met. Under the terms of the recapture, the ISDA and CSA agreements with counterparties have transferred to other group entities as appropriate.

Financial investments have been allocated between those expected to be settled within 12 months and after 12 months in line with the expected settlement of the backed liabilities. Assets in excess of the insurance liabilities have been classified as expected to be settled after 12 months.

Property investments which are held via a limited company are included within equity securities. A loss of £656m (2014: £38m loss) has been recognised in the income statement in respect of the movement in fair value of these investments.

**13 Financial investments and investment property (continued)****(II) Financial Investments at fair value and investment property**

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

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the 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 valuation techniques for all inputs significant to the measurement other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs).

The following table presents the Company's assets by IFRS 13 hierarchy levels:

	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
<b>For the year ended 31 December 2015</b>					
<b>Shareholder</b>					
Equity securities	-	-	-	-	-
<b>Non profit non-unit linked</b>					
Equity securities	25	-	-	25	-
Debt securities	-	-	-	-	-
Accrued interest	-	-	-	-	-
Derivative assets	-	-	-	-	-
Loans and receivables	-	-	-	-	-
Investment property	1,367	-	-	1,367	-
<b>Total financial Investments</b>	<b>1,392</b>	<b>-</b>	<b>-</b>	<b>1,392</b>	<b>-</b>
<b>For the year ended 31 December 2014</b>					
<b>Shareholder</b>					
Equity securities	774	657	-	117	-
<b>Non profit non-unit linked</b>					
Equity securities	1,757	1,174	-	583	-
Debt securities	39,726	5,946	32,808	972	-
Accrued interest	471	39	425	7	-
Derivative assets	3,761	41	3,720	-	-
Investment property	1,172	-	-	1,172	-
<b>Total financial Investments</b>	<b>47,661</b>	<b>7,857</b>	<b>36,953</b>	<b>2,851</b>	<b>-</b>

**13 Financial investments and Investment property (continued)**

All of the Company's level 2 assets have been valued using standard market pricing sources, such as iBoxx, IDC and Bloomberg. In normal market conditions, we would consider these market prices to be observable market prices. Following consultation with our pricing providers and a number of their contributing brokers, we have considered that these prices are not from a suitably active market and have classified them as level 2.

Level 3 assets, where internal models are used to represent a small proportion of assets to which shareholders are exposed and reflect unquoted equities and investment properties.

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 with 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, and the differences could be material. As a result, such calculated fair value estimates may not be realisable in an immediate sale or settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique could significantly affect these fair value estimates.

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

**(a) Significant transfers between level 1 and level 2:**

There have been no significant transfers between level 1 and level 2.

**(b) Assets measured at fair value based on level 3**

	Equity securities 2015 £m	Other financial invest- ments 2015 £m	Investment property 2015 £m	Total 2015 £m	Equity securities 2014 £m	Other financial invest- ments 2014 £m	Investment property 2014 £m	Total 2014 £m
<b>As at 1 January</b>	<b>700</b>	<b>979</b>	<b>1,172</b>	<b>2,851</b>	<b>387</b>	<b>553</b>	<b>1,034</b>	<b>1,974</b>
Total gains or losses for the period:								
- Realised and unrealised gains/(losses) in profit and loss	(636)	8	44	(584)	(23)	97	17	91
Purchases/ Additions	143	59	330	532	346	851	145	1,342
Sales/ Disposals	(2,231)	(1,046)	(179)	(3,456)	(10)	(521)	(24)	(555)
Transfers into level 3	-	-	-	-	-	2	-	2
Transfers out of level 3	-	-	-	-	-	(3)	-	(3)
Amount transferred as part of recapture	2,049	-	-	2,049	-	-	-	-
<b>As at 31 December</b>	<b>25</b>	<b>-</b>	<b>1,367</b>	<b>1,392</b>	<b>700</b>	<b>979</b>	<b>1,172</b>	<b>2,851</b>

As a Company we hold regular discussion with our pricing providers to determine whether transfers between levels of the fair value hierarchy have occurred. The above transfers occurred as a result of this process.

**13 Financial investments and investment property (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.

		Reasonably possible alternative assumptions		
		Current fair value	Increase in fair value	Decrease in fair value
		2015	2015	2015
		£m	£m	£m
<b>For year ended 31 December 2015</b>				
<b>Financial Instruments</b>		<b>Main Assumption</b>		
<b>Assets</b>				
<b>Shareholder</b>				
- Unquoted investments in property vehicles <sup>1</sup>	Property yield; occupancy	-	-	-
<b>Assets</b>				
<b>Non profit non-unit linked</b>				
- Unquoted investments in property vehicles <sup>1</sup>	Property yield; occupancy	25	1	(1)
- Investment property <sup>1</sup>	Property yield; occupancy	1,367	70	(70)
- Asset backed securities	Cash flows; expected defaults	-	-	-
- Unquoted securities	Cash flows; expected defaults	-	-	-
- Untraded debt securities	Cash flows; expected defaults	-	-	-
- Other		-	-	-
<b>Total</b>		<b>1,392</b>	<b>71</b>	<b>(71)</b>
<b>For year ended 31 December 2014</b>				
<b>Financial Instruments</b>		<b>Main Assumption</b>		
<b>Assets</b>				
<b>Shareholder</b>				
- Unquoted investments in property vehicles <sup>1</sup>	Property yield; occupancy	117	7	(7)
<b>Assets</b>				
<b>Non profit non-unit linked</b>				
- Unquoted investments in property vehicles <sup>1</sup>	Property yield; occupancy	572	35	(35)
- Investment property <sup>1</sup>	Property yield; occupancy	1,172	59	(59)
- Asset backed securities	Cash flows; expected defaults	497	-	-
- Unquoted securities	Cash flows; expected defaults	173	6	(6)
- Untraded debt securities	Cash flows; expected defaults	280	-	-
- Other		40	-	-
<b>Total</b>		<b>2,851</b>	<b>107</b>	<b>(107)</b>

<sup>1</sup>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.



## 14 Derivative assets and liabilities

	Contract/ notional amount 2015 £m	Fair values		Contract/ notional amount 2014 £m	Fair values	
		Assets 2015 £m	Liabilities 2015 £m		Assets 2014 £m	Liabilities 2014 £m
<b>Shareholder derivatives:</b>						
Interest rate contracts - held for trading	-	-	-	-	-	-
Forward foreign exchange contracts - held for trading	-	-	-	-	-	1
Equity/index derivatives - held for trading	-	-	-	-	-	-
Credit derivatives - held for trading	-	-	-	-	-	-
<b>Total shareholder derivatives</b>		-	-		-	1
<b>Non profit non-unit linked derivatives:</b>						
Interest rate contracts - held for trading	-	-	-	22,692	3,550	1,946
Forward foreign exchange contracts - held for trading	-	-	-	-	41	142
Currency swap contracts - held for trading	-	-	-	3,636	-	62
Inflation swap contracts - held for trading	-	-	-	6,387	118	403
Credit derivatives - held for trading	-	-	-	166	-	1
Other derivatives - held for trading	-	-	-	194	52	-
<b>Total non profit non-unit linked derivatives</b>		-	-		3,761	2,554
<b>Total derivative assets and liabilities</b>		-	-		3,761	2,555

Derivative liabilities are reported in the balance sheet within Note 22 Payables and other financial liabilities.

The notional amounts of some derivative instruments provide a basis for comparison with instruments recognised on the balance sheet. However, these amounts do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Company's exposure to credit or price risks.

The contractual undiscounted cash flows in relation to non-unit linked derivatives have the following maturity profile.

	Fair values £m	Maturity profile of undiscounted cash flows					Total £m
		Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	
<b>As at 31 December 2015</b>							
<b>Cash inflows</b>							
<b>Shareholder derivatives</b>							
Derivative assets	-	-	-	-	-	-	-
Derivative liabilities	-	-	-	-	-	-	-
<b>Non profit non-unit linked derivatives</b>							
Derivative assets	-	-	-	-	-	-	-
Derivative liabilities	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-
<b>Cash outflows</b>							
<b>Shareholder derivatives</b>							
Derivative assets	-	-	-	-	-	-	-
Derivative liabilities	-	-	-	-	-	-	-
<b>Non profit non-unit linked derivatives</b>							
Derivative assets	-	-	-	-	-	-	-
Derivative liabilities	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-
<b>Net shareholder derivatives cash flows</b>	-	-	-	-	-	-	-
<b>Net non profit non-unit linked derivatives cash flows</b>	-	-	-	-	-	-	-

## 14 Derivative assets and liabilities (continued)

As at 31 December 2014	Maturity profile of undiscounted cash flows						Total £m
	Fair values £m	Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	
<b>Cash inflows</b>							
<b>Shareholder derivatives</b>							
Derivative assets	-	85	-	-	-	-	85
Derivative liabilities	(1)	309	-	-	-	-	309
<b>Non profit non-unit linked derivatives</b>							
Derivative assets	3,761	2,179	1,621	3,709	3,540	3,710	14,759
Derivative liabilities	(2,554)	8,318	2,296	2,782	2,270	2,232	17,898
<b>Total</b>	<b>1,206</b>	<b>10,891</b>	<b>3,917</b>	<b>6,491</b>	<b>5,810</b>	<b>5,942</b>	<b>33,051</b>
<b>Cash outflows</b>							
<b>Shareholder derivatives</b>							
Derivative assets	-	(85)	-	-	-	-	(85)
Derivative liabilities	(1)	(309)	-	-	-	-	(309)
<b>Non profit non-unit linked derivatives</b>							
Derivative assets	3,761	(1,912)	(737)	(2,550)	(2,559)	(2,209)	(9,967)
Derivative liabilities	(2,554)	(8,871)	(3,154)	(3,559)	(2,741)	(2,598)	(20,923)
<b>Total</b>	<b>1,206</b>	<b>(11,177)</b>	<b>(3,891)</b>	<b>(6,109)</b>	<b>(5,300)</b>	<b>(4,807)</b>	<b>(31,284)</b>
<b>Net shareholder derivatives cash flows</b>							
		-	-	-	-	-	-
<b>Net non profit non-unit linked derivatives cash flows</b>		(286)	26	382	510	1,135	1,767

The Company uses derivatives to reduce market risk. The most widely used derivatives are over the counter interest rate swaps. The Company may use futures to facilitate efficient asset allocation. In addition, derivatives were used to improve asset-liability matching and to manage interest rate and foreign exchange risk. It is the Company's policy that all derivative transactions are on a covered basis against underlying holdings of assets. Derivative counterparty risk is managed by the posting of collateral on a daily basis.

**15 Deferred tax asset / (liability)**

The deferred tax balances are as follows:

	As at 31 December 2015 £m	As at 31 December 2014 £m
Deferred tax asset	-	35
Deferred tax liability	(1)	(5)
<b>Deferred tax asset/(liability)</b>	<b>(1)</b>	<b>30</b>

Deferred tax assets and (liabilities) have been recognised/(provided) for the following types of temporary differences and unused tax losses. The movement in these balances during the year is as follows:

	Net tax asset as at 1 January 2015 £m	Tax (charged) to the income statement £m	Balance sheet reclassification £m	Net tax (liability) as at 31 December 2015 £m
Excess of depreciation over capital allowances	-	-	-	-
Other temporary differences	(5)	-	4	(1)
Trading losses	35	(35)	-	-
<b>Deferred tax asset / (liability)</b>	<b>30</b>	<b>(35)</b>	<b>4</b>	<b>(1)</b>

Included in the amounts (credited)/charged to income and equity in 2015 is £Nil relating to the change in UK corporation tax rate from 23% in April 2013 to 21% in April 2014 and to 20% in April 2015 (2014: £2m).

	Net tax asset as at 1 January 2014 £m	Tax (charged) to the income statement £m Restated*	Net tax asset as at 31 December 2014 £m Restated*
Excess of depreciation over capital allowances	(7)	7	-
Other temporary differences	(7)	2	(5)
Trading losses	69	(34)	35
<b>Deferred tax asset / (liability)</b>	<b>55</b>	<b>(25)</b>	<b>30</b>

## 16 Other assets

	Shareholder	Non profit non-unit linked	Total
	2015 £m	2015 £m	2015 £m
Accrued interest and rent	-	27	27
Prepayments and accrued income	-	18	18
Other receivables	-	6	6
Due from group companies	2,458	2,011	4,469
<b>Other assets</b>	<b>2,458</b>	<b>2,062</b>	<b>4,520</b>
Due within 12 months			4,494
Due after 12 months			26
	Shareholder	Non profit non-unit linked	Total
	2014 £m	2014 £m	2014 £m
Accrued interest and rent	-	24	24
Prepayments and accrued income	1	9	10
Other receivables	38	637	675
<b>Other assets</b>	<b>39</b>	<b>670</b>	<b>709</b>
Due within 12 months			74
Due after 12 months			635

## Receivables under finance leases

The Company acted as a lessor of two finance leases, which were both of 45 years duration and related to the provision of student accommodation. The other party as the lessee, was regarded to be the economic owner of the leased assets. These assets were transferred to the Parent as part of the reinsurance recapture.

The future minimum lease payments under these arrangements, together with their present value, are disclosed below:

	Total future payments	Unearned Interest Income	Present value	Total future payments	Unearned interest income	Present value
	2015 £m	2015 £m	2015 £m	2014 £m	2014 £m	2014 £m
Not later than 1 year	-	-	-	6	(1)	5
Between 1 and 5 years	-	-	-	24	(4)	20
Later than 5 years	-	-	-	265	(172)	93
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>295</b>	<b>(177)</b>	<b>118</b>

No allowance has been recognised for uncollectible future minimum lease payments in the period (2014: £nil).

There were no total contingent rents recognised in rental income under the finance lease arrangements in 2015 (2014: £nil).

**17 Cash and cash equivalents**

	Non profit non-unit linked 2015 £m	Total 2015 £m
Cash at bank and in hand	12	12
Cash equivalents	-	-
<b>Cash and cash equivalents</b>	<b>12</b>	<b>12</b>

	Non profit non-unit linked 2014 £m	Total 2014 £m
Cash at bank and in hand	184	184
Cash equivalents	10	10
<b>Cash and cash equivalents</b>	<b>194</b>	<b>194</b>

**18 Share capital**

	2015 Number of shares '000	2015 £m	2014 Number of shares '000	2014 £m
<b>Authorised share capital:</b>				
Ordinary shares of £1 each	1,000,000	1,000	1,000,000	201
<b>Issued share capital:</b>				
Fully paid ordinary shares of £1 each	300,000	300	3,000,000	300

There is one class of ordinary shares. All shares issued carry equal voting rights. There has been no change in the authorised share capital during the year.

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.

## 19 Insurance contract liabilities

## (i) Analysis of insurance contract liabilities

	Notes	Gross 2015 £m	Reinsurance 2015 £m	Gross 2014 £m	Reinsurance 2014 £m
Non-participating insurance contracts	(iii)	-	-	44,789	(4,408)
<b>Insurance contract liabilities</b>		-	-	44,789	(4,408)

## (ii) Expected insurance contract liability cash flows

As at 31 December 2015	Date of undiscounted cash flow				Total £m	Carrying value £m
	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m		
Non-participating insurance contracts	-	-	-	-	-	-
<b>Insurance contract liabilities</b>	-	-	-	-	-	-

As at 31 December 2014	Date of undiscounted cash flow				Total £m	Carrying value £m
	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m		
Non-participating insurance contracts	10,130	19,717	16,514	16,781	63,142	40,369
<b>Insurance contract liabilities</b>	10,130	19,717	16,514	16,781	63,142	40,369

Insurance contract undiscounted cash flows are based on the expected date of settlement.

Amounts under unit linked contracts are generally repayable on demand and the Company is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due. However, the terms of funds investing in less liquid assets permit the deferral of redemptions for predefined periods in circumstances where there are not sufficient liquid assets within the fund to meet the level of requested redemptions. Accordingly, unit linked liabilities have been excluded from the table.

## (iii) Movement in non-participating insurance contract liabilities

	Notes	Gross 2015 £m	Reinsurance 2015 £m	Gross 2014 £m	Reinsurance 2014 £m
<b>As at 1 January</b>		<b>44,789</b>	<b>(4,408)</b>	<b>32,754</b>	<b>(30)</b>
New liabilities in the year		2,008	(198)	8,640	-
Liabilities discharged in the year		(2,270)	227	(1,780)	-
Unwinding of discount rates		1,308	(128)	1,253	-
Effect of change in non-economic assumptions	20	(377)	15	(100)	(58)
Effect of change in economic assumptions	20	(1,950)	189	3,718	-
Foreign Exchange		17	1	-	-
Other <sup>1</sup>		(671)	(321)	304	(4,320)
<b>As at 31 December 2015 Pre recapture</b>		<b>42,854</b>	<b>(4,623)</b>	<b>44,789</b>	<b>(4,408)</b>
<b>Liabilities transferred following recapture</b>		<b>(42,854)</b>	<b>4,623</b>	-	-
<b>As at 31 December 2015 Post recapture</b>		-	-	-	-
Expected to be settled within 12 months (net of reinsurance)		-	-	2,071	-
Expected to be settled after 12 months (net of reinsurance)		-	-	38,310	-

<sup>1</sup>Other gross includes change in additional reserves (£4m) (2014: £147m), release of prudent margins (£139m) (2014: £118m), annuities adjustments £14m (2014: £141m), US business £23m (2014: £87m), savings adjustments £565m (2014: £1m). Other reinsurance includes new annuities reinsurance deals amounting to £329m and annuities adjustments (£8m).

**20 Long term insurance valuation assumptions****Non-participating business**

Prior to the recapture [see Note 11], the Company wrote non-participating business and it made prudent assumptions about its future experience based on current market conditions and recent experience. As an ISPV, the Company is not required to calculate liabilities on an PRA statutory Peak 1 basis. However, the basis used to set technical provisions is generally similar to a statutory Peak 1 basis. The assumptions incorporate prudent margins in excess of our best estimate assumptions to reduce the possibility of actual experience being less favourable than assumed. The following assumptions relate to the value of reinsurance liabilities transferred to the Parent on the recapture transaction.

**Valuation rates of interest and discount rates**

The valuation interest rate for the underlying annuity business is based on the internal rate of return on the portfolio of assets backing the liabilities.

For the valuation interest rate assumption, asset yields are adjusted to reflect the risk of default associated with the investments held. The Company continued to hold an additional reserve to protect against the risk of an uplift in defaults in the current economic environment and maintained the level of the long term default allowance for unapproved securities at 40bps (2014: 40bps). Default risk on property backing the business was provided for by adding 2bps to the long term default allowance (in 2014 property default risk was provided for separately), this addition being calculated to maintain the level of the reserve for property default risk. For approved securities and swaps, the adjustment remained unchanged at 9bps per annum (2014: 9bps). For unapproved securities, the credit default allowances equate to 55bps (2014: 54bps) per annum when expressed over the duration of the assets held leading to an overall total default provision of £2.2bn (2014: £2.3bn). For equity investments, the yield is based on the current dividend yield, adjusted for prudence.

For property holdings, yields are based on the rental income payable. In 2014, this continued to be adjusted for the cost of default, where the default rates used in the calculations vary by tenant category. From 2015, this is allowed for in the increased long term default allowance (as discussed above).

The Company believes the total default allowance is prudent to cover all reasonably foreseeable circumstances.

**Mortality**

Mortality assumptions are set with reference to standard tables drawn up by the Continuous Mortality Investigation Bureau (CMIB) of the Institute and Faculty of Actuaries and / or UK death registrations, with an appropriate allowance for prudence. These tables are based on industry wide mortality and morbidity experience for insured lives.

The majority of internal statistical investigations are carried out at least annually to determine the extent to which the Company's experience differs from that of the industry and suggest appropriate adjustments which need to be made to the valuation assumptions.

**Persistency**

The Company monitors its persistency experience and carries out detailed investigations annually. Persistency can be volatile and past experience may not be an appropriate future indicator.

The Company tries to balance past experience and future conditions by making prudent assumptions about the future expected long term average persistency levels.

**Expenses**

The Company monitors its expense experience and carries out detailed investigations regularly to determine the expenses incurred in writing and administering the different products and classes of business. An allowance for expense inflation in the future is also made, taking account of both salary and price information. The expense assumptions also include an appropriate allowance for prudence.

**Premiums**

For those contracts where the policyholder does not have the right to vary the amount of the premium paid, full credit is taken for the premiums contractually due at the valuation date. For contracts where the policyholder has the option to vary the rate of premium, the provision is taken as being the higher of the amount calculated as if the policyholder continues to make premium payments or, alternatively, ceases to pay premiums altogether.

**20 Long term insurance valuation assumptions (continued)**

	2015	2014
<b>(i) Rate of interest/discount rate</b>		
Pension assurances <sup>1</sup>	2.00%pa and 4.60%pa	1.75%pa and 6.6%pa
Unit linked pension contracts <sup>2</sup>	2.00%pa and 4.60%pa	1.75%pa
Annuities in deferment	3.33%pa	3.03%pa
Annuities in deferment (RPI linked; net rate after allowance for inflation)	0.00%pa	-0.26%pa
Vested annuities	3.33%pa	3.03%pa
Vested annuities (RPI linked; net rate after allowance for inflation)	0.00%pa	-0.26%pa
LGA Reinsured <sup>3</sup>	2.25%pa	1.75%pa and 2.00%pa
<b>(ii) Mortality Tables</b>		
<b>Pension Term Assurance<sup>4</sup></b>		
- Smokers	70% - 92% TMS00/TFS00 Sel 5	73% - 95% TMS00/TFS00 Sel 5
- Non-smokers	72% - 90% TMN00/TFN00 Sel 5	81% - 103% TMN00/TFN00 Sel 5
Annuities in deferment <sup>5</sup>	81.3% - 86.7% PNMA00/PNFA00	81.3% - 86.7% PNMA00/PNFA00
<b>Vested annuities<sup>6</sup></b>		
- Bulk purchase annuities	82.2% - 86.7 PCMA00/PCFA00	82.2% - 86.7 PCMA00/PCFA00
- Other annuities <sup>7</sup>	63.9% - 133.5% PCMA00/PCFA00	63.9% - 122.3% PCMA00/PCFA00
LGA reinsured <sup>8</sup>	Adjusted SOA 2014 VBT	Adjusted SOA 1985-90 table

1. For Pension assurances, from 2015, an appropriate valuation interest rate is applied at all times during the projection, i.e. when liabilities switch from being negative to positive the valuation interest rate will also switch from being high (4.60%) to low (2.00%). The crossover point at which the margin changes direction is assessed for broad product groups but applied at a policy by policy level. A single rate is used if liabilities are negative (4.60%) or positive (2.00%) throughout. For 2014, for product groups where liabilities were positive, the lower interest rate (1.75%) was used. However, for product groups where liabilities were negative, the higher rate (6.60%) was used.

2. Following the application of PS06/14 to non profit unit linked pension investment contracts in 2015, some contracts have negative sterling liabilities. A higher prudent valuation interest rate of 4.60% is used for contracts with negative liabilities and a lower prudent valuation interest of 2.00% is used for contracts with positive liabilities.

3. The valuation interest rate is based on the rate of return on the portfolio of assets backing the liabilities. For 2014, the VIR was based on US Government Bond yields and the yields on the backing assets.

4. The percentage of the table varies with the duration of the policy for first five years.

5. Table created by blending PCXA00 with PNXA00 tables. The base table to be used for BPA policies in deferment is PNMA00 up to and including age 55 and PCMA00 for age 65 and above for males. The identical method is applied to females using PNFA00 and PCFA00.

6. For vested annuities, mortality rates are assumed to reduce according to an adjusted version of CMIB's mortality improvement model, CMI 2013 (2014: CMI 2013), with the following parameters:

Males: Long Term Rate of 2% p.a. (2014: 2% p.a.) up to age 85 tapering to 0% at 120.

Females: Long Term Rate of 1.5% p.a. (2014: 1.5% p.a.) up to age 85 tapering to 0% at 120.

For certain annuities, a further allowance is made for the effect of initial selection.

The basis above is applicable up to age 90. After age 90 the basis is blended towards a bespoke table from age 100 onwards.

7. There is no change in basis on pre 2015 business. The 133.5% applies to 2015 business.

8. For Legal & General America (LGA) reinsured business, the mortality rates are based on the SOA 2014 (Society of Actuaries - an American actuarial body) Valuation Basic Table (VBT). Adjustments are made for sex, duration dependent slope, smoker status, policy size, policy duration and year, issue year and age. An appropriate allowance for prudence is made.

**Persistency**

It is permissible to value all long term business assuming a prudent lapse basis. For these contracts, the valuation persistency basis is set by applying a prudential margin over the best estimate assumptions.

For Protection business this margin acts to increase the best estimate lapse rate in the early part of a policy's lifetime (when it is being treated as an asset) but to reduce the best estimate lapse rate later in the policy's lifetime (when it is treated as a liability). The crossover point at which the margin changes direction is assessed for broad product groups but applied at a policy by policy level. Any liability to reinsurers on discontinuance within the first four years from inception is allowed for explicitly in the cash flows using the valuation lapse basis, together with a prudent allowance for claw back of commission from agents upon lapse.

From 2015, the Company has extended the application of the policy statement issued by the FSA in 2006 (PS06/14), allowing firms to recognise negative liabilities, to unit linked pension investment contracts. Appropriate prudential margins are applied to lapse assumptions to ensure that prudence is applied correctly. When liabilities are negative at the valuation date a high lapse rate is applied whilst the opposite is the case for positive liabilities.

A summary of the lapse basis for major classes of business is shown below. The lapse rates for unit-linked pension business represent the decrement from inforce to surrender. For 2015, the summary below shows the rates that apply to contracts with negative liabilities (which is most of this business). For these contracts the prudential margins applied increase the lapse rates, whereas the prudential margins in 2014 reduce the lapse rates because the liabilities were positive, prior to extending the implementation of PS06/14 in 2015.



**20 Long term insurance valuation assumptions (continued)**

2015 Average lapse rate for the policy years	1 - 5	6 - 10	11 - 15	16 - 20
	%	%	%	%
<b>Product</b>				
Pensions term Assurance	9.4	6.6	4.8	4.8
Individual pension regular premium (unit linked non-profit)	8	8	4.8	4.8
Individual pension single premium (unit linked non-profit)	12	13	5.5	5.3
Group pension regular premium (unit linked non-profit)	1.8	3.3	2.8	2.5
Group pension single premium (unit linked-non profit)	9.5	10.5	7	7
Trustee Investment Plan single premium (unit linked non-profit)	5.3	20	17.3	17.3
LGA reinsured business 10 year term	5.9	6.1	100.0	100.0
LGA reinsured business 15 year term	4.3	3.2	3.8	100.0
LGA reinsured business 20 and 30 year term	4.5	2.7	2.2	2.5
<b>2014 Average lapse rate for the policy years</b>	<b>1 - 5</b>	<b>6 - 10</b>	<b>11 - 15</b>	<b>16 - 20</b>
	%	%	%	%
<b>Product</b>				
Pensions term Assurance	10.7	7.6	5.7	5.6
Individual pension regular premium (unit linked non-profit)	3.2	3.2	1.9	1.9
Individual pension single premium (unit linked non-profit)	4.8	5.2	2.2	2.1
Group pension regular premium (unit linked non-profit)	0.7	1.3	1.1	1.0
Group pension single premium (unit linked-non profit)	3.8	4.2	2.8	2.8
Trustee Investment Plan single premium (unit linked non-profit)	2.1	8	6.9	6.9
LGA reinsured business 10 year term	6.3	5.1	100	100
LGA reinsured business 15 year term	4.7	3.3	3.2	100
LGA reinsured business 20 and 30 year term	5.4	3.1	2.1	2.4

**21 Borrowings****Analysis by type**

As at 31 December	2015 £m	2014 £m
Operational borrowings <sup>1</sup>	-	2
<b>Borrowings</b>	-	2
Settled within 12 months	-	2

<sup>1</sup> The fair value is not materially different from the carrying value.

**22 Payables and other financial liabilities**

	Notes	2015 £m	2014 £m
Derivative liabilities	14	-	2,555
Loan Notes <sup>1</sup>		1,459	-
Intercompany balances due <sup>1</sup>		-	4,353
Other		8	102
<b>Payables and other financial liabilities</b>		<b>1,467</b>	<b>7,010</b>
Settled within 12 months		74	316
Settled after 12 months		1,393	6,694

<sup>1</sup> See Note 30 (vi) Related Party Transactions

The Company issued various notes that were matching adjustment compliant (Rental Income Notes) and non matching adjustment compliant (Residual Value Notes). LGAS long term fund subscribed for the notes on 31 December 2015.

The notes are of various durations, in-line with the underlying property lease agreement. A Coupon is payable on the Rental Income Notes which is based on 98.75% of the underlying rent.

The Company (under a Liquidity and Expenses Risk Agreement) has the right to borrow an unlimited amount from LGAS. This right will remain in place until expiry of all Rental Income Notes issued by the Company.

**Fair value hierarchy**

	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
<b>As at 31 December 2015</b>					
Derivative liabilities	-	-	-	-	-
Loan Notes	1,459	-	982	477	-
Other	8	-	-	8	-
<b>Payables and other financial liabilities</b>	<b>1,467</b>	<b>-</b>	<b>982</b>	<b>485</b>	<b>-</b>
<b>As at 31 December 2014</b>					
Derivative liabilities	2,555	143	2,412	-	-
Intercompany balances due <sup>1</sup>	4,353	668	3,431	254	-
Other	102	2	-	-	100
<b>Payables and other financial liabilities</b>	<b>7,010</b>	<b>813</b>	<b>5,843</b>	<b>254</b>	<b>100</b>

There have been no significant transfers between levels.

<sup>1</sup> The comparative figures included funds withheld with respect to the LGRe reinsurance treaty which were commingled with the assets reported of the Company and represented approximately 10% of the total financial investments and investment property. The proportion by hierarchy level was approximated with reference to the underlying assets reported in Note 13 (ii). Further disclosure on significant transfers, measurement and effect on changes in significant unobservable inputs (level 3) to reasonable possible alternative assumptions has not been included as these can be reasonably assumed to be 10% of the total asset holdings reported in Note 13. Funds withheld with respect to the LGRe reinsurance treaty have been transferred to Legal & General Assurance Society Limited as part of the novation of the LGRe reinsurance treaty to that company with effect from 31 December 2015.

**23 Other liabilities**

	2015 £m	2014 £m
Accruals	15	18
Intercompany balances due <sup>1</sup>	-	16
<b>Other liabilities</b>	<b>15</b>	<b>34</b>
Settled within 12 months	15	18
Settled after 12 months	-	16

<sup>1</sup> See Note 30(vi) Related party transactions.

**24 Contingent liabilities, guarantees and indemnities**

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

The Company receives claims and becomes involved in actual or threatened litigation and regulatory issues from time to time. The Company ensures that it makes prudent provision as and when circumstances calling for such provision become clear, and that it has adequate capital and reserves to meet reasonably foreseeable eventualities. The provisions made are regularly reviewed. It is not possible to predict, with certainty, the extent and the timing of the financial impact of these claims, litigation or issues.

**25 Commitments**

<b>(i) Capital commitments</b>	2015 £m	2014 £m
Authorised and contracted commitments not provided for in respect of investment property development, payable after 31 December		
- Long term business	-	(117)
<b>(ii) Operating lease commitments</b>	2015 £m	2014 £m
The future aggregate minimum lease payment under non-cancellable operating leases are as follows:		
- Later than 5 years	(2)	(2)
Future aggregate minimum sublease payments to be received under operating subleases	3	3
The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:		
- Not later than 1 year	99	89
- Later than 1 year and not later than 5 years	412	359
- Later than 5 years	2,215	2,087

**26 Parent companies and fellow subsidiaries**

The immediate parent company of Legal & General Pensions Limited is Legal & General Assurance Society Limited, a company incorporated in England and Wales. The ultimate holding company for both of those entities is Legal & General Group Plc. The results of Legal & General Pensions Limited are included in the Legal & General Group Plc's consolidated financial statements and therefore the Company does not prepare consolidated financial statements. These accounts therefore provide information about Legal & General Pensions Limited as an individual undertaking. Copies of the accounts of the ultimate holding company, Legal & General Group Plc, are available, at the Registered Office, One Coleman Street, London, EC2R 5AA, on the group website at [www.legalandgeneralgroup.com](http://www.legalandgeneralgroup.com), or from the Company Secretary.

**27 Investment vehicles**

LGPL has the following significant holdings which have been included as investments designated as FVTPL.

Company name	Country of Incorporation	% equity shares held by society
Canary Property Unit Trust	Jersey	100
Old Cornwall Limited	England and Wales	100
Sapphire Campus Management Company	England and Wales	9.52

**28 Interests in structured entities**

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

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 a performance related incentive fee, and is reflected in the valuation of the investment vehicles.

At 31 December 2015 the Company's total interest in structured entities, reflected on the Company's balance sheet and classified as financial investments held at fair value through profit or loss, was £25m (2014: £11,447m). A summary of the Company's holdings at 31 December 2015, with prior year comparatives, is provided below:

	2015 £m	2014 £m
<b>Financial Investments</b>		
<b>Debt Securities</b>		
Analysed as:		
Asset Backed Securities - Traditional	-	719
Asset Backed Securities - Securitisations and Debentures	-	7,905
CDOs	-	1,119
<b>Investments Funds</b>		
Analysed as:		
Unit Trusts	25	338
Liquidity Funds	-	788
<b>Specialised Investment Vehicles</b>		
Analysed as:		
OEICs	-	7
SICAV's	-	235
QIF	-	336
<b>Total</b>	<b>25</b>	<b>11,447</b>

The Company's maximum exposure to loss to the interests presented above is the carrying amount of the Company's investments. Given the Company's limited exposure further information about the overall size of these entities has not been provided. The Company does not sponsor any of the above entities.

**29 Directors' emoluments**

	2015 £'000	2014 £'000
Short-term employee benefits	1,026	829
Social security costs	212	161
Post-employment benefits <sup>1</sup>	55	74
Other long-term benefits	-	51
Share-based incentive awards	487	269
<b>Aggregate emoluments</b>	<b>1,780</b>	<b>1,384</b>

<sup>1</sup>The post-employment benefits amount includes the defined benefit amount that has been calculated using the change in transfer value. This reflects the movement in gilt and corporate bonds yields, inflation and mortality assumptions within the defined benefit scheme.

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.

There are retirement benefits accruing to one director under a defined benefit pension scheme. Five directors (2014: four) are members of a defined contribution pension scheme.

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

No director exercised share options under the Group's share scheme in the year (2014: one directors).

Highest paid director:

	2015 £'000	2014 £'000
Short-term employee benefits	668	500
Other long term benefits	-	51
Post employment benefits	42	44

Defined benefit pension scheme of the highest paid director accrued at end of year is £nil (2014: £nil)

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.

No director received a significant amount of compensation for loss of office during the year. (2014: None)

Directors' loans

At 31 December 2015 there were no loans to directors (2014: 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 2015.

**30 Related party transactions****(i) Key management personnel**

The members of the board of directors are listed on page 4. Directors remuneration is discussed in detail in Note 29.

**(ii) Reinsurance**

Until 31 December 2015, the Company was acting as reinsurer to its parent entity, Legal & General Assurance Society Limited ('the Parent') - the Company accepted £3,605m (2014: £10,071m) of reinsurance premium for reinsuring non-participating insurance business, paid £465m in commission and acquisition costs (2014: £324m) and paid £3,227m (2014: £3,237m) in claims. On 31 December 2015, the Company undertook the recapture and termination of the existing reinsurance arrangements with the Parent and the novation to the Parent of the Company's outward reinsurance contracts. Following the recapture, a reinsurance liability of £Nil (2014: £44,789m) is held to cover this business. The reinsurance liabilities transferred to the Parent under the recapture were valued at £42,854m and the premium paid in consideration was £40,806m, giving rise to a profit of £2,048m in the Company.

During the year the Company operated a reinsurance treaty with Legal & General Reinsurance Company Limited, another Group company, ceding £173m of reinsurance premium for non-participating insurance business, recovering £0.5m in commission and recovering £214m in claims. The treaty was novated to the Parent as part of the recapture. Following the recapture, a reinsurance asset of £Nil (2014: £4,320m) was recognised with respect to this treaty. Also recognised is a liability of £Nil for funds withheld in respect of the treaty and an investment income of £43m in lieu of investment income arising on these funds. A reinsurance asset of £4,169m was transferred to the parent as part of the recapture.

**(iii) Investments in Group unit trusts and the Group liquidity fund**

The Company held £Nil (2014: £1,563m) of investments in unit trusts, controlled and managed by Group companies that classify as other related parties. In 2015, the Company incurred a charge of £85m (2014: £nil) in investment income from those trusts.

**(iv) Investments in Collateralised Debt Obligations**

The Company held £Nil (2014: £994m) in CDOs issued by Lagoon Finance Limited an entity controlled by Group and therefore is another related party to the Company.

**(v) Receivables**

	2015 £m	2014 £m
<b>As at 31 December</b>		
From immediate parent company	4,438	348
From property investment vehicles	31	130
From other related parties	-	21
<b>Total</b>	<b>4,469</b>	<b>499</b>

**(vi) Payables**

	2015 £m	2014 £m
<b>As at 31 December</b>		
To Legal & General Reinsurance Company Limited	-	4,353
To immediate parent company	1,459	16
To other related parties	-	-
<b>Total</b>	<b>1,459</b>	<b>4,369</b>

**(vii) Other income and charges**

	2015 £m	2014 £m
Interest (income)/charges (from)/to Legal & General Reinsurance Company Limited	(43)	373
Management charges due to other related party	67	55
Interest charges to immediate parent company	-	3
<b>Total charges</b>	<b>24</b>	<b>431</b>

**(viii) Dividends**

The Company paid £347m (2014: £240m) in dividend to its parent company, Legal & General Assurance Society Limited.

**31 Management of capital resources****Capital management policies and objectives**

The Company aims to manage its capital resources to maintain financial strength, policyholder security and the Group's relative external financial strength ratings advantage. The Company also seeks to maximise its financial flexibility by maintaining strong liquidity and by utilising a range of alternative sources of capital including equity and reinsurance.

**Capital measures**

The Company measures its capital on a number of different bases, including those which comply with the regulatory framework within which the Company operated until 31 December 2015, and those which the directors consider most appropriate for managing the business. The measures used by the Company include:

**Accounting bases**

Management use the primary financial statements prepared on an IFRS basis to manage capital and cash flow usage and to determine dividend paying capacity.

In addition, the directors believe that the supplementary accounts to the Legal & General Group Plc report and accounts, prepared using EEV principles, provide an alternative view of the Group's long term operations and the value of the business to shareholders. Accordingly, the Company's net asset value and total capital employed are also analysed and measured on this basis and form part of the EEV Group accounts.

**Regulatory bases**

The financial strength of the Company is measured by reference to its accounts prepared under IFRS.

Legal & General Pensions Limited was an insurance special purpose vehicle until 31 December 2015 falling under the PRA ISPV regime. This regime requires for ISPV's to be fully funded. To be fully funded, an ISPV must:

- have received the proceeds of issuing debt or other method by which it is financed;
- in each contract of reinsurance, include terms which ensure that its aggregate maximum liability (i.e. its exposure) under its contracts of reinsurance does not exceed the amount of its assets at any time;
- ensure that under terms of any debt it issues or other financing arrangement used to fund its reinsurance liabilities the rights of providers of that debt or other financing are fully subordinated to the claims of creditors under its contracts of reinsurance; and
- only enter into contracts or otherwise assume obligations which are necessary for it to give effect to the reinsurance special purpose for which it has been established.

Legal & General Pensions Limited satisfied the above requirements in the reporting period covered by the present financial statements.

**Capital resources**

The financial strength of the Company is measured by reference to its accounts prepared under IFRS due to its status as an ISPV. The Company's total capital resources of £3,799m (2014: £1,261m) comprise ordinary equity holders capital of £300m (2014: £300m) and £3,499m (2014: £961m) in respect of retained earnings.

**Available regulatory capital resource risks**

The Company's available capital resources are sensitive to changes in market conditions, due to both changes in the value of the assets and to the effect that changes in investment conditions may have on the value of the liabilities. Capital resources are also sensitive to assumptions and experience relating to mortality and morbidity and, to a lesser extent, expenses and persistency.

The most significant sensitivities arise from the following two risks:

- Market risk in relation to the UK annuity business, which would crystallise if the return from the fixed interest investments supporting this business were lower than that assumed for reserving.
- Mortality risk in relation to the UK annuity business, which would crystallise if the mortality of annuitants improved more rapidly than the assumptions used for reserving.

**32 Assets analysis**

The Company has categorised its assets and liabilities in the following disclosure in accordance with the level of shareholder exposure to market and credit risks. The two categorisations presented are:

**Non profit non-unit linked**

Shareholders are exposed to the risk and rewards of ownership of assets backing non profit non-unit linked business.

**Shareholder**

All other assets are classified as shareholder assets. Shareholders of the Company are directly exposed to market and credit risk on these assets.

The table below presents an analysis of the balance sheet by category. All of the quantitative risk disclosures in Note 33 (Risk management and control) have been provided using this categorisation.

	Shareholder £m	Non profit non-unit linked £m	Total £m
<b>As at 31 December 2015</b>			
<b>Assets</b>			
Investments	-	1,404	1,404
Other operational assets	2,463	2,062	4,525
<b>Total assets</b>	<b>2,463</b>	<b>3,466</b>	<b>5,929</b>
<b>Liabilities</b>			
Non-participating contract liabilities	-	-	-
Senior borrowings	-	-	-
Other liabilities	-	2,130	2,130
<b>Total liabilities</b>	<b>-</b>	<b>2,130</b>	<b>2,130</b>
<b>As at 31 December 2014</b>			
<b>Assets</b>			
Investments	774	47,081	47,855
Other operational assets	97	5,144	5,241
<b>Total assets</b>	<b>871</b>	<b>52,225</b>	<b>53,096</b>
<b>Liabilities</b>			
Non-participating contract liabilities	-	44,789	44,789
Borrowings	-	2	2
Other liabilities	1	7,043	7,044
<b>Total liabilities</b>	<b>1</b>	<b>51,834</b>	<b>51,835</b>



**33 Risk management and control**

As set out at note 11, the company ceased to operate as a provider of reinsurance to Legal & General Assurance Society Limited ('the Parent') on 31 December 2015. This section therefore describes both the Company's approach to risk management deployed during the year, and changes in the framework going forward.

**Risk management objectives**

The Company's primary objective in undertaking risk management activity prior to the recapture, and going forward in terms of its management of investment properties, is to manage risk exposures in line with risk appetite, minimising its exposure to unexpected financial loss and limiting the potential for deviation from anticipated outcomes. In this respect, a framework of limits and qualitative statements are in place for material exposures.

**Risk management approach**

Prior to the recapture, the Company was exposed to insurance, market, credit, liquidity and operational risks. Going forward, whilst operating as an Investment Special Purpose Vehicle, the Company will primarily be exposed to market, credit, and operational risks. Insurance risk will not be retained by the Company post recapture. As part of the Legal & General Group, the Company operated, and continues to operate, a formal risk management framework to ensure that all significant risks are identified and managed. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties that were prevalent during the reporting period and henceforth.

**Insurance risk:** exposure to loss arising from claims experience being different to that anticipated. The Company is no longer exposed to insurance risk post recapture.

**Market risk:** exposure to loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets. The Company continues to be exposed to market risk post recapture but to a lesser degree, as outlined below.

**Credit risk:** exposure to loss if another party fails to perform its financial obligations to the Company. The company continues to be exposed to credit risk post recapture, but the extent of its exposure is significantly reduced, as outlined in the sections that follow.

**Liquidity risk:** the risk that the Company, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. The Company continues to be exposed to liquidity risk but to a lesser degree, as detailed below.

**Operational risk:** exposure to loss arising from inadequate or failed internal processes, people, systems, or from external events. Post recapture the Company will continue to be exposed to operational risk. In particular, as at the balance sheet date, the Company was exposed to transition risk, following the recapture, which manifested itself in terms of the operation of administrative and accounting processes, plus controls, being sufficient to ensure that the transfer of the associated assets and liabilities was complete and accurate.

Overall responsibility for the management of the Company's exposure to risk is vested in the Board.

**Management of risks**

The Company seeks to manage its exposure to risk through control techniques, which ensure that the residual risk exposures are within acceptable tolerances agreed by the Board. The key control techniques for the major categories of risk exposure are summarised further in this note.

**Asset analysis**

The Company has categorised its assets and liabilities in the following disclosure in accordance with the level of shareholder exposure for market and credit risks. The two categorisations presented are:

**Shareholder assets**

Shareholders of the Company are directly exposed to market and credit risk on these assets.

**Non profit non-unit linked assets**

These are assets backing the insurance business that were prevalent pre-recapture. Shareholders were exposed to the risk and rewards attributable to those assets.

**Insurance risk**

Insurance risk was implicit in the Company's insurance business up to the point of recapture. It arose as a consequence of the type and volume of business written and the concentration of risk in particular policies or groups of policies subject to the same risks. Insurance risk was primarily managed through pricing business accepted based on an assessment of potential risk factors, such as mortality having regard to past experiences and assessments of future trends. External reinsurance was also used by the company to limit exposures to insurance risks. The Legal & General Group insurance risk policy sets out the overall framework for the management of insurance risk by the company.

**Market risk**

The Company's exposure to market risk is influenced by one or more external factors, including changes in specified interest rates, financial instrument prices, foreign exchange rates, and indices of prices or rates.

Significant areas where the Company was and continues to be exposed to these risks are:

- assets backing insurance contracts (up to the point of recapture);
- assets and liabilities denominated in foreign currencies; and
- other financial assets and liabilities.

Legal & General Group Plc's market risk policy sets out the overall framework for the management of market risk. The policy is reinforced by more granular investment policies for long term and other business, which have due regard to the nature of liabilities and guarantees and other embedded options given to policyholders.

### 33 Risk management and control (continued)

The Company deploys a number of techniques to manage market risks:-

#### Asset liability matching

Prior to the recapture, the Company managed its insurance related assets and liabilities in accordance with relevant regulatory requirements, reflecting the differing types of liabilities it had in each business.

For business such as immediate annuities, which were sensitive to interest rate risk, analysis of the liabilities was undertaken to create a portfolio of securities, the value of which changed in line with the value of liabilities when interest rates changed. This type of analysis helped protect profits from changing interest rates. However, interest rate risk could not be completely eliminated, due to the nature of the liabilities and early redemption options contained in the assets.

The Company also held a range of asset types to meet its insurance related liabilities and used stochastic models to assess the impact of a range of future return scenarios on investment values and associated liabilities. This allowed the Company to devise an investment strategy which optimised returns to its policyholders over time whilst limiting the capital requirements associated with this business.

#### Derivatives

During the period the Company used derivatives to reduce market risk. The most widely used derivatives were exchange-traded equity futures and swaps. The Company used futures to facilitate efficient asset allocation. In addition, derivatives were used to improve asset liability matching and to manage interest rate, foreign exchange and inflation risks. It is the Company's policy that amounts at risk through derivative transactions are covered by cash or corresponding assets and that swaps are collateralised as appropriate to reduce counterparty risk. Going forward, the company does not anticipate to have a material requirement for the use of derivatives.

#### Interest rate risk

Interest rate risk is the risk that the Company is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates.

The Company was exposed to interest rate risk on the investment portfolio it maintained, up to the point of recapture, to meet the obligations and commitments under its non-linked insurance contracts, in that the proceeds from the assets may not be sufficient to meet the Company's obligations to policyholders.

During the year, to mitigate the risk that guarantees and commitments were not met, the Company purchased financial instruments, which broadly matched the expected non-participating policy benefits payable, by their nature and term. The composition of the investment portfolio was governed by the nature of the insurance or savings liabilities, the expected rate of return applicable on each class of asset and the capital available to meet the price fluctuations for each asset class, relative to the liabilities they support.

Asset liability matching significantly reduced the Company's exposure to interest rate risk. As at the balance sheet date (post recapture) there was no sensitivity to interest changes.

#### Inflation risk

Inflation risk is the potential for loss as a result of relative or absolute changes in inflation rates. Prior to the recapture, the Company was exposed to inflation risk in respect of certain non-linked contracts, such as annuities, that may provide for future benefits to be paid taking account of changes in the level of inflation. Contracts in payment may also have included an annual adjustment for movements in prices indices, subject to an annual cap. The Company sought to manage the risk of movements in price indices through an appropriate investment strategy including the use of inflation swaps. Going forward, the Company will not have direct exposure to inflation risk.

#### Currency risk

The Company was potentially exposed to loss as a result of fluctuations in the value of, or income from, assets denominated in foreign currencies. The Company managed its currency risk exposure in respect of long term business assets and liabilities denominated in non-sterling currencies by backing obligations with investments in the same currency and through hedging using derivatives. Post recapture, all assets are denominated in functional currency (i.e. sterling) and as such, the Company is not exposed to currency risk.

As described further down in this note, the Company was not directly exposed to risks on unit linked contracts. Detailed risk disclosures have not been presented for unit linked assets and liabilities.

**33 Risk management and control (continued)**

Table 1 summarises the Company's net exposure to foreign currency exchange risk, in sterling.

**Table 1 - Currency risk****As at 31 December 2015**

	Euro £m	US Dollar £m	Other £m	Functional Currency £m	Carrying value £m
<b>Shareholder</b>					
<b>Assets</b>					
Investments	-	-	-	-	-
Other operational assets	-	-	-	2,463	2,463
<b>Total assets</b>	-	-	-	2,463	2,463
<b>Liabilities</b>					
Other liabilities	-	-	-	-	-
<b>Total liabilities</b>	-	-	-	-	-

**Non profit non-unit linked**

<b>Assets</b>					
Investments	-	-	-	1,404	1,404
Other operational assets	-	-	-	2,062	2,062
<b>Total assets</b>	-	-	-	3,466	3,466
<b>Liabilities</b>					
Non-participating contract liabilities	-	-	-	-	-
Borrowings	-	-	-	-	-
Payables and financial liabilities	-	-	-	1,459	1,459
Other liabilities	-	-	-	671	671
<b>Total liabilities</b>	-	-	-	2,130	2,130

**As at 31 December 2014**

	Euro £m	US Dollar £m	Other £m	Functional Currency £m	Carrying value £m
<b>Shareholder</b>					
<b>Assets</b>					
Investments	-	85	-	689	774
Other operational assets	-	-	-	97	97
<b>Total assets</b>	-	85	-	786	871
<b>Liabilities</b>					
Other liabilities	-	309	-	(308)	1
<b>Total liabilities</b>	-	309	-	(308)	1

**Non profit non-unit linked**

<b>Assets</b>					
Investments	712	11,265	41	35,063	47,081
Other operational assets	-	378	-	4,765	5,144
<b>Total assets</b>	712	11,643	41	39,828	52,225
<b>Liabilities</b>					
Non-participating contract liabilities	471	443	-	43,875	44,789
Borrowings	2	-	-	-	2
Payables and financial liabilities	-	-	-	-	-
Other liabilities	205	10,956	-	(4,118)	7,043
<b>Total liabilities</b>	678	11,399	-	39,757	51,834

**33 Risk management and control (continued)**

Prior to the recapture, the Company's management of currency risk reduced shareholders' exposure to exchange rate fluctuations. The Company's exposure to a 10% exchange movement in the US Dollar and Euro on an IFRS basis, net of hedging activities, is detailed in Table 2.

**Table 2 – Currency sensitivity analysis**

Currency sensitivity test	Euro 2015 £m	US 2015 £m	Euro 2014 £m	US 2014 £m
10% appreciation impact on profit post tax / equity	-	-	3	2

**Other price risk**

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. These changes may be as a result of features of the individual instrument, its issuer, or factors affecting all similar financial instruments traded in the market.

Up to the point of recapture, the Company controlled its exposure to geographic price risks by using internal country credit ratings. These ratings were based on macroeconomic data and key qualitative indicators. The latter take into account economic, social and political environments. Table 3 indicates the Company's exposure to different equity markets around the world. Unit linked equity investments are excluded from the table as the risk was retained by the policyholder. Going forward, the Company will not hold financial instruments.

**Table 3 - Exposure to worldwide equity markets**

	Shareholder 2015 £m	Non profit non-unit linked 2015 £m	Total 2015 £m	Shareholder 2014 £m	Non profit non-unit linked 2014 £m	Total 2014 £m
UK	-	-	-	-	188	188
North America	-	-	-	-	16	16
Europe	-	-	-	-	68	68
Asia Pacific	-	-	-	-	7	7
Other	-	-	-	-	-	-
<b>Listed equities</b>	-	-	-	-	279	279
Unlisted UK equities	-	-	-	-	549	549
Holdings in unit trusts	-	-	-	774	929	1,703
<b>Total equities</b>	-	-	-	774	1,757	2,531

The Company holds non-unit linked property investments amounting to £1,367m (2014: £1,172m all located in the UK).

**Credit risk**

Legal & General Group Plc's credit risk policy defines the overall framework for the management of credit risk. Up to the point of recapture, credit risk exposures primarily arose in relation to corporate bonds held to back part of its insurance liabilities. Significant exposures were managed by the application and regular review of concentration limits, with allowance being made in the actuarial valuation of the insurance liabilities for possible defaults.

The credit profile of the Company's assets exposed to credit risk is shown in Table 4. The credit rating bands are provided by independent rating agencies. For unrated assets, the Company maintains internal ratings which are used to manage exposure to these counterparties.

The carrying amount of non-unit linked assets included in the balance sheet represents the maximum credit exposure. No impairment provisions have been made.

During the reporting period, and going forward, the Company also held property lending and sale & leaseback investments. The Company is inherently exposed to the risk of default by a borrower or tenant. Each property lending and sale & leaseback investment transaction is subject to a due diligence process to assess the credit risks implicit in the transaction and confirm that the risk of default has been appropriately mitigated. The Company protects its interests through taking security over the underlying property associated with the investment transaction.

The Company also had credit risk exposure to LGRe, prior to the recapture, resulting from the reinsurance agreement between the companies. The Company mitigated this risk through contractual terms that allowed for withholding premiums and settlements payable to LGRe. Further details of the transactions between the companies during the year and the balances at the end of the year can be found in note 30. For extra Group reinsurance arrangements the Company operated a credit rating policy when arranging cover, considering only companies which had a minimum credit rating equivalent to A- from Standard & Poor's. Exposure limits for reinsurers are determined based on credit ratings and projected exposure. Aggregate counterparty exposures were monitored at Company level.

## 33 Risk management and control (continued)

Table 4 - Exposure to credit risk

As at 31 December 2015 Shareholder	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated other £m	Total £m
Other assets	16	-	-	-	-	-	2,463	2,463
		-	-	-	-	-	2,463	2,463
<b>Non profit non-unit linked</b>								
Government securities		-	-	-	-	-	-	-
Other fixed rate securities		-	-	-	-	-	-	-
Variable rate securities <sup>1</sup>		-	-	-	-	-	-	-
<b>Total debt securities</b>	13ii	-	-	-	-	-	-	-
Accrued interest	13ii	-	-	-	-	-	-	-
Loans and receivables	13ii	-	-	-	-	-	-	-
Derivative assets	14	-	-	-	-	-	-	-
Cash and cash equivalents	17	-	-	-	12	-	-	12
<b>Financial assets</b>		-	-	-	12	-	-	12
Reinsurers' share of contract liabilities		-	-	-	-	-	-	-
Other assets	16	-	-	-	-	-	2,062	2,062
		-	-	-	12	-	2,062	2,074
<b>As at 31 December 2014 Shareholder</b>								
	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated other £m	Total £m
Other assets	16	-	-	-	-	-	39	39
		-	-	-	-	-	39	39
<b>Non profit non-unit linked</b>								
Government securities		181	4,900	-	235	-	-	5,316
Other fixed rate securities		1,228	3,514	10,947	9,163	612	2,189	27,653
Variable rate securities <sup>1</sup>		479	1,448	2,073	741	-	2,016	6,757
<b>Total debt securities</b>	13ii	1,888	9,862	13,020	10,139	612	4,205	39,726
Accrued interest	13ii	24	78	177	168	11	13	471
Derivative assets	14	-	357	2,760	644	-	-	3,761
Cash and cash equivalents	17	10	3	131	-	-	50	194
<b>Financial assets</b>		1,922	10,300	16,088	10,951	623	4,268	44,152
Reinsurers' share of contract liabilities		-	4,408	-	-	-	-	4,408
Other assets	16	-	2	38	2	-	628	670
		1,922	14,710	16,126	10,953	623	4,896	49,230

1. Unrated variable rate securities includes £994m of bespoke CDO's.

**33 Risk management and control (continued)**

Table 5 provides information regarding the ageing analysis of financial assets which are past due but not impaired. Unit linked assets have not been included, as shareholders are not exposed to the risks from unit linked policies. There are no impaired financial assets in 2015 or 2014.

**Table 5 - Ageing of financial assets that are past due but not impaired**

As at 31 December 2015 Shareholder	Notes	Neither past due nor impaired £m	0-3 Months £m	3-6 Months £m	Carrying value £m
<b>Financial assets</b>		-	-	-	-
Other assets	16	2,463	-	-	2,463
		2,463	-	-	2,463
<b>Non profit non-unit linked</b>					
Government securities		-	-	-	-
Other fixed rate securities		-	-	-	-
Variable rate securities		-	-	-	-
<b>Total debt securities</b>	13ii	-	-	-	-
Accrued interest	13ii	-	-	-	-
Derivative assets	14	-	-	-	-
Cash equivalents	17	-	-	-	-
<b>Financial assets</b>		-	-	-	-
Reinsurers' share of contract liabilities		-	-	-	-
Other assets	16	2,053	8	1	2,062
		2,053	8	1	2,062
<b>As at 31 December 2014 Shareholder</b>					
<b>Financial assets</b>		-	-	-	-
Other assets	16	39	-	-	39
		39	-	-	39
<b>Non profit non-linked</b>					
Government securities		5,316	-	-	5,316
Other fixed rate securities		27,652	-	-	27,652
Variable rate securities		6,758	-	-	6,758
<b>Total debt securities</b>		39,726	-	-	39,726
Accrued interest		471	-	-	471
Derivative assets		3,761	-	-	3,761
Cash equivalents		10	-	-	10
<b>Financial assets</b>		43,968	-	-	43,968
Reinsurers' share of contract liabilities		4,408	-	-	4,408
Other assets		670	-	-	670
		49,046	-	-	49,046

**33 Risk management and control (continued)****Liquidity risk**

Liquidity risk is the risk that the Company, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due or can secure them only at excessive cost. Legal & General Group Plc's liquidity risk policy defines the overall framework for the management of liquidity risk. The Company does not seek exposure to liquidity risk in its own right, but recognises that exposure to liquidity risk can arise as a consequence of the markets in which it operates, the products that it writes and through the execution of investment management strategies.

Prior to the recapture, the Company may have been exposed to liquidity risks that arose from its insurance business, primarily stemming from low probability events that if not adequately planned for, may have resulted in unanticipated liquidity requirements. Collateral requirements for derivative/futures transactions and other types of financial instruments may also have given rise to liquidity risk if sufficient cash or suitable alternative assets were not available to meet collateral calls when due. As previously mentioned, going forward, it is expected that the Company will not use derivatives/futures to the extent it did prior to recapture.

A limited level of contingent liquidity risk was an accepted element of writing contracts of insurance. However, prior to the recapture, the Company's insurance business sought to maintain sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may have arisen from contingent events. The level of required liquidity to be maintained by insurance funds was identified using techniques, including cash flow analysis for ranges of extreme scenarios and stress tests for shock events.

To ensure an appropriate pool of liquid assets were maintained in line with a prudent estimate of cash outflows, the profile of investment assets held to meet future liabilities from writing insurance business, prior to the recapture, were structured to include an appropriate proportion of cash and other readily realisable assets. The required profile was formally defined as part of asset benchmarks provided to the investment managers, with regular management information provided by the investment manager on the actual holding relative to the fund benchmark.

Going forward, exposure to liquidity risk would arise if a default event, by a property lending counterparty, resulted in reduced income flows to the company pending the property either being re-let or disposed of. The risk is managed through careful selection and on-going monitoring of property lending counterparties.

Specific liquidity risks associated with the Company's core product lines and the risk mitigation techniques, prior to the recapture, were as follows:

Annuities: There was potential for liquidity risk to arise within two specific aspects of the Company's annuity business (i) changes in future pension commitments and (ii) collateral requirements risk hedging strategies.

(i) Changes in future pension commitments - Once business had been written, cash outflows for pensions in payment were generally predictable, enabling the Company to structure the liquidity, income and maturity profile of investment assets backing long term liabilities to meet projected cash outflows. Although variations in longevity can alter the duration of outflows over the long term, trends are gradual, providing opportunity to respond with appropriate risk mitigation strategies.

(ii) Collateral requirements for risk hedging strategies - As part of the investment asset management strategy for the Company's annuity business, financial instruments were utilised to manage exposure to fluctuations in interest rates, inflation and foreign currency, which may otherwise have resulted in long term liabilities being unmatched. Financial instruments were also used to mitigate the impact of rating downgrades and defaults within corporate bond portfolios. The use of such financial instruments required the posting of liquid collateral with counterparties, and as such an appropriate pool of the asset types specified by counterparties must have been held or readily available. Post recapture, collateral was not required to be pledged out in respect of reinsurance agreements between the Company and other parties, as all insurance liabilities and corresponding reinsurance arrangements were transferred across to LGAS.

Pre recapture and going forward, the ultimate holding company, Legal & General Group Plc's treasury function manages the Company's banking relationships, capital raising activities, overall cash and liquidity position and the payment of dividends. Legal & General Group Plc seeks to manage its corporate funds and liquidity requirements on a pooled basis and to ensure the Group maintains sufficient liquid assets and standby facilities to meet a prudent estimate of its net cash outflows. In addition, it ensures that, even under adverse conditions, the Group has had access to the funds necessary to cover surrenders, withdrawals and maturing liabilities.

**33 Risk management and control (continued)****Sensitivity analysis**

Table 6 shows the impact on pre-tax profit and equity, net of reinsurance, under each sensitivity scenario for the non-participating business written in the non profit part of the long term fund.

A long term business IFRS sensitivity analysis has not been performed this year on the basis that, post recapture, the Company's market risk has significantly reduced, as its insurance liabilities, and the assets backing those liabilities have been transferred across to the Parent. The assets retained by the Company are primarily sale and leaseback assets. Whilst the sensitivities listed below could have an impact on the Company's results, there would be an almost equal and opposite movement in the liability arising under the Notes, which mitigates the risks below. The risks relating to the sale and leaseback properties have been disclosed in the accounts of the parent. Further information relating to these assets and the associated risks can be found above.

**Table 6 - long term business IFRS sensitivity analysis**

	Impact on pre- tax profit net of reinsurance 2014 £m	Impact on equity net of reinsurance 2014 £m
<b>Sensitivity test</b>		
1% increase in interest rates	241	189
1% decrease in interest rates	(355)	(278)
Credit spread widens by 100 bps with no change in expected defaults	(103)	(81)
1% increase in inflation	(192)	(151)
10% fall in property	(83)	(65)
Ann: +10bps in credit default assp	(377)	(296)
Ann: -10bps in credit default assp	351	275
1% decrease in annuitant mortality (2013:1%)	(173)	(136)
Default of largest external reinsurer	(34)	(26)
5% increase in assurance mortality	(211)	(165)

- The sections that follow explain the assumptions used in performing the 2014 analysis.
- In calculating the 2014 alternative values, all other assumptions have been left unchanged. In practice, items of the Company's experience may be correlated.
- Up to the point of recapture, the Company actively sought to manage its asset and liability position. A change in market conditions may have led to changes in the asset allocation or charging structure which may have a more, or less, significant impact on the value of the liabilities. The 2014 analysis ignores any second order effects of the assumption change, including the potential impact on the Company's asset and liability position and any second order tax effects.
- The sensitivity of the profit to changes in assumptions may not be linear. They should not be extrapolated to changes of a much larger order.
- The change in interest rate test assumes a 100 basis point change in the gross redemption yield on fixed interest securities together with a 100 basis point change in the real yields on variable securities. Valuation interest rates are assumed to move in line with market yields adjusted to allow for the impact of PRA regulations.
- In the sensitivity for credit spreads corporate bond yields have increased by 100bps, gilt and approved security yields unchanged, and there has been no adjustment to the default assumptions.
- The inflation stress adopted is a 1% pa increase in inflation resulting in a 1% pa reduction in real yield and no change to the nominal yield. In addition the expense inflation rate is increased by 1% pa.
- The reinsurer stress shown is equal to the technical provisions ceded to that insurer.
- The property stress adopted is a 10% fall in property market values. Rental income is assumed to be unchanged. Where property is being used to back liabilities, valuation interest rates move with property yields, and so the value of the liabilities also moves.
- Credit default assumption is set based on the credit rating of individual bonds and their outstanding term using Moody's global credit default rates. The credit default stress assumes a +/-10bps stress to current unapproved credit default assumption which will have an impact on the valuation interest rates used to discount liabilities. Other credit default allowances are unchanged.
- The annuitant mortality stress is a 1% reduction in the mortality rates for immediate and deferred annuitants with no change to the mortality improvement rates.
- Default of largest reinsurer: The largest reinsurer was deducted at an entity level by mathematical reserves ceded.
- The largest external reinsurer is RGA. The increase in reserves is consistent with the reinsured reserves.
- The assurance mortality stress is a 5% increase in the mortality and morbidity rates with no change to the mortality and morbidity improvement rates.