

Legal & General Finance PLC  
Annual report and financial statements for the year ended  
31 December 2017

---

# FY 2017

---

Legal & General Finance PLC  
02338444

# LEGAL & GENERAL FINANCE PLC

## CONTENTS

---

### Page

3	Strategic Report
4	Directors' Report
6	Independent Auditors' Report
10	Income Statement
11	Balance Sheet
12	Statement of Changes in Equity
13	Notes to the Financial Statements

Registered Office  
One Coleman Street  
London  
EC2R 5AA

Registered in England and Wales number 02338444

# LEGAL & GENERAL FINANCE PLC

## STRATEGIC REPORT

---

The directors present their Strategic Report on Legal & General Finance PLC (the "Company") for the year ended 31 December 2017.

### Principal activities

Legal & General Finance PLC is a public limited company incorporated in England and Wales, whose ultimate controlling party is Legal & General Group Plc. The Company's registered office is at One Coleman Street, London, EC2R 5AA. It is registered in England and Wales under company registration number 02338444 and domiciled in the United Kingdom.

### Review of business and future developments

The Company provides funding to other Legal & General group companies. In fulfilling this role, the Company issues listed debt through Legal & General Group Plc's £4bn Euro Note Programme and the Company's US \$2bn Commercial Paper Programme. All of the Company's issued listed debt under these programmes is guaranteed by Legal & General Group Plc.

### Financial review and key performance indicators

The directors review a range of performance indicators to monitor the performance of the Company. Profit on ordinary activities before taxation and net assets are regarded as the principal key performance indicators.

The profit on ordinary activities before taxation of the Company for 2017 was £3.4m (2016: £18.1m). Net assets as at 31 December 2017 were £10.3m (2016: £7.6m).

### Principal risks and uncertainties

The Company's business involves the acceptance and management of risk. A detailed review of the Company's exposure to risks, which comprise market risk, credit risk and liquidity risk, together with the framework for the management and analysis of the exposure of the Company's financial instruments to risk, is set out in note 18. The principal risks and uncertainties facing the Company are:

#### a) Market infrastructure

The Company's investment and fund raising activities are reliant upon the availability of market infrastructure. The loss of a major financial centre may have a significant effect on the Company's operation and profitability.

#### b) Counterparties

A number of major banks operate as counterparties for the investments of the Company. Whilst the Company ensures that it only transacts with strongly rated counterparties, and it regularly reviews its exposures, the financial failure of a significant counterparty could result in disruption and financial loss.

#### c) Liquidity and cash flow

Liquidity risk is the risk that the Company, though solvent, either does not have sufficient liquid financial resources available to enable it to meet its obligations as they fall due, or can only secure such liquid financial resources at an excessive borrowing cost relative to that achieved in the recent past by a comparably rated borrower or through the sale of illiquid assets at a price significantly below the fair value of such assets in the recent past. This risk can arise from adverse market conditions or an unexpected event that causes liquidity stress in other entities within the group.

By order of the board:



C. Singleton  
For and on behalf of Legal & General Co Sec Limited

Company Secretary  
6 March 2018

# LEGAL & GENERAL FINANCE PLC

## DIRECTORS' REPORT

---

The directors present their Directors' Report together with the audited financial statements of Legal & General Finance PLC (the "Company") for the year ended 31 December 2017.

### Principal activities and future developments

The principal activity of the Company throughout the year was to operate as a finance company. The directors do not envisage any changes in activity for the foreseeable future.

The Company's prime objective is to provide funding to other Legal & General group companies. It does this by raising finance from the European capital markets. The group has considered the impact of the UK's exit from the EU for the European capital markets and do not believe there will be a material impact on the Company's operations.

The Company has the following primary financial instruments as at 31 December 2017: medium term notes and commercial paper. The overall objective of issuing these underlying financial instruments is to achieve a low real cost of funds for the group.

The Strategic Report and financial risk management notes are on pages 3 and 20 to 22 respectively.

### Results for the year and dividend

The results of the Company are set out on page 10. The directors do not recommend the payment of a final dividend (2016: nil). An interim dividend of £nil was paid in the year (2016: £13m).

### Directorate

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

F.B.Turley  
G. O'Neill  
M. J. Brookes  
M. J. Gregory (resigned 09 March 2017)  
S.J. Davies (appointed 09 March 2017)

### Directors' indemnities and insurance

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

### Going concern

No material uncertainties that cast significant doubt about the ability of the Company to continue as a going concern have been identified by the directors.

### Internal control and risk management framework

The Board of Directors has overall responsibility for the Company's systems of risk management and internal controls. The Company operates within the risk management framework and under the policies, procedures and internal controls maintained by its parent company.

The Group Audit Committee, in conjunction with the Group Risk Committee, assists in ensuring that the group operates within a framework of prudent and effective controls which allows risk to be identified, assessed and managed. The group's control policies and procedures are in accordance with the Financial Reporting Council's guidance on risk management, internal control and related financial and business reporting. The group's system of internal control is designed to manage rather than eliminate risk and can only provide reasonable and not absolute assurance against material loss.

The Company adheres to the practices set out in the Financial Reporting Council's guidance on risk management, internal control and related financial and business reporting through a system of timely preparation of management and financial statements, internal review of the statements within finance and a periodic review by Group Internal Audit. The Company's exposure to financial risks is contained in note 18.

The day to day operations of the Company are managed by Legal & General Group Treasury Function.

### Independent auditors

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

# LEGAL & GENERAL FINANCE PLC DIRECTORS' REPORT

---

## Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The directors 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.

The directors of the ultimate parent company are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each director in office at the date the Directors' Report is approved:

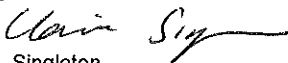
- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

## Disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, each of the directors who held office at the date this report was approved, confirms that:

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

By order of the Board:



C. Singleton  
For and on behalf of Legal & General Co Sec Limited

Company Secretary  
6 March 2018

# LEGAL & GENERAL FINANCE PLC INDEPENDENT AUDITORS' REPORT

---

## *Independent auditors' report to the members of Legal & General Finance PLC*

### Report on the audit of the financial statements

---

#### Opinion

In our opinion, Legal & General Finance PLC's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance sheet, the income statement and the statement of changes in equity for the year then ended 31 December 2017; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to those charged with governance.

---

#### Basis for opinion

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

#### *Independence*

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

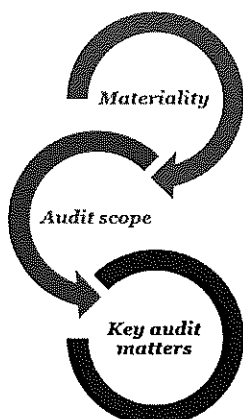
To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 3 to the financial statements we have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

---

#### Our audit approach

##### *Overview*



- Overall materiality: £10,000,000 (2016: £10,000,000), based on the lower of 1% of total assets and group reporting materiality.
  - We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular we looked at where the directors made subjective judgements. As in all of our audits we also addressed the risk of management override of controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.
  - We have determined that there are no Key Audit Matters to communicate in our report.
-

# LEGAL & GENERAL FINANCE PLC INDEPENDENT AUDITORS' REPORT

## *The scope of our audit*

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

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

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

## *Key audit matters*

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We determined that there were no key audit matters applicable to the company to communicate in our report.

## *How we tailored the audit scope*

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

## *Materiality*

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

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

<i>Overall materiality</i>	£10,000,000 (2016: £10,000,000).
<i>How we determined it</i>	Lower of 1% of total assets and group reporting materiality.
<i>Rationale for benchmark applied</i>	The company is a funding entity for L&G Group and so it is not a normal trading/profit making entity.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £500,000 (2016: £500,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## *Conclusions relating to going concern*

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

# LEGAL & GENERAL FINANCE PLC

## INDEPENDENT AUDITORS' REPORT

---

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

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

---

### Reporting on other information

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

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

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

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

### *Strategic Report and Directors' Report*

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

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

---

### Responsibilities for the financial statements and the audit

#### *Responsibilities of the directors for the financial statements*

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

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

#### *Auditors' responsibilities for the audit of the financial statements*

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



# LEGAL & GENERAL FINANCE PLC INDEPENDENT AUDITORS' REPORT

---

In the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

## *Use of this report*

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

---

## **Other required reporting**

### *Companies Act 2006 exception reporting*

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

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

We have no exceptions to report arising from this responsibility.

---

## *Appointment*

Following the recommendation of the audit committee, we were appointed by the directors on 1 January 1994 to audit the financial statements for the year ended 31 December 1994 and subsequent financial periods. The period of total uninterrupted engagement is 24 years, covering the years ended 31 December 1994 to 31 December 2017.



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

- The maintenance and integrity of the Legal & General Group Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# LEGAL & GENERAL FINANCE PLC

## INCOME STATEMENT

For the year ended 31 December 2017

	Notes	2017 £m	2016 £m
<b>Finance and similar income</b>			
Income from investments in group undertakings	6	40.7	40.5
Other income	6	<u>5.3</u>	<u>7.1</u>
		46.0	47.6
<b>Finance and similar costs</b>			
Interest paid to group undertakings		(5.4)	(6.2)
Other finance costs		<u>(37.6)</u>	<u>(36.1)</u>
		(43.0)	(42.3)
<b>Administrative expenses</b>	3	(3.2)	(2.4)
<b>Investment return</b>	7	<u>3.6</u>	<u>15.2</u>
<b>Profit before income tax</b>		3.4	18.1
Income tax expense	8	<u>(0.7)</u>	<u>(3.6)</u>
<b>Profit for the year</b>		<u>2.7</u>	<u>14.5</u>

There was no other comprehensive income for the year. The profit for the year attributable to owners of the Company reflects the total comprehensive income of the Company.

# LEGAL & GENERAL FINANCE PLC BALANCE SHEET

As at 31 December 2017

	Notes	2017 £m	2016 <sup>1</sup> £m
<b>Non-Current Assets</b>			
Investments	10	601.2	601.2
<b>Current Assets</b>			
Financial investments	11	1,942.7	1,264.1
Other receivables	12	337.1	215.9
Cash and cash equivalents	13	1.4	1.0
		<u>2,281.2</u>	<u>1,481.0</u>
<b>Total Assets</b>		<u>2,882.4</u>	<u>2,082.2</u>
<b>Non-Current Liabilities</b>			
Borrowings	14	(597.9)	(597.9)
<b>Current Liabilities</b>			
Borrowings	14	(360.2)	(226.8)
Other payables and financial liabilities	15	(1,914.0)	(1,249.9)
		<u>(2,274.2)</u>	<u>(1,476.7)</u>
<b>Total Liabilities</b>		<u>(2,872.1)</u>	<u>(2,074.6)</u>
<b>Net assets</b>		<u>10.3</u>	<u>7.6</u>
<b>Equity</b>			
Retained earnings		10.3	7.6
<b>Total Equity</b>		<u>10.3</u>	<u>7.6</u>

1. Accrued interest of £10.8m on borrowings has been reclassified from Other payables and financial liabilities to Borrowings (Current liabilities)

The notes on pages 13 to 22 form an integral part of these financial statements.

The financial statements on pages 10 to 22 were approved by the Board of directors on 6 March 2018 and were signed on its behalf by:



G. O'Neill

Director

Registered number: 02338444

Registered Office:

One Coleman Street

London EC2R 5AA

6 March 2018

**LEGAL & GENERAL FINANCE PLC**  
**STATEMENT OF CHANGES IN EQUITY**

**For the year ended 31 December 2017**

	Share Capital £m	Retained earnings £m	Total equity £m
As at 1 January 2017	-	7.6	7.6
Total comprehensive income for the year	-	2.7	2.7
<b>As at 31 December 2017</b>	<b>-</b>	<b>10.3</b>	<b>10.3</b>
<hr/>			
As at 1 January 2016	-	6.1	6.1
Total comprehensive income for the year	-	14.5	14.5
Dividends	-	(13.0)	(13.0)
<b>As at 31 December 2016</b>	<b>-</b>	<b>7.6</b>	<b>7.6</b>

# LEGAL & GENERAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

---

### 1 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### (a) Basis of preparation

The financial statements of Legal & General Finance Plc. have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial assets and financial liabilities measured at fair value through profit and loss, and in accordance with the Companies Act 2006.

The preparation of financial statements, in conformity with FRS 101, requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are the determination of fair value for unquoted or illiquid financial instruments.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- The following paragraphs of IAS 1, 'Presentation of financial statements':
- 10(d), (statement of cash flows),
- 16 (a statement of compliance with all IFRS),
- 38A (requirement for minimum of two primary statements, including cash flow statements),
- 38B-D (additional comparative information),
- 111 (cash flow statement information),
- 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

#### (b) Finance and similar income

Finance and similar income comprises interest receivable, which is recognised using the effective interest rate method and dividend income is recognised when the right to receive payment is established.

#### (c) Distributions

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. Final dividends are accrued when approved by the Company's shareholders and are recognised when paid.

#### (d) Foreign currencies

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which it operates (the functional currency). The financial statements are presented in Sterling (£) which is also the Company's functional currency.

Transactions denominated in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange prevailing at the balance sheet date. Non-monetary items are maintained at historic rates. All exchange gains or losses are recognised in the income statement.

#### (e) Taxation

Current tax comprises tax payable on current period profits, adjusted for non tax deductible or non-taxable items and any adjustment to tax payable in respect of previous periods. Deferred taxation is provided in full on all timing differences. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### (f) Investments

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

Investments classified as FVTPL are measured at fair value with gains and losses reflected in the income statement under Investment Return.

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

# LEGAL & GENERAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

---

### 1 Accounting policies (continue)

#### (g) Borrowings

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

#### (h) 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 maturity of three months or less from the date of acquisition.

#### (i) Derivative assets and liabilities

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.

Changes in the fair value of these derivative instruments, which do not qualify for hedge accounting, are recognised immediately in the Income Statement.

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.

Cash inflows and outflows are presented on a net basis where the group is required to settle net or has a legally enforceable right of offset and the intention is to settle on a net basis.

#### (j) Going concern

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.

#### (k) Exchange rates

Principal rates of exchange used for translation are:

<b>Period end exchange rates</b>	<b>2017</b>	<b>2016</b>
US Dollars	1.35	1.24
Euros	1.13	1.17

# LEGAL & GENERAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 2 Segmental disclosure

The Company has not made any segmental disclosure as its income is wholly attributable to its principal activity and is generated in the United Kingdom.

### 3 Administrative expenses

Administrative expenses include auditors' remuneration of £32,394 (2016: £31,450) wholly in relation to audit work. In addition other non audit service were provided by the auditors, the cost of which £33,537 (2016: £29,078) were borne by the group.

### 4 Foreign Exchange

Foreign exchange revaluation gains recognised in the income statement was £nil (2016: £2.8m).

### 5 Employee costs and pension

No incremental emoluments in respect of services to this company were paid to any director nor were any direct pension contributions paid (2016: £nil). There were no employees during 2017 (2016: nil).

The directors and key management of the Company had no material transactions with the Company or any other group undertakings.

### 6 Finance and similar income

Income from group undertakings £40.7m (2016: £40.5m) relates to interest income from loans to fellow group subsidiaries. Other income includes £3.7m (2016: £4.2m) of income from investments in funds managed by Legal & General Investment Management Limited, a fellow group subsidiary, and £1.6m (2016: £2.9m) of income from other investments.

### 7 Investment return

Included within investment return is £nil(2016: £11.5m) of gain relating to an investment in bonds issued by a fellow group company that were redeemed early, and £3.6m (2016: £3.7m) of fair value gains on the investment in managed funds.

### 8 Tax on profit on ordinary activities

	2017	2016
	£m	£m
Total tax		
UK corporation tax on profits for the year	0.7	3.6
<b>Income tax expense</b>	<b>0.7</b>	<b>3.6</b>

Factors affecting the current tax charge for the year:

The tax assessed for the year is equal to (2016: equal to) the average rate of corporation tax in the UK for a company (19.25% (2016: 20%). There are no differences or adjustments to the standard rate. The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017.

### 9 Dividends

	2017	2016
	£m	£m
Interim dividend: £nil (2016: £260) paid per £1 share	-	13.0

### 10 Investments

	2017	2016
	£m	£m
<b>Loans to group undertaking</b>	<b>601.2</b>	<b>601.2</b>

The investments above are neither past due nor impaired. The loans to group undertaking are held at amortised cost. The terms of the loans, interest rates and maturity dates are identical to that of the external debt set out in note 14. The loans are classified as level 2 in the fair value hierarchy. The fair value of the loans is £861.8m (2016: £849.5m).

# LEGAL & GENERAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 11 Financial Investments

#### (a) Financial investments at fair value

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 or discounted cash flow models.

	2017	2016
	£m	£m
<b>Financial investments at fair value:</b>		
Managed funds	1,942.4	1,260.0
Debt securities	-	1.5
Derivative assets	0.3	2.6
<b>Total financial investments</b>	<b>1,942.7</b>	<b>1,264.1</b>

All of the financial investments are designated as fair value through profit and loss (FVTPL) other than derivative assets which are designated as held for trading (HFT).

None of the financial investments above are past due or impaired. The managed funds investments are holdings in Legal & General Investment Management Ltd managed funds which invest solely in cash, cash equivalents and debt securities.

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

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflects 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 table that follows presents an analysis of the assets held at fair value in accordance with the measurement technique, defined below:

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).



# LEGAL & GENERAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### (b) Financial assets by hierarchy levels

At 31 December 2017	Carrying Value £m	Level 1 £m	Level 2 £m	Level 3 £m
Managed Funds	1,942.4	1,942.4	-	-
Derivative assets	0.3	-	0.3	-
<b>Total financial assets</b>	<b>1,942.7</b>	<b>1,942.4</b>	<b>0.3</b>	<b>-</b>

The Company's policy is to re-assess the categorisation of financial assets at the end of each year and to recognise transfers between levels at that point in time.

There were no transfers in the year between levels (2016: nil).

At 31 December 2016	Carrying Value £m	Level 1 £m	Level 2 £m	Level 3 £m
Managed Funds	1,260.0	1,260.0	-	-
Debt securities	1.5	-	-	1.5
Derivative assets	2.6	-	2.6	-
<b>Total financial assets</b>	<b>1,264.1</b>	<b>1,260.0</b>	<b>2.6</b>	<b>1.5</b>

### (c) Assets measured at fair value based on level 3

Level 3 assets include a small portion of debt securities where broker quotes were not supported by adequate explanations on assumptions used.

	Debt securities 2017 £m	Debt securities 2016 £m
<b>As at 1 January</b>	<b>1.5</b>	<b>59.5</b>
Total gains for the year recognised:		
- realised and unrealised gains/(losses) in the income statement	0.3	11.8
- Sales	(1.8)	(69.8)
<b>As at 31 December</b>	<b>-</b>	<b>1.5</b>

A shift by +/-5% in broker quotes would impact profit or loss by £nil (2016: nil).

### 12 Other receivables

	2017 £m	2016 £m
<b>Amounts owed by group undertakings</b>	<b>337.1</b>	<b>215.9</b>

None of the receivables above are neither past due nor impaired.

# LEGAL & GENERAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 13 Cash and cash equivalents

	2017	2016
	£m	£m
Cash at bank and in hand	1.4	1.0
	<b>1.4</b>	<b>1.0</b>

### 14 Borrowings

	Carrying amount 2017 £m	Coupon rate 2017 %	Fair value 2017 £m	Carrying amount <sup>1</sup> 2016 £m	Coupon rate 2016 %	Fair value 2016 £m
<b>Core borrowings</b>						
Sterling medium term notes 2031-2041	597.9	5.87	857.3	597.9	5.87	834.3
<b>Operational borrowings</b>						
Euro Commercial paper	349.4	1.27	349.4	216.0	0.96	216.0
	<b>947.4</b>		<b>1,206.7</b>	<b>813.9</b>		<b>1050.3</b>

1. Accrued interest on borrowings of £10.8m (2016: £10.8) has been reclassified from Other payables and financial liabilities to Borrowings (Current liabilities).

The sterling medium term notes are senior debt with a face value of £600m issued in the following tranches:

Issuance	Maturity	Face Value £m	Coupon rate %
December 2000 - September 2001	December 2031	350.0	5.875
April 2001	April 2033	40.0	5.750
April 2001	April 2041	10.0	5.800
April 2002	April 2033	200.0	5.875

# LEGAL & GENERAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14 Borrowings (continued)

#### Analysis by nature and maturity

At 31 December 2017	Carrying Value £m	Maturity date of undiscounted cash flows				Total £m
		Within 1 yr £m	1-5 yrs £m	5-15 yrs £m	15-25 yrs £m	
<b>Core borrowings</b>						
Medium term notes	597.9	10.8	-	350.0	250.0	610.8
<b>Operational borrowings</b>						
Euro commercial paper	349.4	349.4	-	-	-	349.4
	947.4	360.2	-	350.0	250.0	960.2
Contractual undiscounted interest payments		24.5	140.8	316.8	4.6	486.7
<b>Total contractual undiscounted cash flows</b>		<b>384.7</b>	<b>140.8</b>	<b>666.8</b>	<b>254.6</b>	<b>1,446.9</b>

#### Analysis by nature and maturity

At 31 December 2016	Carrying Value <sup>1</sup> £m	Maturity date of undiscounted cash flows				Total £m
		Within 1 yr £m	1-5 yrs £m	5-15 yrs £m	15-25 yrs £m	
<b>Core borrowings</b>						
Medium term notes	597.9	10.8	-	350.0	250.0	610.8
<b>Operational borrowings</b>						
Euro commercial paper	216.0	216.0	-	-	-	216.0
	813.9	226.8	-	350.0	250.0	826.8
Contractual undiscounted interest payments		24.5	140.8	352.0	32.8	550.1
<b>Total contractual undiscounted cash flows</b>		<b>251.3</b>	<b>140.8</b>	<b>702.0</b>	<b>282.8</b>	<b>1,376.9</b>

1. Accrued interest on borrowings of £10.8m (2016: £10.8) has been reclassified from Other payables and financial liabilities to Borrowings (Current liabilities).

During 2017 interest expense of £37.6m (2016: £36.1m) was incurred on external debt issued.

### 15 Other payables and financial liabilities

	2017 £m	2016 £m
Amounts owed to group undertakings	1,907.3	1,246.1
Income tax payable	0.7	3.6
Derivative Liabilities	6.0	0.2
	<b>1,914.0</b>	<b>1,249.9</b>

Amounts owed to group undertakings are unsecured. The fair value of the amounts owed to group undertakings are equivalent to the their current values. The derivative liabilities are classified as level 2 in the fair value hierarchy.

# LEGAL & GENERAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 16 Share capital

	2017	2016
	£	£
Allotted and partly paid:		
50,000 (2016: 50,000) £1 ordinary shares partly paid of 25p each	12,500.0	12,500.0

There were no changes to the issued share capital during the financial year.

### 17 Parent and ultimate holding company

The immediate and ultimate parent company, and the smallest and largest group to consolidate these financial statements, is Legal & General Group Plc, a company incorporated in England & Wales. These financial statements, therefore, provide information about the Company as an individual undertaking. Copies of the financial statements of the ultimate holding company, Legal & General Group Plc, are available on the Group website, [www.legalandgeneralgroup.com](http://www.legalandgeneralgroup.com) or from the Company Secretary at the Registered Office, One Coleman Street, London, EC2R 5AA.

### 18 Financial risk management

#### Management of risk

The Company, in the course of its business activities, is exposed principally to market, credit and liquidity risks. As part of the Legal & General Group, the Company operates within a formal risk management framework to ensure that all significant risks are identified and managed.

A risk identification and assessment process is operated to formally evaluate and manage significant risks to the achievement of the Company's objectives. A standard approach is used to assess risks. Senior management and the risk review functions (see below) review the output of the assessments.

#### Control Framework

The Company manages its exposure to financial instruments by maintaining an appropriate control structure. Dealing authority is formally approved by the Legal & General Group Capital Committee. The Group Treasurer directs dealing operations and reports monthly to the Treasury Oversight Group and to the Board of this Company. The activities of the Group Treasury department are subject to review via periodic independent reviews and audits by internal auditors. The internal control framework within the Group Treasury department includes segregation of duties between dealing and settlement.

#### Risk review function

The group's risk review function provides oversight of the risk management processes of the Legal & General group companies. Its responsibilities include the evaluation of changes in the business operating environment and business processes, the assessment of these changes on risks to business and the monitoring of the mitigating actions.

Details of the categories of risk to the Company and high-level management processes are set out below. Legal & General group policies are in place setting out the framework for the management of its key risks, the operation of which are supported by the group's risk review functions and are independently confirmed by Group Internal Audit.

#### Market risk

##### (a) Currency

Currency risk is the risk arising from fluctuations in exchange rates which may affect assets, liabilities and any mismatch between the two.

The Company is also potentially exposed to loss as a result of fluctuations in the value of, or income from, assets denominated in foreign currencies. The Company's objective is to have minimal residual foreign exchange risk on its assets and liabilities. It achieves this by matching the currency of its assets with those of its borrowings. Where an opportunity exists to borrow in a different currency on an advantageous basis to that for which funding is actually required, cross currency swaps or forward foreign exchange contracts are used to convert to the desired currency.

During the year there were no material net exposures.

# LEGAL & GENERAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 18 Financial risk management (continued)

#### (b) Interest rate risk

Interest rate risk is the risk arising from fluctuations in interest rates which may affect assets, liabilities and any mismatch between the two.

The Company's borrowings comprise the current and long term liabilities set out in note 14. All of the Company's borrowings were fixed rate loans under the medium term note programme throughout the year and at 31 December 2017, other than a small amount at floating rates of interest. The fixed rate loans in operation were lent to another group company on a fixed rate basis with the same maturities.

All floating interest rate liabilities have interest rates based on the relevant currency LIBOR equivalents.

A sensitivity analysis of a 100 basis point increase or 50 basis point decrease in LIBOR based interest rates was carried out on the financial statements of the Company. There was found to be an impact of £1.3m (2016: £1.5m) and £0.6m (2016: £1m) respectively to the Company's reported results from these movements in interest rates. This exercise applied the interest rate shift to all balance sheet line items (using the position at 31 December 2017) and calculated the resulting potential change to the income statement.

#### (c) Exposure to worldwide equity markets

The only equity security investments held are in funds managed by L&G Investment Management Limited which solely invest in cash, cash equivalents and debt securities. The fund is unlisted and based in the UK. Therefore, there is no underlying exposure on this fund to equity price risk.

#### Credit risk

Credit risk is the risk that the Company is exposed to loss if another party fails to perform its financial obligations to the Company.

The investment of shareholders' monies requires some credit risk to be taken. Credit risk is managed through the setting and regular review of detailed counterparty credit and concentration limits. Compliance with these limits for treasury investments is monitored daily. The limits apply to cash deposits, money market investments, foreign exchange and interest rate management transactions. The Legal & General Group Plc Group Credit Risk Committee oversees this process.

The credit risk of the external financial assets based on long term ratings is outlined below. Ratings are provided by independent rating agencies and the average of these is used.

#### Exposure to credit risk

As at 31 December 2017	AAA £m	AA £m	A £m	BBB £m	Unrated £m	Total £m
Cash and cash equivalents	-	-	1.4	-	-	1.4
Derivative assets	-	-	0.3	-	-	0.3
<b>Financial assets</b>	-	-	1.8	-	-	1.8
As at 31 December 2016	AAA £m	AA £m	A £m	BBB £m	Unrated £m	Total £m
Other fixed rate securities	-	-	1.5	-	-	1.5
<b>Total debt securities</b>	-	-	1.5	-	-	1.5
Cash and cash equivalents	-	-	1.0	-	-	1.0
Derivative assets	-	1.0	1.6	-	-	2.6
<b>Total financial assets</b>	-	1.0	4.1	-	-	5.1

Amounts owed by group undertakings have been excluded from the above analysis as the Company considers that such amounts will be repaid in all reasonably possible circumstances.

# LEGAL & GENERAL FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

---

### 18 Financial risk management (continued)

#### Liquidity risk

Liquidity risk is the risk that the Company 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. A degree of liquidity risk is implicit in the activities of the Company. Liquidity risk arises as a consequence of the uncertainty surrounding the value and timing of cash flows.

The Group's Treasury function manages liquidity to ensure that it maintains sufficient liquid assets which are able to be realised as well as standby facilities to meet a prudent estimate of its net cash outflows. The group's formal governance structure oversees the management of liquidity risk.

See Borrowings note for cash flow maturity details (note 14).

#### Capital management

The Company's capital is determined with reference to the requirements of the Company's stakeholders. In managing capital we seek to maintain sufficient, but not excessive, financial strength to support funding of the Legal & General Group, payment of dividends and the requirements of other stakeholders. The sources of capital used by the Company are equity shareholders' funds and retained earnings arising from the Company's operations. At 31 December 2017 the Company had £12,500 of ordinary share capital and £10.3m of retained earnings. The Company had £598m of senior long dated borrowings in issue which mature between 2031 and 2041.

### 19 Commitments

The Company has a number of loan agreements in place with group undertakings to provide funding for periods up to ten years.

The Company has one loan agreement under which it is committed to provide funding of £5m at 31 December 2017 (2016: £5m) to a fellow group subsidiary. This was undrawn as at 31 December 2017 (2016: undrawn). The agreement expires on 2 June 2020.

The Company has also provided an undertaking to a fellow group subsidiary to provide funding of up to £25m on a contingent basis. As at 31 December no monies have been drawn against this undertaking (2016: nil).

The undrawn amounts under all other loan agreements are cancellable at the request of either the borrower or lender.