DECLARATION 2014 – WITH PROFITS

2014 BONUS FACTSHEET.

Incorporating the Principles and Practices of Financial Management (PPFM) Data Annex for the 19 February 2015 bonus declaration.

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Legal & General

This document contains data regarding the With Profits Sub Fund and the facts and figures for the bonus declaration on 19 February 2015.

INVESTMENT MARKETS – A REVIEW OF THE LAST YEAR.

The following review of how the financial markets performed in 2014 has been provided to us by our investment manager, Legal & General Investment Management (LGIM). It covers the period 1 January to 31 December 2014 and does not reflect changes in market conditions since this date.

OVERVIEW

Three main themes have dominated sentiment over 2014; diverging central bank policy, falling oil prices and geopolitical events. As the US economy rebounded strongly from the weather-related GDP lull in the first quarter and the UK economy saw a marked turnaround, both countries signalled a shift towards a gradual tightening of monetary policy. In contrast, the euro zone struggled and pressure mounted on the European Central Bank to implement additional stimulus and Japan announced a surprise extension to its asset purchase programme. Lower oil prices pulled down inflation expectations in most oil-importing countries. Against this background, equities, government and corporate bonds, and property markets all recorded positive returns over the year.

UK SHARES

The UK stock market, as represented by the FTSE All-Share Index, ended 2014 with gains of 1.18%. The equity market struggled to make headway weighed down by the mining and oil and gas sectors, both of which lost ground as commodity markets were weak. Pharmaceuticals have been amongst the best performing sectors, as merger and acquisition activity has underpinned gains.

The more domestic orientated FTSE 250 outperformed the FTSE 100 over the year, marking the third successive year that the mid-cap index has posted higher returns than large-cap stocks. In the consumer sectors, retailers performed well as Marks & Spencer raised its dividend and upgraded its full-year profit forecast, while Home Retail – the owner of Argos and Homebase – benefited from improved demand for consumer electronics. In contrast, energy stocks were the weakest area of the market as the oil price fell below $60/barrel after OPEC refrained from cutting output. Mining stocks also fell sharply as commodity markets weakened further.

OVERSEAS SHARES

Returns from European markets were disappointing, as growing concerns that the euro zone is heading for a prolonged period of anaemic economic activity affected share prices and weakened the euro. Although the European Central Bank (ECB) sanctioned a further cut in interest rates, pressure mounted on the ECB to implement additional monetary policy action in the form of large-scale quantitative easing (asset purchases) to avert the threat of deflation, as the consumer price index significantly undershot its official 2% target.

Adding to European woes at the end of the year was the announcement of early elections in Greece, raising concerns that the populist anti-austerity Syriza party would gain power and seek to renegotiate the country's international bailout. This unsettled investors and Greece was the weakest market in Europe in the final quarter of the year. At the sector level, energy stocks were weakest as the oil price fell further while utilities, healthcare providers and financials also declined. Amongst financials, banking stocks in southern European markets came under selling pressure towards year end as the forthcoming elections in Greece raised concerns that political uncertainty risks reigniting the sovereign debt crisis.

After severe winter weather triggered a contraction in activity during the first quarter, the US economy rebounded strongly and grew at the fastest pace in 11 years during the third quarter. The Federal Reserve ended its quantitative easing programme in October. The US outperformed other major equity markets by a substantial margin in sterling terms over the last 12 months, with the dollar reaching a four-year peak against a basket of currencies, enhancing returns for UK-based investors.

Although US equities delivered strong returns in 2014, there was a wide dispersion in sector returns, especially as the oil price tumbled in the second half of the year. Consumer stocks, healthcare and financials performed well while oil and gas lost ground. Indeed, the recent shale boom in the US looks at serious risk as the oil price lost nearly 50% of its value from June to December.

The Bank of Japan announced an extension to its asset purchase programme in October, in a further attempt to revive economic activity. In local currency terms, the Japanese market recorded double-digit percentage gains as investors reacted favourably to a series of policy initiatives although these returns were virtually wiped out for UK-based investors as the yen declined to a seven-year low.

Asian equities produced positive returns in 2014 but trailed other developed markets as the slowdown in China, geopolitical conflict, and the prospect of higher US interest rates, unsettled investors. In China, the crackdown on shadow banking and speculative investment in the real estate market led to a slowdown. However, oil importers benefited from the lower prices in the second half of the year.

FIXED INTEREST SECURITIES

Over the last year, higher rated government bonds such as US treasuries, UK gilts and German bunds were underpinned by demand from risk-averse investors, particularly as conflict escalated in the Middle East and the Ukraine. Bond markets were also driven by a sharp fall in the oil price and weak commodity markets. This pushed down inflation in the major economies and convinced investors that interest rates will remain lower for longer. Previously distressed `peripheral' European sovereign bond markets rallied strongly.

Corporate bonds also gained ground. With interest rates likely to remain lower for longer in the developed economies, investors continued to search for securities that carry a higher yield than government bonds. Although emerging bond markets were more volatile, reflected in the pronounced weakness of several local currencies, the appeal of higher yields and potential for higher total returns attracted international investors into this asset class.

COMMERCIAL PROPERTY

Commercial property recorded a fifth successive year of strong performance driven by both cyclical and structural factors. Cyclically, demand for commercial property was fuelled by investors purchasing at depressed prices following the financial crisis and attractive yields in comparison with bond markets. Structurally, commercial property benefited from increased recognition amongst institutional investors that it offers diversification of risk for both pension funds and sovereign wealth funds. Although London continues to drive the performance of the UK market, investors are increasingly looking for investment opportunities in other cities such as Birmingham and Cambridge.

WITH PROFITS FUND ASSET MIX.

At the end of each of the last five years, the asset mixes for all with profits policies that could receive bonuses were:

	2010	2011	2012	2013	2014
UK shares	25%	21%	17%	21%	17%
Overseas shares	16%	19%	25%	27%	26%
Fixed interest securities	43%	45%	45%	40%	44%
Commercial property	16%	15%	13%	12%	13%

The proportions of each type of asset we hold vary for groups of products.
The next section shows the different asset mixes for different product groups.

ASSET MIXES BY PRODUCT GROUP.

The following tables show the overall asset mixes for each product group at the end of 2014. Please note, the figures shown in brackets are the asset mixes at the end of 2013.

LIFE POLICIES

PRODUCT	ASSET MIX			
	UK shares	Overseas shares	Fixed interest securities	Commercial property
CAPITAL CONTROL BONDS				
Capital Control Growth Bond (investments between March 2010 and March 2012)	18% (16%)	26% (30%)	42% (41%)	14% (13%)
Capital Control Income Bond (investments between March 2010 and March 2012)	16% (15%)	24% (26%)	47% (46%)	13% (13%)
CAPITAL PROTECTION AND CAPITAL PROTECTION PLUS BONDS				
Capital Protection Growth Bond (investments between May and December 2008)	19% (23%)	29% (29%)	37% (36%)	15% (12%)
Capital Protection Income Bond (investments between May and December 2008)	16% (19%)	24% (25%)	47% (46%)	13% (10%)
Capital Protection Growth Bond (investments between January 2009 and June 2010)	18% (16%)	26% (30%)	42% (41%)	14% (13%)
Capital Protection Income Bond (investments between January 2009 and June 2010)	16% (15%)	24% (26%)	47% (46%)	13% (13%)
Capital Protection Plus Growth Bond (investments between November 2008 and December 2009)	18% (16%)	26% (30%)	42% (41%)	14% (13%)
Capital Protection Plus Income Bond (investments between November 2008 and December 2009)	16% (15%)	24% (26%)	47% (46%)	13% (13%)
Capital Protection Plus Growth Bond – Generation 2 (investments between December 2009 and June 2010)	13% (16%)	19% (19%)	58% (57%)	10% (8%)
Capital Protection Plus Income Bond – Generation 2 (investments between December 2009 and June 2010)	11% (14%)	17% (17%)	63% (62%)	9% (7%)

LIFE POLICIES (CONTINUED)

PRODUCT	ASSET MIX: UK shares	Overseas shares	Fixed interest securities	Commercial property
OTHER WITH PROFITS BONDS				
Growth and Income Bonds with a tenth anniversary guarantee (investments between October 2003 and September 2005)*	18% (21%)	27% (27%)	41% (41%)	14% (11%)
• Other Income Bonds (investments between April 2002 and December 2014) • Investment Bonds (July 1997 and later investments, and switched into with profits in 2003 or later)	16% (19%)	24% (25%)	47% (46%)	13% (10%)
• All other With Profits Growth Bonds (investments between August 1999 and December 2014)	19% (23%)	29% (29%)	37% (36%)	15% (12%)
• With Profits Income Bonds (March 2002 and earlier investments)	18% (23%)	26% (29%)	42% (36%)	14% (12%)
ENDOWMENTS AND SAVINGS PLANS				
Unitised life policies including: • Capital Investment Portfolio • Flexible Investment Plan • Flexible Mortgage Plan • Flexible Protection Plan • Unit Savings (Prospects and New Savings Plan)	19% (23%)	29% (29%)	37% (36%)	15% (12%)
Conventional life policies including: • Build Up • Cashbuilder • Endowment • Low Start Build Up • Progressive Build Up Plus • Progressive Flexible Build Up • Progressive Investment • Treasure Chest • Whole of Life Plan	19% (23%)	29% (29%)	37% (36%)	15% (12%)

PENSION POLICIES

PRODUCT	ASSET MIX			
	UK shares	Overseas shares	Fixed interest securities	Commercial property
Adaptable Pension Plan with contractual annual interest (CAI)	15% (17%)	22% (22%)	51% (52%)	12% (9%)
Pension products with CAI, set up in 1994 or earlier including: • Personal Pension Plan (PP No.1) • Executive Pension Plan (EPP) • Company Sponsored Additional Voluntary Contributions (CSAVC) • Company Pension Plan (CPP) • Conventional Buy Out Plan • Private Income Plan (PIPE) • Trustee Investment Plan (TIP)	15% (19%)	22% (25%)	52% (46%)	11% (10%)
Pension products set up in 1995 or later including: • Personal Pension Plan (PP No.1) • Personal Pension 2000 • Executive Pension Plan (EPP) • Company Sponsored Additional Voluntary Contributions (CSAVC) • Company Pension Plan (CPP) • Conventional Buy Out Plan • Trustee Investment Plan (TIP)	16% (19%)	24% (25%)	47% (46%)	13% (10%)
Personal Retirement Plan (PRP)	16% (19%)	24% (25%)	47% (46%)	13% (10%)
With Profits Annuity*	22% (25%)	33% (33%)	28% (28%)	17% (14%)

* The asset mixes for these policies depend upon the product type held and the date the investment was made. The figures shown are averages for all types and dates.

All asset mixes shown are as at 31 December 2014 and will vary over time as investment conditions and other factors influencing the appropriate mix for each product group change.

INVESTMENT RETURNS.

The overall investment returns over each of the last five years on the assets applicable to with profits policies eligible for bonuses were as follows:

YEAR	2010	2011	2012	2013	2014
Return (before tax)	13%	2%	11%	9%	10%
Return (after tax)	11%	2%	9%	8%	8%

Investment returns are rounded to the nearest percent.

We do not use the same investment returns to calculate bonuses for all with profits policies. When assessing appropriate levels of policy benefits, we took into account the investment returns shown below for the year 2014 derived from the asset mixes applied to the product groups.

INVESTMENT RETURNS BY PRODUCT GROUP.

Please note, the figures shown in brackets are the investment returns at the end of 2013.

LIFE POLICIES

PRODUCT	INVESTMENT RETURN
CAPITAL CONTROL BONDS	
Capital Control Growth Bond (investments between March 2010 and March 2012)	8% (8%)
Capital Control Income Bond (investments between March 2010 and March 2012)	9% (7%)
CAPITAL PROTECTION AND CAPITAL PROTECTION PLUS BONDS	
Capital Protection Growth Bond (investments between May and December 2008)	8% (9%)
Capital Protection Income Bond (investments between May and December 2008)	9% (7%)
Capital Protection Growth Bond (investments between January 2009 and June 2010)	8% (8%)
Capital Protection Income Bond (investments between January 2009 and June 2010)	9% (7%)
Capital Protection Plus Growth Bond (investments between November 2008 and December 2009)	8% (8%)
Capital Protection Plus Income Bond (investments between November 2008 and December 2009)	9% (7%)
Capital Protection Plus Growth Bond – Generation 2 (investments between December 2009 and June 2010)	9% (6%)
Capital Protection Plus Income Bond – Generation 2 (investments between December 2009 and June 2010)	10% (5%)
OTHER WITH PROFITS BONDS	
Growth and Income Bonds with a tenth anniversary guarantee (investments between October 2003 and September 2005)*	8% (8%)

LIFE POLICIES (CONTINUED)

PRODUCT	INVESTMENT RETURN
• Other Income Bonds (investments between April 2002 and December 2014) • Investment Bonds (July 1997 and later investments, and switched into with profits in 2003 or later)	9% (7%)
• All other With Profits Growth Bonds (August 1999 and December 2014)	8% (9%)
• With Profits Income Bonds (March 2002 and earlier investments)	8% (9%)
ENDOWMENTS AND SAVINGS PLANS	
Unitised life policies including: • Capital Investment Portfolio • Flexible Investment Plan • Flexible Mortgage Plan • Flexible Protection Plan • Unit Savings (Prospects and New Savings Plan)	8% (9%)
Conventional life policies including: • Build Up • Cashbuilder • Endowment • Low Start Build Up • Progressive Build Up Plus • Progressive Flexible Build Up • Progressive Investment • Treasure Chest • Whole of Life Plan	7% (9%)

PENSION POLICIES

PRODUCT	INVESTMENT RETURN
Adaptable Pension Plan with contractual annual interest (CAI)	11% (8%)
Pension products with CAI, set up in 1994 or earlier including: • Personal Pension Plan (PP No.1) • Executive Pension Plan (EPP) • Company Sponsored Additional Voluntary Contributions (CSAVC) • Company Pension Plan (CPP) • Conventional Buy Out Plan • Private Income Plan (PIPE) • Trustee Investment Plan (TIP)	10% (9%)
Pension products set up in 1995 or later including: • Personal Pension Plan (PP No.1) • Personal Pension 2000 • Executive Pension Plan (EPP) • Company Sponsored Additional Voluntary Contributions (CSAVC) • Company Pension Plan (CPP) • Conventional Buy Out Plan • Trustee Investment Plan (TIP)	10% (9%)
Personal Retirement Plan (PRP)	10% (9%)
With Profits Annuity*	9% (12%)

* For policies in these groups, the investment return depends upon the product type held and the date the investment was made. The figures shown are averages for all types and dates.

Investment returns are rounded to the nearest percent.

All returns shown for life policies are after tax payable by Legal & General and before we have taken off investment expenses and any policy charges.

All returns shown for pension policies are before tax, investment expenses and any policy charges.

THE INVESTMENTS AND LIABILITIES OF THE WITH PROFITS SUB FUND.

At the end of 2014, the investments and liabilities were as follows:

INVESTMENTS AND LIABILITIES	£bn
Total admissible investments	22.08
Assets supporting non-profit business	-9.93
Remainder	12.15
Excess admissible investments and future profits on non-participating with profits business	0.45
Available investments	12.60
Participating with profits plan liabilities	12.23
Difference (Inherited estate)	0.37

BONUS DECLARATION DATES.

From February 2008 to February 2015 bonus declaration dates were as follows:

19 February 2015
20 February 2014
30 May 2013**
21 February 2013
16 February 2012
17 February 2011
18 February 2010
19 February 2009
22 October 2008*
21 February 2008

*Reduction in final bonus.
**Increase in final bonus.

CONTRACTUAL MINIMUM ADDITION.

On some types of life and pension policies we add a contractual minimum addition (CMA) at the end of each year. This increases the value of your policy each year by a guaranteed amount.

To see if your policy is eligible for a contractual minimum addition, please refer to your annual bonus statement.

Historic rates of contractual minimum addition (CMA) are:

YEAR	2010	2011	2012	2013	2014	2015
CMA (Life) (%)	1.30	1.20	0.95	0.75	1.05	0.90
CMA (Pensions) (%)	1.60	1.50	1.15	0.90	1.30	1.10

MARKET VALUE REDUCTION FACTORS.

A market value reduction (MVR) is an adjustment we may apply to money taken out of with profits in certain circumstances to make sure that everyone gets their fair share of the assets backing a with profits investment.

The range of market value reduction factors which were applied from 2010 to 2014 were as set out in the table below. As an example, where the MVR range is 97% to 100%, this means that a reduction of up to 3% could have applied.

YEAR	2010	2011	2012	2013	2014	2015*
Pensions (%)	83 to 100	91 to 100	91 to 100	97 to 100	95 to 100	100
Income bonds (%)	81 to 100	84 to 100	84 to 100	86 to 100	90 to 100	95 to 100
Growth bonds (%)	84 to 100	90 to 100	90 to 100	95 to 100	98 to 100	100
Regular premium life (%)	85 to 100	91 to 100	92 to 100	100	100	100

*MVRs correct as at 19 February 2015, MVRs can change at any time without notice.
For more information, please read our factsheet on understanding MVRs.

DEDUCTIONS IN RESPECT OF GUARANTEES AND OPTIONS.

DROGO stands for 'deductions in respect of guarantees and options'. DROGO was introduced in 2005 and agreed with the Financial Services Authority (now FCA) with the purpose of assisting in the management of the costs of guarantees and options provided by with profits policies. The first deduction was made in respect of 2008.

We've allowed for the following deductions and refunds in our calculation of bonus rates:

YEAR	2008	2009	2010	2011	2012	2013	2014
Deduction/Refund	**Deduction**	**Refund**	**Deduction**	**Deduction**	**Refund**	**None**	**Refund**
%	0.75%	0.40%	0.20%	0.75%	0.75%	–	0.55%

Following the closure of the With Profits Fund to new business, in future years we will assess the cost of guarantees and options as part of the annual bonus declaration and not separately as DROGO.

REVIEW OF OUR BONUS DECLARATION.

The bonus declaration has been reviewed by Milliman acting as the independent person. In Milliman's judgement, the 19 February 2015 bonus declaration, and the process by which it was reached, comply with Legal & General's Principles and Practices of Financial Management (PPFM). In carrying out this review, Milliman relied on the accuracy and completeness of the information supplied to it by Legal & General.

Every year in June the Board of Directors will report to with profits policyholders on compliance with our Principles and Practices of Financial Management (PPFM) for the period 1 January to 31 December.

The latest version of the Board Report on Compliance is available on our website at **www.legalandgeneral.com/with-profits**

You can also download a copy of our updated PPFM from our website now at **www.legalandgeneral.com/with-profits**

INVESTMENT MANAGEMENT REVIEW.

The majority of our with profits investments are managed by Legal & General Investment Management Limited (LGIM). To help us maintain investment flexibility we have the discretion in certain circumstances to appoint different investment managers for all or part of our with profits investments. We regularly review the performance of all assets, both externally placed and with LGIM, to ensure they are invested in the best interests of policyholders.

HOW DO I FIND OUT MORE?

For information

You can find more information in your policy documents.

General information on with profits is available at **www.legalandgeneral.com/with-profits**

We also have booklets called 'An Introduction to Unitised With Profits' and 'An Introduction to Conventional With Profits' which have further information on how your policy works. These are available on our website at **www.legalandgeneral.com/bonus-declaration** or on request.

For advice

If you'd like advice, please speak to your financial adviser. If you don't have an adviser, you can find one locally by visiting **www.unbiased.co.uk**

For service

For all general queries please call us on the number shown on the letter that came with your statement.

Call charges will vary. We may record and monitor calls.

CONTACT US

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