

2016 BONUS FACTSHEET.

Incorporating the Principles and Practices of Financial Management (PPFM)
Data Annex for the 16 February 2017 bonus declaration.

This document contains data regarding the With Profits Sub Fund and the facts and figures for the bonus declaration on 16 February 2017.

▶ INVESTMENT MARKETS – A REVIEW OF THE LAST YEAR.

The following review of how the financial markets performed in 2016 has been provided to us by Legal & General Investment Management (LGIM). It covers the period 1 January to 31 December 2016 and does not reflect changes in market conditions since this date.

OVERVIEW

Data releases highlighted divergent trends in the major economies in 2016. The US economy continued to grow steadily, despite fluctuations in quarterly GDP, while Donald Trump's unexpected victory in the November presidential election focused investors on the prospect of increased infrastructure spending and tax cuts. In December, the US Federal Reserve raised interest rates by 0.25%. In the UK, the Bank of England cut interest rates to 0.25% and extended its asset purchase programme, known as quantitative easing, to support the economy after the UK unexpectedly voted to leave the European Union in the June referendum. Inflationary pressures remained relatively low despite oil prices rising strongly on balance throughout the year. With the euro zone experiencing very low levels of inflation, the European Central Bank continued to sanction large scale easing to shore up business and consumer confidence. In Japan, economic growth remained weak while inflation was well below its 2% target, although a stronger labour market did begin to lift wages. In the emerging world, the Chinese economy slowed as it continued its transition from export and investment driven growth towards consumption, while both the Brazilian and Russian economies saw turns of fortunes as 2016 progressed, given the tailwind of a strong recovery in commodity prices.

UK SHARES

UK equities were led higher by globally focused large cap stocks in 2016, as the weakness of sterling translated into higher international earnings. As the second quarter drew to a close, attention focused on the EU referendum in June, with an unexpected result in favour of Brexit heightening UK equity market volatility. There was initially a marked divergence in performance by market capitalisation, with more domestically focused mid-cap stocks underperforming FTSE 100 constituents. However, UK mid cap stocks also delivered positive returns for the year as a whole. In the final few days of 2016, the FTSE 100 index moved to new all-time highs above 7000.

OVERSEAS SHARES

In Europe, equity markets were extremely volatile for much of the year, particularly in late June and July as the UK referendum vote in favour of Brexit provided a severe jolt to investor sentiment in Europe. Concerns over the fragility of the European banking system

also resurfaced as the year progressed, with the Italian referendum on constitutional reform particularly in focus. However, these concerns lessened in December, enabling European equities to move higher as the year drew to a close.

US markets delivered positive returns over the year and outperformed global markets, particularly following Trump's election victory as investor expectations increased for more government spending and pro-business policies. Returns were substantially enhanced for UK-based investors as sterling plunged to a 31-year low against the US dollar in the aftermath of the UK referendum result.

Japanese equities were broadly flat in local currency terms for the year as a whole. However, the overall market performance masked significant weakness in the first half of the year, with domestic companies suffering as the yen strengthened. In the second half of the year, however, a return to yen weakness prompted strong Japanese equity market performance.

FIXED INTEREST SECURITIES

In 2016, higher-rated government bonds such as US treasuries, UK gilts and German bunds were initially supported by demand from risk-averse investors, as interest rates remained very low worldwide. However, towards the end of the year interest rates in the major economies moved higher, particularly in the US where investors discounted looser fiscal policy. In the UK the sharp, post-referendum devaluation of sterling raised expectations that inflation will accelerate over the coming year and consequently index-linked gilts outperformed their conventional counterparts.

Sterling corporate bond markets enjoyed a positive year in 2016, with the lion's share of the market gains coming in the third quarter as the Bank of England announced that it would make £10bn in purchases via a new corporate bond buying scheme. As a result sterling corporate bond markets outperformed other regions in local currency terms.

Asian and emerging equity markets rallied as concerns over the health of the Chinese economy slowly abated and corporate results came in above expectations even as economic growth slowed. Meanwhile, the US Federal Reserve refrained from further interest rate hikes for the majority of 2016, which supported investor demand for riskier assets.

COMMERCIAL PROPERTY

In the first half of 2016, commercial property continued to record positive returns. However, the UK referendum result in favour of leaving the European Union has weighed heavily on the UK commercial property market in the second half of the year. Capital values declined in response to heightened economic uncertainty, with weakness particularly pronounced in the central London office market. In addition, transaction volumes in the UK commercial property market highlighted a marked decline. On a brighter note, the impact on rental values was less severe, with the industrial sector in particular proving relatively resilient.

▶ 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:

	2012	2013	2014	2015	2016
UK shares	17%	21%	17%	17%	17%
Overseas shares	25%	27%	26%	24%	26%
Fixed interest securities	45%	40%	44%	46%	46%
Commercial property	13%	12%	13%	13%	11%

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 2016. Please note, the figures shown in brackets are the asset mixes at the end of 2015.

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% (17%)	27% (26%)	43% (43%)	12% (14%)
Capital Control Income Bond (investments between March 2010 and March 2012)	16% (16%)	25% (23%)	48% (48%)	11% (13%)
CAPITAL PROTECTION AND CAPITAL PROTECTION PLUS BONDS				
Capital Protection Growth Bond (investments between May and December 2008)	19% (19%)	30% (28%)	39% (38%)	12% (15%)
Capital Protection Income Bond (investments between May and December 2008)	16% (16%)	25% (23%)	48% (48%)	11% (13%)
Capital Protection Growth Bond (investments between January 2009 and June 2010)	18% (17%)	27% (26%)	43% (43%)	12% (14%)
Capital Protection Income Bond (investments between January 2009 and June 2010)	16% (16%)	25% (23%)	48% (48%)	11% (13%)
Capital Protection Plus Growth Bond (investments between November 2008 and December 2009)	18% (17%)	27% (26%)	43% (43%)	12% (14%)
Capital Protection Plus Income Bond (investments between November 2008 and December 2009)	16% (16%)	25% (23%)	48% (48%)	11% (13%)
Capital Protection Plus Growth Bond – Generation 2 (investments between December 2009 and June 2010)	13% (13%)	19% (18%)	60% (59%)	8% (10%)
Capital Protection Plus Income Bond – Generation 2 (investments between December 2009 and June 2010)	11% (11%)	17% (16%)	65% (64%)	7% (9%)

LIFE POLICIES (CONTINUED)

PRODUCT	ASSET MIX			
	UK shares	Overseas shares	Fixed interest securities	Commercial property
OTHER WITH PROFITS BONDS				
All other With Profits Growth Bonds (investments between August 1999 and December 2014)	19% (19%)	30% (28%)	39% (38%)	12% (15%)
With Profits Income Bonds (March 2002 and earlier investments)	17% (17%)	25% (25%)	47% (45%)	11% (13%)
Growth and Income Bonds with a tenth anniversary guarantee (investments between October 2003 and September 2005)*	18% (17%)	27% (26%)	43% (43%)	12% (14%)
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% (16%)	25% (23%)	48% (48%)	11% (13%)
ENDOWMENTS AND SAVINGS PLANS				
Unitised life policies including: <ul style="list-style-type: none"> • Capital Investment Portfolio • Flexible Investment Plan • Flexible Mortgage Plan • Flexible Protection Plan • Unit Savings (Prospects and New Savings Plan) Conventional life policies including: <ul style="list-style-type: none"> • 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% (19%)	30% (28%)	39% (38%)	12% (15%)

PENSION POLICIES

PRODUCT	ASSET MIX			
	UK shares	Overseas shares	Fixed interest securities	Commercial property
Pension products with CAI, set up in 1994 or earlier including: <ul style="list-style-type: none"> • Personal Pension Plan (PP No.1) • Executive Pension Plan (EPP) • Company Sponsored Additional Voluntary Contributions (CSAVC) • Company Pension Plan (CPP) • Conventional Buy Out Plan • Pension Investment Plan (PIP) • Trustee Investment Plan (TIP) 	15% (14%)	23% (21%)	53% (53%)	9% (12%)
Pension products set up in 1995 or later including: <ul style="list-style-type: none"> • Personal Pension Plan (PP No.1) • Personal Pension 2000 • Executive Pension Plan (EPP) • Company Sponsored Additional Voluntary Contributions (CSAVC) • Company Pension Plan (CPP) • Buy Out Plan • Trustee Investment Plan (TIP) 	16% (16%)	25% (23%)	48% (48%)	11% (13%)
Personal Retirement Plan (PRP)	16% (16%)	25% (23%)	48% (48%)	11% (13%)
Conventional Buy Out Plan	16% (16%)	25% (23%)	48% (48%)	11% (13%)
With Profits Annuity*	23% (21%)	36% (32%)	26% (30%)	15% (17%)

* 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 2016 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	2012	2013	2014	2015	2016
Return (before tax)	11%	9%	10%	3%	15%
Return (after tax)	9%	8%	8%	3%	13%

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 2016 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 2015.

LIFE POLICIES

PRODUCT	INVESTMENT RETURN
CAPITAL CONTROL BONDS	
Capital Control Growth Bond (investments between March 2010 and March 2012)	13% (3%)
Capital Control Income Bond (investments between March 2010 and March 2012)	12% (3%)
CAPITAL PROTECTION AND CAPITAL PROTECTION PLUS BONDS	
Capital Protection Growth Bond (investments between May and December 2008)	13% (3%)
Capital Protection Income Bond (investments between May and December 2008)	12% (3%)
Capital Protection Growth Bond (investments between January 2009 and June 2010)	13% (3%)
Capital Protection Income Bond (investments between January 2009 and June 2010)	12% (3%)
Capital Protection Plus Growth Bond (investments between November 2008 and December 2009)	13% (3%)
Capital Protection Plus Income Bond (investments between November 2008 and December 2009)	13% (2%)
Capital Protection Plus Growth Bond – Generation 2 (investments between December 2009 and June 2010)	12% (2%)
Capital Protection Plus Income Bond – Generation 2 (investments between December 2009 and June 2010)	12% (2%)
OTHER WITH PROFITS BONDS	
All other With Profits Growth Bonds (August 1999 and December 2014)	13% (3%)

LIFE POLICIES (CONTINUED)

PRODUCT	INVESTMENT RETURN
With Profits Income Bonds (March 2002 and earlier investments)	12% (3%)
Growth and Income Bonds with a tenth anniversary guarantee (investments between October 2003 and September 2005)*	13% (3%)
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)	12% (3%)
ENDOWMENTS AND SAVINGS PLANS	
Unitised life policies including: <ul style="list-style-type: none"> • Capital Investment Portfolio • Flexible Investment Plan • Flexible Mortgage Plan • Flexible Protection Plan • Unit Savings (Prospects and New Savings Plan) 	13% (3%)
Conventional life policies including: <ul style="list-style-type: none"> • Build Up • Cashbuilder • Endowment • Low Start Build Up • Progressive Build Up Plus • Progressive Flexible Build Up • Progressive Investment • Treasure Chest • Whole of Life Plan 	13% (3%)

PENSION POLICIES

PRODUCT	INVESTMENT RETURN
Pension products with CAI, set up in 1994 or earlier including: <ul style="list-style-type: none"> • Personal Pension Plan (PP No.1) • Executive Pension Plan (EPP) • Company Sponsored Additional Voluntary Contributions (CSAVC) • Company Pension Plan (CPP) • Buy Out Plan • Pension Investment Plan (PIP) • Trustee Investment Plan (TIP) 	15% (3%)
Pension products set up in 1995 or later including: <ul style="list-style-type: none"> • Personal Pension Plan (PP No.1) • Personal Pension 2000 • Executive Pension Plan (EPP) • Company Sponsored Additional Voluntary Contributions (CSAVC) • Company Pension Plan (CPP) • Buy Out Plan • Trustee Investment Plan (TIP) 	15% (3%)
Personal Retirement Plan (PRP)	15% (3%)
Conventional Buy Out Plan	15% (3%)
With Profits Annuity*	17% (3%)

* 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 2016, the investments and liabilities were as follows:

INVESTMENTS AND LIABILITIES	£bn
Total admissible investments	21.17
Assets supporting non-profit business*	-10.08
Available investments	11.09
Participating with profits plan liabilities	10.64
Difference	0.45

* Including current liabilities

Note: The results are on the Solvency II regulatory basis and so exclude the impact of future transfers to shareholders. The liability associated with these transfers is £0.26bn.

BONUS DECLARATION DATES.

From February 2011 to February 2017 bonus declaration dates were as follows:

16 February 2017
29 September 2016**
18 February 2016
19 February 2015
20 February 2014
30 May 2013**
21 February 2013
16 February 2012
17 February 2011

**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	2012	2013	2014	2015	2016	2017
CMA (Life) (%)	0.95	0.75	1.05	0.90	0.75	0.50
CMA (Pensions) (%)	1.15	0.90	1.30	1.10	0.95	0.65

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 2012 to 2017 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	2012	2013	2014	2015	2016	2017*
Pensions (%)	91 to 100	97 to 100	95 to 100	95 to 100	95 to 100	98 to 100
Income bonds (%)	84 to 100	86 to 100	90 to 100	92 to 100	90 to 100	99 to 100
Growth bonds (%)	90 to 100	95 to 100	98 to 100	96 to 100	94 to 100	100
Regular premium life (%)	92 to 100	100	100	99 to 100	96 to 100	100

*MVRs correct as at 16 February 2017, MVRs can change at any time without notice. For more information, please read our factsheet on understanding MVRs.

REVIEW OF OUR BONUS DECLARATION.

The bonus declaration has been reviewed by Milliman. In Milliman's judgement, the 16 February 2017 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 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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We are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

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