LEGAL & GENERAL GROUP PLC
ANNUAL REPORT AND ACCOUNTS 2013

IMPROVING PEOPLE'S LIVES.

WE KNOW EVERY DAY MATTERS AND WE NEVER FORGET OUR SOCIAL PURPOSE WHICH SEES OUR DEDICATED PROFESSIONALS COMMITTED TO BRINGING FINANCIAL SECURITY TO OUR CUSTOMERS, FROM FIRST TO LAST TIME BUYERS, FROM THE WORLD'S LARGEST PENSION FUNDS TO THOSE ON A DEADLINE TO THE BREADLINE, WE DELIVER SOCIALLY USEFUL PRODUCTS AND PROVIDE VALUE TO OUR CUSTOMERS.

EVERY DAY MATTERS.®

Legal & General

EVERY DAY MATTERS.®

Our aim is to build a company that, every single day, becomes even better at understanding, serving and rewarding our customers and shareholders. To do this we must recognise that customers are at the heart of our business and, consequently, we must work hard to build long-term positive relationships with them.

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KEY INFORMATION FOR SHAREHOLDERS

FULL YEAR DIVIDEND

9.30p

(2012: 7.65p). Updated dividend guidance is shown on page 19

FINAL DIVIDEND

6.90p

To be paid on 4 June 2014 (2012: 5.69p)

ANNUAL GENERAL MEETING

2014

11.00am on Wednesday 21 May 2014 at the Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ

For an online version of our annual report and accounts please visit our website **legalandgeneralgroup.com**
The report is also available as an iPad app. You can download it from the App Store.

CHAIRMAN'S STATEMENT

A STRONG PERFORMANCE IN 2013.

Delivering value for customers, shareholders and society.

Our culture and strong sense of social responsibility make Legal & General a special place to work. We celebrate this every year with our Chairman's Community Awards, where I have a chance to thank those employees who contribute the most.

HOW WE PERFORMED

Our total shareholder return over the last three years was 171%, making us a strong performer in the global life sector. We are proposing a 2013 full year dividend of 9.30p, an increase of 22% over 2012. We delivered another strong financial performance in 2013. Profit before tax was £1,134 million (2012: £1,033 million) and earnings per share were 15.20p (2012: 13.84p). We've also updated our future dividend guidance. Please see page 19 for details.

CLEAR STRATEGY, STRONG DELIVERY

Our clear strategy is aligned with long-term global macro-trends: ageing populations, constrained welfare spending, the need for long-term investment, globalised asset markets and a digital economy. Our highly dedicated workforce focuses on delivering this strategy in our chosen markets: investment management, retirement solutions, insurance and long-term savings. We work hard to develop talent and in 2013 restructured our business to serve our customers more efficiently.

I would like to thank all our employees for their hard work during 2013.

GOVERNANCE AND RISK MANAGEMENT

Legal & General's governance is led by the Board. It performed effectively in 2013: its work is detailed on pages 52 to 103 of this report. Henry Staunton, Dame Clara Furse and Nick Prettejohn retired from the Board during 2013. I am very grateful for their contributions. Mark Gregory was appointed as group chief financial officer, and we were pleased to welcome Lindsay Tomlinson and Lizabeth Zlatkus as new Board members.

Running a substantial financial services company in a complex global environment requires strong risk management. In 2013, under the leadership of the Risk Committee, we further strengthened our approach to identifying and mitigating market and operational risks.

OUR WIDER ROLE

We provide vital products and services for our customers. We also play an important role in the broader economy and society, and in 2013 our wider contribution was recognised by Business in the Community's award of 'Platinum Big Tick' status.

A PROMISING FUTURE

The Board believes our financial strength, skill-base and ambition position us well for future growth. I would encourage shareholders to find out more about us in this report, and I hope to see many of you at our AGM.

JOHN STEWART
CHAIRMAN

HOW WE'RE DOING.

KEY PERFORMANCE INDICATORS

Key performance indicators (KPIs) are defined as the measures by which the development, performance or position of the business can be measured effectively. The Group Board reviews the KPIs annually and updates them where appropriate. New KPIs introduced in 2013 are IFRS profit before tax and Earnings per share. IGD capital surplus and EEV per share are no longer considered KPIs and are now included in Other Group Information below.

OPERATING PROFIT

£1,158m

(2012: £1,087m)

See page 38 for a full breakdown of operating profit.

NET CASH GENERATION

£1,002m

(2012: £865m)

See page 36 for a full breakdown of net cash generation.

IFRS PROFIT BEFORE TAX

£1,134m

(2012: £1,033m)

RETURN ON EQUITY

16.1%

(2012: 15.4%)

OTHER GROUP INFORMATION

We include measures here which have not been determined to be KPIs by the Group Board, but which we use in deciding executive remuneration or other measures which we believe are integral to the Group's performance.

INSURANCE GROUPS DIRECTIVE (IGD) CAPITAL SURPLUS

£4.0bn

(2012: £4.1bn)

Figures after accrual of proposed dividend, based on draft unaudited regulatory returns.

IGD COVERAGE RATIO

222%

(2012: 234%)

BUSINESS HIGHLIGHTS

This section provides a brief overview of our operating divisions, including a summary of the principal products and services on offer. We've presented the measures which best represent the development, performance or position of each division.

For more information on our new structure go to pages 8 to 9.

LEGAL & GENERAL ASSURANCE SOCIETY (LGAS)

The Group's protection and savings business provides over six million individual customers and over 8,000 corporate schemes with life insurance, general insurance and savings plans. Our three main areas are: corporate (group pensions and group protection), retail savings (individual pensions, platforms and financial advice) and protection (life protection and general insurance).

LGAS INSURANCE GROSS WRITTEN PREMIUMS

£1,923m

(2012: £1,823m)

LEGAL & GENERAL RETIREMENT (LGR)

LGR provides retirement solutions to around one million customers. The retail business helps customers turn their pension savings into lifelong retirement income. The corporate business helps defined benefit pension schemes manage their annuity liabilities, through buy-out, buy-in and longevity insurance arrangements.

LGR ASSETS

£34.4bn

(2012: £32.2bn)

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EARNINGS PER SHARE (EPS)

15.20p

(2012: 13.84p)

FULL YEAR DIVIDEND

9.30p

(2012: 7.65p)

TOTAL SHAREHOLDER RETURN (TSR)

171%

(2012: 112%)

Over the three-year period ended 31 December 2013.

EMPLOYEE ENGAGEMENT INDEX

76%

(2012: 78%)

EUROPEAN EMBEDDED VALUE (EEV) PER SHARE

190p

(2012: 173p)

Figures including embedded value of LGIM's external funds

S&P FINANCIAL STRENGTH

AA-

(2012: AA-)

Standard & Poor's (S&P) financial strength rating for Legal & General Assurance Society Limited

CHANGES TO OUR REPORT

We've changed our report this year largely to reflect the new reporting standards introduced through an amendment to the Companies Act, 2006. The new regulations introduce a new strategic report as well as making changes to the directors' report.

The strategic report comprises the first three sections of this report: overview, our progress and our performance.

We have also introduced a new section describing our new corporate structure, focusing upon our five businesses and our leadership team.

The new sections we have developed are:

1. **How we're organised (pages 8 to 15).**
2. **Market environment (pages 16-17).**
3. **Response to macro trends (pages 18 to 29).**
4. **Delivering our social purpose (pages 30 to 31).**

Further information on key performance indicators and other performance measures can be found in the **financial review** on pages 34 to 41.

LEGAL & GENERAL INVESTMENT MANAGEMENT (LGIM)

LGIM is a global asset management business, managing investments on behalf of our institutional and retail customers. We're the largest manager of UK pension fund assets, with over 2,800 schemes. We offer a broad range of fund management services and have a growing international presence.

LGIM ASSETS UNDER MANAGEMENT

£450bn

(2012: £406bn)

LEGAL & GENERAL CAPITAL (LGC)

LGC has completed its first year as a new division. Its core purpose is increasing the risk adjusted returns on the Group's principal balance sheet. Since its creation, LGC has become more focused on improving returns through increasing exposure to direct investments and this remains a key objective for 2014 and beyond.

TOTAL SHAREHOLDER ASSETS

£43.4bn

(2012: £42.9bn)

LEGAL & GENERAL AMERICA (LGA)

LGA is successfully building scale in the US. We offer life insurance plans to individuals with a focus on underwriting expertise and excellence in customer service. LGA has seen strong growth in the last two years and is now a top three US term life insurer, by cover amounts. We now have over one million customers and have written more than $1 billion premiums in 2013.

LGA GROSS WRITTEN PREMIUMS

£654m

(2012: £584m)

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IN THIS SECTION

Guide to symbols

Key performance indicator (KPI)

Key measure in the remuneration of executives

"Automatic enrolment, which started in October 2012, has already been a huge success, with 2.5 million people enrolled so far and nine out of ten are staying in."

STEVE WEBB, PENSIONS MINISTER, DWP, FEBRUARY 2014


cityam.com/forum
ageing Britain can grow old
void a looming longevity crisis
NIGEL WILSON
MAKE THE PENSION TAX SUBSIDY FAIRER
CONVERT HOUSING WEALTH INTO INCOME
BUILD A £1 TRILLION CORPORATE PENSION DE-RISKING BUSINESS
GET GROWTH BACK TO TREND RATE
Twitter: @cityamforum
on the web: cityam.com/forum
or by email: theforum@cityam.com
urope – will have to learn that defaults are
AGAINST THE GRAIN
PAUL ORMEROD

STEPPING UP: NEW OPPORTUNITIES

EARNINGS PER SHARE
15.20p
(2012: 13.84p)

RETURN ON EQUITY
16.1%
(2012: 15.4%)

PENSIONERS WHO DEPEND ON OUR RETIREMENT INCOME
1m

MEMBERS IN OUR WORKPLACE PENSION SCHEMES
1m

Go online to see a video presentation from CEO Nigel Wilson
investor.legalandgeneral.com

Profitable growth for our business; personal growth for our employees; growth that drives the economy and helps our customers achieve their goals.

The UK and US economies are growing again: our LGIM economists are currently forecasting 3% growth for both countries in 2014. But Britain's economic growth relies too much on ultra-low interest rates, printing new money, and rising house prices. This recovery is driven by spending, without enough investment by companies or government. These are not long-term economic solutions.

Quantitative easing worked as an economic emergency measure, but it helped the 'haves' rather than the 'have-nots'. There's now 30 million people working in the UK, but real-terms earnings for a typical British households are 6% lower than five years ago, and productivity in most sectors has moved backwards. Housing is in short supply and unaffordable for many: we need to speed up planning and double the number of homes being built. We need to make saving for old age more effective, building on pension auto-enrolment but with a fairer tax system. And we need to help government reduce the deficit, in ways that are fair between generations and which avoid hurting the most vulnerable.

INVESTING IN BRITAIN

Legal & General is well-placed to help, by stepping up investment and developing opportunities in ways which benefit our policyholders and shareholders. We strongly support investment in infrastructure: in housing, energy, health, transport and education. Britain needs over 200,000 more houses each year: for the first-time and the last-time buyer and every stage in between. We have put over £3 billion into these areas so far, and alongside other insurers have committed another £25 billion over the next five years.

With huge resources – over £450 billion in total assets under management – we aim to build a framework for sustained future economic growth, creating homes and jobs, and helping to deliver necessities like energy and transport at affordable prices.

WORKING FOR SHAREHOLDERS, CUSTOMERS AND SOCIETY

We are paying 2013 dividends of £550 million and our shareholders earned a total return of 61% in 2013.

We have over 10 million customers globally and in 2013 we paid £4.9 billion in net claims to customers, including £1.9 billion in annuity payments.

We invest over £450 billion, employ over 9,000 people and in 2013 paid £877 million in tax.

DEALING WITH RISK

The Government has reduced the UK deficit to £96 billion. But annual expenditure is running at around £700 billion and tax receipts are only £600 billion. Austerity alone can't offset the rising welfare costs of people living longer and needing more care. Risks and costs need to be shared differently between the government and individuals, who will increasingly have to make better financial provision.

This happens already in pensions where auto-enrolment has been a success. We now have over a million workplace pension customers, and our scale and efficiency has driven down costs for savers: in 2013 we capped charges for our pension-saving customers at 0.5% and improved standard annuity prices by approximately 11%.

Risk-sharing, between the government, individuals and companies needs to be extended. Good value mass-market insurance products covering sickness or redundancy that reduce the costs of welfare for governments and taxpayers are an obvious next step.

PARTNERSHIPS THAT DELIVER

For a long term business, public policy uncertainty presents a risk. We need the right regulatory and policy environment to deliver the right products to customers at the right prices. The Solvency II legislation made progress in 2013, and thanks to HM Treasury's successful negotiation, managed to avoid the worst pitfalls, but uncertainties remain. We've spent £154 million and need to be sure that the EU's capital requirements will not be gold-plated in the UK to the detriment of our customers.

Regulation that enables consumers to access affordable, relevant financial advice and products requires a strong partnership between industry, government and regulators – and this is what we want. We need to keep improving products; delivering better pricing through greater efficiency; and providing service levels for customers that are consistent with our culture, brand and values.

THE STRENGTH OF OUR PEOPLE

Insurance and investment management are technical businesses, but people businesses too. We employ some of the best and most committed people in financial services. We're becoming a destination for talent and are determined to grow our people and skills. We have to identify future leaders, ensuring we realise their potential. We're delighted this was recognised by the Sunday Times Best Big Companies survey, which again ranked us among the top 25 large employers in 2013.

THE POWER OF CHANGE: ANALOGUE TO DIGITAL

In 2013, we invested in new areas like digital platforms and supplemented our organic growth with four acquisitions: Lucida, Cala Homes, Cofunds and the Idol, the latter two being in the digital space. Our industry is transforming, automating and speeding up processes and increasingly interacting with customers online.

We're on an exciting operational and financial journey: five years ago net cash was £320 million, it's now over £1 billion; dividends have grown by 129% and our share price has improved tenfold. And our business performed well again in 2013. Net cash generation was £1 billion, earnings £896 million and our total shareholder return for 2013 was 61%.

The future is just as exciting. We've scale and financial strength. We matter to the broader economy and are a socially useful business: in 2013 BITC recognised this by awarding us their top, 'platinum', rating for our CSR programme for the third year running.

Thank you for having the confidence to invest in us.

NIGEL WILSON
GROUP CHIEF EXECUTIVE

WHO WE ARE.

Our new corporate structure focuses on the needs of customers.

THE GROUP

OVERVIEW

We believe that the most efficient corporate strategy is for our five businesses to take responsibility for managing their own affairs themselves in most areas. However, we've also established a number of group functions, where centralised services provide greater levels of control and efficiency.

FUNCTIONS

- Legal and Corporate Governance
- Tax
- Group Finance and Group Audit
- Compliance and Risk Management
- Corporate Strategy
- Communications and Investor Relations
- Human Resources (partly decentralised)

LEGAL & GENERAL ASSURANCE SOCIETY (LGAS)

"I'm proud of our business and confident that we will always try to do the right thing for our customers. Insurance and savings help society improve financial security and in delivering this, we create value for our shareholders."
JOHN POLLOCK, CEO

FREEDOM TO FOLLOW YOUR DREAMS

We know that financial security is a necessity for our customers – whether it's protecting their everyday needs or preparing for the unexpected. We also know that the decisions we make today affect people's lives tomorrow. That's why we aim to stand resolutely behind the promises we make, take pride in our work and have passion and belief in what we do. It means our customers are reassured that we deal in more than money and information. It means each day we safeguard people and the things they care about, reduce their fears and doubts, and dependably support them so they can face tomorrow with confidence.

LEGAL & GENERAL INVESTMENT MANAGEMENT (LGIM)

"I'm impressed by the way in which everyone at LGIM pulls together, pooling their collective expertise to help our clients achieve their investment goals. Ultimately, it's all about putting our clients at the centre of everything we do."
MARK ZINKULA, CEO

GUARDIANS OF RETIREMENT DREAMS

Our business is built on people. We develop long-term relationships by supporting the things our clients value; and by designing and building solutions around them. We have a ceaseless desire to provide them with exceptional service and take pride in our stewardship approach to managing their money. It's this commitment to excellence that makes us innovative thought leaders in the investment market. Through dedicated expertise and constant monitoring of the financial markets we deliver perceptive insights that enable consistently strong long-term performance.

FOCUS ON THE CFO

We appointed Mark Gregory as our Chief Financial Officer on 1 July 2013. Mark has been a board member since 2009 and previously led the successful turnaround of our Savings business. Mark's role is to ensure that we continue to provide security for our customers with a strong balance sheet, while delivering growing and sustainable cash flows, leading to attractive dividend growth.

"I am excited and proud to have become Group CFO. We have the financial strength, execution skills and culture to take real advantage of the many opportunities we have."
MARK GREGORY, CFO

LEGAL & GENERAL RETIREMENT (LGR)

"It's been an exciting year for our retirement business, marked by acquisitions, innovation and a desire to do right for customers."
KERRIGAN PROCTER,
MANAGING DIRECTOR

PROVIDING A RETIREMENT INCOME FOR LIFE

We help individuals and companies manage the financial risk of retirement. Our individual annuity customers trust us with their lifelong savings. Corporate pension scheme trustees trust us with lifelong savings made by, and on behalf of, their pension scheme members. Our promise and duty is to provide in return, a guaranteed income for life.

LEGAL & GENERAL AMERICA (LGA)

"We expanded the breadth and depth of distribution, serving more consumers and ending 2013 as the number three writer by life cover amounts."
JIMMY ATKINS,
CEO

HELPING FAMILIES SECURE THEIR FUTURES

We make sure that families can continue to enjoy secure financial futures. We understand that families mourn the loss if unexpected death happens. Too often they're left financially dependent on the goodwill of friends and relatives. That's why we're dedicated to providing low cost term life insurance to keep families financially secure.

LEGAL & GENERAL CAPITAL (LGC)

"Our success is in delivering benefits to society: giving financial security to retired customers and funding investments in public projects."
PAUL STANWORTH,
MANAGING DIRECTOR

MAKING SURE WE PROTECT OUR CUSTOMERS' FINANCES

Because we look after the financial security of millions of customers, we need to make sure that we've enough capital to withstand tough market conditions, as well as financing growth. Our annuity, savings and protection customers rely on us to make wise investment decisions. But that's not all. Our focus on direct investments helps everyone by investing in housing, education, hospitals and care homes.

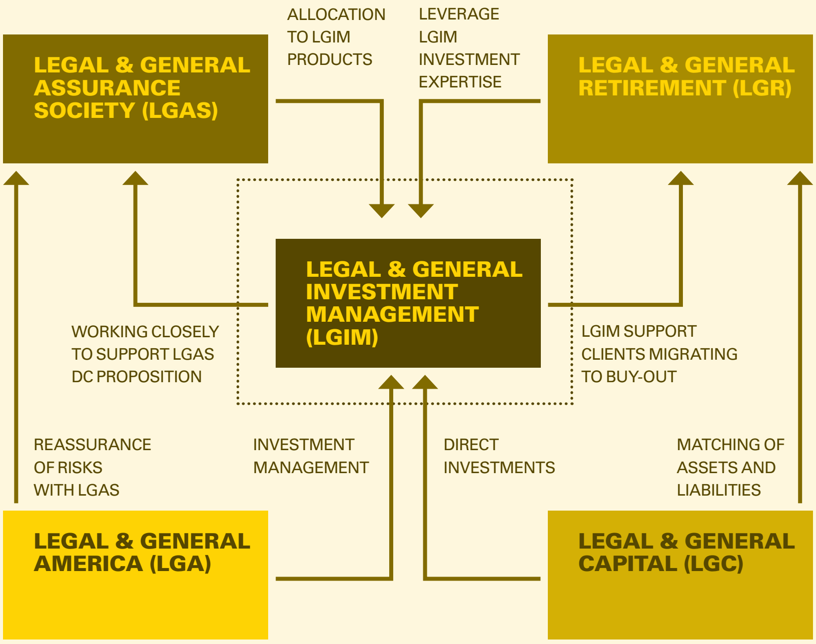
WHY WE'RE DIFFERENT.

The synergies between our businesses drive success.

SYNERGIES

We operate with LGIM at the heart of our business. Our businesses not only feed funds through to LGIM, but also work together to provide products and investment services for our customers. A key area is pensions, where LGIM not only manages pension fund assets and helps companies manage future liabilities with our market-leading liability driven investment (LDI) concept, but also work with LGAS' Corporate team to help schemes change from defined benefit (DB) to defined contribution (DC). LGIM also work with Legal & General Retirement (LGR) so that pension schemes can consider whether a buyout would be in their members' interests. Synergies are also important in individual business where, for example, our protection and corporate teams pool their ideas to help businesses provide complete solutions for employees and where our protection and retail savings teams work to provide integrated solutions.

MAXIMISING SYNERGIES ACROSS THE GROUP



- LGIM and LGAS corporate businesses are benefiting from using their combined strength to build our defined contribution (DC) footprint
- LGIM and LGR are forging stronger links to deliver solutions for existing clients
- LGIM works with LGC to expand its direct investment capabilities in property, commercial lending, asset finance and infrastructure investment
- We've started integrating Legal & General Investments (LGI) with LGIM. This allows our customers to benefit from LGIM's scale and low cost manufacturing

AREAS OF EXPERTISE

The nature of our business is to manage risks. While we cannot fully eliminate all risks, we use our expertise to manage and mitigate our risks:

- **Risk selection.** The scale of our data, our long experience and market leading expertise make risk outcomes more predictable.
- **Investment expertise.** We're one of Europe's largest institutional fund managers and are the leading UK pension fund manager, managing diverse investment asset classes and investment capabilities.
- **Financial and strategic discipline.** Our high operational efficiency is underpinned by our strong solvency and asset derisking.
- **Scale positions in attractive markets.** We use our experience and scale in existing markets to grow in attractive international markets.
- **Corporate relationships and diverse distribution.** We're a leading pensions solutions provider to UK corporations and the principal provider of protection, savings and investment products to UK building societies. Our group synergies across insurance and asset management enable us to provide comprehensive client solutions.

INVESTMENT EXPERTS

Through LGIM we're one of Europe's largest institutional asset managers and a major global investor. We manage £450 billion in assets for more than 2,800 institutional clients. Throughout the past 40 years we've built our business through understanding what matters most to our customers and transforming this insight into accessible investment products and solutions. We provide investment expertise across a wide spectrum of asset classes including equities, fixed income, commercial property and cash. Our capabilities range from index-tracking and active strategies to liquidity management and liability-based risk management solutions.

£450bn
LGIM FUNDS UNDER MANAGEMENT

3,000
NUMBER OF CORPORATE PENSION SCHEMES WE MANAGE

LONGEVITY AND MORTALITY EXPERTS

We're recognised as a leading industry expert in the understanding of protection and annuity products and services. We're committed to continually developing this expertise. We're associated with a number of external longevity science institutions, such as our collaboration with University College London (UCL) on population ageing, where we sponsor two employees. We also support the Longevity Science Advisory panel (LSAP), an independent panel of leading authorities who are experts on longevity issues.

over £2bn
TOTAL GROSS WRITTEN PREMIUMS FOR LGAS AND LGA

1m
PENSIONERS RELYING ON US FOR RETIREMENT INCOME

WHY WE'RE DIFFERENT

OUR OPERATING MODEL

We've three distinctive types of businesses: protection (LGAS and LGA), retirement (LGR) and investment management (LGIM, LGAS and LGC), all of which generate returns.

EVERY DAY MATTERS

What customer needs do we meet?	**PROTECTING LIVES, HOUSES AND HEALTH**	**PROVIDING RETIREMENT INCOME**	**SAVING FOR THE FUTURE**
What do we do for our customers?	Provide monetary assistance and peace of mind when they need it	Promise to pay a regular income for the rest of their life	Offer a broad range of products to suit all types of investors
What products do we offer?	**LIFE PROTECTION AND GENERAL INSURANCE**	**ANNUITIES AND LONGEVITY INSURANCE**	**SAVING THROUGH PENSIONS AND INVESTMENTS**
Who are our customers?	**INDIVIDUALS, CORPORATES AND INSTITUTIONS**		
How do we generate returns?	Use underwriting expertise to price premiums to cover reserves, future claims and expenses	Use longevity expertise to calculate payments and investment experience to invest in suitable assets to generate income	Use investment expertise to deliver asset returns supported by efficient administration
What do we do with the returns?	**Invest for future profitable growth**	**Pay dividends**	**Maintain capital to support policyholder security and a strong new business franchise**

OUR PURPOSE

Our customers rely on us, whether its protecting against unforeseen circumstances, helping to save for retirement or investing money wisely so that it grows over time. We promise to continue to deliver what really matters to help millions of people manage their financial future. This is our social purpose: understanding people's financial needs, pooling risk and helping society by reducing the pressure on public finances. It demonstrates that we do the right thing and it sits at the heart of our business and is expressed through Every Day Matters.

HEALTH

"In the US, the UK and wherever we offer insurance, the State can't always be relied on to pick up the pieces if a breadwinner is no longer there to support their family. Our life insurance provides the funds to enable family members to carry on without their loved ones."
JIMMY ATKINS,
CEO LGA

Our recent 'Deadline to the Breadline' report showed that the median amount that UK households have saved is just £1,010. We calculated that the average UK household had savings which would last just 26 days without a regular income. This means that within four weeks, without protection, they would need to rely on the state or friends and family for financial support.

£717m

UK LIFE PROTECTION CLAIMS PAID

(2012: £694m)

PENSIONS

"Our social purpose means we aim to do the right thing for our customers. We think it's the right thing to cap pension charges for people who are saving for a pension for the first time and extend this to existing customers. We want to help people build retirement savings and reaching one million workplace customers is a major testament to our beliefs."
JOHN POLLOCK,
CEO LGAS

We're a market leader in auto-enrolment, with over one million members of workplace schemes, the UK's largest investment manager for pension schemes, with over 2,800 schemes and a provider of £1.9 billion of annuity income. We want to ensure that the UK pensions industry provides value for money to consumers.

£304bn

PENSION FUND ASSETS MANAGED BY LGIM

(2012: £266bn)

HOUSING

"We need an innovative approach to housing, where there's been a slow decline in homebuilding since the 1970s. Millions of young people have been priced out of the home buying market, while 'last time buyers' have limited access to suitable housing."
PAUL STANWORTH,
MANAGING DIRECTOR LGC

We aim to provide the capital to stimulate the building of new homes. We're also one of the UK's largest mortgage intermediaries, arranging £28 billion in mortgages in 2013 and paying out over £132 million in household insurance claims. We are also working with English Cities Fund on a major regeneration project for Salford, in a scheme which is planned to deliver 849 new homes.

£5.2bn

INFRASTRUCTURE AND DIRECT INVESTMENTS

Organisations we work with

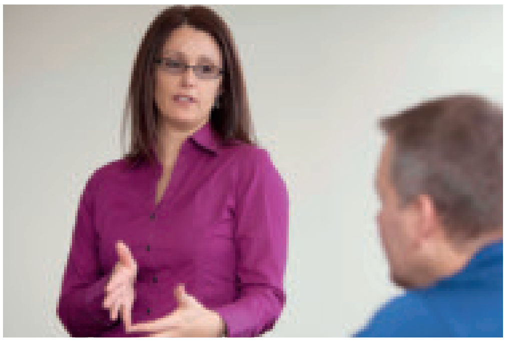
Shelter | WE ARE MACMILLAN. CANCER SUPPORT | age UK | HelpAge India | TAX VOLUNTEERS | ILC | SAMARITANS

PEOPLE MAKE THE DIFFERENCE.

Our next generation leader programme helps women achieve their goals.

A NEW GENERATION OF WOMEN LEADERS

"I'm proud of the 'next generation women leaders' programme. It reaches high potential women early in their career and enables them to work with other successful women and learn from their wisdom and experience. It's encouraging that women now comprise 50% of our future leader programme".
JACKIE NOAKES, CHIEF OPERATING OFFICER, LGAS.



We want to change the situation where the mix of women and men is unbalanced. There's a higher proportion of women at junior levels and not enough women in middle and senior management roles. We want to help women (and men) meet the challenges of caring for their families and building careers. We want to end any unconscious bias that makes it difficult for women to achieve promotion. We're convinced that diversity is good for future business growth, helps us serve our customers better and act with a social purpose.

We worked with the Bank of England and many other leading FTSE 100 companies to develop our next generation women programme. There's already a number of successful women in senior positions. Pictured, from top down are: Siobhan Boylan, CFO, LGIM; Andrea Blance, LGAS strategy director; Jennifer Gillespie, head of money markets, LGIM; Brooke Vemuri, assistant vice president, LGA and Philippa Scott, group regulatory risk and compliance director.

The programme will not only seek to build the leadership skills of our next generation women leaders, but will help them manage the challenges that successful business women face in their everyday lives.

We invest in our future through innovative leadership programmes.

INNOVATION AND LEADERSHIP

Leadership is the catalyst for achieving our ambitious growth strategy. Our leadership academy demonstrates our commitment to driving forward the future success of the company.

We established the leadership academy to provide the springboard for talented people to build on their leadership skills, cultivate their understanding of strategic and operational thinking and learn how to inspire others to embody Every Day Matters. The academy recognises that successful people have diverse talents and come from very different backgrounds. We choose people who demonstrate the skills, behaviours and mindsets that we believe are critical to achieve our ambitious vision.

The future leader programme is part of the leadership academy, where high potential managers engage with our leadership group to learn from their skills, knowledge and experience. We've designed a year-long programme to provide employees with an opportunity to identify and lead group wide projects. The aim is to accelerate the movement of top-performing employees into senior leadership roles, where they will learn to perform at managing director level.

RECOGNITION FOR OUR LEADERS

We achieved 19th position in the Sunday Times '25 Best Big Companies to Work For' list, six places above our 2012 position. We also won a special award for Innovation in Engagement Practice, in recognition of the fantastic work around the business such as 'One Day' in late 2012, the Kingswood Fun Day in July 2013 and the huge number of CSR-related activities our colleagues get involved with. We moved up from a 'Ones to Watch' accreditation in 2012 to a 'One Star Company' accreditation in 2014. The picture above shows Kathryn Gray, HR director, LGAS and colleagues from around the business, being presented with this prestigious award in February 2014.

Some of our Legal Team are pictured outside the Koko music venue in Camden, London where they and two other Legal & General rock bands performed to raise over £80,000 for nine charities. When not attempting to play rock music they also won two independent awards in 2013, including the most innovative in-house legal team in Europe, as judged by the '*Financial Times Innovative Lawyers Awards*'.

Our employee engagement index measures through our annual employee survey, how committed our employees are to our goals and our overall success. In 2013, 87% of all worldwide employees participated in the survey. An important way we build employee engagement is through regular intranet communications.

MACRO TRENDS DRIVE STRATEGY.

Five big themes underpin long term growth and innovative solutions.

AGEING POPULATIONS

Ageing populations are an inescapable reality that will affect western economies in the first half of this century. Commentators often say that we should celebrate the fact we are living longer. And that's true, especially if we provide for old age by using private retirement savings to supplement state benefits.

The world's getting greyer

The transfer of welfare, pension and savings provision from the State to individuals will continue. The success of auto-enrolment can provide a model for other products and services; long term care, life insurance, critical illness cover, more flexible annuity products and many others.

Global over 60s

800m

today

2bn

by 2050

The explosion in the number of over 60s will change the whole structure of society. In Europe, by 2050 around one third of the population will be over 60. Can governments afford to provide generous state pensions, free healthcare and elderly care?

STRATEGIC RESPONSE:
RETIREMENT SOLUTIONS
SEE PAGES 22 AND 23

WELFARE REFORM AND AUSTERITY

The global meltdown beginning in 2008 shocked us into realising that the years of increasing wealth were over. When the Welfare State was born in the middle of the last century, we believed that governments could afford to provide universal benefits for all. Now we know that the state simply can't meet all our financial needs.

Austerity across the EU.

In 2012, the total budget deficit for EU countries was €510 billion, a huge figure, but a staggering reduction of €293 billion compared to 2010. The effect of austerity on ordinary people has been painful, with subsequent political fallout affecting several governments.

UK government planned benefit cuts

£18bn

yearly by 2014/15, compared to 2010/11

The Coalition's welfare reform programme aims to save £18 billion a year from the social security budget by 2015, with a further £4 billion a year saved from tax credits. Some of the biggest areas of cuts are housing benefit, child benefit and disability living allowances.

STRATEGIC RESPONSE:
PROTECTION
SEE PAGES 26 AND 27

RETRENCHING BANKS

The 2007-8 financial crisis and Basel 3 have combined to severely reduce global credit. A short term focus has disrupted many financial markets and many economies. The model is changing as the capital provided by banks is diminishing as banks retrench.

Making space for others to lend

We believe long term institutional investors can step up, providing long term competitively priced capital based on long term risk assessment and long term economic needs. We can see this happening in infrastructure, especially in the housing sector. We've committed to play an increasing role in these new businesses.

Reduction in homes built in the UK

426,000

homes built in 1968

144,000

homes built in 2012

Shelter said: "We need to build at least the 250,000 homes per year in England needed to meet the growing number of households. Building these homes will reduce the pressure caused by the growing housing shortage and so help stabilise prices."

STRATEGIC RESPONSE:
DIRECT INVESTMENT
SEE PAGES 24 AND 25

GLOBALISATION OF ASSET MARKETS

In the US we've seen the same move towards passive investments as the UK. Assets in passive investment funds more than doubled in four years to $1.3 trillion of US investors' assets. Similar issues are seen in other major economies. For example, the rising costs of defined benefit (DB) pension schemes affect companies in the US, the Eurozone and the UK.

Global markets

Market globalisation helps us to diversify our business. Some US firms operate successfully in the UK. Until very recently, UK asset management companies had little penetration of US markets. Through our US liability driven investments (LDI) business we're becoming a strong player in this important segment of the US market. However, the total North American market has $33 trillion in assets, with $19 trillion in US pension fund assets.

Growth in US pension assets

$18.9tn

US pension fund assets 2013

$9.9tn

US pension fund assets 2003

We're a top 25 global asset manager, having increased international AUM by 302% from £15 billion in 2008 to £59 billion at the end of 2013. The US is a core market for our asset management business and we aim to build on our recent growth.

STRATEGIC RESPONSE:
LGIM INTERNATIONAL EXECUTION
SEE PAGES 20 AND 21

DIGITAL LIFESTYLES

Our industry needs to move from an analogue world dominated by face to face meetings in physical buildings, legacy processes and spreadsheets to one where rich data analytics using 'big data' is used to develop customer insights so that we can better understand customer requirements and behaviour.

Developing digital solutions

These changes will allow us to provide better value digitally guided solutions for customers, as is increasingly common in many other industries. We already provide instant underwritten quotes for annuities, our straight-through processing in retail protection exceeds 80% and we're approaching £80 billion of assets on our digital savings platforms.

Growth in UK mobile internet usage

94%

16-24s in 2013 who use mobile devices to access the internet

The widespread use of mobile devices to access the internet has changed the nature of internet usage. Consumers are willing and able to buy from, and communicate with, product providers throughout their waking hours.

STRATEGIC RESPONSE:
DIGITAL SOLUTIONS
SEE PAGES 28 AND 29

ECONOMIC RECOVERY?

The UK achieved 1.9% GDP growth in 2013, but output is far below the pre-financial crisis level. Structural economic weaknesses remain such as low productivity levels, low real-wage growth and sizeable government deficits. Global markets have been boosted by US asset purchases, but this support is likely to diminish in 2014. In the eurozone, growth is still anaemic. Interest rates are just 0.5% and unemployment worryingly averaged over 12% across the EU, reaching over 28% in Spain.

REGULATORY CHALLENGES

Regulation and policy uncertainty pose major challenges for the financial services industry. In 2013, we adjusted our business model to regulatory changes from the EU Gender Directive and Retail Distribution Review (RDR). We are concerned that RDR has limited access to advice for less wealthy consumers.

The EU has now provided more clarity on Solvency II, but issues remain to be resolved. We are generally much happier with the outcome from the trialogue process and the proposed treatment of capital for insurers who provide long term guarantees. But new impending UK and EU regulation on annuity sales, 'money markets', retail investments and insurance mediation give us a challenging outlook for 2014.

OUR STRATEGY AND OUR PROGRESS.

How our response to the five big themes helps us achieve our ambition.

STRATEGY	EXAMPLES OF PROGRESS (For further detail on the points noted below, see pages 20 to 28)
RETIREMENT SOLUTIONS	• We've over one million people in our UK workplace pension schemes, having auto-enrolled over 550,000 employees
PROTECTION	• We're a market leader in UK protection, with a 21% market share, outperforming our competitors in sales revenue, technology and product innovation
DIRECT INVESTMENT	• We established a new team to deliver direct investments in infrastructure and are one of a group of six insurers who plan to invest £25 billion into infrastructure over the next five years
LGIM INTERNATIONAL	• Our assets under management in the US grew from $12 billion to $38 billion since 2007
DIGITAL SOLUTIONS	• Our purchase of Cofunds in March 2013 gave us full ownership of the UK's largest digital investment platform, with customer assets of £64 billion

OUR SOCIAL PURPOSE UNDERPINS EVERYTHING WE DO

ACTIONS

- Helping people to protect against unforeseen circumstances, saving for retirement or investing money wisely
- Reducing the likelihood of people having to fall back on the State as a result of a loss of income, homelessness or poverty in retirement, thereby reducing the pressure on strained public finances
- Being an economically useful company that is fundamental to the UK economy in many ways: as an employer, a taxpayer, an investor in infrastructure and a responsible provider of long-term capital to UK companies
- Campaigning to improve the supply and quality of housing, raising the health of the nation, helping to diminish pensioner poverty and ensuring that major companies are run according to agreed standards of governance and ethics
- Benefiting wider society through our community and charity work

ASSESSING PROGRESS AGAINST OUR AMBITION

We assess progress against our ambition through the measurement of our key performance indicators (KPIs), a number of which are used in deciding executive remuneration (£).

- We're one of the largest liability driven investments LDI managers , with global AUM of £70 billion
- In the US we now have an 6.4% market share in the term life market, reaching the milestone of having one million customers
- We made a total of £2.9 billion investments in a range of sectors, including housing, care homes, hospitals and city regeneration
- We were granted a regulatory licence to operate in China, having already opened an office in Hong Kong
- We're the fastest growing home insurer in the direct market

GROWING THE DIVIDEND

Our Solvency I IGD capital surplus was £4.0 billion at the end of 2013 (2012: £4.1 billion). This equated to a capital coverage ratio of 222% (2012: 234%), within our preferred longer term range of 175% to 225%.

During the second half of 2013 there was encouraging progress on the development of the proposed Solvency II regulatory regime. We now believe that the worst case scenarios have been avoided to the benefit of customers and the wider economy. While full clarity on Solvency II capital will not emerge for at least another 18 months, we currently anticipate that our Solvency II capital surplus will be no lower than our Solvency I IGD capital surplus.

We continue to see profitable growth opportunities, both organic and via selective acquisitions, in which to deploy some of our capital. We also expect to increase the proportion of net cash we return to our shareholders as dividends while maintaining a strong but efficient balance sheet. More specifically, assuming we continue to anticipate a Solvency II surplus being no lower than Solvency I, we expect over the next two years to reduce our net cash coverage of dividend towards 1.5 times. We will provide dividend guidance for subsequent years when Solvency II clarity has emerged. The Board remains committed to a progressive dividend policy over the long term.

PROGRESS

- In 2013 we paid £604 million in death claims, £16 million in critical illness claims and over £132 million in home insurance claims. We helped 550,000 new customers towards a more comfortable retirement by welcoming them into our workplace pension schemes, since auto-enrolment started in October 2012.
- We invested £2.9 billion in direct investments, including £173 million in housing and care homes and £33.5 million in student accommodation.
- We paid £877 million worldwide in all forms of tax.
- We met with the boards of 278 companies to discuss corporate governance issues
- Our employees contributed 2,247 volunteering days to community and charity work, delivering £4 million in community investment programmes.

Our financial review section on pages 34 to 41 addresses the following KPIs in detail:

Reward our shareholders with superior financial returns

KPIs: Earnings per share, Full year dividend, Total shareholder return £

Growing net cash, earnings and returns on equity

KPIs: Net cash generation £, Operating profit £, IFRS profit before tax £, Return on equity £

Managing capital prudently

KPI: IGD surplus and coverage

FOCUS. ACTION. RESULTS.

"Leaning in" to the five big themes drives strategy and inspires success.

PASSPORT TO EUROPE

As asset markets become increasingly global, clients no longer wish to limit themselves to their home market. In Europe, this trend has manifested itself in the growth of cross-border funds.

Last November, we launched three new funds contained within a new fund platform, which is easily accessible across Europe. These new funds give clients access to some of our flagship active fixed income capabilities, offering both benchmark, relative and absolute return funds.

To date, there's been significant interest in the funds from global financial institutions in the UK, Germany and Switzerland as well as pension funds in the Nordics region. Given the demand, we plan to launch more similar funds in the year ahead.

LGIM INTERNATIONAL

EXPANDING OUR GLOBAL FOOTPRINT

International asset management is an increasingly important component of LGIM's business as business from our traditional UK defined benefit pension schemes matures.

Our international business continued to gain momentum in 2013 with strong demand for our index tracking, fixed income and liability driven investment strategies around the world. At the same time, we launched an exciting new initiative in Europe and moved to the next stage in our plans for Asia. These developments complemented our already well-established US business and cemented our global approach to investing. Against this backdrop, net inflows continued to grow. By the end of December, our total internationally sourced assets had advanced to almost £60 billion. That's 300% growth in the last five years.

A MAJOR US PLAYER

In the US, strong investment performance coupled with our growing reputation for providing thoughtful solutions won us many new clients in both our award-winning fixed income and liability driven investment business. In particular, we were able to stay ahead of long-term themes such as an ageing population and a low interest environment, providing our clients with products that seek to address the investment implications of both these topics.

Towards the end of the year, we began to develop our index tracking capability with a number of high-profile appointments to augment our in-house expertise.

This move to promote our passive business in the US builds upon our existing strong franchise in the UK and our more recent expansion into Europe and the Middle East.

The US has become a core market for our international business. Our assets under management grew by almost £4 billion in 2013. This momentum looks set to continue in 2014.

EUROPEAN PRESENCE

In Europe, we increased our offerings in the region by launching a SICAV (société d'investissement à capital variable) fund platform, which enables our clients to access our institutional investment capabilities via a universally accessible fund structure. The SICAV includes three underlying funds, and we plan to increase this number throughout the course of 2014. We already have a healthy pipeline of institutional mandates in Europe and, as we gain traction through our new fund platform, we anticipate concurrent growth in our wholesale business.

In mid 2013, we began to merge our retail and institutional arms into a new wealth management unit in order to better target retail and wholesale markets through a more cohesive approach to distribution and product development. Our progress to date has been good.

IN THE GULF

In the Middle East, we continued to enjoy major inflows throughout 2013, primarily into indexed mandates from sovereign wealth funds. Our total book of business in the region has grown from less than £500 billion in 2009 to £16.8 billion today.

Encouragingly, we're also beginning to enjoy referrals from existing clients in the Gulf. In terms of products, we're seeing growing interest in US credit, high yield and, most recently, UK property funds.

ASIAN EXPANSION

In Asia, following the earlier opening of our Hong Kong office, we were granted a regulatory licence in July, enabling us to start marketing our investment capabilities across the region. The central banks, sovereign wealth funds and national pension funds we target all have large asset pools that are growing significantly. They've also demonstrated an interest in appointing overseas managers. Our initial focus will be on promoting our market leading fixed income and index tracking strategies, although we will look to broaden this strategy as our business develops.

MANAGING RISK

Our growth plans will mean that our operational risk profile will increase across our businesses. As we grow we are investing in our system capabilities and business processes to ensure that we meet the expectations of our customers, comply with regulation and mitigate the risks of loss or reputational damage from operational risk events.

Because we are operating across a broader range of jurisdictions, our regulatory risks profile will also increase. We are investing as we develop an international operational infrastructure, but aim to retain our target cost-income ratio of no higher than 50%.

BUSINESS SNAPSHOT: LDI IN FOCUS

"Much of the success of our US investment business is founded on the expertise of our highly experienced fixed income managers working in partnership with our Liability Driven Investment team. The macro themes of increasing life expectancy and low interest rates are having a major impact on the funding of traditional pension funds and require urgent attention. That's where we come in."

AARON MEDER, HEAD OF SOLUTIONS GROUP

We can help companies to manage their liabilities on a customised basis. We do this by deploying sophisticated strategies that involve hedging a plan's exposure to interest rate movements. At the same time we carefully select those corporate bonds that have the appropriate credit quality and yield to match a pension fund's liabilities. Our increasing reputation for delivering fixed income performance and developing innovative LDI solutions has helped us win two industry-wide awards in the US for our fixed income and LDI capabilities.

EXTERNAL NET FLOWS

£9.3bn

(2012: £5.3bn)

FOCUS. ACTION. RESULTS.

RETIREMENT SOLUTIONS

By 2050 around a third of the European population will be over 60. And the ratio of working people to retired people is expected to fall from four to one in 2010, to less than two to one by 2050. Governments will struggle to provide adequate state pensions, healthcare and elderly care services. Employers will find it even more difficult to fund costly defined benefit pensions for their employees.

Our retirement solutions are designed to help companies and individuals across a number of global locations, shift the burden of providing for the elderly away from the State towards the private sector.

SOLVING THE PENSIONS CRISIS?

In the UK, auto-enrolment means that we expect to see around 11 million new people saving for retirement. Two million people have already joined up. Pension deficits fell, as global stock markets rose, fuelled by quantitative easing and economic recovery.

A PARTNERSHIP THAT DELIVERS VALUE FOR MONEY

The success of auto-enrolment is a great example of how Government and the insurance industry work together to help raise the living standards of pensioners. Our market leadership not only drives our own business success, but also means that we can help to ensure that those saving for retirement are treated fairly and charged reasonably. We've taken the lead in governance, transparency and charges, championing a commitment to keep charges made to employees choosing our default fund for enrolment to no higher than 50 basis points. The success of our auto-enrolment offer to companies means that we have nearly 25% of all UK auto-enrolled schemes, with over half a million new customers.

WORKING TOGETHER TO BENEFIT CUSTOMERS AND SHAREHOLDERS

Our distinct advantage is that we bring together skills and experience from many different business areas to provide a comprehensive retirement and risk transfer service for both UK businesses and individual customers. Businesses can benefit from our workplace savings, group protection, asset management and group annuity teams working closely together. Auto-enrolment in pensions has helped drive growth in companies taking our group life and group

PURCHASE OF LUCIDA

"The purchase of Lucida will benefit their customers, giving them the comfort of knowing that their pensions will be paid by a long standing, trusted and well-capitalised business."
KERRIGAN PROCTER, MD LGR

In June 2013, we announced the completion of the purchase of Lucida, a company specialising in pensions buyouts. While the acquisition price was around £149 million, we will be able to release capital and reserves, giving a net purchase price of £85 million.

The purchase not only shows our commitment to building our market leadership in retirement solutions, but also shows our determination to accelerate our organic growth with bolt-on acquisitions.

Since June 2013, we've seen a smooth integration of Lucida's business into our own. The full implementation timetable is on track and we have successfully merged Lucida's policy data into our own computer systems. We've also boosted LGIM's assets with a further £1.4 billion of internally managed funds.

SOLVING THE CARE CRISIS

Currently there are around 850,000 elderly people receiving care in their own homes and about 300,000 in care homes. The number of people needing care is forecast to increase by 30% in the next 10 years, with the UK's over 85 population doubling by 2030.

The coalition government's expected new funding framework, to be introduced in 2015 to 2016, caps a portion of care costs and intends to allow some people to defer care home costs until death. However, someone living three years in a care home and self-funding might spend over £100,000. Our solutions include owning care homes, looking at stimulating the building of specialist housing for the elderly and developing more flexible retirement income plans.

We believe that in the future, equity release can also help. Ultimately, we believe that people need to start funding care from a much earlier age, using the success of auto-enrolment as a model.

ANNUITY ASSETS

£34bn

(2012: £32bn)

income protection products. For companies with DB schemes, our LDI products help them match investments to liabilities. And where funding DB costs becomes especially difficult, we work with employers to facilitate a switch to DC or to use our buyout, buy-in or longevity insurance products to manage future annuity costs.

GROWING OUR ANNUITY BOOK

We're now the only UK provider to be a market leader in both individual annuity and bulk annuity products. This leaves us less reliant on individual annuities, a market which reduced in size in 2013. As well as the purchase of Lucida, we reinsured New Ireland's annuity book giving us around 600 million euros under management. We also completed the UK's largest ever longevity insurance transaction, securing £4.9 billion of BAE Systems' pension scheme risk.

PROVIDING BETTER ANNUITIES

We've been working with the Association of British Insurers (ABI) to help improve the value for money that consumers get when turning pension savings into annuity income and we welcome the regulatory focus on improving annuity sales. We already encourage people to shop around for a better annuity, using guidance or advice services to make sure the right product is bought. 75% of our individual annuities are sold in this way.

HELPING UK BUSINESSES MEET THEIR LIABILITIES

LDI also shows how our businesses work together to help companies deliver pension benefits to employees. Because the ultimate aim is to ensure that companies can afford to pay pensions to scheme members, LGIM provides investment funds, including risk hedging schemes, while LGR can enable schemes to use buyout, buy-in and longevity insurance to manage risk.

In its 2013 LDI survey, KPMG said that: "Legal & General are now the largest LDI manager in the UK."

PROVIDING DIGITAL RETIREMENT SOLUTIONS

'Prism', launched in July 2013, is a groundbreaking online monitoring, analytics and risk management platform. Prism provides online asset and liability analytics for pension scheme trustees, employers and their advisers. It helps them describe the risks in their defined benefit strategy, supports our range of funds and services and helps pension schemes de-risk by either moving towards a low-risk investment strategy or considering a buyout solution.

In Workplace pensions, we aim to move towards a fully digital platform. We've built an efficient front end, which integrates seamlessly with employers' payroll systems. We've also made progress in creating a digital platform for employees where they can change funds online and view online benefits statements.

Our most recent success is the enhanced annuity platform (EAP), which provides instant live annuity quotes. This platform allows potential annuity customers to receive an individual quote based upon their own health and lifestyle criteria.

MANAGING RISK

Increasing the scale of our retirement business increases both the amount of longevity risk that we take on as well as credit risk from the assets we hold to meet future obligations. As well as our capabilities to evaluate and price for longevity, we actively use reinsurance to control aggregate exposures. Experts in LGIM and LGC manage our exposures to credit risk.

FOCUS. ACTION. RESULTS.

LAST TIME BUYERS

In the UK, 49% of owner-occupied homes are, according to the English Housing survey under occupied. A quarter of UK homes have just one person living in them; these are mostly over 60s. Yet the supply of homes for young people and families is inadequate.

In the UK, just 1% of elderly people live in specially adapted homes, compared to 17% in the US and 13% in Australia and New Zealand. There are 25 million empty bedrooms in England, yet the supply of housing stock for younger people is woefully inadequate. Most of the nearly two million households on local authority waiting lists also want one-bedroom or two-bedroom homes. However, the proportion of one-bedroom properties being built has fallen to its lowest level for 20 years. We need to build more homes for first time and last time buyers, encouraging the elderly to move to smaller homes.

DIRECT INVESTMENT

Banking austerity has created an opportunity for insurers to offer long term finance. As banks retrench, a wide range of attractive direct investment opportunities have arisen for us, providing both a return on investment and the opportunity to match liabilities and assets in our annuity book. We choose direct investments that can provide higher risk adjusted returns and provide a natural fit for us. Our focus is on infrastructure, commercial lending, property (commercial and residential) and asset finance. We have earmarked substantial capital for these sectors across the Group.

HOMEBUILDING: A POLICY FAILURE

The failure to build homes in the UK is evidence of a structural problem which has existed since the early 1970s. The long decline in homebuilding coincided with a massive rise in house prices. In the late 1960s, the UK was building over 400,000 homes a year, with local authorities and private investors both contributing in large measures. Now fewer than 100,000 homes a year are built, with the supply from local authorities having completely dried up. The banks have retreated from lending money for homebuilding, while the rise in prices has contributed to the £17 billion a year the Government pays in housing benefit, mostly to private landlords.

HELPING SOLVE THE HOUSING CRISIS

In March 2013, we announced a £102 million, 15-year debt facility for the Hyde Group, one of the largest housing associations in England. Hyde was formed in 1967, with the aim to make a lasting difference to people's housing needs and has grown into one of the main providers of affordable housing in London and the South East. Hyde owns or manages around 48,000 properties with a wide range of tenures, making a significant contribution to meeting housing needs and improving people's quality of life.

INVESTING IN EDUCATION

We expect the next decade to be a more testing period for the UK's higher education sector, with higher tuition fees shifting the financial burden onto students. However, the UK continues to enjoy a world-leading position in the market for internationally mobile students. As a result, we expect to see an emerging trend towards universities increasingly being defined as 'premium', research-oriented institutions able to attract students from overseas and a more value-oriented tier which are able to deliver lower-fee courses and a good record of securing employment for graduates.

We've now invested over £750 million into student accommodation. We've delivered eight major university based acquisitions, with four taking place in 2013.

In 2013, we acquired new student accommodation schemes, one backed by Aberystwyth University and another let to Newcastle University, for a total consideration of £130 million. We agreed to forward fund the development of an 193-bed student accommodation scheme pre-let to Canterbury Christ Church University for a total consideration of £15.7 million.

In May 2013, we financed the University of Hertfordshire's 3,000-bedroom student accommodation scheme through an index linked unwrapped private bond placement, having also previously secured a £121 million, 10-year debt facility to UNITE.

Previous deals have included forward fundings with Imperial College, University of the Arts London, Southampton University and Greenwich University. Forward funding enables loan agreements to be made that start at a future date.

DELIVERING BETTER HOMES FOR THE ELDERLY

The crisis in funding adequate care for the elderly in the UK is also a failure of governments to plan society's accommodation needs. While the over 60s in the UK are sitting upon over £1 trillion of housing wealth, young people are unable to afford to get on the housing ladder. We believe that there must be a care solution that provides intergenerational fairness and helps 'last time buyers'.

We not only want to see an equity release market in the UK that operates at critical mass and provides more flexibility in income withdrawal, but we want to see better quality housing for the elderly, either retirement villages or care homes according to people's individual needs.

Our recent purchase of 13 care homes let to Methodist Homes (MHA) for just over £70m demonstrates our commitment to improve the quality of care for retired people.

IMPROVING UK INFRASTRUCTURE

In 2014, we continued our infrastructure investments, announcing a £60 million new business development in Salford, in partnership with the English Cities Fund (ECf). Through ECf we are also working with housing associations to produce affordable rental property.

MANAGING RISK

In building our commercial lending portfolio, we are inherently exposed to the risk of loan default. Over the years through Legal & General Property we have built significant expertise in property markets, while LGC has established credit models that support the assessment of loan security and the pricing of the risk.

CALA HOMES

"CALA has been a strategic and successful direct investment, providing equity finance to supply new housing in the UK, when it is at a severe shortage."
PAUL STANWORTH, MD, LGC

In March 2013, we acquired a 46.5% shareholding in UK house builder, CALA Group, giving CALA the capital backing and potential to build many new homes throughout the UK. We acquired CALA from Lloyds Banking Group in a joint venture with Patron Capital Partners. The purchase enables us not only to develop assets with attractive returns for shareholders but satisfies our desire to increase the UK housing stock.

CALA is just one of many initiatives where we have planned to provide new housing across all sectors of the market. We plan to use our own land banks to increase the supply of housing. We can also maximise value to the group through the future supply of mortgage and protection products.

The purchase shows how different parts of our business work together on major projects. Bill Hughes' team in Legal & General Property originated the deal. Wadham Downing, our mergers and acquisitions and strategy director and Paul Stanworth took the deal forward with help from Group Legal.

FOCUS. ACTION. RESULTS.

PROTECTION

In the UK, the budget deficit has fallen, but still stands at £96 billion. The US deficit has also fallen, but was $680 billion in the 12 months to September 2013. A key part of government strategy is to manage the challenging issue of the growing cost of welfare benefits. If governments decide to reduce eligibility for state benefits, then increasing the take up of insured protection products will allow people to be protected against the financial misery of sickness, disability, unemployment and death.

INNOVATIVE SERVICES HELPING EMPLOYEES

Our Group Protection business provides protection-based employee benefits. We are a market leader in important areas such as workplace rehabilitation. This helps our corporate partners reduce costs and improve efficiency, as well as benefiting from reducing staff absence costs. Interest in our proposition soared as we combined our two corporate business operations to respond more effectively to auto-enrolment.

- We introduced our online ‘quote and buy’ system in February 2013, which provides quotes for smaller employers in as simple a way as possible
- We strengthened our relationship with ‘Rethink Mental Illness’, helping our customers to improve stress management and understand the signs of stress and mental health issues
- We extended the employee assistance programme. This free, preventative programme of information, advice, training and services helps employees deal with events and issues in their everyday work and personal life
- We extended our free innovative online health assessment tool, ‘healthy living’ that helps assess and monitor employees health

PROTECTION PROVIDER OF THE DECADE

“Once again, we have been widely recognised across the insurance industry as an outstanding provider of protection products and service.”
DUNCAN FINCH, MD, PROTECTION

We held the number one position in UK retail protection for each of the last 10 years. This doesn’t just mean customers chose to buy our products more often than our rivals, but that we’re recognised by industry bodies and intermediaries as best in class for the products and the service we offer our customers. Confirmation came in the huge number of accolades we won from around the industry. In 2013 we won:

- Protection provider of the decade, LifeSearch Awards 2013
- Outstanding organisation of the decade, Protection Review Awards 2013
- Best protection service, Investment Life & Pensions Moneyfacts awards 2013
- Best life insurance provider, What Mortgage Awards 2013
- Protection provider of the year, SimplyBiz Annual Provider Awards 2013

Understandably, we’re especially proud to be seen as the best protection provider of the last decade, a testament to all the hard work, technical excellence, inspirational strategy and strong leadership that we’ve delivered over the last 10 years. Special praise is due to the four managing directors of our retail protection business over that period: Simon Gadd, Bernie Hickman, Peter Graham and Duncan Finch.

DEADLINE TO THE BREADLINE

If a household's income suffers an unexpected shock and suddenly stops, their money would run out in 26 days on average. For working age families, the deadline is reached at only 11 days. Yet a 2013 study showed that only 50% of adults in the UK have life insurance.

Our 'Deadline to the Breadline' report shows the precarious nature of UK families' finances. A startling fact is that the average amount of UK savings is just £1,010. Yet people estimate their savings would last for 72 days, well over twice the actual deadline. And it would take the average UK household just under 13 years to save enough money to cover their annual gross salary of £27,000.

UK LIFE PROTECTION GWP

£1.33bn

(2012: £1.27bn)

We also offer a 'prehabilitation' service to help employers reduce stress in the workplace. Even though 428,000 people in the UK had work-related stress in 2011/12, 40% of employers are doing nothing to address the problem of stress.

A BETTER CUSTOMER EXPERIENCE

2013 saw our Retail Protection business consolidate its market leadership with a continuation of the high levels of innovation seen in recent years. Our customers have the benefit of better service, lower cost and improved terms on products such as critical illness cover.

We made our life cover application questions easier to answer, which will give customers more confidence and reduce the time it takes to buy a policy. We already have a strong online proposition and now we have improved our online acceptance rates even further. We increased the percentage of customers that can buy online without needing to provide extra medical evidence from 78% to 81%. This enables us to compete effectively in the online aggregator market where we are a major player.

We will support industry initiatives to simplify protection products, making it easier for people for buy online and understand what they are buying. This is crucial in building and maintaining customer trust and confidence. Our own net promoter scores and customer service scores are strong. A simple and understandable buying process is essential for good claims management. We are delighted therefore that our pay-out ratios are 98% for death claims and 93% for critical illness cover.

A RECORD YEAR FOR GENERAL INSURANCE

Our general insurance business saw increased profits and a combined operating ratio of 84% as we benefitted from benign weather. Even when we needed to react to the storm and flood events at the end of 2013, our innovations in claim handling radically improved the speed of claims resolution.

These changes improve the costs of claims handling whilst driving up levels of customer satisfaction. We consolidated the success we had in 2012 with our innovative lifestyle cover insurance plan, which is a short-term income protection insurance policy, designed to help people maintain their income due to accident, sickness or unemployment.

We also entered an agreement to supply our customers with motor insurance through a panel, in partnership with BGL. We are already arranging about 1,000 policies a month. Helping our customers with their motor insurance needs can mean we have a more complete view of their insurance product holdings and enables us to fill any gaps.

DRIVING GROWTH IN US PROTECTION

Our US protection business increased its market share, becoming number three in ordinary life coverage, higher than many more well-known US insurers. We improved sales and delivered cost reductions. On 1 November 2013, we achieved the milestone of having one million customers.

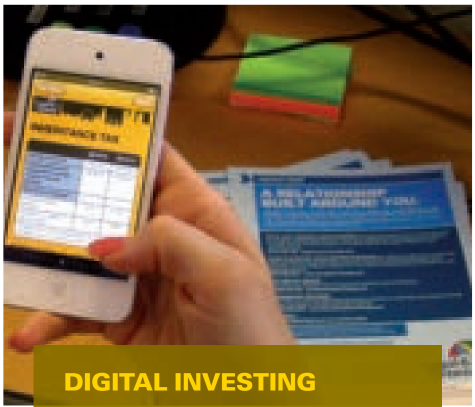
Historically, around 70% of our issued policies have been in our better rate classes. However, our underwriting capabilities extend across all rate classes. We base our overall focus on evaluating the entire risk and giving distinctive customer service.

LGA has achieved success through digital innovation, while remaining committed to the intermediary market. Sales are made through marketing groups with approximately 400 member agencies plus almost 75 other independent brokerage general agencies, giving us contracts with approximately 100,000 brokers.

MANAGING RISK

Adverse mortality, weather and other catastrophic events remain key risks in our protection business. Pricing and using reinsurance to manage significant exposures are core capabilities.

FOCUS. ACTION. RESULTS.



DIGITAL INVESTING

For professional investors, digital investing has become the medium of choice with around £270 billion on adviser platforms. Fundscape forecast that assets on platforms will dominate the market and treble in size over the next five years.

Our digital strategy is to help our customers benefit from financial advice, use platforms, or develop direct relationships with us. We focus on the use of insight that we derive from the data that we have on our customers. We then build automated email campaigns to develop these relationships in the best way possible. This includes a knowledge-building campaign where intermediaries get accreditation through viewing our videos, and also increasing the number of attendees at events and webinars through greater targeting.

DIGITAL SOLUTIONS

With 73% of the UK population accessing the internet every day and 61% having access via mobile devices, people expect to be able to transact business and communicate in a digital fashion. Our vision for the future is for customers to use online devices to buy from us, communicate with us, recommend us and build a diverse product holding with us.

The movement of insurance and investment companies into the digital world has recently begun to accelerate with many organisations starting to make strategic investments in the second half of 2013. It is essential that we are not left behind by competitors who build successful digital applications. Many consumers still need to engage with insurers in traditional ways. We have already begun to make strategic decisions and investments to capitalise upon digital opportunities.

ENGAGEMENT THROUGH DIGITAL TECHNOLOGY

The retail distribution review, which was introduced at the end of December 2012, has increased charge transparency. In certain distribution channels this has led to a reduction in the availability of advice, leading to some customers to buy online without advice. We are active in both direct and traditional channels.

We aim to build deeper direct relationships with customers to encourage them to increase the level of their investments and consider a wider range of products with us.

We use search engine marketing as it shows intent of the customer to interact with us rather than us pushing unwanted messages to them. We also seed our insight through online channels to build awareness and we optimise our websites to help our audience engage with us effectively.

ENHANCING THE CUSTOMER CENTRIC MODEL

Our digital vision is to use the new skills and assets we have to develop a much closer and digital relationship with our customers. We are investing in new capabilities that increase our ability to provide better digital service and also to personalise a conversation with a customer on websites. We've been building on our customer database, consolidating what we know about our customers across the Group and investing in efficient systems to move data around and run automatic campaigns. These systems can then cheaply facilitate campaign and email marketing and help us meet our customers' future needs.

We also want to develop our existing customer self-service estate to move to a more 'all in one place' model where customers receive more information and more content in a digital format rather than through a purely paper-based relationship.

We're investing in listening to our customers to gain better insight about them. Social media listening means we can understand and respond as appropriate to customer issues as they arise. Our online community enables us to gather up-to-date insight on customer preferences. As such we are starting to transform our conversations with customers on social media.

USING DIGITAL APPLICATIONS TO PROTECT CUSTOMERS

Consumers have for many years been comfortable about using digital applications to buy motor insurance. This confidence is now extending to household cover and life insurance.

We were the fastest growing direct home insurer in 2013 and have introduced many online features to help customers such as our interactive house, which helps customers assess their cover needs. We have also invested in digital communications, delivering digital policy documents and text messages about the progress of claims.

We also remain the largest supplier of retail protection insurance in a market dominated by online and efficient process. Our commitment to this model continues to win us business.

In 2013, we completed the purchase of theidol.com, not only giving us a whole-of-market online protection system but also being able to supply software to many other online brokers or aggregators. We are a major player for sales through aggregators.

A DIGITAL EXPERIENCE FOR EMPLOYEE BENEFITS

Our corporate businesses work together to ensure that employers have access to modern digital solutions for employee benefits. We won Workplace Savings Provider of the Year at the Workplace Savings and Benefits Awards 2013. This award recognises how our auto-enrolment platform gives employers a seamless front-end process for new schemes as well as offering an online retirement hub, where employees can see how their pension is building up.

MANAGING RISK

As we increasingly digitalise our business, we are exposed to new risks. We are alive to cyber threats in terms of protecting our customers' data, minimising reputational damage and the potential for financial loss.

We work closely with our IT business partners to manage new threats as they emerge as well as continuing to ensure our broader IT infrastructure is appropriately scaled to support our plans for growth. As digital solutions become central to our business, the management of our IT-related risks will become increasingly significant.

COFUNDS

"Cofunds became the largest UK platform by innovating and responding to customer needs. We look forward to continuing to extend our capability and distribution reach."
DAVID HOBBS, MANAGING DIRECTOR, COFUNDS

The purchase of Cofunds in March 2013 gave us full ownership of the UK's largest digital investment platform, with customer assets of £64 billion. Not only is Cofunds the biggest platform, but the service it offers was recognised in 2013 by the influential Shares magazine, who named Cofunds as the best fund supermarket.

Investment platforms are one of the real success stories of the last decade, with assets on platforms projected to more than double in the next five years. Cofunds' real strength is its distribution reach, with 7,200 IFAs using the platform.

We are investing to enhance the capabilities of the Cofunds platform, ensuring we take advantage of the significant growth we expect in this market over the coming years. We plan to deliver operational efficiencies to enhance profitability.

We are planning further digital enhancements, including creating branded micro sites for advisers and extending mobile and tablet capability. This will combine with an expanding customer engagement programme, recently shortlisted in the financial services category at the Chartered Institute of Marketing awards.

We're encouraging investors to make greater use of LGIM's successful index and fixed interest funds. There's a huge potential to be the passive provider of choice, sharing insights with Cofunds and developing effective joint communications. In the same way LGIM and Cofunds are working together to consider the best way of helping customers who have the confidence to buy online without advice.

ACTING RESPONSIBLY.

Our social purpose is to provide our customers with financial solutions that help them deal with the most exciting, difficult or critical moments in their lives. Our commitment to improving people's lives extends to how we relate to society in areas such as paying tax or ensuring that our investments are in companies that act responsibly.

DIVERSITY

We are committed to gender diversity (see page 14) and have initiatives in place to increase the proportion of females on our board and in our senior management team.

	Female	Male
Directors	2	9
Senior managers	6	29
Future leaders	7	7
Employees	4,172	4,197

HUMAN RIGHTS ISSUES

We operate mostly in developed countries that have strong legislation governing human rights. We are a signatory to the UN Global Compact for all of our worldwide operations and are a 'Living Wage' employer in the UK.

DISABILITY

Our policies support the employment, promotion and career development of disabled persons, as well as supporting employees who become disabled during the course of their employment. We make reasonable adjustments, as required under the Equality Act 2010, for disabled employees, including seeking redeployment in the event that reasonable adjustments are not possible. We offer appropriate training, including training in relation to equality, and will make adjustments to this training where required.

OUR SOCIAL COMMITMENTS

We're committed to campaigning for a better society on relevant key issues:

Housing

In 2013, we had a strong focus on improving the UK's housing market, developing a partnership with Shelter to campaign to improve the UK's poor house building record and tackle the problems of homelessness.

Healthcare and wellbeing

We're a market leader in providing protection in both the UK and the US. In 2013, we developed initiatives to improve our own employees wellbeing. This links into the work we've done with the rehabilitation of staff suffering long term sickness.

Dignity in later life

We're committed to ensuring that consumers get better pensions when they retire and have been active in consultations with the Government on annuities, auto-enrolment pension charges and changes in social care.

Environmental sustainability

We reduced the environmental resources used to run our business like waste collection, energy usage and carbon emissions. Paper usage increased in line with the growth of our retail business. We also build climate change resilient solutions for our clients and ensure our key suppliers comply with our own standards.

COMMITMENT TO BETTER STANDARDS OF CORPORATE GOVERNANCE

Corporate governance is about protecting shareholders, aligning the interest of companies with investors as well as maximising shareholders' long term interests.

An effective Board is a prerequisite for a successful company. That's why we engage with companies to help them ensure their boards are the best possible. Key areas of focus here are diversity and how they develop future directors. Inevitably, we also focus on executive remuneration, making sure that success, not failure, is properly rewarded.

Our key areas of focus in 2013 were:

- Improving diversity
- Engaging with US technology companies
- Board independence in Japan
- Improving UK reporting standards
- Increasing auditor independence
- Focusing on sustainability

In 2013, the corporate governance team held 480 meetings with 278 companies, of which 30% covered environmental and social issues.

TAX MATTERS

Tax and investors

We are a leading participant in the development of companies' tax policy, tax transparency and international tax reform. We continue to discuss with various NGOs their concerns about tax responsibility, our own tax position and our role as a significant investor in other companies. We hosted a seminar with other investors to discuss current tax practices and future expectations. We continue to talk to companies about their tax policy and management as part of our overall environmental, social and governance engagement (ESG).

TAX STRATEGY

We aim for our tax affairs to be transparent and sustainable in the long term. Our tax strategy is reviewed regularly with responsibility for this and management of tax risks resting with the group chief financial officer and director of group tax.

We will:

- Meet all legal requirements, make all appropriate returns and payments
- Always consider the group's reputation, brand and corporate and social responsibilities
- Consider tax as part of every major business decision
- Discuss in real-time our interpretation of the law with HMRC
- Operate appropriate tax risk governance processes, including Board oversight
- Contribute to the development of UK tax policy and legislation where appropriate
- Not undertake transactions whose sole purpose is to create an abusive tax result

Go to our CSR report at **legalandgeneralgroup.com/csr** for further detail on how we help broader society with housing, pensions, savings, health, total tax contribution and other issues.

In advance of 1 July 2014, we will publish country by country data as prescribed by the Capital Requirements Directive (CRD) IV, on our group website.

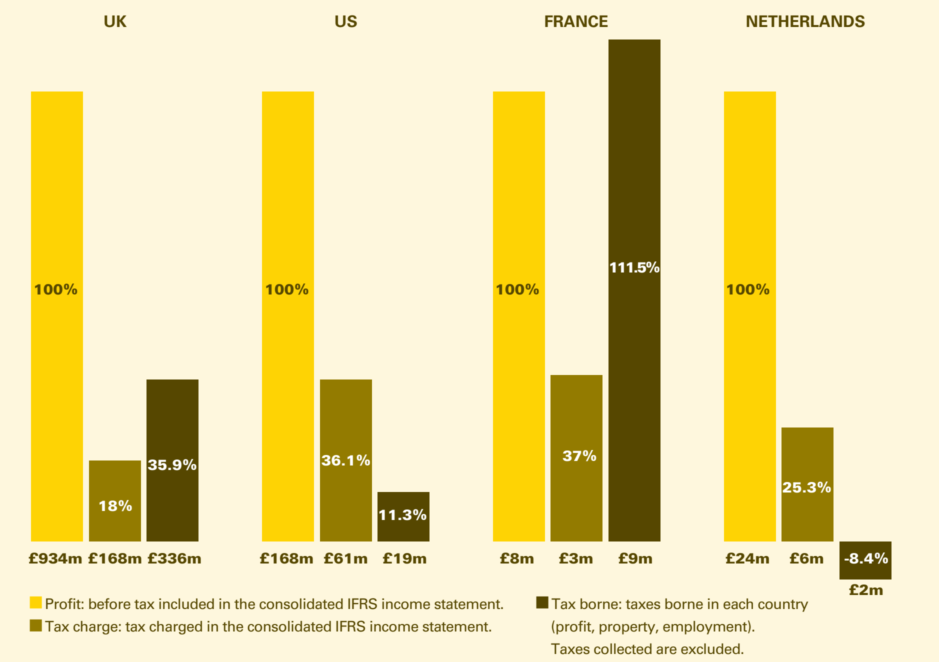
Tax transparency

We are rated as 'low risk' by HMRC. Country by country reporting (CBCR) is already enacted for some sectors. As part of our commitment to transparency the first chart below provides CBCR tax data for our main territories of operation (excluding joint ventures). Taxes in other territories total less than £1 million and have therefore been included in the UK segment. Our recognition by PwC's Building Public Trust awards for tax reporting in the FTSE 100 for the third year running shows our success in improving our own tax transparency.

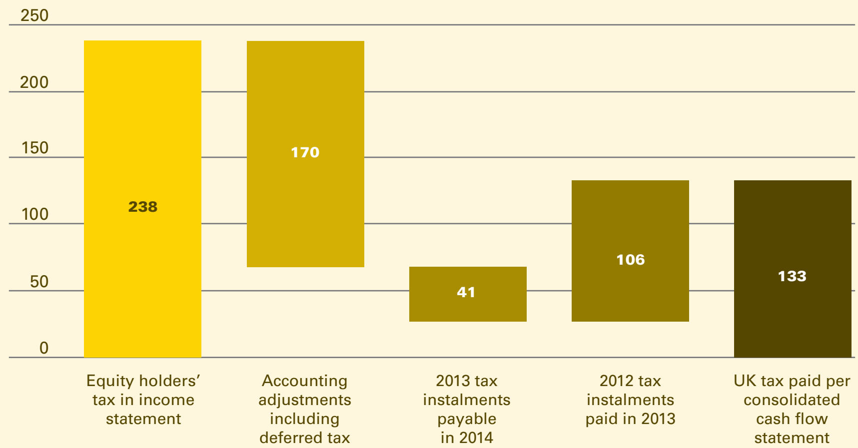
Cash tax reconciliation

The second chart below provides a summary reconciliation between the equity holders' tax charge in the income statement (£238 million: an effective tax rate of 21%) and UK corporate taxes paid (£133 million) in the cash flow statement.

COUNTRY BY COUNTRY REPORTING



RECONCILIATION OF TAX CHARGE IN INCOME STATEMENT TO UK TAX PAID PER CASH FLOW



IN THIS SECTION

"The announcement today that six major insurers will invest £25 billion over the next five years is a massive vote of confidence in the UK economy."

DANNY ALEXANDER, CHIEF SECRETARY TO THE TREASURY, HOUSE OF COMMONS, DECEMBER 2013.

STRONG TRADING PERFORMANCE.

GROSS WRITTEN PREMIUMS ON INSURANCE BUSINESS (GWP)

£2.8bn

(2012: £2.5bn)

ANNUITIES SINGLE PREMIUMS

£4.1bn

(2012: £2.3bn)

LGIM ASSETS UNDER MANAGEMENT (AUM)

£450bn

(2012: £406bn)

LGAS SAVINGS ASSETS

£109bn

(2012: £55bn)

GROSS WRITTEN PREMIUMS ON INSURANCE BUSINESS (GWP)

GWP is an industry measure of the life insurance premiums due and the general insurance premiums underwritten in the reporting period, before any deductions for reinsurance.

	2013 £m	2012 £m
Group Protection	**336**	321
Retail Protection	**990**	947
General Insurance	**375**	349
France (LGF)	**168**	159
Netherlands (LGN)	**54**	47
US Protection	**654**	584
Longevity insurance	**212**	70
Total GWP on insurance business	**2,789**	2,477

ANNUITIES SINGLE PREMIUMS

Single premiums arise on the sale of new contracts where the terms of the policy do not anticipate more than one premium being paid over its lifetime, such as in individual and bulk annuity deals.

	2013 £m	2012 £m
Individual Annuities	**1,277**	1,320
Bulk purchase annuities	**2,812**	1,019
Total annuities single premiums	**4,089**	2,339

LGIM ASSETS UNDER MANAGEMENT (AUM)

Assets under management is the total amount of money investors have trusted to our fund managers to invest across our investment products.

	2013 £bn	2012 £bn
Index tracking funds	**270**	243
Active fixed interest	**89**	82
Solutions	**71**	64
Property, active equities and other	**20**	17
Total LGIM AUM[1]	**450**	406

1. LGIM AUM includes £34 billion (2012: £32 billion) managed on behalf of LGR and £38 billion (2012: £38 billion) managed on behalf of LGAS Savings.

LGAS SAVINGS ASSETS

Assets represent the total amount of money held within all of our savings products. These funds are invested by a number of investment managers, including LGIM.

	2013 £bn	2012 £bn
Platforms[1]	**64**	9
Mature Retail Savings[2]	**36**	36
Workplace	**9**	6
Suffolk Life	**7**	5
Consolidation adjustment[3]	**(7)**	(1)
Total LGAS Savings assets	**109**	55

1. Platforms includes Cofunds and Investor Portfolio Services (IPS).
2. Mature Retail Savings products include with-profit products, bonds and retail pensions.
3. Consolidation adjustment represents Suffolk Life and Mature Retail Savings assets included in the Platforms assets.

BUSINESS SEGMENT

LEGAL & GENERAL ASSURANCE SOCIETY (LGAS)

£1,923m insurance GWP
(2012: £1,823m)

£109bn savings assets
(2012: £55bn)

JOHN POLLOCK, CEO, LGAS

Protection extends its market leading position
Retail Protection continues to hold a market leading position. GWP grew from £947 million in 2012 to £990 million for 2013, reflecting the advantages of our distribution footprint, underwriting excellence and highly automated systems.

Excellent sales in Group Protection for the year grew GWP to £336 million, 5% up on 2012. We had an ongoing benefit from auto-enrolment and employers were attracted to the benefit of our market-leading expertise in employee rehabilitation.

General Insurance bolstered by strong growth in direct
Premium growth reflects 40% growth in the direct channel. Record levels of new business were achieved in Q2 and Q3 this year.

Workplace results reflect auto-enrolment success
Assets are 45% up from the prior year, reflecting auto-enrolment success and strong market growth. We have enrolled over half a million new members into our Workplace pensions in 2013.

£56bn growth in platforms assets
Our platform proposition has been significantly boosted by the successful acquisition of Cofunds during the year. We now have platform assets of £64 billion with net inflows in 2013 of £7.9 billion.

Mature Retail Savings assets flat in a maturing market
Net outflows in these products were in line with our expectation, as the overall market matures and we focus on our platform propositions. Our with-profits fund delivered an investment return before tax of over 11% in 2013.

LEGAL & GENERAL RETIREMENT (LGR)

£4,089m annuity premiums
(2012: £2,339m)

£212m longevity GWP
(2012: £70m)

KERRIGAN PROCTER, MD, LGR

Record BPA sales, up 176%
Bulk purchase annuities (BPA) sales achieved a record level of £2,812 million, more than double the £1,019 million for 2012, benefitting in particular from the Lucida acquisition in August. We also completed our first international BPA transaction with New Ireland Assurance in April.

Individual annuities premiums reduced marginally by 3% to £1,277 million (2012: £1,320 million). This is a strong performance against last year's record sales and in a relatively weak individual annuities market in 2013.

LGR completed three longevity insurance transactions in 2013, covering £5.0 billion of associated liabilities and 49,000 existing pensioners.

LEGAL & GENERAL INVESTMENT MANAGEMENT (LGIM)

£450bn AUM
(2012: £406bn)

MARK ZINKULA, CEO, LGIM

International expansion continues resulting in record net flows
LGIM has achieved another year of record gross inflows. At £52 billion these are 40% higher than 2012. Over a third (£19 billion) of gross flows were sourced from outside the UK. We have seen strong inflows from the Gulf, US and Europe. External net inflows totalled £9.3 billion which, coupled with positive market movements, resulted in AUM of £450 billion (11% higher than 2012).

LEGAL & GENERAL AMERICA (LGA)

£654m GWP
(2012: £584m)

JIMMY ATKINS, CEO, LGA

US business continues to grow, over a million customers
LGA delivered a 12% increase in GWP to £654 million (2012: £584 million). LGA continues to promote its products to key brokerage agents and remains a top three provider of term assurance in the US market. LGA now has over one million customers.

i MORE DETAILS OF NEW BUSINESS CAN BE FOUND ON PAGE 129.

SUSTAINABLE RETURNS.

NET CASH GENERATION

£1,002m

(2012: £865m)

OPERATIONAL CASH GENERATION

Operational cash generation is defined as the expected release from the in-force business for the UK non-profit LGAS and LGR businesses, the shareholder's share of bonuses on with-profits business, the post-tax operating profit on other UK businesses, including an expected investment return on LGC invested assets, and dividends remitted from our international businesses.

NEW BUSINESS STRAIN

This is the impact of writing new business on the regulatory position, including the cost of acquiring new business and the setting up of regulatory reserves (excluding solvency capital).

NET CASH GENERATION

Net cash generation is defined as operational cash generation less new business strain.

KPI PURPOSE: NET CASH GENERATION DEMONSTRATES THE ABILITY OF THE GROUP TO PAY RETURNS TO SHAREHOLDERS

	Operational cash generation 2013 £m	New business strain 2013 £m	Net cash generation 2013 £m	Operational cash generation 2012 £m	New business strain 2012 £m	Net cash generation 2012 £m
Legal & General Assurance Society	474	(73)	401	436	(107)	329
Legal & General Retirement	260	33	293	243	14	257
Legal & General Investment Management	239	–	239	219	–	219
Legal & General Capital	137	–	137	123	–	123
Legal & General America	44	–	44	40	–	40
Net cash from divisions	1,154	(40)	1,114	1,061	(93)	968
Group investment projects, interest and expenses	(112)	–	(112)	(103)	–	(103)
Net cash generation[1]	1,042	(40)	1,002	958	(93)	865

1. A reconciliation from net cash generation to operating profit is provided on page 123.

BUSINESS SEGMENT	NET CASH GENERATION
LEGAL & GENERAL ASSURANCE SOCIETY (LGAS) LGAS net cash generation represents the expected surplus generated in the period from the in-force non-profit business less the cost of acquiring new business and setting up regulatory reserves in respect of the new business, net of tax. With-profits net cash generation represents the net of tax transfer to shareholders from the with-profits business. LGAS net cash generation further includes dividends received from our businesses in France and the Netherlands and the net of tax operating profit reported in the year from our investment savings businesses, excluding non-cash movements, such as amortisation. **JOHN POLLOCK,** CEO, LGAS	**£401m** (2012: £329m) Strong progression in scale and favourable weather conditions in General Insurance (GI) contributed to a 22% increase in total net cash generation in 2013. Protection new business strain has reduced to a 1.3% ratio to the present value of new business premiums, from 3.8% in 2012. This reflects the impact of changes to the tax regime applicable to the retail protection market. GI net cash generation grew by 130% as a result of disciplined underwriting and beneficial weather experience for much of 2013.
LEGAL & GENERAL RETIREMENT (LGR) LGR net cash generation represents the expected surplus generated in the period from the in-force non-profit business less the cost of acquiring new business and setting up regulatory reserves in respect of the new business, net of tax. **KERRIGAN PROCTER,** MD, LGR	**£293m** (2012: £257m) Net cash generation has increased by 14% to £293 million. Operational cash benefitted from increased scale. Higher new business volumes, disciplined pricing and efficient processing, further boosted by the Lucida acquisition, delivered a new business surplus of £33 million.
LEGAL & GENERAL INVESTMENT MANAGEMENT (LGIM) LGIM net cash generation represents the profit after tax from our managed and segregated pension business, institutional mandates, property and retail business. Incorporated within this segment is the net cash generation from managing internal funds. **MARK ZINKULA,** CEO, LGIM	**£239m** (2012: £219m) LGIM revenues grew by 11% in 2013, primarily as a result of higher average assets under management, boosted by record gross inflows and benefitting from the favourable market performance. Combined with careful cost management, this has resulted in a 9% increase in net cash generation.
LEGAL & GENERAL CAPITAL (LGC) Net cash generation for LGC represents the expected return after tax on group invested assets using long-term expected investment returns. **PAUL STANWORTH,** MD, LGC	**£137m** (2012: £123m) The average balance of LGC assets has grown from £4.3 billion in 2012 to £4.5 billion in 2013 with the average return on investment growing from 3.9% to 4.1%. This has resulted in a 11% increase in the net cash generated.
LEGAL & GENERAL AMERICA (LGA) Net cash generation represents dividends received from LGA. **JIMMY ATKINS,** CEO, LGA	**£44m** (2012: £40m) The dividend paid by LGA to Group once again grew, increasing by 10% to £44 million.

i MORE DETAILS OF NET CASH GENERATION CAN BE FOUND ON PAGES 123 AND 124.

A GROWTH STORY.

OPERATING PROFIT

£1,158m

(2012: £1,087m)

OPERATING PROFIT

Operating profit measures the pre-tax result reflecting longer-term economic assumptions, for our insurance businesses and shareholder funds, except for LGA which excludes unrealised investment returns to align with the liability measurement under US GAAP. Variances between actual and smoothed assumptions are reported below operating profit. Income and expenses arising outside of the normal course of business, such as merger and acquisition and restructuring costs, are excluded from operating profit, as profit and loss arising on the elimination of our debt holdings.

KPI PURPOSE: OPERATING PROFIT GIVES AN INSIGHT INTO THE GROUP'S ABILITY TO GENERATE CASH FLOWS TO SUPPORT DIVIDENDS.

	Net cash[1] generation 2013 £m	Experience variances 2013 £m	Changes in valuation assumptions 2013 £m	Non-cash items and other[2] 2013 £m	Operating profit/(loss) after tax 2013 £m	Tax expense/ (credit) 2013 £m	Operating profit/(loss) before tax 2013 £m
Legal & General Assurance Society	401	(34)	31	(59)	339	105	444
Legal & General Retirement	293	9	(13)	(48)	241	69	310
Legal & General Investment Management	239	–	–	–	239	65	304
Legal & General Capital	137	–	–	–	137	42	179
Legal & General America	44	–	–	14	58	34	92
Operating profit from divisions	**1,114**	**(25)**	**18**	**(93)**	**1,014**	**315**	**1,329**
Group investment projects, interest and expenses	(112)	–	–	(19)	(131)	(40)	(171)
Operating profit[3]	**1,002**	**(25)**	**18**	**(112)**	**883**	**275**	**1,158**

	Net cash[1] generation 2012 £m	Experience variances 2012 £m	Changes in valuation assumptions 2012 £m	Non-cash items and other[2] 2012 £m	Operating profit/(loss) after tax 2012 £m	Tax expense/ (credit) 2012 £m	Operating profit/(loss) before tax 2012 £m
Legal & General Assurance Society	329	(47)	45	19	346	116	462
Legal & General Retirement	257	43	(24)	(64)	212	69	281
Legal & General Investment Management	219	–	–	–	219	53	272
Legal & General Capital	123	–	–	–	123	40	163
Legal & General America	40	–	–	22	62	37	99
Operating profit from divisions	**968**	**(4)**	**21**	**(23)**	**962**	**315**	**1,277**
Group investment projects, interest and expenses	(103)	–	–	(40)	(143)	(47)	(190)
Operating profit[3]	**865**	**(4)**	**21**	**(63)**	**819**	**268**	**1,087**

1. Net cash generation is defined in the Glossary which starts on page 268 and further analysis is provided on page 123.
2. Investment gains and losses, profits and losses retained by international subsidiaries, and other.
3. A reconciliation from operating profit to IFRS profit before tax is provided on page 122.

BUSINESS SEGMENT	OPERATING PROFIT
LEGAL & GENERAL ASSURANCE SOCIETY (LGAS) Protection operating profit includes the general insurance, individual and group protection businesses and profit from our France and Netherlands businesses. Operating profit reflects the investment returns that the business expects to make on the financial investments that back this business and on shareholder funds retained within general insurance.	**£355m** protection operating profit (2012: £359m) Protection was £355 million (2012: £359 million), benefitting from significantly improved profitability in General Insurance of £69 million (2012: £30 million), reflecting strong underwriting discipline, improved claims handling and benign weather for much of the year. This was offset by lower Retail Protection new business margins following the introduction of gender neutral pricing and changes to tax legislation.
Savings operating profit represents the profit from the insured savings businesses (non-profit investment bonds and non-profit pensions, including SIPPs), the with-profits transfer and the profit from our investment savings businesses. Operating profit for the insured savings business reflects the investment returns that the business expects to make on the financial investments that back this business. **JOHN POLLOCK,** CEO, LGAS	**£89m** savings operating profit (2012: £103m) Savings operating profit was £89 million (2012: £103 million) with Workplace savings losses increasing to £(29) million (2012: £(14) million) as the costs and continued investment associated with securing half a million new auto-enrollees outweighed the low early years' revenue.
LEGAL & GENERAL RETIREMENT (LGR) Operating profit from the retirement business represents the profit from individual and bulk purchase annuities and longevity insurance. **KERRIGAN PROCTER,** MD, LGR	**£310m** (2012: £281m) LGR operating profit increased by 10% to £310 million (2012: £281 million) reflecting record sales in 2013 and continued steady profit from our back-book. The business benefited from £33 million of new business surplus, demonstrating our ability to source and win attractively priced assets to back our new business.
LEGAL & GENERAL INVESTMENT MANAGEMENT (LGIM) Operating profit for the investment management segment represents the operating profit before tax on our managed and segregated pension business, institutional mandates, property business, retail unit trusts and internal funds. **MARK ZINKULA,** CEO, LGIM	**£304m** (2012: £272m) LGIM operating profits are up 12% on 2012. This reflects an increase in the AUM, including our growing higher margin LDI solution business. The cost: income ratio has remained steady at 49bps despite significant investment in our business as it continues to grow.
LEGAL & GENERAL CAPITAL (LGC) LGC operating profit represents the expected return on group invested assets using long-term expected investment returns, net of investment management expenses. **PAUL STANWORTH,** MD, LGC	**£179m** (2012: £163m) Operating profits are generated by the expected long-term smoothed returns on invested assets, which are calculated asset class by asset class. Operating profit has grown by 10% reflecting an increase in the average balance of invested assets and changes in the portfolio mix, including our growing direct investment portfolio, driving higher returns, and a small increase in the average balance of invested assets.
LEGAL & GENERAL AMERICA (LGA) Operating profit for LGA represents the profit on our protection and universal life products written in the US. For LGA unrealised investment returns are excluded from operating profits to align with the liability measurement under US GAAP. **JIMMY ATKINS,** CEO, LGA	**£92m** (2012: £99m) Overall operating profit was £92m (2012: £99m). During the second half of the year we experienced higher mortality claims than expected on our smaller life portfolio. The operating profit also reflects the lower investment returns achieved during the year. This was partially offset by continued cost reductions.

i MORE DETAILS OF OPERATING PROFIT CAN BE FOUND ON PAGE 122.

DISCIPLINED INVESTMENT OF CAPITAL.

GROUP METRICS

IFRS PROFIT BEFORE TAX

£1,134m
(2012: £1,033m)

IFRS PROFIT BEFORE TAX (PBT)

PBT measures profit attributable to shareholders incorporating actual investment returns experienced during the year.

KPI purpose: PBT measures the actual distributable earnings of the Group, reflecting actual returns on investments, net of investment in future groupwide capabilities and new business ventures.

Profit before tax is up 10% on 2012 due to strong operating profits and favourable investment variances, particularly on shareholder assets, which benefitted from an upturn in equity markets during 2013. This has more than offset costs of investment in future capabilities and new business start-ups across the Group in 2013.

RETURN ON EQUITY

16.1%
(2012: 15.4%)

RETURN ON EQUITY (ROE)

ROE measures the return earned by shareholders on shareholder capital retained within the business. ROE is calculated as IFRS profit after tax divided by average IFRS shareholders' funds.

KPI purpose: ROE provides a link between performance and balance sheet management and ensures an appropriate balance is maintained between the two.

The Group continues to demonstrate careful use of capital across all divisions, generating a strong 16.1% return on equity, up 0.7 percentage points on 2012, reflecting a 12% rise in profit after tax in 2013.

EARNINGS PER SHARE

15.20p
(2012: 13.84p)

EARNINGS PER SHARE (EPS)

EPS is a common financial metric, which can be used to measure the profitability and strength of a company over time. It is the total shareholder profit after tax divided by the number of shares outstanding. EPS uses a weighted average of shares outstanding in the year.

KPI purpose: EPS demonstrates the link between performance and shareholder return.

We've delivered another strong year of EPS growth, driven by a 12% increase in the Group profit after tax (up from £798 million in 2012 to £896 million in 2013). This has resulted in a 10% (1.36p) increase in EPS.

FULL YEAR DIVIDEND

9.30p
(2012: 7.65p)

FULL YEAR DIVIDEND

The full year dividend is the total dividend per share declared for the year (including interim dividend but excluding, where appropriate, any special dividend).

KPI purpose: Full year dividend demonstrates the level of distribution to shareholders.

Consistent with our revised dividend guidance to reduce our net cash coverage of dividend towards 1.5 times over the next two years, the Board has recommended an increase of 22% in the full year dividend to 9.30p (2012: 7.65p). The cost of the full year dividend is £550 million (2012: £452 million) and is covered 1.82 times by the net cash generated.

Please refer to page 19 of this report for further details on our revised guidance.

GROUP METRICS

TOTAL SHAREHOLDER RETURN

171%

(2012: 112%)

TOTAL SHAREHOLDER RETURN (TSR)

TSR is a measure used to compare the performance of different companies' stocks and shares over time. It combines the share price appreciation and dividends paid to show the total return to shareholders.

KPI purpose: TSR measures total return to shareholders, including dividends and share price movements over time.

Based on TSR performance, we are in the FTSE 100 top quartile (top 10 position as at 31 December 2013) after giving investors a 171% return over a three-year period. We are also one of the world's top-performing life insurance companies in the FTSE Global index in this period.

INSURANCE GROUP DIRECTIVE SURPLUS AND COVERAGE

£4.0bn
222%

(2012: £4.1bn/234%)

INSURANCE GROUP DIRECTIVE (IGD) SURPLUS AND COVERAGE

The IGD surplus is a regulatory measure which calculates surplus capital within the Group. IGD surplus is defined as the group regulatory capital less the group regulatory capital requirement, after accrual for proposed dividends. Surplus capital held within Society's Long Term Fund cannot be included in the IGD definition of capital employed.

Purpose: IGD surplus and coverage are group regulatory surplus capital measures.

The Group is in a very strong capital position with a £4.0 billion IGD surplus and a 222% coverage ratio. This surplus is broadly unchanged since year end 2012 despite significant capital being utilised in the year to make strategic acquisitions (CALA, Cofunds, The Idol and Lucida). This capital buffer is in addition to the £1.8 billion (2012: £1.7 billion) of LGPL credit default provision, which remains in place to fund against the risk of credit defaults, and is after allowing for the accrual of the 2013 final dividends of £408 million.

EUROPEAN EMBEDDED VALUE PER SHARE £

190p

(2012: 173p)

EUROPEAN EMBEDDED VALUE (EEV) PER SHARE

EEV per share is used to measure value creation over time. It is the Group's EEV including LGIM, divided by the closing number of shares in issue.

Purpose: EEV per share provides shareholders with an insight into the value of the existing book of business at the balance sheet date.

2013 embedded value has benefitted from strong operating profits, bolstered by large investment variances from positive market movements and uplifts from the BAE Systems longevity deals and surplus from the completion of the Lucida acquisition in August. This has resulted in a 10% increase in EEV per share to 190p.

Excluding the external assets of LGIM, the EEV per share is 162p (2012: 151p).

CREATING A COMPETITIVE ADVANTAGE.

Understanding the risks implicit in our business and the markets in which we operate provides us with real competitive advantage.

SIMON GADD,
CHIEF RISK OFFICER

"Good risk management is more than having the right policies and procedures in place. It's how our people behave, the values that they work to and the tone set by our business leaders."

MISSION AND PURPOSE

Our risk management framework seeks to support our business ambitions, enabling us to select those risks that can give us sustainable returns and closely managing those risks that are unrewarded, and to optimise the capital that we hold so that we can deliver our strategy.

RISK CULTURE

Effective risk management is integral to our business operations.

People at all levels of the organisation are engaged in the management of risk. At the group level, the Group Board sets our overall appetite for risk; our non-executive led Group Risk Committee supports the Board in determining the Group's risk appetite and assessing the Group's significant risk exposures; and executive director led risk committees seek to ensure risks are managed within acceptable tolerances.

We consider risk intrinsically as part of our decision making, whether pricing a product or evaluating a major transaction, assessing the impact of the decision on our risk profile and our overall risk appetite.

We encourage managers to have a positive attitude to risk and to understand the risks that are inherent in our business so that they can ensure we:

- take advantage of business opportunities;
- meet our business objectives;
- control our areas of greatest risk;
- act promptly to fix any weakness and failure in our processes; and
- are confident that we hold the right capital for the risks to which we are exposed.

We seek to promote an environment where:

- there's openness and transparency in how we make decisions and manage risks;
- significant business decisions are aligned with our strategy, our capital performance target and our expected returns, and consider the effect on our reputation and customers;
- managers make decisions in the light of the impact on the entire Group; and
- business managers own the risks and risk management processes associated with the activities for which they are responsible.

We know that no system of control is fail-safe and we encourage managers to report weaknesses and deficiencies as soon as they are identified.

RISK BASED CAPITAL

Solvency II is targeted for regulatory implementation in early 2016. We completed a three-year programme to prepare for Solvency II in 2012, significantly enhancing our economic capital and risk framework by delivering our group internal model. Over the last 12 months we've actively used its output as one of our decision analysis tools to evaluate our strategic plans, set risk appetite, allocate capital and evaluate product pricing. We also use our internal model in the assessment of significant transactions.

While there are still elements of the SII rules that will need to be finalised, we believe that our focus on developing and using our internal model in the running of our business positions us well for the transition to the SII capital regime.

OUR RISK LANDSCAPE

The products that we write, the investments that we hold to meet our obligations and the environment in which we operate give rise to a broad range of risks. Our risk management framework, which is described overleaf, seeks to ensure that we are only exposed to those residual risks for which we have an appetite.

MARKET RISK	**Investment performance**	We invest in a range of investment assets including equities, bonds and property to meet the obligations from our insurance products; however, there is a risk that the income and value of these investment assets may fluctuate relative to required targets.
	Interest rates and inflation	Interest rate movements and inflation can impact the value of the investment assets we hold to meet our obligations, as well as the value of the obligations themselves.
	Currency	Fluctuations in exchange rates can vary both the value and income from investment assets denominated in foreign currencies, as well as the sterling profits and value of our overseas businesses.
CREDIT RISK	**Bond default**	We hold a significant portfolio of corporate bonds to back our annuity business. The portfolio is diversified across a range of sectors and geographies, but inherently is exposed to the risk of default.
	Property lending counterparties	We also hold property lending and sales and leaseback investments and are inherently exposed to the risk of default by a borrower or tenant, although we protect our interests by taking security over underlying property.
	Banks and the issuers of financial instruments	Banking and money market counterparties, the issuers of financial instruments and the providers of settlement and custody services may default on their obligations to us.
	Reinsurance counterparties	In using reinsurance in our annuity and protection businesses, we are exposed to the risk that a reinsurer may default, impacting the payment of claims to us and requiring us to either seek alternative reinsurance arrangements, potentially on less advantageous terms or bear the reinsured risks directly.
INSURANCE RISK	**Longevity, mortality and morbidity**	The pricing of long-term life insurance business requires assumptions to be made for future trends in the life expectancy and general health of those that we insure; with the risk that actual experience may diverge to our assumptions.
	Life catastrophe	We also make assumptions about the likelihood of catastrophic events that could cause a widespread loss of life or disability within the pool of the lives that we insure.
	Persistency (lapse)	We're exposed to the risks that acquisition costs may not be recovered from product margins if policies lapse earlier than we anticipated within our pricing assumptions.
	Expense	Product pricing must also take account of the future costs of product servicing, with deviations in actual costs presenting the risk of reduced product profitability.
	Weather events	In pricing household insurance products, we make assumptions about the likelihood of weather events, with the risk that actual experience may diverge from assumptions.
OPERATIONAL RISK	**People, process, systems and external events**	Our business processes can be complex, with significant reliance placed upon a combination of IT systems and manual processes. Weakness or failure of these systems or processes could result in financial loss or adversely affect our customers.
	Regulation and legislation	The markets in which we operate are highly regulated. Changes in regulation or legislation can require changes to our products or business processes. A breach of legislative or regulatory requirements may expose us to financial penalties and damage our reputation.
LIQUIDITY RISK	**Contingent events**	Low probability and typically extreme events that if not adequately planned for can result in unanticipated requirements for liquidity.
	Collateral	Failure to hold sufficient cash or suitable liquid assets to meet collateral requirements for financial instruments, resulting in unplanned disposals of assets at excessive cost.

There are potentially material correlations between all the above risks, with a single event leading to losses on multiple risk types. These correlations are difficult to estimate though they would tend to be more acute as the underlying risk scenarios become more extreme.

An assessment of the principal risks and uncertainties that may impact our business strategy, earnings or profitability are set out on page 48.

Note 8 ('asset risk'), 18 ('insurance risk') and 28 ('operational risk') to the financial statements further describe how the above risks relate to our businesses and the control techniques that we apply to manage them.

CREATING A COMPETITIVE ADVANTAGE.

OUR RISK MANAGEMENT FRAMEWORK

Our framework enables the Group Board to draw assurance that the risks to which the Group may be exposed are being appropriately identified and managed, and that risks that may present significant financial loss or damage to our reputation are being minimised. The core elements of our framework are set out below.

Risk appetite

Our risk appetite expresses the types of risk that we are prepared to be exposed to in pursuit of our business strategy, the minimum capital requirements that we wish to maintain and the degree of volatility of earnings that we will seek to avoid.

The Group Risk Committee leads an annual review of the Group's risk appetite, assessing the continued appropriateness of our key measures and tolerances relative to the risk exposures of the Group. As part of the Group Board strategy day, assessment is made of the level of risk taking proposed in the group plan and the capacity for risk taking within the overall appetite framework.

The Group's risk appetite is approved by the Group Board on the recommendation of the Group Risk Committee and the group chief executive. The regular management information received by Group Board and Group Risk Committee includes our risk appetite dashboard setting out actual risk positions relative to the targets and limits set in our risk appetite.

FRAMEWORK	
RISK APPETITE	Sets out our overall attitude to risk, and the ranges and limits of acceptable risk taking.
RISK TAKING AUTHORITIES	Cascade our risk appetite to our business managers and empower managers to make decisions that are consistent with our appetite for risk.
RISK POLICIES	Formal policies define our approaches to risk management and the necessary control standards to ensure these risks are managed in line with risk appetite.
RISK IDENTIFICATION AND ASSESSMENT	Tools that help business managers to identify and evaluate the risks to which we may be exposed and formulate appropriate risk mitigation plans.
RISK MANAGEMENT INFORMATION	Our framework to report and support the review of ongoing and emerging risks, and assess actual risk positions relative to the risk targets and limits that we set.
RISK OVERSIGHT	Review and challenge by the group chief risk officer (CRO) team of the effectiveness of our risk identification and management processes.
RISK COMMITTEES	Group level committees that oversee the management of risks and challenge how the risk framework is working.

Our risk appetite sets the ranges and limits of acceptable risk taking

RISK APPETITE	PRINCIPLES	KEY MEASURES
STRATEGY	We manage a diversified portfolio in which we accept risk in the normal course of business and aim to deliver sustainable returns on risk-based capital in excess of cost of capital.	Return on capital
	We've an appetite for risks we understand and are rewarded for, and which are consistent with delivery of our strategic objectives.	Capital allocation and utilisation
CAPITAL	We aim to maintain an appropriate buffer of capital resources over the minimum regulatory and economic capital requirements.	Capital coverage ratio
VOLATILITY	We've a low appetite for volatility of earnings; in particular volatility arising from risks where we have more exposure than the wider market.	Variance in earnings to plan
CONDUCT, CUSTOMER AND REPUTATION	We treat our customers with integrity and act in a manner that protects or enhances the Group franchise.	Customer and reputation risk dashboard
LIQUIDITY	We expect to be able to meet our payment and collateral obligations under extreme, but plausible, liquidity scenarios.	Liquidity ratio

We further express our appetite for the specific risks to which we are exposed as follows:

TYPE	APPETITE	MANAGEMENT
MARKET RISK	We've an appetite for market risk within our annuities and with-profits businesses, and our shareholder funds, where we are rewarded for it.	We've limited appetite for significant losses or volatility from market risk and so we set clear risk limits which must be adhered to by group businesses.
CREDIT RISK	We've appetite for credit risk to the extent that accepting this risk enables us to optimise policyholder and group risk adjusted returns.	We've limited appetite for significant losses from counterparty failures and we therefore establish clear risk limits which must be adhered to by group businesses.
INSURANCE RISK	We've an appetite for longevity, mortality and morbidity risk together with selected household insurance risks as we expect to add value by accepting such risks.	We've a low appetite for persistency and expense risks. We manage these risks by investigations and monitoring experience and reflect the conclusions in our product design and reserving strategies. We've limited appetite for exposure to weather events and purchase excess of loss reinsurance to protect against this risk. We also use reassurance to manage significant aggregate exposures to longevity, mortality and morbidity risks.
OPERATIONAL RISK	We've very limited appetite for large operational losses due to the likely customer impact, reputational damage and opportunity costs.	We aim to implement effective controls to reduce operational risk exposures except where the costs of such controls exceed the expected benefits.
LIQUIDITY RISK	We've no appetite to fail to meet our obligations when they fall due or to incur material losses on forced asset sales to meet obligations.	We maintain at group level sufficient liquid assets and standby facilities to meet a prudent estimate of the Group's cash outflows, as identified through annual planning processes.

Risk taking authorities

We cascade the parameters of our risk appetite to our business managers through 'Risk and Capital Mandates'. Our mandates articulate the product types and features that may be written; the target capital positions and ranges of earnings volatility within which the overall profile of risks should be managed; and tolerances for specific risk exposures. Activities that would result in a business operating outside agreed parameters require formal approval from the Group centre.

Risk policies

Risk control

We have established strategies for managing market, insurance, credit, liquidity and operational risk. Formal policies define our approaches to risk management and the minimum control standards that should be applied in managing our significant risk exposures.

Risk mitigation

We deploy a range of risk management techniques to manage and mitigate risks, thereby controlling our risk exposures in line with our risk limits. For example, we use derivative instruments to hedge unrewarded risks as part of our asset liability management activity and reinsurance programmes to transfer significant aggregations and concentrations of insurance risk exposures. Our framework of controls includes documented underwriting policies and structured delegated pricing and underwriting authorities. It also includes investment policies which take into account the nature of our liabilities, guarantees and other embedded options given to policyholders.

Risk identification and assessment

Review Process

We operate a risk identification and assessment process under which our businesses regularly consider changes in the profile of existing and emerging risks. The assessment process evaluates the risks that are inherent in our products as well as those that are presented from changes in the environments that we operate in.

Own Risk Solvency Assessment

Our risk identification and assessment process forms part of our broader 'Own Risk and Solvency Assessment' process, designed to evaluate the resilience of our balance sheet to a range of market conditions and external events and that we maintain our target levels of capital.

Risk management information

Our risk management information is structured to enable all significant risk positions to be monitored; compare actual risk exposures and capital positions to targets, limits and tolerances established as part of our risk appetite framework; and assess the delivery of our target customer outcomes.

CREATING A COMPETITIVE ADVANTAGE.

Risk oversight

Group Risk and the Group CRO

The group chief risk officer (CRO), who is independent of the business line, leads our group risk team.
The group CRO works closely with the Group Risk Committee and the Group Board on articulating acceptable risk taking and ensuring the effective operation of our risk and capital framework. The group risk team also provides objective advice and guidance on a range of risk matters to our business managers, including matters such as product development, business transactions and new asset classes. The team also carries out assessment of the group's economic capital requirements to confirm that they meet regulatory solvency requirements.

Divisional Risk officers

During 2013 we reorganised our group risk team, appointing divisional risk officers to each of our divisions. This alignment reinforces our risk framework with each of our divisional leaders having a risk expert on their management team. Each divisional risk officer also has a reporting line to the group CRO to maintain their independence.

STRATEGIC PLANNING PROCESS

Our Group Risk team plays an integral role in the strategic planning process, assessing the risk profile of the plan and proposed risk taking.

RISK APPETITE	
REVIEW AND ANALYSIS	The group CRO evaluates the group strategic plan, the impact of proposed risk taking and aggregation of risks.
DEBATE AND CHALLENGE	The Group Board and Risk Committee consider the Group CRO's assessment of proposed risk taking.
RISK TAKING CAPACITY	Working with the Group Board, the Group CRO advises on the Group's appetite for the profile of risk presented in the strategic plan.
STRATEGIC PLAN	
ALIGNMENT TO RISK APPETITE	Risk limits and tolerances, aligned with the group's risk appetite are cascaded to business units.
RISK MANAGEMENT STRATEGIES	Risk mitigation programmes are developed with input from the Group Risk team to ensure risks are managed to agreed tolerances.
GROUP CRO PLAN	The group CRO's monitoring plan is aligned with the risk areas identified within the group strategic plan.
CAPITAL	
STRESS AND SCENARIO TESTING	The group's formal programme of stress and scenario tests are set with input from the Group CRO on the economic, market and business stresses.
ASSESSMENT AND AGGREGATION	Capital requirement are monitored within each business unit. The Group Risk team provides oversight of significant risk aggregations and variances to plan.
ASSESSING CAPITAL SUFFICIENCY	Using the output of our internal model the Group CRO independently validates the business's assessment of the sufficiency of capital to deliver strategic objectives.

EVALUATING TRANSACTIONS

Whether it's a direct investment or a business acquisition, as well as assessing strategic fit and profitability, we undertake detailed evaluation of the risks that new opportunities present and our appetite for those risks. Our group CRO plays an integral role in facilitating the assessment of risks. Alongside the formal business proposal for each significant transaction, the group CRO presents a separate report setting out his assessment of the risks and our capacity to manage them.

USING REINSURANCE

We use reinsurance extensively in our protection businesses. As well as managing exposures to mortality and morbidity risks, and providing resilience against extreme events, working with our reinsurers has enabled us to further refine our underwriting practices and the pricing of risk. We are increasingly using reinsurance within our annuities business. We already reinsure a proportion of enhanced annuity business and we continue to develop ways to reinsure the longevity risk in our bulk annuity products. By using reinsurance we can continue to grow our annuities book in a way that both optimises our risk and capital and minimise earnings volatility.

Risk Committees

Three lines of defence

The Group operates a 'three lines of defence' risk governance model. The Group Board has ultimate responsibility for the group's risk management framework. The Group Risk Committee supported by group risk (led by our group CRO), serves as the focal point of risk management activities.

OUR THREE LINES OF DEFENCE	ROLES AND RESPONSIBILITIES	ASSOCIATED COMMITTEES AND THEIR ROLE
1 RISK TAKING	**BUSINESS MANAGEMENT** The group's business divisions are responsible for risk taking, within the parameters of our risk appetite, and are accountable for the management risk in line with policies and procedures established in the group's risk and capital management framework.	**DIVISIONAL COMMITTEES** Risk management committees established within each of our business divisions provide a forum for the review of material risk exposures and risk mitigation activities.
2 RISK CONTROL AND OVERSIGHT	**GROUP RISK** Advises on risk appetite; establishes the group's risk and capital management framework; evaluates the management of key risks; assesses the overall operation of the group's internal model and considers the sufficiency of capital to deliver the group's strategic plans.	**GROUP RISK COMMITTEE** The Committee's primary role is to provide guidance to the Board in relation to the group's risk management policies and procedures and advice on what constitutes acceptable risk taking.
3 INDEPENDENT ASSURANCE	**GROUP INTERNAL AUDIT** The group's internal audit function provides Independent assurance on the operation and effectiveness of business risk management, the group risk oversight and challenge processes, and the processes in support of the group's internal model.	**GROUP AUDIT COMMITTEE** The responsibilities of the Committee include advising the Board on the effectiveness of the group's internal control environment and risk management systems.

Executive level risk committees

Beneath the Group Risk Committee is a structure of executive director led committees providing more focused review and challenge of specific risks to the Group and reviewing the effective operation of the risk framework.

CREATING A COMPETITIVE ADVANTAGE.

OUR PRINCIPAL RISKS AND UNCERTAINTIES

Set out below is an assessment of current principal risks and uncertainties. A detailed review of the Group's inherent risk exposures and high level control processes are set out at Notes 8, 18 and 28 of the financial statements.

RISKS AND UNCERTAINTIES	TREND AND OUTLOOK	MITIGATION
Changes in regulation or legislation may have a detrimental effect on our strategy. Legislation and government fiscal policy influence our product design, the period of retention of products and our required reserves for future liabilities. Regulation defines the overall framework for the design, marketing and distribution of our products; and the prudential capital that we hold. The nature of long term business can result in some changes in regulation having a retrospective effect on our businesses. Significant changes in regulation may reduce our earnings and profitability or require us to hold more capital.	The implementation of the Retail Distribution (RDR) at the start of 2013 has resulted in dramatic shifts in the distribution landscape. The retrenchment by the banks and challenges to IFA distribution models in response to RDR and other regulatory initiatives, together with a slow transition of consumers to the RDR model has presented broader market uncertainty for products that rely on customers access to advice. Solvency II is targeted for implementation in early 2016. Revised capital calibrations for long term business provide sufficient flexibility to address many of the adverse capital impacts for UK insurance firms. Challenges remain, however, in ensuring that final implementation is proportionate and cost effective for the insurance sector.	We seek to actively participate with government and regulatory bodies in the UK and Europe to assist in the evaluation of change so as to develop outcomes that meet the needs of all stakeholders. Internally, we evaluate the impact of all legislative and regulatory change as part of our formal risk identification and assessment processes, with material matters being considered at the Group Risk Committee and the Group Board. We maintain a flexible distribution model to respond to changing market trends.
Investment market performance or conditions in the broader economy may adversely impact our earnings and profitability. The performance and liquidity of investment markets, interest rate movements and inflation impact the value of investment assets we hold in shareholders' funds and those to meet the obligations arising from insurance business. Interest rate movement and inflation can also change the value of the obligations. We use a range of techniques to manage mismatches between assets and liabilities. However, financial loss can still arise from adverse investment markets. In addition, significant falls in investment values can reduce the fee income of our investment management business. Broader economic conditions impact the timing of the purchase and the period of retention of retail financial services products.	Global investment markets have returned to pre-financial crisis levels, responding both to the more positive economic outlook and the conditions created by the monetary policies being exercised by central banks. There is limited resilience, however, in the current environment for 'shocks' such as those from an abrupt change in monetary policy, with potential for significant falls in the value of certain asset classes should markets reassess returns.	As illustrated on pages 16 and 17 we model our business plans across a broad range of economic scenarios and take account of alternative economic outlooks within our overall business strategy. As part of our business plans we have sought to ensure focus upon those market segments that we expect to be resilient in projected conditions. Details of our business strategy are set out on pages 10 to 29. Sensitivities to interest rates, exposure to worldwide equity markets and currencies are set out on pages 173, 157 and 159 respectively.
In dealing with issuers of debt and other types of counterparty the Group is exposed to the risk of financial loss. A systematic default event within the corporate sector, or a major sovereign debt event, could result in dislocation of bond markets, significantly widening credit spreads, and may result in default of even strongly rated issuers of debt, exposing us to financial loss. We are also exposed to banking, money market and reinsurance counterparties, and settlement, custody and other bespoke business services, a failure of which could expose us to both financial loss and operational disruption of our business processes.	2013 saw a further narrowing of credit spreads reflecting market confidence in the issuers of investment grade bonds. We have continued to experience low levels of default on our corporate bond portfolio. There remains, however, a range of factors that could trigger write downs in our investment assets. These factors include a deterioration in the confidence in banks within the eurozone or the currency area itself; a failure to definitively resolve the US government debt ceiling; and a financial crisis in emerging markets.	We actively manage our exposure to default risks, setting counterparty selection criteria and exposure limits and hold reserves against our assessment of counterparty debt defaults. We continue to diversify the asset classes backing our annuities business, to include the use of property lending, sale and leaseback and other forms of direct investment. Our bond default provisions are set out at page 41. Exposures to credit risk are set out on page 160 and sensitivities to changes in credit spreads on page 173.
As a UK-based Group, our earnings are influenced by the performance and perception of the UK financial services sector as a whole. The financial crisis, subsequent investment performance and low interest rate environment, together with consumers' perceptions of the robustness of financial institutions, may impact consumer attitudes to long-term savings. Regulatory actions may also adversely impact consumers' perception of the value of insurance products and result in changes to the regulatory and legislative environment in which we operate.	As a significant participant in the long-term savings markets, we are exposed to changes in consumer sentiment. We are also exposed to increased costs of regulatory compliance through regulatory and legislative responses to events in the financial services sector. Recent examples include the EU transaction tax and the central clearing of certain derivative instruments, which would increase the costs associated with pension savings products and annuities, respectively.	We actively manage our brand and seek to differentiate our business model from that of our competitors, focusing on our customers' needs through a diversified portfolio of risk, savings and investment businesses. We also actively engage with our regulators to support understanding of the risk drivers in the markets in which we operate, and highlight matters where we believe the industry need to change.

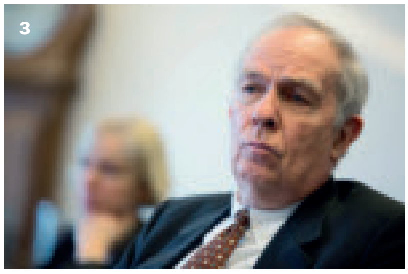
RISKS AND UNCERTAINTIES	TREND AND OUTLOOK	MITIGATION
Reserves for long-term business may require revision as a result of changes in experience, regulation or legislation. The writing of long-term insurance business requires the setting of assumptions for long-term trends in factors such as mortality, lapse rates and persistency, valuation interest rates, expenses and credit defaults. Actual experience may result in the need to recalibrate these assumptions reducing profitability. Forced changes in reserves can also be required because of regulatory or legislative intervention in the way that products are priced, reducing profitability and future earnings.	We regularly appraise the assumptions underpinning the business that we write. In our annuities business we are, however, exposed to factors such as improvements in medical science beyond those anticipated leading to unexpected changes in life expectancy. In protection business we remain inherently exposed to loss from events causing widespread mortality/morbidity or significant policy lapse rates. As illustrated by the implementation of the EU gender neutral pricing legislation, there is also potential for legislative intervention in the pricing of insurance products irrespective of risk factors, such as age or health.	We undertake significant analysis of longevity and mortality risks to ensure an appropriate premium is charged for the risks we take on and that our reserves remain appropriate. We remain focused on developing a comprehensive understanding of annuitant mortality and we continue to evolve and develop our underwriting capabilities. The sensitivities of our business to a range of scenarios are set out on page 173. We also continue to ensure that legislators recognise the benefits to consumers of pricing insurance products based on the risk factors that each policy presents.
The Group may not maximise opportunities from structural and other changes within the financial services sector, adversely impacting future earnings. Significant changes in the markets in which we operate may require the review and realignment of elements of our business strategy. A failure to be sufficiently responsive to potential change and understand the implication to our businesses, or the incorrect execution of change may impact the achievement of our strategic objectives.	Macro trends in the markets in which we operate include an ageing population, the increasing use of digital technologies and significant reform in the provision of state welfare. Within the investment management business asset classes are increasingly homogeneous providing opportunities for businesses with scale such as us. The retrenchment of the banks also provides opportunity for insurance firms to participate in investment and lending activities. Responding to these macro trends potentially creates organisational challenges and management stretch across the range of initiatives.	As set out at pages 18 and 19, we've clear strategies to respond to the macro trends. Risks arising from macro trends have been considered as part of the Group Risk Committee focused business and risk reviews. The Committee and the Group Board has also debated the risks of management stretch, with strategic projects being re-focused as appropriate. As set out on page 8 during 2013 we undertook a significant re-structure of our businesses to deliver our strategic responses to the changes in the markets in which we operate.
A material failure in our business processes may result in unanticipated financial loss or reputation damage. We have constructed our framework of internal controls to minimise the risk of unanticipated financial loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage. Our plans for growth inherently will increase the profile of operational risks across our businesses.	As we grow we continue to invest in our system capabilities and business processes to ensure that we meet the expectations of our customers; comply with regulatory, legal and financial reporting requirements; and mitigate the risks of loss or reputational damage from operational risk events. The restructure of our business divisions seeks to support the positioning of appropriate resources to manage these risks.	Our risk governance model set out on page 47 seeks to ensure that business management are actively engaged in ensuring an appropriate control environment is in place. The group risk team provides expert advice and guidance on the required control environment, together with objective challenge in the way risks are being managed. Our internal audit function provides independent assurance on the adequacy and effectiveness of our controls. The work of the Group Audit Committee in reviewing our internal control system is set out on page 64.
The financial services sector is increasingly becoming a target of 'cyber crime'. As we and our business partners increasingly digitalise our businesses, we are inherently exposed to the risk that third parties may seek to disrupt our on-line business operations, steal customer data or perpetrate acts of fraud using digital media. A significant cyber event could result in reputation damage and financial loss.	The financial services sector has seen a significant rise in attempts by third parties to seek and exploit perceived vulnerabilities in IT systems. Potential threats include denial of service attacks, network intrusions to steal data for the furtherance of financial crime, and the electronic diversion of funds.	We're focused on maintaining a robust and secure IT environment that protects our customer and corporate data. Working with our business partners we deploy control techniques to evaluate the security of our systems and proactively address emerging threats. During 2013 the Group Risk Committee reviewed cyber risks and our control framework, with further review scheduled for 2014. We remain vigilant to the range of risks, however, the evolving nature of cyber threats means that residual risks will remain.

IN THIS SECTION

"Our housing shortage has been decades in the making, and is now so severe it will take innovation and creative thinking to tackle."

CAMPBELL ROBB, CEO, SHELTER
SPEECH TO POLICY EXCHANGE, NOVEMBER 2013

BOARD OF DIRECTORS.



1 JOHN STEWART
CHAIRMAN

Skills and experience: John was appointed Chairman of the company on 1 March 2010 and has extensive experience of financial services. He is a member of the Court of the Bank of England, a non-executive director of the Financial Reporting Council and is Chairman of Guide Dogs for the Blind. He was previously a director of the Telstra Corporation, a member of the Australian Federal Attorney General's Business Government Advisory Group on National Security and a member of the Australian Prime Minister's Task Group on Emissions Trading. Other former roles include: chief executive of Woolwich (1996-2000), deputy CEO of Barclays (2000-2003) and chief executive of National Australia Bank (2004-2008).

External appointments:
- Southern Cross Stud LLP
- The Court of the Bank of England
- Guide Dogs for the Blind (Chairman)
- The Financial Reporting Council

Committee membership:
- Nominations Committee

2 NIGEL WILSON
GROUP CHIEF EXECUTIVE

Skills and experience: Nigel was appointed group chief executive in 2012 having joined as group chief financial officer in 2009.

Prior to joining Legal & General, Nigel was deputy chief executive and chief financial officer of United Business Media plc. Nigel was a senior independent director (SID) of The Capita Group plc and was SID/Chairman of Halfords Group Plc.

Previous appointments include; McKinsey & Co, (where clients included BP, Citibank, Cadbury's, Santander, Kingfisher, Courtaulds, Whitbread and Globe Investment Trust), Group commercial director of Dixons Group Plc, managing director of Stanhope Properties Plc, chief executive, Corporate, Guinness Peat Aviation (G.P.A.) and managing director, Viridian Capital.

Qualifications include a PhD from the Massachusetts Institute of Technology where he was a Kennedy Scholar, a recipient of the Alfred P Sloan research scholarship, and worked at the National Bureau of Economic Research (NBER). Nigel has won numerous athletics championships including the 800m British Masters.

External appointments:
- ABI

3 RUDY MARKHAM
VICE CHAIRMAN AND SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

Skills and experience: Rudy was appointed to the Board in October 2006. Rudy is a Fellow of the Chartered Institute of Management Accountants and the Association of Corporate Treasurers. He was awarded the CIMA Lifetime Contribution to Management Accounting Award in 2005. Former roles include: chief financial officer, director of strategy and technology and treasurer of Unilever Plc; Chair and CEO of Unilever Japan and Chair of Unilever Australia.

External appointments:
- Standard Chartered Plc
- AstraZeneca Plc
- Moorfields Eye Hospital (Chairman)
- Corbion N.V. (Supervisory Board Chairman)
- United Parcel Service Inc

Committee membership:
- Remuneration Committee (Chairman)
- Nominations Committee

4 MARK ZINKULA
CHIEF EXECUTIVE OFFICER, LGIM

Skills and experience: Mark was appointed to the Board in September 2012, having been appointed chief executive officer of Legal & General Investment Management in March 2011. Prior to that, he was CEO of Legal & General Investment Management America (LGIMA) since 2008 and played an integral part in the establishment and successful expansion of LGIMA. Prior to joining LGIMA, Mark was at Aegon Asset Management where he was global head of fixed income.

External appointments:
- ABI Advisory Panel
- Investment Management Association

5 JOHN POLLOCK
CHIEF EXECUTIVE OFFICER, LEGAL AND GENERAL ASSURANCE SOCIETY ('LGAS')

Skills and experience: John was appointed chief executive officer, LGAS on 1 July 2013. John was previously chief executive officer of the Protection and Annuities business and was appointed to the Board in December 2003, having joined Legal & General in 1980. John's former roles include: director, UK Operations; managing director, Legal & General Asia based in Sydney Australia and various posts in Customer Services and IT. John holds a BSc from Strathclyde University and is a Fellow of the Royal Geographical Society.

External appointments:
- ABI Long Term Savings and Life Insurance Committee
- Financial Conduct Authority Practitioner Panel

6 MARK GREGORY
CHIEF FINANCIAL OFFICER

Skills and experience: Mark was appointed group chief financial officer on 1 July 2013. Mark was previously chief executive officer (Savings) and joined the Board in January 2009. He joined Legal & General in 1998 and has held a variety of divisional finance director roles and served as Group financial controller, communications and resources director, resources and International Director and UK service operations director. From 2006, he was managing director, With-Profits. Prior to joining Legal & General, he had worked in senior financial and business development roles at companies including Kingfisher Plc and ASDA. He is a qualified chartered accountant.

7 STUART POPHAM
INDEPENDENT NON-EXECUTIVE DIRECTOR

Skills and experience: Stuart was appointed to the Board on 1 July 2011. Stuart has extensive legal knowledge and business acumen. He was previously the senior partner of Clifford Chance LLP from 2003-2011. He is presently vice-chairman EMEA at Citigroup. Stuart is chairman of the Royal Institute of International Affairs ('Chatham House') and was from 2008 to 2012 chairman of TheCityUK, a body created to promote financial services. Stuart sits on the Council of Birkbeck College, University of London, the Royal National Lifeboat Institution and the Barbican Trust.

External appointments:
- Citigroup, Vice Chairman of EMEA Banking

Committee membership:
- Nominations Committee
- Remuneration Committee
- Risk Committee

8 JULIA WILSON
INDEPENDENT NON-EXECUTIVE DIRECTOR

Skills and experience: Julia was appointed to the Board in November 2011. She has significant corporate finance, tax and accounting experience. She is the group finance director of 3i Group plc and a member of its Board since 2008. Previously, she was the group director of corporate finance at Cable & Wireless plc. At Cable & Wireless plc she held a number of finance roles and was responsible for the finance, treasury, and tax functions. Julia is a member of the ICAEW (ACA) and the Chartered Institute of Taxation.

External appointments:
- 3i Group Plc

Committee membership:
- Audit Committee (Chair)
- Nominations Committee
- Risk Committee

9 LINDSAY TOMLINSON
INDEPENDENT NON-EXECUTIVE DIRECTOR

Skills and experience: Lindsay was appointed to the Board in May 2013. He has extensive investment management experience having spent a large part of his career with Barclays Global Investors (now Blackrock). He held senior executive roles including as UK CEO, pan European CEO and later becoming the firm's vice-chairman. Lindsay's former roles also include: chairman of the Code Committee of the Takeover Panel, director of the Financial Reporting Council and chairman of the Investment Management Association. He was also previously chairman of the UK's National Association of Pension Funds.

Committee membership:
- Risk Committee (Chairman)
- Audit Committee
- Remuneration Committee
- Nominations Committee

10 MIKE FAIREY
INDEPENDENT NON-EXECUTIVE DIRECTOR

Skills and experience: Mike was appointed to the Board on 1 May 2011. He has significant experience in the UK financial services sector. He was previously a trustee of the Consumer Credit Counselling Service, a registered charity and deputy group chief executive, Lloyds TSB Group Plc from 1998-2008. Mike is currently chairman of APR Energy PLC.

External appointments:
- Vertex Group Limited
- APR Energy Plc
- The Energy Saving Trust Foundation
- Lloyds Bank Pension Trust (No. 1) Limited
- Lloyds Bank Pension Trust (No. 2) Limited

Committee membership:
- Audit Committee
- Nominations Committee
- Remuneration Committee

11 LIZABETH ZLATKUS
INDEPENDENT NON-EXECUTIVE DIRECTOR

Skills and experience: Lizabeth was appointed to the Board in December 2013. She spent a majority of her career at The Hartford Financial Services Group ('Hartford'), serving as both chief financial officer and chief risk officer of the firm. In addition, she held a range of senior operating roles including her role as co-president of Hartford Life Insurance Companies. She served on various insurance industry committees including her role as regulatory chair for the North American Chief Risk Officers Council. Outside of her professional career, Lizabeth has been actively involved with various educational, health and science organisations. In addition she was selected to be a member of the President's Committee on Employment of People with Disabilities, due to her work with the disability community.

Committee membership:
- Nominations Committee
- Risk Committee

GEOFFREY TIMMS
Geoffrey was appointed as Group general counsel and company secretary in 2008 and has been the Group's chief legal officer since 1999. Prior to joining Legal & General, Geoffrey was a solicitor with Clifford Chance.

LETTER FROM THE CHAIRMAN.

JOHN STEWART, CHAIRMAN

"A sound governance framework supports us in our decision making process. We as a Board keep at the heart of our considerations the interests of the Group's shareholders, customers and other stakeholders."

For more information visit our website:
investor.legalandgeneral.com/corporate-governance.cfm

CHAIRMAN'S LETTER

This year has been an excellent year of growth for the Group. As we continue to focus on accelerating our growth, our governance framework must evolve with us. A sound governance framework supports us in our decision making process and ensures a balanced outcome for all of our stakeholders.

The Board is responsible for ensuring that our governance across the Group is strong, clear and robust. With a focus on organic growth and selective acquisitions, our governance must be of the highest standard in order to meet the Group's changing needs and in addition to respond to regulatory change. As Chairman, it is essential that I ensure that we, as a Board, are prepared for new developments. Accordingly, we regularly review our governance framework and compliance with the UK Corporate Governance Code. I am pleased to report that the company has complied with all principles of the Code throughout the year ended 31 December 2013.

ROLE OF THE BOARD

The Board is accountable for the long term success of the company, for setting the strategic aims of the Group and its risk appetite, and is responsible for ensuring that the Group is appropriately resourced to achieve its strategic goals. The Board also sets the tone for the Group's culture, values and ethical behaviours and we keep at the heart of our considerations the interests of the Group's shareholders, customers and other stakeholders.

BOARD CHANGES AND DIVERSITY

There have been a number of changes to our Board during the year; the retirements of three of our non-executive directors, the appointment of Mark Gregory as group chief financial officer and the appointments of Lizabeth Zlatkus and Lindsay Tomlinson as non-executive directors. When making these changes, the Board has remained conscious of the need to maintain a well balanced and diverse Board to ensure we continue to operate as effectively as possible.

In monitoring our Board composition we continue to consider not only the balance of skills and experience required but also how we can ensure that we have a diverse Board in terms of thought, background, experience and gender. Although we do not have a set target in respect of the number of women on our Board, we endorse Lord Davies' recommendations and continue to incorporate board diversity considerations into our thinking on the composition of the Board. As a company, we believe that a diverse workforce is essential to the success of our business and the work of the Equality, Diversity and Inclusion Committee supports us in achieving this goal. We have developed a next generation women programme with the Bank of England and many other FTSE 100 companies and I am pleased to be involved in the FTSE 100 Cross-Company Mentoring Programme and the 30% Club, which is committed to bringing more women on to UK corporate boards.

We are also strong believers in developing the pipeline of talent from within our organisation. I was extremely pleased that we were able to appoint Mark Gregory as the Group's chief financial officer. Mark previously acted as chief executive of the Savings business and has served on the Board since 2009. I believe that Mark's appointment as CFO is testament to our commitment to developing talent within the Group.

Henry Staunton, previously senior independent director, vice chairman and Chair of the Audit Committee, retired in May after serving on the Board for nine years. Dame Clara Furse stepped down from the Board in May after four years of service to take up a position at the Financial Policy Committee and Nick Prettejohn stepped down in June after two years of service in order to join the Prudential Regulation Authority as a non-executive director. I am extremely grateful to Henry, Clara and Nick for their excellent contributions. Henry's commitment and wisdom over his nine years of service were greatly valued and I'm pleased that both Clara and Nick have gone on to pursue senior positions in financial services regulation and policy making.

Following these retirements I was very pleased to welcome Lindsay Tomlinson and Lizabeth Zlatkus as non-executive directors, both of whom are valuable additions to our Board. Lindsay brings us a wealth of experience from his time in the investment management industry and his non-executive roles, while Lizabeth's insurance and international experience will be a great addition to us as we continue to pursue our strategy.

The Nominations Committee report on page 62 sets out in further detail the Board changes that have taken place during the year and our policy on diversity.

FOCUS ON STRATEGY

The Board dedicates a considerable part of its time to considering the Group's future strategy in light of the previous year's performance against set targets, the continuing challenges that face the UK and global economies and financial services companies, and the opportunities for growth. A two day strategy event was held in 2013 at which the Board considered the Group's strategy with a focus on international growth of LGIM; direct investments and infrastructure; digital solutions and expansion of retirement solutions. The discussions were constructive and thought provoking and an excellent basis from which to build the Group's strategic direction.

OVERSEAS VISIT

The Board has in place a programme of site visits, both domestic and international, and this year I was extremely pleased that the Board held its first overseas Board meeting at the Legal & General America ("LGA") office. The visit provided the Board with an excellent opportunity to meet the Board members of LGA and key members of the management teams of both LGA and Legal & General Investment Management America. We found this to be a highly beneficial trip and we hope that we can replicate this success in future years.

EXECUTIVE REMUNERATION

This year, we have seen the implementation of a number of changes to the narrative reporting regime, in particular the way in which we disclose and report on executive remuneration. As in 2012, you will see that the remuneration report includes both a forward looking section outlining the Group's remuneration policy and a section reporting on implementation. The Group's remuneration policy is now subject to a binding shareholder vote at the company's 2014 AGM.
In preparation for these changes, the Remuneration Committee has spent a great deal of time considering the policy and consulting with shareholders. Further details of the policy and consultation process can be found on pages 70 to 103.

COMMUNICATIONS WITH SHAREHOLDERS AND AGM

We welcome the opportunity to communicate with all of our shareholders; both our institutional investors, some of whom we have met with during the year, and our retail investors. The AGM provides a valuable opportunity for all of our shareholders to hear more about how we have performed during the year and to meet with our Board in person. I look forward to sharing with you the successes of the company during 2013 and would encourage as many shareholders as possible to attend the AGM on 21 May 2014.

JOHN STEWART
CHAIRMAN

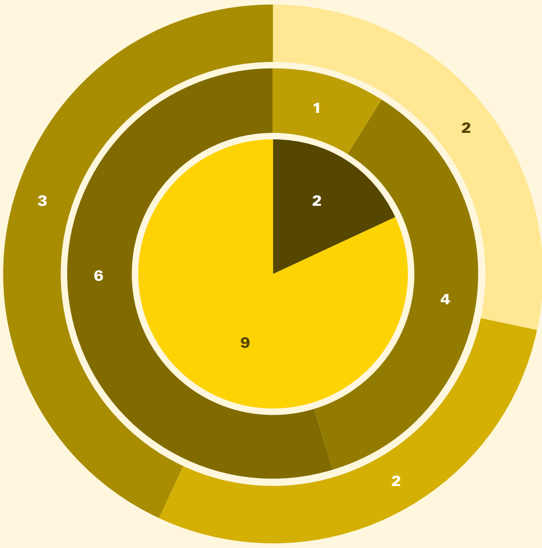
COMMITTED TO THE HIGHEST STANDARDS.

OUR APPROACH TO GOOD GOVERNANCE

As a company, we continue to strive towards the highest standards of corporate governance and we review our compliance with the UK Corporate Governance Code ('the Code') and associated policies on an annual basis. We believe good governance is the foundation for building trusted relationships and ensuring sound decision making processes. During the year we have made a number of changes to enhance the company's governance framework. One of the key focuses of this year's review was a review of the company's delegated authority structure which is discussed in more detail on page 57.

Our statement of compliance with the Code is set out in more detail on the following pages.

Board Composition



THE BOARD AND HOW WE OPERATE

The Board's primary responsibility is to promote the long term success of the company by determining the company's strategic objectives and monitoring management's performance against those objectives. In the context of this framework, the Board is cognisant of the impact of each of its decisions on the Group's stakeholders, including employees, shareholders and society as a whole.

The Board is led by the Chairman, John Stewart, and the day-to-day management of the organisation is led by Nigel Wilson, the group chief executive. The Board has seen a number of changes during the year; the appointment of Mark Gregory as group chief financial officer, the appointments of both Lindsay Tomlinson and Lizabeth Zlatkus as non-executive directors and the retirements of Nick Prettejohn, Dame Clara Furse and Henry Staunton. Due to the businesses evolving strategy, the Board is mindful of the need to keep its composition under review in order to ensure that we continue to maintain the right balance of skills, experience and diversity to lead the company through the next phase of its growth.

The chart to the left demonstrates the composition of the Board including the balance between executive and non-executive directors, tenure of non-executive directors and gender diversity.

The Board meets formally on a regular basis. There were nine scheduled meetings in 2013 as well as a two day strategy event at which the Board considered the company's future strategy in light of the Group's five key drivers of growth. A table showing director attendance at Board meetings is set out on page 59. The work of the Board follows an annual work plan and the Board monitors the performance of the Group through regular:

- Reports from the group chief executive providing a groupwide business review
- Reports from the group chief financial officer on the Group's current financial position
- Reviews of detailed management information packs showing performance against key metrics, project updates, and customer claims data
- Updates from each of the following business areas: Legal & General Retirement; Legal & General Investment Management; and Legal & General Assurance Society
- Legal and Governance reports from the group general counsel and company secretary

Our governance framework

The Board operates within a clearly defined schedule of matters reserved for the Board. During the year, the Board undertook a review of the matters reserved and the delegated authority framework in order to assist the Board in delivering its responsibilities, to improve decision making processes through the organisation and to enhance independent oversight of internal control and risk management. As part of this review, revised terms of reference were adopted for each of the committees within the governance framework; the schedule of matters reserved for the Board was refined and work is under way to implement schedules of delegation for the group chief executive, group chief financial officer and divisional chief executive officers. The matters requiring Board approval include, amongst others:

- Group annual strategic plan and review of performance against those goals
- Material transactions, acquisitions, mergers, disposals, joint ventures, take-over bid approaches
- Changes to the capital structure
- Financial reporting and dividends
- Risk appetite and systems of internal control and risk management processes
- Corporate governance policies
- Appointment or removal of key personnel and remuneration policies
- Material projects or contracts
- Material new product distribution and pricing arrangements

THE BOARD'S AGENDA: KEY AREAS OF FOCUS IN 2013

EVOLVING GROUP STRATEGY	STAKEHOLDERS	TALENT MANAGEMENT	BUSINESS AREAS
The Board continues to focus on progressing the company's strategic objectives through strong organic growth and selective acquisitions. Strategy remains a primary focus of the Board's agenda and was also the subject of discussion at a two-day strategy event attended by all Board members. The Board has overseen increased mergers and acquisitions activity during 2013, including the completion of four material acquisitions. The Board reviews significant transactions and assesses whether these are aligned with the Group's strategy while also considering their respective risk profiles.	In considering strategy, the Board recognises the impact its decisions may have on each of its stakeholder groups. During the year, the Board gave particular consideration to employee matters (including the results of the annual employee survey), customers, Government bodies and wider society as part of its corporate social responsibility agenda.	Developing talent from within the organisation remains a key focus for the company. The Board is provided with regular updates in respect of the progress made in embedding talent management processes and building the development structure for future leaders. Board members continue to mentor those individuals who have been selected to participate in leadership programmes.	The Board recognises the contribution made by each of the separate business divisions and the importance of understanding the workings of each of these divisions. During the year, the Board carried out a 'deep dive' analysis of the following business units: Legal & General America, Legal & General Property and Legal & General Investment Management, including the index funds and fixed income divisions.

COMMITTED TO THE HIGHEST STANDARDS.

Induction, training and development

The Board places great value on training and development and the group company secretary supports the Chairman in providing tailored induction programmes for new directors and continuing development programmes for existing directors.

On joining the Board as non-executive directors, Lindsay Tomlinson and Lizabeth Zlatkus were provided with comprehensive induction packs containing core business information and were invited to attend a series of meetings with executive management and other senior members of the management team. These meetings were focused specifically on understanding the different business areas and operations and took place across a number of different site locations. Mark Gregory, on appointment as group chief financial officer, was also provided with a tailored induction programme to support the transition into his new role. The basis of this induction was a series of tailored one-to-one meetings with senior members of the risk, internal audit, finance, tax and investor relations teams as well as an in-depth handover with the interim chief financial officer and introductory meetings with the external auditor and corporate brokers.

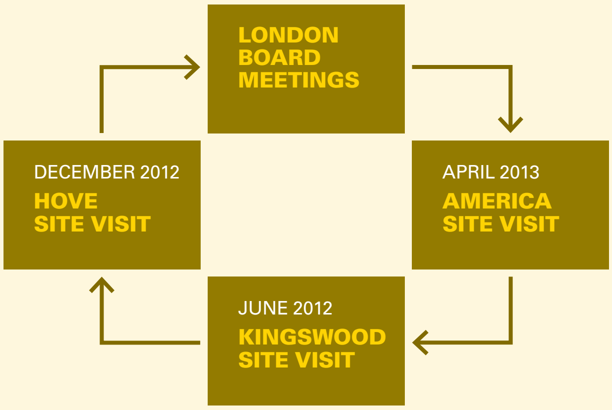
LINDSAY TOMLINSON, NON-EXECUTIVE DIRECTOR

"The induction process was well organised and comprehensive. Besides meeting many members of the senior management team in Coleman Street, I was also encouraged to visit other office locations. It was very useful to visit both Kingswood and Hove and to have the opportunity to meet with a variety of people from across the business. This really helped me to appreciate the strong ethical culture which exists throughout the organisation."

Ongoing training, we believe, is an essential component to maintaining an effective and knowledgeable Board. The Chairman continues to meet regularly with each of the non-executive directors to agree training and development plans and all directors are invited to attend internally hosted executive business awareness sessions. Topics covered during the year have included an 'Overview of the Legal & General Investment Management business', 'Managing conduct risk' and 'Corporate social responsibility'.

BOARD VISITS

The Board also has in place a programme of site visits to ensure that members of the Board have a full understanding of the business operations in each location, have an opportunity to meet staff in different locations and to experience first hand the local culture and ethos.



In 2013, the Board visited the Legal & General America ('LGA') office. Over the course of the visit, the Board met with members of the senior management team who provided the Board with in-depth briefings on the workings of both the LGA business and Legal & General Investment Management America business. The Board also participated in an operational tour of the business giving them the opportunity to observe the various teams in action and to meet with employees.

The overseas office visit comprised the following:

- Board meeting focused on the US businesses
- A tour of the LGA operations providing a valuable opportunity for employees to meet and speak in person with the Group Board
- 'Deep dive' session in to the LGIM America business
- Dinner with the LGA Board and LGIM America representatives. The Board used this session to discuss the businesses strategy and future growth plans

Assessing our effectiveness

The effectiveness of the Board is fundamental to the success of the company and the annual Board evaluation process provides the directors with an opportunity to reflect on their collective and individual performance. Throughout the year, the Board has continued to build on the recommendations from the 2012 external evaluation facilitated by KPMG LLP and good progress has been made in implementing those recommendations. In particular:

- The Board agenda was reviewed and refined to prioritise strategic proposals to allow more time for discussion, debate and challenge
- Management information packs were reviewed and refreshed to highlight progress against key performance indicators, strategic initiatives and risk appetite
- Each executive director continues to provide an update on their respective business areas at each Board meeting increasing each directors contribution to discussion, debate and challenge

In 2013, the Chairman determined that an internally facilitated evaluation would be the most effective method for assessing performance, particularly in light of the Board changes that had taken place during the year. The evaluation was facilitated by the group general counsel and company secretary and the performance of the Board as a whole, the committees and the individual directors were evaluated. The review process was conducted using a series of tailored questionnaires followed by discussion. The review focused on the following areas:

- Time management and composition
- Expertise of the Board/committee members
- Board and committee dynamics
- Processes and support
- Oversight
- Succession planning
- Priorities for change

The evaluation concluded that the Board was effective overall while recognising scope for improvement in several areas. In particular, the review resulted in the following recommendations:

- Board packs and management information – Further enhance the format of Board papers to ensure that the information provided is specific and concise and provides the information necessary for the Board to discharge decision making responsibilities effectively
- Overseas and off-site Board meetings – The company secretary should continue to facilitate a programme of overseas and off-site Board meetings in order to increase the Board's knowledge of each of the Group's key business divisions
- Strategic planning – The Board should more frequently revisit the progress on the discussions undertaken during the annual strategy day at appropriate points during the year
- Stakeholder views – The Board should continue to receive regular updates on the evolving views of all key stakeholder groups

BOARD AND COMMITTEE MEETINGS ATTENDANCE

Director	Appointment Date	Board (9)	Audit Committee (4)	Nominations Committee (6)	Remuneration Committee (8)	Group Risk Committee (4)
J Stewart	1 January 2010	9 (9)		6 (6)		
M Fairey	1 May 2011	8 (9)	4 (4)	6 (6)	8 (8)	
Dame C Furse[1]	1 June 2009	3 (3)		2 (3)		1 (1)
M J Gregory	28 January 2009	9 (9)				
R Markham	4 October 2006	9 (9)		6 (6)	8 (8)	
J B Pollock	11 December 2003	9 (9)				
S Popham	1 July 2011	9 (9)		5 (6)	7 (8)	3 (4)
N Prettejohn[2]	2 November 2010	3 (4)	1 (2)	3 (3)	3 (4)	1 (1)
H E Staunton[3]	1 May 2004	4 (4)	2 (2)	3 (3)		1 (1)
L Tomlinson[4]	1 May 2013	6 (6)	2 (2)	2 (3)	5 (5)	3 (3)
J Wilson	9 November 2011	9 (9)	4 (4)	6 (6)		3 (3)
N D Wilson	1 September 2009	9 (9)				
M Zinkula	18 September 2012	9 (9)				
L Zlatkus[5]	1 December 2013	1 (1)		1 (1)		

1. Retired with effect from 1 May 2013.
2. Retired with effect from 6 June 2013.
3. Retired with effect from 22 May 2013.
4. Appointed with effect from 1 May 2013.
5. Appointed with effect from 1 December 2013.

COMMITTED TO THE HIGHEST STANDARDS.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

For the year ended 31 December 2013, we are pleased to report that the company has complied with the principles and provisions of the UK Corporate Governance Code. A full version of the Code can be found on the Financial Reporting Council's website: www.frc.org.uk

A. LEADERSHIP

A1 The Board's role
The Board met formally nine times during the year and the Board's agenda prioritised strategy and performance. There is a clear schedule of matters reserved for the Board and schedules of delegation, as further described on page 57.

A2 A clear division of responsibilities
The roles of the Chairman and group chief executive are clearly defined and the scope of those roles is reviewed on an annual basis. John Stewart, the Chairman, is responsible for the leadership and effectiveness of the Board. Nigel Wilson, the group chief executive, is responsible for leading the day-to-day management of the company within the strategy set by the Board.

A3 Role of the Chairman
The Chairman sets the agendas for meetings, manages the meeting timetable and facilitates open and constructive dialogue during the meetings.

A4 Role of the non-executive directors
The Chairman promotes an open and constructive environment in the boardroom and actively invites the non-executive directors' views. The non-executive directors provide objective, rigorous and constructive challenge to management and meet regularly in the absence of the executive directors. The Nominations Committee report can be found on pages 62 to 63.

B. EFFECTIVENESS

B1 The Board's composition
The Nominations Committee is responsible for regularly reviewing the composition of the Board. In making appointments to the Board, the Committee considers the wide range of skills, knowledge, experience, backgrounds and perspectives required in order to maintain an effective Board.

B2 Board appointments
The appointment of new directors to the Board is led by the Nominations Committee. Further details of the appointments undertaken during the year and succession planning can be found on pages 62 to 63.

B3 Time commitments
On appointment, directors are notified of the time commitment expected from them which in practice, goes beyond that set out in the letter of appointment. External directorships, which may impact existing time commitments, must be agreed with the Chairman.

B4 Training and development
Ongoing training and induction programmes are in place and the Chairman reviews each of the non-executive directors' training needs. Further details are set out on page 58.

B5 Provision of information and support
The Chairman, in conjunction with the company secretary, ensures that all Board members receive accurate and timely information.

B6 Board and Committee performance evaluation
The Board undertook an internal evaluation during 2013. Details of the evaluation can be found on page 59.

B7 Re-election of the directors
All directors were subject to shareholder election or re-election at the 2013 AGM, as will be the case at the 2014 AGM.

C. ACCOUNTABILITY

C1 Financial and business reporting
The strategic report can be located on pages 1 to 49, and this sets out the performance of the company, the business model, strategy and the risks and uncertainties relating to the company's future prospects.

C2 Risk management and internal control systems
The Board sets the company's risk appetite and annually reviews the effectiveness of the company's risk management and internal control systems. The activities of the Audit and Group Risk Committees, which assist the Board with its responsibilities in relation to risk setting and management, are set out on pages 64 to 69.

C3 Role and responsibilities of the Audit Committee
The Board has delegated a number of responsibilities to the Audit Committee which is responsible for overseeing the Groups' financial reporting processes, internal control and risk management framework and the work undertaken by the external auditor. The chairman of the Audit Committee provides regular updates to the Group Board.

D. REMUNERATION

D1 Levels and elements of remuneration
The company aims to reward employees fairly and our remuneration philosophy seeks to link reward to performance, thereby aligning the interests of the directors and shareholders.

D2 Development of remuneration policy and packages
Details of the work of the Remuneration Committee and the approach to setting the remuneration policy can be found in the Directors' Remuneration Report on page 70.

E. RELATIONS WITH SHAREHOLDERS

E1 Shareholder engagement and dialogue
The Board takes an active role in engaging with both institutional and retail shareholders. The Board particularly values opportunities to meet with shareholders and the Chairman seeks to ensure that the Board are kept apprised of shareholder views.

E2 Constructive use of the AGM
The AGM provides the Board with an important opportunity to meet with shareholders, in particular retail shareholders, who are invited to meet with the Board following the formal business of the meeting.

NOMINATIONS COMMITTEE REPORT.

JOHN STEWART, CHAIRMAN

"There have been a number of changes to our Board composition during the year. In recommending new appointments to the Board the Committee considers the importance of a diverse Board in terms of thought, background, experience and gender."

THE COMMITTEE

The Nominations Committee leads the process for the appointment of new directors to the Board and reviews on a regular basis the succession plans in place for executive directors and key senior management, Board composition, the suitability of the directors standing for re-election at the annual general meeting and whether the Chairman and the non-executive directors continue to be able to meet their commitments to the company. This year the committee has focused on strengthening, broadening and balancing the range of skills, experience and diversity on the Board, its committees and below Board level.

Members	
John Stewart	Julia Wilson
Rudy Markham	Lindsay Tomlinson
Stuart Popham	Lizabeth Zlatkus
Mike Fairey	

In addition to the members listed above, the group chief executive normally attends meetings (although this would not be the case if the Committee were discussing matters in connection with the appointment of a successor to the group chief executive). The Group HR director may also attend to support the Committee's discussions on talent management and succession planning in the Group. The Chairman would not attend if the meeting were considering any matters relating to the Chairman in which case the meeting would be chaired by the senior independent director, Rudy Markham.

The Nominations Committee met formally six times in 2013.

EXECUTIVE APPOINTMENTS

The Committee reported last year that the process for the appointment of a group chief financial officer was ongoing. This was an extremely thorough process and the Board was focused on identifying a candidate with: an appropriate level of insurance experience; the skills to effectively complement the group chief executive and other members of the executive team, as well as effectively interact with other Board members; and the ability to represent the company with investors, analysts and other key stakeholders, such as our regulators and Government. In June we announced the appointment of Mark Gregory, previously the executive director of the Savings division to the role of group chief financial officer. Mark moved to the role following the successful delivery of the company's RDR strategy and the acquisition of Cofunds under his leadership as the executive director of the Savings division.

The Committee produced a detailed candidate brief for the role and engaged external search consultants, Odgers Berndtson, who are signatories to the Voluntary Code of Conduct for executive search firms and have no other connection to the company, to undertake a search that considered both external and internal candidates. The Committee considered a long list of applicants of appropriate merit, which included female candidates and candidates from a diverse range of backgrounds. Committee members rigorously interviewed a refined list of candidates for the position and liaised, as is standard practice with Board level appointments, with the appropriate regulatory bodies before recommending to the Board the appointment of Mark Gregory.

At this time the Committee also considered the balance of non-executive and executives on the Board, along with plans to restructure the business to combine the Savings and Protection business units into a single LGAS business division. It was determined that four executive directors would be the most appropriate composition for the Board. All business areas would be effectively represented at the Board following the restructure of operations, and the composition most effectively aligned with the Group's strategic objectives.

NON–EXECUTIVE APPOINTMENTS

2013 saw a great deal of change in the composition of non-executive directors on the Board. Henry Staunton previously senior independent director, vice chairman and chair of the Audit Committee retired in May after serving on the Board for nine years. Dame Clara Furse stepped down from the Board in May after four years of service to take up a position at the Financial Policy Committee and Nick Prettejohn stepped down in June after two years of service in order to join the Prudential Regulation Authority as a non-executive director.

Following a thorough search process, the Committee were delighted to recommend the appointments of Lindsay and Lizabeth to the Board, taking up their appointments as non-executives in May and December respectively. The Committee considered the importance of a diverse Board and assessed the balance of skills, knowledge and experience on the Board to pinpoint any gaps that could be filled to enhance the Board's performance in light of the Group's strategy. The Committee instructed external search consultants, Odgers Berndtson, to assist in the identification and shortlisting of potential candidates. Lindsay was selected as he strengthens the Board through his significant experience of asset management and investor corporate governance. Lizabeth brings diversity to the Board due to her extensive experience in the US insurance industry.

DIVERSITY

We consider a diverse Board to be extremely important, be that diversity of thought, background, experience or gender. Last year we published our first Board diversity policy which the Committee considers throughout the candidate search process.

The Committee encourages the emergence of female candidates and candidates of diverse backgrounds by: (i) engaging an executive search firm that is a signatory to the executive search firms' Voluntary Code of Conduct; (ii) liaising with the search firm to produce a brief that includes an appropriate emphasis on diversity of skills and background, independence of approach and other personal qualities in addition to career experience and compatibility with the values and behaviours of existing Board members, with a view to enhancing the overall effectiveness of the Board; and (iii) encouraging the search firm to produce long lists which include female and other diverse candidates of appropriate merit. The Committee will also consider high-performing females and other diverse senior executives who may not have previous board experience in executive and non-executive directorship roles subject to potential candidates meeting the regulatory requirements for a board director of a financial services firm. The appointment of Lizabeth clearly demonstrates this, as Legal & General is Lizabeth's first UK non-executive role.

The Committee is also working to further strengthen the representation of women among the non-Board senior management who may be the Board directors of tomorrow. Board members play an active role in supporting and contributing to various employee talent development programmes by mentoring individual employees and meeting with groups of employees who take part in the programmes.

INDEPENDENCE

The Committee and the Board evaluate the independence of any non-executive director serving over six years. Rudy Markham has served on the Board for seven years and as a result his continued independence has been subject to vigorous review by the Nominations Committee. The Committee has determined that Rudy continues to demonstrate the attributes of an independent non-executive director, in particular an objective view point and constructive challenge to management and that his length of tenure has had no detrimental impact on his level of independence. All of the non-executive directors are considered to be independent and the Chairman was considered independent on appointment.

The Committee was also satisfied that during 2013 the Chairman's other commitments did not interfere with the day to day performance of his duties for the company.

The Committee's terms of reference can be viewed on our website.

AUDIT COMMITTEE REPORT.

JULIA WILSON, CHAIRMAN

"The Committee has a key role in ensuring the integrity of the financial statements and the effectiveness of risk management processes and internal control. 2013 has seen significant developments in the regulatory backdrop underpinning these responsibilities and the Committee has focused on the need for the annual report to be "fair, balanced and understandable", and the development of the new code for internal audit in the financial services sector, in particular."

THE COMMITTEE

All members of the Committee are independent non-executive directors and the Board and Committee's own evaluations during the year found that the Committee members have the knowledge and skills to effectively fulfil their responsibilities.

Members	
Julia Wilson	Committee member since 9 November 2011, Chair since 22 May 2013
Mike Fairey	Committee member since 1 May 2011
Lindsay Tomlinson	Committee member since 31 July 2013

Other attendees at Committee meetings include: the group Chairman, group chief executive, group chief financial officer, group chief risk officer, group financial controller, group chief internal auditor, UK actuary and representatives of the external auditor, PricewaterhouseCoopers LLP.

The Committee met four times during 2013. The Committee's terms of reference are reviewed annually and the current terms of reference, reviewed in November 2013, are available on our website.

THE COMMITTEE'S ACTIVITIES DURING 2013

Fair, balanced and understandable

The responsibilities of the Audit Committee include assisting the Board in ensuring that the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

The Committee considered the corporate governance changes that now require the Board to make this statement on the report, together with information on the processes already in place or being introduced to support the statement to be made.

The Committee was satisfied that, when taken as a whole, the annual report is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's performance, business model and strategy. We were assisted in reaching this conclusion by the following:

- Review – Senior management, including individual business area managers and the executive directors, have been closely involved in the preparation and review of the information contained within the annual report. The Committee and Board members have had sufficient opportunity to review the annual report and provide input.
- Training – Those responsible for preparing the report receive training on their reporting responsibilities. In particular, the Board ensures that the annual report includes less positive messages where necessary so that the report is fair, balanced and understandable.
- Verification – Full financial and factual verification of the financial statements has been completed. This includes peer review by external advisers and their feedback on the understandability of the report.
- Risk disclosures – The Committee received a report from the group chief risk officer on the risks discussed within the report and concluded that risks were appropriately disclosed and where necessary, links made within the annual report between risk and the company's business model, strategy and performance.
- Consistency – This was ensured for the financial statements with:
  - the half-year results and interim management statements published during the year; and
  - the front half narrative section of the report.

We have aimed to use plain English within the annual report ensuring the absence of jargon and acronyms.

SIGNIFICANT ACCOUNTING ISSUES

The Committee considered the following significant issues in relation to the 2013 financial statements:

AREA OF JUDGEMENT	HOW THE COMMITTEE ADDRESSED THE ISSUE
The key judgements in relation to annuities are: • valuation interest rate – the discount rate at which annuity payments are discounted to their present value; and longevity – how long policyholders receiving annuity payments will live. The financial results can be sensitive to changes in the valuation interest rate and the assumed credit default allowance. Annuity liabilities are sensitive to the choice of, and changes in, the longevity assumptions.	The Committee is concerned to ensure that the investment data used for modelling insurance liabilities is correct, that credit default assumptions are appropriate and that the assumptions made in setting the credit default allowance appropriately represent the Group's exposures and current market conditions. The Committee considered how investment data is used to model insurance liabilities and reviewed in detail the assumptions used in calculating the credit default allowance. Assurances were received from the external auditor in relation to the controls in place for the accuracy and completeness of the data used. The Committee studied the results of the default provision methodology by individual asset type and concluded that the total provision was appropriate. The Committee also reviewed how the longevity assumptions are calculated, including the use of internal experience analyses and judgement, and the impact of new data set releases from the Continuous Mortality Improvement Bureau.
The Group's investment portfolio includes Over The Counter ('OTC') derivatives and structured solution products such as commercial mortgages. These products are more complex than traditional investments.	The Committee is concerned to ensure that the complex process for valuation of instruments does not increase the risk that the valuation is performed inaccurately. The Group's investment portfolio includes Over The Counter ('OTC') derivatives and structured solution products such as commercial mortgages. These products are more complex than traditional investments. The Committee challenged management on the robustness of the valuation process and received assurance on the controls in place to mitigate the risk that the valuation is not performed correctly. The Committee also considered the processes in place to identify and manage counterparty risk through the investment portfolio.
The Group made four significant acquisitions during the year. The acquisitions of Lucida Limited and Cofunds Limited during 2013 were reported as business combinations. The treatment of these acquisitions as business combinations required a number of estimates and adjustments to be made.	The Committee reviewed and considered the appropriateness of: • adjustments to the fair value of assets and liabilities acquired as part of each acquisition; and • the fair valuation of previously unrecognised identifiable intangible assets (brand name, customer relationships) and subsequent consideration. The Committee further considered the impact of each acquisition on the Group's key performance metrics. The Committee also considered the adequacy of the presentation of the acquisitions during the year.

AUDIT COMMITTEE REPORT.

Internal control and risk management framework

The Committee considers control environment issues, root causes and management's responses and follow up activities and is assisted by the work of both internal audit and the external auditor.

Given the level of organisational change during the year, with the appointment of a new group chief financial officer and group financial controller and the integration programme creating the LGAS business division, the Committee has sought to understand the impact of these changes on internal control and risk management. The Committee has been assured that this change has been managed to avoid detrimental impact on the Group's internal control and risk management framework through the reports it has received from the impacted areas.

In conjunction with the Group Risk Committee, the Committee assists the Board in ensuring the Group operates within a framework of prudent and effective controls that allows risk to be identified, assessed and managed. Implementation and maintenance of the internal control systems are the responsibility of the executive directors and senior management. Where failings or weaknesses have been identified, actions have been taken to remedy these. The Group's control policies and procedures, which are in accordance with Turnbull Guidance, have been in place during 2013 and up to the date this report was approved. 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 internal control and risk management systems cover the company's financial reporting process and the Group's process for preparation of consolidated financial statements. For 2013, the Board was able to conclude, with reasonable assurance, that appropriate internal control and risk management systems were maintained throughout the year.

Internal audit

The Committee reviews the effectiveness of the Group's internal audit function, including internal audit resources, plans and performance as well as how the function interacts with management. Throughout the year, the Committee reviewed the internal audit function's plans and its achievements against those plans. The Committee considered the results of the audits undertaken by the internal audit function and considered the adequacy of management's response to matters raised, including the issues identified, management's resolution plans and the time taken to resolve any such matters.

This year, the Committee closely followed the consultation on the expectations for the internal audit function within a major financial services company. The Chartered Institute of Internal Auditors (CIIA) Guidance for Internal Audit in the Financial Services sector (the Code) was issued in July. The Committee recognises that the Code sets high (and challenging) standards. The Committee continues to work with management on the necessary development of the Company's internal audit function to ensure that it is well equipped to perform in line with the Code's standards and support ongoing delivery of effective internal audit assurance.

The chair and the Committee held private meetings with the group chief internal auditor in the absence of management during 2013.

External auditor and effectiveness of the external audit

Each year, the Committee reviews the external auditor's audit plan to ensure it aligns with the Committee's view of the significant risk areas of financial misstatement.

The Committee judges the external auditor on the quality of their audit findings, management's response and stakeholder feedback. The Committee regularly assesses the effectiveness of the external auditors against the following criteria:

- Provision of timely and accurate industry specific and technical knowledge
- Maintaining a professional and open dialogue with the Committee chairman and members at all times
- Delivery of an efficient audit and the ability to meet objectives within the agreed time frames
- Provision of sufficient resource and high quality and consistent advice at all times

The Committee also reviewed the Financial Reporting Council's 2012/13 Audit Quality Inspections Annual Report and the 2012/13 Public Report on PricewaterhouseCoopers LLP. Based on the feedback, the Committee continues to believe that PricewaterhouseCoopers LLP is the appropriate audit firm for the Group taking into account their performance during 2013, the audit needs of the Group and our principal business areas, the regulatory landscape and our footprint.

The Committee is cognisant of the current and emerging requirements governing the appointment of external auditors, notably the mandatory re-tendering requirements of the UK Corporate Governance Code and Competition Commission, together with the draft mandatory firm rotation proposals from the European Commission.

PricewaterhouseCoopers LLP has been our external auditors for a number of years. The audit was last tendered in full in 2006 with a partial re-tender process in 2009. The Committee continues to monitor the requirements and recognises the need to carry out a review of the external audit provider. Accordingly the current intention of the Committee is to carry out a review at an appropriate time between now and 2017.

There are no contractual obligations which restrict the Committee's choice of external auditor.

In 2013, the Group spent £1.4m on non-audit services provided by PricewaterhouseCoopers LLP. Further details can be found in Note 35 to the consolidated financial statements.

Analysis of current and prior-year spend on audit, other assurance and non-assurance services:

Analysis of current and prior-year spend on audit, other assurance and non-assurance services

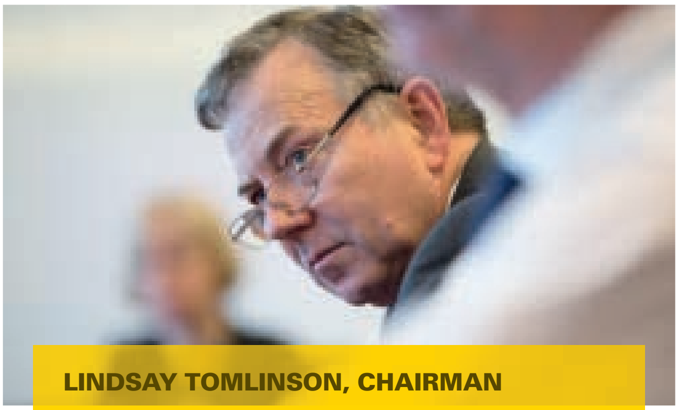
	2013	2012	2011
Audit and Related	5.6	4.6	4.5
Other Assurance	0.1	1.8	0.9
Non-assurance	1.3	1.1	1.0
Total	7.0	7.5	6.4

A significant proportion of the non-assurance fees in 2013 relate to tax compliance and other tax related services and support provided in relation to corporate transactions undertaken during the year. The external auditor was selected to undertake this work because of their expertise and experience. Separate teams from the external auditor undertake audit and non-audit work in order to ensure independence and objectivity of the audit team and this control is monitored internally by the Committee.

The Group's policy requires that all services with an anticipated cost in excess of a specified amount are subject to a full competitive tender involving at least two other alternate parties in addition to the external auditor. If the external auditor is selected following the tender process, the Committee is responsible for approving the external auditor's fees on the engagement. For services with an anticipated cost below the specified amount, the group chief financial officer has authority to approve the engagement. The external auditor and management report regularly to the Committee on the nature and fees relating to non-audit services provided under this authority.

In order to maintain the objectivity of the external audit process, the Committee supports the rotation programme for audit engagement partners who are required to rotate every five years. The previous audit partner commenced his engagement in 2008 and therefore stepped down as the audit engagement partner following the 2012 audit. The 2013 audit is the first audit undertaken by the new audit partner.

GROUP RISK COMMITTEE REPORT.



LINDSAY TOMLINSON, CHAIRMAN

"We have seen a number of changes to the Committee membership this year and I assumed the chair in July 2013. The diversity of skills and experience on the Committee continues to enhance its overall effectiveness in supporting the Board to discharge its responsibilities in relation to the management of the Group's risk framework and internal control systems."

THE COMMITTEE

The composition of the Committee was refreshed during the year following a number of Board changes and the Committee now comprises four independent non-executive directors.

Members	
Lindsay Tomlinson	Committee member and Chair since 24 July 2013
Stuart Popham	Committee member since 1 July 2011
Julia Wilson	Committee member since 24 July 2013
Lizabeth Zlatkus	Committee member since 26 February 2014

Other attendees at Committee meetings include: the group Chairman, group chief executive, group Chief financial officer, group chief risk officer, group chief internal auditor and representatives of the external auditor, PricewaterhouseCoopers LLP.

The Committee met four times during 2013. The effectiveness of the Committee during the year was reviewed as part of the internally facilitated evaluation of the Board and its Committees.

COMMITTEE'S ROLE AND RESPONSIBILITIES

The purpose of the Committee is to assist the Board in fulfilling its responsibilities in relation to the oversight of risk within the Group and to provide advice in relation to current and potential future risk exposures of the Group. This includes reviewing the Group's risk appetite and risk profile and assessing the effectiveness of the Group's risk management framework. The Group's approach to the management of risk is set out in more detail on pages 42 to 47.

The key responsibilities of the Committee, as set out in the terms of reference, are to:

- Advise the Board in relation to the Group's overall risk appetite for each of the categories of principal risk to which the Group may be exposed
- Oversee and advise the Board on the current risk exposures of the Group
- Oversee the management of those categories of risk to which the Group may be exposed
- Provide oversight of the Group's overall risk framework ensuring that the principal risks are being appropriately assessed
- Advise the Board on the appropriateness of the Group's risk appetite
- Review and approve the Group's risk strategy, policies and procedures
- Monitor the impact of the principal risks on the Group's strategy and consider changes to the risks arising at a Group level as a consequence of the Group's strategy, market and regulatory events
- Advise the Remuneration Committee on specific risk adjustments to be applied to performance objectives and other issues, as requested by the Remuneration Committee.

COMMITTEE ACTIVITIES DURING 2013

The work of the Committee is supported by the Group's risk management team and company secretary who assist the Committee chairman in planning the Committee's work and ensuring that the Committee receives accurate and timely information.

During the year, the Committee focused on the following areas:

Group chief risk officer's report

The Committee has an ongoing programme of receiving reports from the group chief risk officer ('GCRO'). These reports bring to the Committee's attention key issues in the operating environment of each of the Group's businesses and the potential risks they may raise. Issues considered by the Committee during 2013 included, amongst others, the eurozone and sovereign debt, the UK economy and the UK and international regulatory environments. The report also keeps the Committee apprised of the activities undertaken, and transactions supported, by the GCRO's team. During 2013, the GCRO team's activities included, amongst others:

- Providing an objective review and guidance in respect of a number of transactions and acquisitions
- Carrying out an assessment of the Group's economic capital requirements in order to meet regulatory solvency requirements
- Facilitating a review of the risk governance framework

Focused business and risk reviews

Time is allocated at each Committee meeting to carry out a focussed 'deep dive' review of a particular risk area. The purpose of these reviews is to enable Committee members to examine the risk profile of the core business lines and to consider the robustness of the frameworks in place to manage the key risk exposures. The table below gives examples of the key reviews that took place during the year:

Legal & General Investment Management – a review of the strategic and operational risks faced by the business and how they are managed.
Legal & General Networks – a review of the risks associated with Legal & General's advisor distribution network, focussing on risk culture and advice risk.
Cofunds – a review of the risk profile of the Cofunds business, with specific consideration of the strategic, regulatory and operational risks and the strategies for integrating the business into Legal & General.
Cyber security risks – a review of the risks of unauthorised access to electronically stored data and the framework to safeguard against potential threats to our systems.
Currency risks – a review of the currency risk exposures across the Group, and the policies deployed to manage these risks particularly with regard to investment assets and dividends from overseas subsidiaries.
Remuneration schemes – a review of the key conduct risks and the risk profile relating to the bespoke incentive arrangements, as well as current and emerging regulation in relation to reward.
Credit risk – a review of the credit risk profile across the Group's investment portfolios, and actions to further enhance the risk management framework.
Liquidity risk – a review of the Group's key liquidity risks and the operation of the liquidity risk management framework, including contingency funding and standby facilities.
Epidemic risk – a review of the Group's exposures to epidemic risk and the modelling for those risks within the Group's internal model.

New and emerging risks

Monitoring new and emerging risks in a pre-emptive way is an important aspect of the Group's risk management processes and the ability to react to emerging risks is essential to the achievement of the company's objectives. The Committee considers on a regular basis emerging risk themes and their significance to the Group.

The Committee as part of these reviews, and broader discussions of business risks, has also considered the profile of risks from organisational change and potential for management stretch across the range of strategic initiatives.

Risk appetite

The Group's risk appetite framework continues to evolve. The July meeting of the Committee undertook a detailed review of the operation of the framework, recommending a number of refinements to the Group Board. In November, the Committee considered the risk profile of the Group's strategic plan and its alignment with the Group's overall risk appetite. The regular reporting to the Committee includes comparison of actual positions relative to the Group's risk appetite statement.

Group internal model

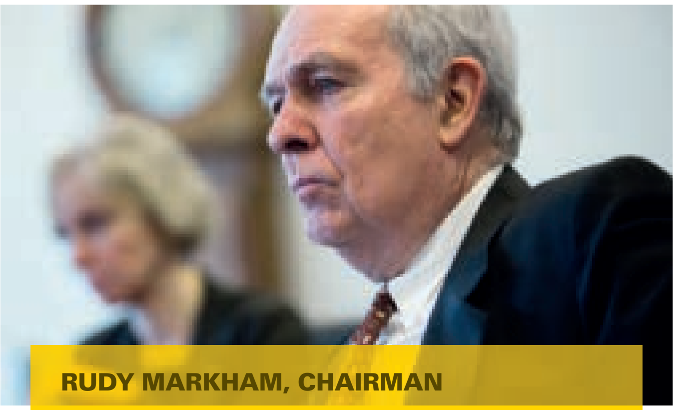
The Committee has received updates throughout the year on the Group's internal model which underpins our risk based capital requirements. This has afforded members the opportunity to develop understanding of the model and to assess key assumptions in advance of the implementation of the new Solvency II regime.

Risk governance

Sound frameworks of risk management and internal control are essential in the management of risks which may impact the fulfilment of the company's strategic objectives. During the year the Committee considered a proposal for a revised Group level risk structure in order to establish clearer distinctions between the first line decision making committees and the second line committees responsible for risk oversight. Further details of this revised structure can be found on page 47.

DIRECTORS' REPORT ON REMUNERATION

LETTER FROM THE CHAIRMAN.



RUDY MARKHAM, CHAIRMAN

"During 2013 Legal & General's strategy has evolved and accelerated and the Committee has reviewed the executive remuneration framework to ensure that it continues to be aligned with our strategic direction. Following careful consideration by the Committee, we are proposing a re-shaped package with a greater emphasis on the longer term and on delivery of performance within Legal & General's agreed level of ambition and risk appetite".

I am pleased to introduce the directors' report on remuneration for 2013. Over the past year, there has been much debate regarding the level and structure of executive remuneration. This report reflects how the Committee proposes to balance the various interests in a way which is in the long term interests of the company, its customers and shareholders. The report, which seeks to demonstrate the Committee's commitment to greater transparency, is in two parts:

- The directors' policy report which will be subject to a binding shareholder vote at the 2014 AGM. It is intended that this will apply for the next three years from the receipt of shareholder approval.
- The annual report on remuneration which provides details of directors' pay in 2013 and how we intend to implement the remuneration policy in 2014. This section will be subject to an advisory shareholder vote at the 2014 AGM.

PERFORMANCE OF LEGAL & GENERAL IN 2013

As outlined at the beginning of this annual report, Legal & General delivered strong performance during 2013. Our focus is on achieving steady and sustainable growth over the long term.

The outcomes against our key performance indicators that reinforce this strategy can be found on pages 2 and 3, and particular highlights include: Profit Before Tax 10% up on 2012, a 16.1% Return On Equity, a 10% increase in EPS and a full year dividend of 9.30p.

KEY STRATEGIC CHANGES IN 2013

During 2013, the Group chief executive led a change in the strategic direction of Legal & General to take into account some key global macro themes affecting the company's markets, including ageing populations and welfare reforms.

Legal & General has taken some targeted actions in response to these themes, including selective acquisitions. However, it has also made some more general changes, including the reorganisation and simplification of business structures and processes (including a smaller Board) and the hiring of new talent, all of which will help to provide a stronger capability base for future performance.

PROPOSED REMUNERATION CHANGES FOR 2014

Against the backdrop of these changes, and the expiry of our existing Performance Share Plan (PSP) in Spring 2014, the Committee decided it would be appropriate to undertake a comprehensive review of our forward looking executive remuneration policy to ensure continued alignment with our strategy. The overarching objective of this review was to ensure that, going forward, directors' remuneration is clearly linked to long-term strategy and performance and is simple and transparent.

During the entire review process, we have consulted extensively with shareholders and have amended our proposals in response to their feedback.

The proposed changes result in an increase in the focus on longer-term pay so that at maximum performance 81% (up from 76%) of the annual variable pay (AVP) and the Performance Share Plan (PSP) will be paid out over a longer period of three or more years. We are also proposing targets that are more closely aligned to our strategy and level of ambition within our risk appetite.

The Committee was particularly mindful that there should be no payment for failure and so we have focused on our clawback and malus provisions to reflect this.

The key outcomes of the review are set out below:

AVP

Increase in maximum opportunity from 125% of salary to 150% of salary for Group chief executive, CFO, CEO LGAS

No change to maximum opportunity for CEO LGIM

Increase in proportion of AVP based on financial performance up to 80% of total AVP, with remaining 20% based on key strategic objectives

Increased level of deferral with 50% of any award deferred into shares for three years; and
Deferred share awards will be subject to malus and clawback

PSP

Increase in maximum opportunity from 200% of salary to 250% of salary for all executive directors
15% of award will vest at threshold performance, reduced from the current level of 25%
Performance period remains at 3 years, but life of award extended with vesting in equal tranches over years three to five
PSP awards will be subject to malus and clawback; and
Awards will vest as to 50% based on relative TSR and 50% based on financial metrics (EPS and DPS with an ROE underpin) – rather than the current 100% vesting based on relative TSR

SHAREHOLDING GUIDELINES

Increase in guidelines from 200% of salary to 300% of salary for the Group chief executive and from 100% of salary to 200% of salary for other executive directors

The broad principles of the remuneration framework set out above will be cascaded and applied as appropriate throughout the organisation, and we will seek to continue to ensure that our wider employee population has a stake in the business and is rewarded fairly based on performance that is achieved in line with company values, risk appetite and customer outcomes.

We increased the Group chief executive's salary from £750,000 to £820,000, with effect from 1 March 2014. This reflects our policy of progression in the role, is the first review following his appointment 20 months ago, and is in line both with market disclosures made at that time and with what the Group chief executive has achieved to date in terms of the headline financial results, increased strategic clarity and customer focus, simplification of business structures and processes, selective acquisitions and, more generally, the energy, focus and drive he has brought to the organisation.

KEY PAY OUTCOMES IN RESPECT OF 2013

As a result of the strategic changes in 2013, we also undertook a re-organisation and simplification of the Board, as we believe that a smaller, closely aligned executive team creates the right dynamic, optimising Board efficiency and effectiveness to deliver Legal & General's strategy. This resulted in increased responsibilities for the executive directors and therefore we increased the salaries of our CFO, CEO LGIM and CEO LGAS to £560,000 pa with effect from 1 July 2013. There will be no further increase for 2014 and their next review will be in March 2015.

Executive directors' AVP awards are assessed based on a combination of financial results against key Group and Divisional performance indicators and the achievement of personal and strategic objectives. To reflect the strong performance of Legal & General during 2013, and the directors' contributions to this, the Committee determined that bonuses of between 86% and 93.1% of the maximum potential should be paid.

The PSP awards granted in 2010 measured Legal & General's relative TSR performance to 2013 against two comparator groups. Over the period Legal & General was ranked within the top decile against the FTSE 100 and was top of the bespoke comparator group. Based on this strong performance, the awards vested in full.

CONCLUSION

The Committee has been particularly mindful of concerns raised amongst both the investor community and wider public audience about the relative rate of growth in executive remuneration. As such, when determining remuneration outcomes and designing forward looking policy, we have sought to balance the need to maintain a competitive and motivated workforce with market concerns around the level and structure of pay.

The Remuneration Committee will continue to monitor the financial services regulatory environment and shareholder views on remuneration and will incorporate these as appropriate. In addition, we will continue to take very seriously our duty to actively exercise judgement and ensure outcomes are reflective of underlying performance and the shareholder experience.

I trust that you will find this report, in its new form, helpful. It forms part of our commitment to greater transparency and reflects how we propose to balance various considerations and interests in a way which we hope demonstrates that we take our duty to shareholders seriously.

RUDY MARKHAM
CHAIRMAN OF THE REMUNERATION COMMITTEE

DIRECTORS' REPORT ON REMUNERATION

INTRODUCTION.

OUR REMUNERATION REPORT IS ORGANISED INTO THE FOLLOWING SECTIONS:

REMUNERATION PRINCIPLES

Our overall remuneration principles align to our strategy. The strategic objectives are to grow the business in several key areas: LGIM international expansion, retirement solutions, protection, digital technology and direct investments. To deliver the growth requires a strong performance culture and our remuneration principles take this into consideration.

We also want to ensure we operate within the appropriate culture and therefore the principles support and reinforce customer outcomes, our values, behaviours and risk appetite. Our remuneration principles aim to be clear and simple and strengthen the link of reward for exceptional performance, as well as emphasise the importance of teamwork.

The principles of our remuneration policy are summarised below:

Remuneration principles

1. The structure should be fair, simple and transparent, with targets objectively set and independently reviewed by the CRO.
2. It should be reflective of external best practice. We should never be laggards and where appropriate we should take a leadership position.
3. Overall remuneration should be competitively positioned and consistent with executives' experience. It should be sufficient to ensure that we can recruit and retain the best talent to support our strategy.
4. Strong performance will be rewarded, but only if consistent with living and respecting Legal & General's values and behaviours, ensuring that we deliver results within our risk parameters and that we have desired customer outcomes. (Malus and clawback will apply as appropriate).
5. Remuneration should have a balance of reward for short term (one year or less) delivery as well as long term (three plus years) delivery.
6. Executives' interests should be aligned to those of shareholders.
7. Both at Board level and below, the reward structure should recognise teamwork and the proportion of an individual's reward that is linked to overall Legal & General performance as opposed to business unit performance should increase with seniority. At executive level this reinforces the collective responsibility across divisions including LGIM.

DIRECTORS' REPORT ON REMUNERATION

DIRECTORS' REMUNERATION POLICY.

The following sections set out our directors' remuneration policy (the 'policy') which will be subject to shareholder approval at the 2014 AGM in accordance with section 439a of the Companies Act 2006. This policy will be applicable from receipt of shareholder approval.

The Committee remains mindful that regulation of remuneration in the financial services sector continues to evolve and although its intention is that this policy will apply for three years, the Committee may review the policy more frequently, for example where there is a material change to the business, or to the regulatory, market or economic environment.

It also sets out any legacy policy or contractual elements that will continue. For the avoidance of doubt, in approving this Directors' Remuneration Report, authority is given to the Company to honour any commitments with current or former Directors entered into prior to the date of this policy being approved and any legacy arrangements.

POLICY TABLE

BASE SALARY

ELEMENT	POLICY
PURPOSE AND LINK TO STRATEGY	To help recruit and retain executive directors of the calibre required to develop, lead and deliver the business strategy.
OPERATION	The Committee sets base salary taking into consideration: • The individual's skills, experience and performance; • The scope of the role; • Pay and conditions elsewhere in the Group; • Overall business performance; and • External market benchmark data in other FTSE 100 companies and other relevant bespoke groupings of financial and non-financial institutions. For 2014, the key bespoke group of other financial institutions includes Admiral, Aviva, Old Mutual, Prudential, Resolution, RSA Insurance, Direct Line and Standard Life. Base salaries are normally reviewed annually, with increases effective 1 March. However, the Committee may review them more frequently, for example where there is a material change to a role or its scope.
OPPORTUNITY	Whilst there is no maximum base salary, any increases for executive directors will normally be in line with the range of increases for other UK employees in the wider Group. In specific circumstances, the Committee may award increases above this level such as: • where the Committee has set the base salary for a newly appointed executive director with a view to allow the individual to progress into the role over time; or • where, in the Committee's opinion, there has been a significant increase in the size or scope of an executive director's role or responsibilities; or • where there is a significant change in the regulatory environment.
PERFORMANCE CONDITIONS	Personal performance would be taken into consideration in determining any salary increase.

Note: Details of base salary decisions for 2014 can be found on page 97 of the annual report on remuneration.

DIRECTORS' REPORT ON REMUNERATION

DIRECTORS' REMUNERATION POLICY.

BENEFITS

ELEMENT	POLICY
PURPOSE AND LINK TO STRATEGY	Benefits are provided to executive directors to attract and retain the best talent for the business and to ensure that the total package is competitive in the market.
OPERATION	The Committee's policy is to provide executive directors with a market competitive level of benefits, taking into consideration benefits offered to other senior employees in the UK, the individual's circumstances and market practice at similar companies. Benefits provided to executive directors are in line with benefits provided to other senior employees in the UK. Benefits currently provided to executive directors include: a car or car allowance, private medical insurance, life assurance, Group Income Protection, and insured death in service arrangements. These are all in line with our general policy for other UK employees. In line with other Legal & General employees, executive directors can choose to acquire Legal & General products, and are eligible to participate in the company's voluntary benefits which they fund themselves, sometimes through salary sacrifice. They are eligible to participate in the UK all-employee share plans on the same terms as other employees. The two current all-employee share plans are: • The savings-related share option scheme (SAYE); and • The employee share plan. Where an executive (new or current) is required to re-locate from, or perform duties outside, their home country in order to take up their position, in line with our mobility policy and practice, additional benefits may be provided, for example: home country benefits such as health care and additional support in relocating such as assistance for housing, school fees, travel home, relocation costs and tax advice.
OPPORTUNITY	In line with other UK employees, there is no maximum level for the benefits as this is dependent on the individual's circumstances and the cost to the company. The maximum opportunity for participation in the current all-employee share plans is in line with other employees and takes into account the prevailing HMRC rules. Relocation / international assignment benefits – the level of such benefits would be set taking into account the circumstances of the individual and typical market practice.
PERFORMANCE	There are no performance conditions.

Note: Details on the value of benefits received for 2013 can be found in the annual report on remuneration page 87 under the single figure.

PENSION

ELEMENT	CURRENT POLICY
PURPOSE AND LINK TO STRATEGY	The policy aims to provide competitive post-retirement benefits and therefore recognise sustained contribution.
OPERATION	Pension contributions are set at an appropriate level to attract and retain high performing people. In line with other employees in the UK, executive directors currently participate in either a defined contribution pension plan, a defined benefit pension plan or receive a cash allowance in lieu of pension, or have some combination thereof. The defined benefit pension plan was closed to new joiners in 2001. From 2009, increases in pensionable salary for the defined benefit pension plan for remaining active members have been limited to a maximum of 2.5% each year. For executive directors who took enhanced protection in 2006, a cash allowance was provided in lieu which may be reviewed or amended by the employer. Non-UK national executives may be permitted to participate in home-country pension plans where relevant. Base salary is the only element of pensionable remuneration. At the discretion of the Committee, executive directors may elect to sacrifice all or part of their cash AVP into pension.
OPPORTUNITY	New executive directors receive 15% of base salary into the defined contribution pension plan (they contribute 5%). This contribution level for executive directors is the same as that operated for senior managers in the rest of the UK organisation in the defined contribution pension plan. As for other employees, there is a cash alternative in line with the defined contribution levels for executive directors who have opted out since 2006, or who opt out in the future, for enhanced or fixed protection above the lifetime allowance (as amended from time to time) or for executive directors who exceed the annual allowance limits (as amended from time to time). A cash allowance may also be given in lieu of pension if it is felt appropriate for an executive director from overseas to continue to participate in the local pension plan or for other valid reasons (for example but not limited to religion or other private pension arrangements). All cash allowances are subject to normal payroll deductions. Pension arrangements for current executives: On retirement from Legal & General at age 60 or 65 and subject to statutory limits, executive directors have pension entitlement as follows: Mark Gregory: while in the defined benefit plan, one-sixtieth of his eligible pensionable base salary (which is lower than actual base salary as only the lower of actual base salary increases and 2.5% has been credited since January 2009) for each year of eligible service subject to him continuing his 5% of pensionable base salary contribution. Mark left these defined benefit arrangements at the end of April 2011 and joined the defined contribution scheme. He is entitled to a company contribution of 15% of his base salary if he also contributes 5%. Any balance over and above the Annual Allowance limit is paid in cash. John Pollock: while in the defined benefit plan, one-sixtieth of eligible pensionable base salary for each year of service through to the date he opted for enhanced protection in 2006. He receives a cash allowance in lieu of pension equivalent to 22% of base salary. Nigel Wilson: Nigel was a member of the Group's defined contribution arrangements. During his participation, he was entitled to a company contribution of 15% of his pensionable base salary if he also contributed 5%. Any balance over and above the annual allowance limit was paid in cash. During 2012, he took fixed protection. Since this time he has received a cash contribution of 15% of base salary. Mark Zinkula: He is entitled to a cash allowance of 15% of his base salary. Part of this allowance may be used to contribute into a US 401K pension plan. He is also a member of a cash balance plan in the US.
PERFORMANCE	There are no performance conditions

Note: Details on pension for 2013 can be found in the annual report on remuneration page 88.

DIRECTORS' REPORT ON REMUNERATION

DIRECTORS' REMUNERATION POLICY.

ANNUAL VARIABLE PAY (AVP)

ELEMENT	POLICY
PURPOSE AND LINK TO STRATEGY	Incentivise executive directors to achieve specific Group and/or divisional, financial, strategic and personal predetermined goals, within the Group's risk appetite and taking into consideration the company's culture and values, on an annual basis. The deferred proportion of AVP into shares reinforces retention and enhances alignment with shareholders by encouraging a longer term focus and risk alignment.
OPERATION	Performance targets and weightings are set annually by the Committee to ensure they are appropriately stretching. Performance is normally assessed over a one year period. AVP out-turns are determined by the Committee after the year end, taking into consideration performance against targets, the underlying performance of the business and individual performance. The Committee may exceptionally adjust the outcome of the AVP calculation if it believes there are underlying circumstances that justify such a change. 50% of any AVP awarded is deferred. Deferred awards are normally awarded in the form of restricted shares or nil-cost options or phantom equivalent if appropriate. However awards may be deferred in other forms dependent upon business or regulatory requirements. Deferred awards will vest after a period set by the Committee. This period will normally be three years. Dividends on future deferred awards made in the form of shares accrue during the deferral period and normally are paid in the form of shares to the executive directors upon vesting. Dividend equivalents may accrue on awards made in other forms. Deferred awards are subject to Malus. Clawback provisions also apply (further details are set out later in this report on page 80). The Committee may adjust and amend the awards in accordance with the rules, for example where there is a variation in the share capital or to settle the awards in cash in the event this is warranted.
OPPORTUNITY	The maximum award opportunity in respect of any financial year is based on role as follows: For the Group chief executive, CFO and CEO LGAS the maximum potential is 150% of base salary. For the CEO LGIM the maximum potential is 175% of base salary. The award opportunity at threshold performance is 0%, with up to 75% of base salary normally payable for target performance for the Group chief executive, CFO and CEO LGAS and up to 105% of base salary payable for target performance for the CEO LGIM.
PERFORMANCE	Performance measures are selected by the Remuneration Committee on an annual basis to ensure that they are aligned with the Group's strategic priorities and the delivery of sustainable shareholder value. Performance is measured based on an appropriate mix of Group and/or Divisional financial performance targets as well as strategic (including customer and employee measures) and personal measures. Performance measures are weighted with normally up to 80% based on financial targets. The split between financial, strategic and personal performance measures and the relative weighting of Group and Divisional performance targets will be kept under review by the Committee on an annual basis.

Note: Details on AVP decisions for performance in relation to 2013 can be found on page 89 of the annual report on remuneration and in the single figure on page 86.

PERFORMANCE SHARE PLAN (PSP)

ELEMENT	POLICY
PURPOSE AND LINK TO STRATEGY	Awards under the PSP are reflective of the Committee's desire that the remuneration of executives should be weighted towards the delivery of sustainable returns to shareholders over the longer term. In addition to deferred awards under the AVP, awards under the PSP enhance alignment with shareholders by focusing executives on the longer-term performance of the business.
OPERATION	Award of shares or options which are subject to a performance period of normally no less than three years. Performance is measured post the Group results announcement after the end of the three year performance period. Subject to performance, awards are normally released in three equal tranches following the third, fourth and fifth anniversaries of the start of the performance period. The Committee retains discretion to lengthen the performance period and holding period for future awards. The Remuneration Committee may also amend the final level of vesting dependent on the underlying performance of the Group. The Committee may only exercise downwards discretion and may not increase the level of vesting. The parameters which the Committee uses in making this assessment will include, but are not limited to, market share, partnerships entered into and maintained, cost constraint, capital management, risk and shareholder perception. Financial performance targets are set annually by the Committee to ensure they are relevant and sufficiently stretching. PSP awards are normally awarded in the form of nil cost options or conditional shares or phantom equivalent where appropriate. However they may be awarded in other forms if the Committee considers it appropriate. Dividends or dividend equivalents accrue in the period following the end of the performance period until vesting and release. These will normally be paid in shares on a reinvested basis. PSP awards are subject to malus and clawback provisions (further details set out later in this report page 80). The Committee may adjust and amend the awards in accordance with the PSP rules, for example where there is a variation in the share capital or to settle the awards in cash in the event that this is warranted.
OPPORTUNITY	The maximum award opportunity under the PSP is 300% of salary. The Remuneration Committee's current intention is that the normal annual award opportunity will be 250% of base salary for all executive directors. 15% of the award normally vests for threshold performance increasing to 100% of the award for maximum performance.
PERFORMANCE	Performance measures for the PSP are selected by the Remuneration Committee to be aligned with the Group's long-term strategic priority of delivering sustainable returns to shareholders. The Committee therefore intends to grant awards based on an appropriate mix of earnings, capital efficiency and shareholder return measures. The split between these measures, for each grant, is set annually by the Committee. For awards to be made in 2014, the performance measures will be as follows: • A performance matrix of earnings per share and dividends per share growth, subject to a return on equity underpin (50% of the award) • Relative total shareholder return against the FTSE 100 and a bespoke group of insurance companies (50% of the award).

Note: Further details on the PSP metrics and decisions for 2014, subject to shareholder approval, can be found in the annual report on remuneration pages 98 and 99.

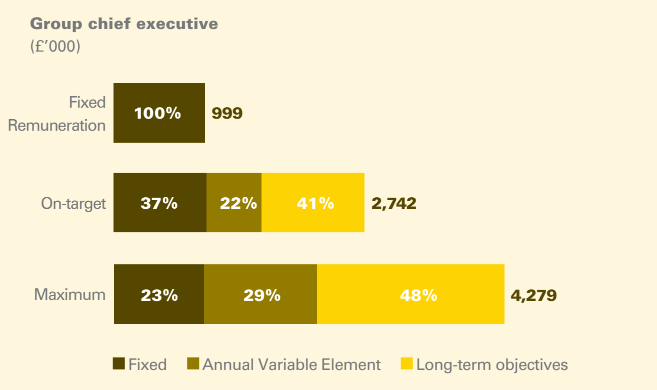
DIRECTORS' REPORT ON REMUNERATION

DIRECTORS' REMUNERATION POLICY.

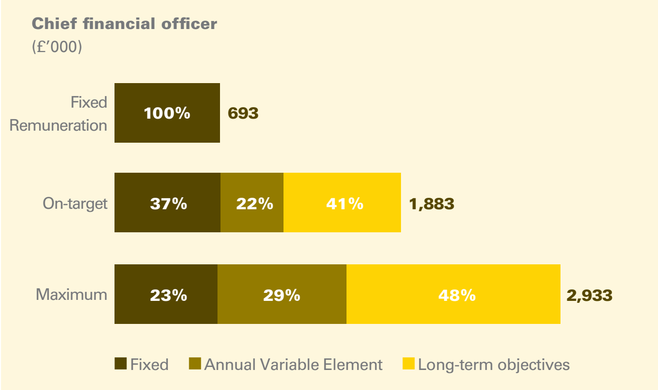
ILLUSTRATION OF THE APPLICATION OF THE REMUNERATION POLICY

The charts below illustrate the executive directors' fixed remuneration (defined below) and how much they could earn for target and maximum performance for 2014.

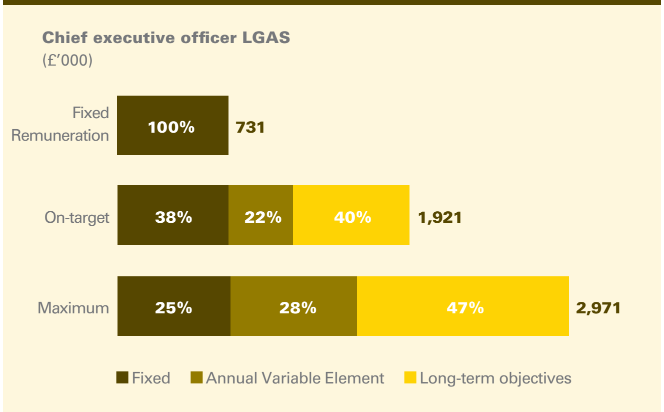
Nigel Wilson



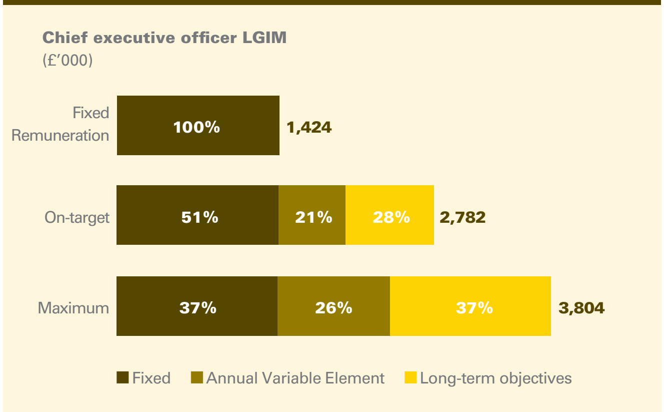
Mark Gregory



John Pollock



Mark Zinkula



In developing the scenarios, the following assumptions have been made:

FIXED REMUNERATION	Consists of 2014 base salary, benefits and pension (based on the value included in the single figure for 2013).
ON-TARGET	In addition to fixed remuneration, includes the potential value that each executive director could receive for target performance: • Annual variable element pays out at up to 75% of base salary for an on-target performance for the Group chief executive, CFO and CEO LGAS and up to 105% of base salary for an on-target performance for the CEO LGIM. • PSP is shown at 55% of face value at grant (using a grant of 250% of 2014 base salary).
MAXIMUM	In addition to fixed remuneration, includes the potential value that each executive director could receive for maximum performance under the annual variable element and the PSP.
OTHER	There is no adjustment made for share price or dividends.

NOTES TO THE POLICY TABLE

AREA	COMMENTARY
SHARE-HOLDING GUIDELINES	To create alignment with shareholders, the Remuneration Committee also operates a shareholding guideline for executive directors. For 2014 this is 300% of base salary for the Group chief executive and 200% of base salary for other executive directors. Further details of this are set out in the annual report on remuneration page 93.
DEFERRED SHARE ELEMENT	The deferred share element of the annual variable pay plan and the performance share plan shall be operated in accordance with the rules of the respective plans. The rules for the performance share plan have been set out for approval at the 2014 AGM.
LOSS OF OFFICE	The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the policy where the terms of the payment were agreed: (i) before the policy came into effect or (ii) at a time when the relevant individual was not a director of the company and the payment was not in consideration for the individual becoming a director of the company (this includes, but is not limited to, awards made to the CEO LGIM under the LGIM long term incentive plan, which are subject to the achievement of LGIM cumulative profit before tax targets measured over a three-year performance period).
MINOR AMENDMENTS	The Remuneration Committee will follow any statutory requirements when operating the policy. The Remuneration Committee may make minor amendments to the policy for regulatory or statutory requirements, exchange control or administrative purposes.
CHANGES TO THE POLICY OPERATED IN 2013	The key changes to the policy operated during 2013 and that intended to be operated going forward are detailed in the letter from the chairman of the Remuneration Committee on page 70.
LEGACY ARRANGE-MENTS	**Deferred bonus** – Existing deferrals will continue to operate in line with the previous policy, where 37.5% of any bonus earned was deferred, and cliff vests after three years. Dividends are paid during the holding period. **PSP** – Awards granted to executive directors under the previous PSP which are currently outstanding are subject to the achievement of relative total shareholder return performance conditions over separate three-year performance periods. The Remuneration Committee only has discretion to adjust downwards the final level of vesting of these awards if it does not consider it to be reflective of the underlying financial performance of the Group. Awards under this plan were made as nil cost options and remain exercisable for a period of two years following vesting. **Awards made under the share bonus plan (SBP)** – Awards granted to executive directors under the SBP which are currently outstanding will continue to vest in line with the arrangements made. These include the award made to Mark Zinkula upon his appointment to CEO LGIM and prior to him joining the Board. **LGIM LTIP** In March 2007 the Committee approved the introduction of a specific long-term incentive plan for LGIM senior executives. In March 2011 and March 2012 Mark Zinkula was granted LGIM LTIP awards as part of his remuneration as CEO LGIMA and CEO LGIM. Under the LGIM LTIP annual awards of notional shares in LGIM are granted to participants. The vesting of these notional shares is subject to the satisfaction of the cumulative growth in PBT over the three year performance period. The value of the notional LGIM shares is delivered in cash after the end of the three-year performance period. These awards will continue to vest after their respective three year performance periods and to the extent that the performance conditions are met. No further awards under this plan have been made to Mark since he was appointed as an executive director. In line with our mobility policy and the commitments made to Mark Zinkula on relocation from the US (prior to his appointment to the Board) he remains in certain US benefits and has relocation assistance. He would also receive repatriation assistance in the event of him returning to the US.

DIRECTORS' REPORT ON REMUNERATION

DIRECTORS' REMUNERATION POLICY.

AREA	COMMENTARY
PERFORMANCE MEASURES AND TARGETS	The performance conditions for the AVP and the PSP have been chosen by the Committee to align with the Group's strategic priorities and are the key performance indicators in relation to the operation of the business. The following table sets out why the performance measures that are used for the incentive arrangements were chosen:

Plan	Measure	Rationale
AVP		
	Financial measures	To ensure company growth and return to shareholders
	Strategic and personal measure	To safeguard the future of the company by, for instance, focusing on the development of future income streams and to ensure, for example, positive customer outcomes and employee engagement
PSP		
	Earnings measures	To incentivise growth in earnings
	Capital efficiency measures	To ensure capital is used in a disciplined way and to steadily progress dividends
	Shareholder return measures	To deliver a good return on equity for shareholders

The performance measures for the AVP and the PSP are reviewed and set annually to ensure they remain appropriately stretching and aligned to the business and its strategy.

Targets for the AVP are set taking into account internal forecasts of performance, market expectations and prior year performance. The targets for the AVP are set such that on-target normally equates to the levels forecast in the strategic plan for the year in question and maximum is set above that, at a level that is still within the company's risk appetite.

The PSP targets are set by the Committee taking into account a number of considerations including: what is felt to be achievable over a sustained period of time; internal forecasts of performance; any guidance provided to the market; market expectations; prior year performance; and the company's agreed risk appetite.

AREA	COMMENTARY
MALUS / CLAWBACK	For future awards, the Committee has an agreed policy which applies to deferred annual variable pay awards and long-term incentive awards made to executive directors. The Committee may apply Malus (i.e. reduce the number of shares in respect of which an award vests, or delay such vesting, or impose additional vesting conditions) in the event of financial mis-statement, personal misconduct, failure of risk management, reputational damage or other exceptional circumstances identified by the Committee. The Committee may also, in exceptional circumstances, claw back share awards which have already been released to individuals, if it considers it appropriate to do so having regard to such factors as it deems relevant – such as the likelihood of recovery, any loss suffered, and the link between the award and the event. (Clawback will normally only apply within 4 years of the end of the relevant performance period.)

APPROACH TO RECRUITMENT AND TERMINATION

RECRUITMENT REMUNERATION

STANDARD PROVISION	POLICY AND OTHER PROVISIONS
GENERAL APPROACH	The Committee aims to attract, motivate and retain an executive director with the required expertise to develop and deliver the business strategy, while at the same time ensuring that the remuneration arrangements offered are in the best interests of both the company and its shareholders and paying no more than considered necessary to attract the right calibre of candidate to the role. In determining the appropriate remuneration arrangements on hiring a new executive director, the Committee will take into account all relevant factors including, but not limited to: • the individual's skills and relevant experience • internal relativities • local market practice in the jurisdiction from which candidate was recruited • logistics and support if a relocation is required • appropriate market data; and • the individual's existing remuneration package. Where possible the Committee endeavours to align the remuneration arrangements of new executive directors with the remuneration outlined in the policy for other executive directors. Any such awards will be within the maximum level of variable remuneration limit set out below. Where an existing internal candidate is made an executive director, the Committee may continue to honour prior commitments made before joining the Board.
MAXIMUM VARIABLE PAY LEVELS	The maximum level of annual variable pay and long-term incentives which may be awarded to a new executive director will be in line with the policy table i.e. 475% of base salary. This limit excludes buyout awards.
BUY-OUT OF ANY EXISTING REMUNER-ATION COMP-ONENTS OR OTHER ARRANGE-MENTS	The Committee recognises that, as a consequence of regulatory changes around the globe in the financial services sector, long serving executives in the sector are likely to have accrued significant levels of deferred remuneration which may be lost on a transfer of employment. Accordingly, to aid the recruitment of a new executive director, the Committee may make awards to 'buy-out' remuneration arrangements forfeited on leaving a previous employer, taking into consideration relevant factors including, but not limited to: • form of the award; • any performance conditions attached to those awards; • the vesting profile of the awards and likelihood of vesting; • relevant regulatory requirements and guidance in place in relation to 'buy-out' awards. 'Buy-out' awards will typically reflect the terms and the value of the arrangements forgone. Where possible the Committee will use existing share based plans to effect a buy-out. However, in the event these are not an appropriate vehicle, the Remuneration Committee retains the discretion to use the Listing Rules exemption (LR 9.4.2) for the purpose of making an award to 'buy-out' remuneration terms forfeited on leaving a previous employer.
RELOCATION AND MOBILITY	Where a new executive director has to relocate to take up the appointment, either within the UK or from overseas, practical and/or financial support may be given in relation to relocation or mobility in line with our internal policies. This may include the cost of any tax that is incurred. For appointments from overseas, home country benefits may continue to apply. Note that relocation and mobility support may also apply to the recruitment of a non-executive director (NED).
SHAREHOLDER TRANSPARENCY	The Committee believes that remuneration arrangements should be as transparent as possible. Therefore the Committee will make every effort to explain the rationale for the recruitment arrangements in the Directors' remuneration report following the recruitment of a new executive director.
RECRUITMENT OF NON-EXECUTIVE DIRECTORS	The Committee will normally align the remuneration arrangements for new non-executive directors with those outlined within the policy table on page 84.

DIRECTORS' REPORT ON REMUNERATION

DIRECTORS' REMUNERATION POLICY.

SERVICE CONTRACTS AND TERMINATION AND PAYMENT FOR LOSS OF OFFICE

When determining leaving arrangements for an executive director, the Committee takes into account any pre-established agreements, including the provisions of any incentive plans, typical market practice, statutory and contractual obligations, the performance and conduct of the individual and the commercial justification for any payments.

The following summarises our policy in relation to executive directors' service contracts and payments in the event of loss of office:

STANDARD PROVISION	POLICY AND OTHER PROVISIONS
NOTICE PERIOD AND TERMINATION PAYMENTS	Standard notice policy is: 12 months' notice from the company; and 12 months' notice from the executive director. Executive directors may be required to work during the notice period or take a period of 'garden leave' or may be provided with pay in lieu of notice if not required to work the full notice period. **Payments in lieu of notice:** Our policy for new appointments is that termination payments in lieu of notice would consist solely of base salary and the cost of providing benefits for the outstanding notice period and will be subject to deductions for income tax and National Insurance as appropriate. Any statutory requirements will be observed. Our standard practice is to include within executive directors' contractual terms mitigation provisions as regards payments in lieu of notice. **Current executive directors:** John Pollock has a notice period of six months on either side and would be entitled to an additional six months' base salary, pension and car allowance entitlement if his employment was terminated by the company (except where termination is for gross misconduct). Mark Gregory and Nigel Wilson have notice periods of 12 months. However, they have no entitlement to any additional contractual payment on termination of employment. Any payment in lieu of notice will consist solely of base salary and the cost of providing benefits for the outstanding notice period. Mark Zinkula has a notice period of six months on either side. Any payment in lieu of notice will consist solely of base salary.
CONTRACT COMMENCEMENT DATE	The dates of the executive directors' service contracts are shown in the table below:
EXPIRY DATE	All executive directors are subject to annual re-election. The contracts for our executive directors are rolling service contracts with no expiry date.

Executive director	Contract commencement date	Continuous service date
Nigel Wilson	September 2009	September 2009
John Pollock	November 2003	September 1980
Mark Gregory	January 2009	August 1998
Mark Zinkula	September 2012	June 2008

Copies of the executive directors' service contracts are available for inspection at the company's registered office.

STANDARD PROVISION	POLICY AND OTHER PROVISIONS
TREATMENT OF OUT-STANDING INCENTIVE AWARD	Rights to annual variable pay, deferred annual variable pay awards and performance share awards are governed by their respective plan rules. **Annual variable pay** There is no automatic entitlement to an annual bonus in the year of cessation of employment. However, for a 'good leaver', the Committee may determine that an executive director will receive a pro-rata bonus in respect of the period of employment during the year of cessation based on an assessment of Group and personal performance. **Deferred annual variable pay awards (awards made in relation to 2014 onwards)** In the event that a participant is a 'good leaver' any outstanding unvested deferred annual variable pay award will normally be released at the normal time. Where it considers it appropriate, for example in the circumstances of terminal illness, the Committee reserves the right to accelerate any payment due. 'Good leaver' circumstances are leaving due to circumstances such as death, disability, ill-health or injury, redundancy, retirement with company agreement, employing company / business ceasing to be part of the Group, a transfer of the undertaking in which the participant's employment transfers to a company which is not a member of the Group, or other circumstances at the Committee's discretion. For all other leavers outstanding unvested awards lapse. Awards will generally vest early on a takeover of the company, merger or other corporate reorganisation. Alternatively participants may be allowed or required to exchange their awards for new awards. Where an award vests early in these circumstances, the Committee will determine the level of vesting, having regard to the extent to which the performance condition has been satisfied to the date of vesting (subject to downwards discretion based on underlying performance) and to the fact that the award is vesting early. **Awards made prior to 2015** Subject to the leaver conditions set out above, where a participant is a 'good leaver' any outstanding unvested deferred annual variable pay award made prior to 2015 will normally be released at the date of cessation of employment. In the event of a change of control, the Committee may allow awards to vest or will determine that awards are exchanged for new awards. **PSP (awards made from 2014 onwards)** In the event that a participant is a 'good leaver' any outstanding unvested PSP award will normally be pro-rated for service from the start of the performance period to cessation and will vest based on performance to the end of the performance period. Awards will usually be released at the normal time. Where it considers it appropriate, for example in the case of terminal illness, the Committee reserves the right to accelerate any payment due. 'Good leaver' circumstances are leaving due to death, disability, ill-health or injury, redundancy, retirement with company agreement, employing company/business ceasing to be part of the Group, a transfer of the undertaking in which the participant's employment transfers to a company which is not a member of the Group, or any other reason at the discretion of the Committee. For all other leavers outstanding unvested awards lapse. Awards will generally vest early on a takeover of the company, merger or other corporate reorganisation. Alternatively participants may be allowed or required to exchange their awards for new awards. Where an award vests early in these circumstances, the Committee will determine the level of vesting, having regard to the extent to which the performance condition has been satisfied to the date of vesting (subject to downwards discretion based on underlying performance) and to the fact that the award is vesting early. **Legacy PSP awards** For 'good leavers', in line with the plan rules, awards made prior to 2014 will be performance tested at the date of leaving and, to the extent that performance conditions are met, the award will vest on a pro-rata basis, based on service within the performance period. Good leaver circumstances are leaving due to death, disability, ill-health, redundancy, retirement with company agreement, employing company/business ceasing to be part of the Group, a transfer of the undertaking in which the participant's employment transfers to a company which is not a member of the Group, or any other reason at the discretion of the Committee. For all other leavers outstanding unvested awards lapse. In the event of a change of control, PSP awards will vest to the extent that the performance conditions have been satisfied over the shortened performance period and will be time pro-rated in the same way as awards held by 'good leavers'. **Legacy LGIM LTIP Award** In the event of being a 'good leaver', the legacy LGIM LTIP awards made to Mark Zinkula prior to him becoming a Board member would be tested at the end of their normal performance periods and, to the extent that performance conditions are met, the awards will vest on a pro-rata basis, based on service within the performance period. Good leaver circumstances are leaving due to death, disability, ill-health, redundancy, retirement with company agreement, employing company / business ceasing to be part of the Group or any other reason at the discretion of the Committee. For all other leavers outstanding awards lapse.

DIRECTORS' REPORT ON REMUNERATION

DIRECTORS' REMUNERATION POLICY.

STANDARD PROVISION	POLICY AND OTHER PROVISIONS
TREATMENT OF OUT-STANDING INCENTIVE AWARDS (CONTINUED)	In the event of a change of control, awards will vest to the extent that the performance conditions have been satisfied over the shortened performance period and will be time pro-rated. **Other awards** Other one-time share awards would vest in line with any commitments made and taking into consideration the reasons for leaving. All employee share plans will vest in line with the plan rules.
OTHER INFORMATION	Legal fees, outplacement costs or other similar costs at the discretion of the Committee may be offered.

NON-EXECUTIVE DIRECTORS (NEDS)

APPOINTMENT LETTERS

Appointment letters are currently for three years but all directors are subject to annual re-election. Appointments may be terminated by either party without notice.

NED	Date of initial appointment	Current letter of appointment start date	Current letter of appointment end date
John Stewart	January 2010	May 2013	May 2016
Henry Staunton	May 2004	May 2010	Retired AGM 2013
Rudy Markham	October 2006	May 2013	May 2015
Nick Prettejohn	November 2010	November 2010	Stepped down from the Board on 6 June 2013
Mike Fairey	May 2011	May 2011	May 2014
Dame Clara Furse	June 2009	June 2012	Stepped down from the Board 1 May 2013
Stuart Popham	July 2011	July 2011	July 2014
Julia Wilson	November 2011	November 2011	November 2014
Lindsay Tomlinson	March 2013	March 2013	March 2016
Lizabeth Zlatkus	December 2013	December 2013	December 2016

Copies of the non-executive directors' appointment letters are available for inspection at the company's registered office.

The following table sets out the key elements of remuneration and policy for NEDS.

APPROACH TO FEES	OPERATION	OTHER ITEMS
Fees for the chairman and non-executive directors are set at an appropriate level to reflect: • The time commitment required to fulfil the role • The responsibilities and duties of the positions; and • Typical practice in the FTSE 100 and amongst other financial institutions. Fees for non-executive directors are reviewed at regular intervals by the executive directors. Fees for the chairman are reviewed at regular intervals by the Remuneration Committee. No-one is involved in the discussion of their own fee. Fees are subject to the aggregate limit in the company's Articles of Association. Any changes in this limit would be subject to shareholder approval.	Our NED fees policy is to pay: • A base fee for membership of the Board. • A committee attendance fee if the non-executive sits on two or more Board committees (currently not including the Nominations committee). • Additional committee chairmanship and SID fees to reflect the additional responsibilities and time commitments of the role. The chairman receives an inclusive fee for the role. Additional fees for membership of a committee or chairmanship or membership of subsidiary boards or other fixed fees may be introduced if justified by time or commitment.	The chairman and NEDs are not eligible to participate in any benefit plans or the AVP or the PSP. Expenses incurred in the performance of non-executive duties for the company may be reimbursed or paid for directly by the company. Additional support may be provided if the Board feels this is justified such as tax advice if recruited from overseas, work permits or similar. NEDs are expected to hold the equivalent of one year's base fee in Legal & General shares to be retained until the end of office. NEDs generally have a proportion of their fees (normally 50%) paid in Legal & General shares until this level is reached. Once this level is reached, they may take all their fee in cash.

Further details of NED fees for 2013 can be found in the annual report on remuneration page 96.

OTHER CONSIDERATIONS

STATEMENT OF THE CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE COMPANY

The general principles of the Group's remuneration policy are broadly applied throughout the Group and are designed to support recruitment, motivation and retention as well as to reward high performance in a framework of approved risk management.

We define core remuneration as base salary, annual bonus which is closely aligned to performance and other benefits e.g. pension. There is also the possibility to participate in the Performance Share Plan (PSP) for certain key employees.

In determining the remuneration arrangements for the executive directors, the Committee is presented with information for UK employees (as this is the location of the Group's head office and where the executive directors are normally based) regarding base salary increases and anticipated spend under the Group's annual variable pay plans. This includes relevant background information that allows the Committee to work with the management to ensure a consistency of approach throughout the company. The Committee also has oversight over the grant of all PSP and LGIM LTIP awards across the company.

Note - Further details on the above can be found on page 102 of the annual report on remuneration.

The company does not specifically invite employees to comment on the directors' remuneration policy. However, the annual employee survey includes general questions around pay and benefits.

STATEMENT OF CONSIDERATION OF SHAREHOLDER VIEWS

As set out in the Remuneration Committee chairman's statement, over the course of 2013 and early 2014 the Committee sought the views of the Group's major shareholders on the proposed changes to executive arrangements for 2014 onwards. The Committee would like to thank shareholders for the time they have given and appreciates the constructive debate.

It was clear from the discussions that there are a number of emerging models and differing views on executive remuneration structure from commentators and industry groups as well as shareholders. However, the Committee also acknowledges the general consensus around:

- providing greater clarity on the links between reward, strategy and performance (this includes the ability to both positively recognise performance while being mindful of quantum, as well as the ability to exercise malus or clawback in the event that this is warranted);
- ensuring structures are focused on the long term;
- that they are simple and clear; and
- that they include provisions to bind executives further to the business by increasing shareholding requirements.

The Committee has carefully considered all the comments received. As a result of shareholder views we have simplified the proposed structure and revised the quantum. We have also been mindful that we wished our final policy not only to align with shareholders but to complement our remuneration principles and be right for our business. We believe the final proposals put forward are reflective of the consensus feedback received. The new performance share plan includes financial metrics that link to strategy, we have tightened our leaver terms, strengthened our ability to exercise malus and clawback and increased shareholding guidelines. We believe the proposed remuneration policy aligns to our strategy and will help drive the company to the next stage in its development.

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'SINGLE FIGURE' OF REMUNERATION

The following table shows a single total figure of remuneration for each executive director in respect of qualifying services for the 2013 financial year together with a comparative figure for 2012. Details of NEDs' fees are set out in a separate table on page 96.

Single figure £000s

Executive director	Salary	Benefits – note 1	Pension – note 2	Annual variable pay (AVP) – note 3	Total remuneration exc. PSP / LTIPs	PSP / LTIPs – note 4	Total remuneration
2013							
Nigel Wilson[(a)]	750	66	113	873	1,802	2,270	4,072
John Pollock	509	74	97	593	1,273	1,694	2,967
Mark Gregory	509	56	77	573	1,215	1,525	2,739
Mark Zinkula[(b)]	510	784	80	768	2,142	643	2,785
2012							
Nigel Wilson[(a)]	653	46	99	779	1,577	1,617	3,194
John Pollock	424	42	213	520	1,199	1,062	2,261
Mark Gregory	420	43	92	472	1,027	889	1,916
Mark Zinkula[(b)]	126	150	24	205	505	n/a	505

This table has been audited by PwC.

2012 notes
a. Nigel Wilson was CFO from 1 January 2012 to 30 June 2012 and Group chief executive from 30 June 2012 – 31 December 2012.
b. Mark Zinkula joined the Board on 18 September 2012. His remuneration for 2012, including bonus, reflects the period 18 September 2012 to 31 December 2012.

2013 Notes
a. The increase in the total remuneration for Nigel Wilson in 2013 over 2012 is reflective of 2013 being the first full year in which he was Group chief executive and the significant increase in the share price, in the three year period ending in May 2013 which is reflected in the value of the PSP.
b. Mark Zinkula's benefits for 2013 include the vesting of shares relating to a legacy award from when he became CEO LGIM and prior to him joining the Board. This accounts for £357,000 of the benefit figure shown above.

COMPONENTS OF THE SINGLE FIGURE AND HOW THE CALCULATIONS ARE WORKED

FOOTNOTE	EXPLANATION
Benefits – note 1	Benefits include the elements shown in the table below. For Mark Zinkula, benefits also include allowances for schooling, housing and flights and associated tax resulting from his relocation package to the UK and the vesting of shares amounting to £357,000 awarded to him on appointment to CEO LGIM and prior to him joining the Board.

Benefits £000s

Executive director	Car and PMI (plus relocation assistance for Mark Zinkula)	Dividends – note i	Gain on SAYE – note ii	Matching shares – note iii	Total benefits shown in the table above
2013					
Nigel Wilson	20	45	0	1	66
John Pollock	20	41	12	1	74
Mark Gregory	20	35	0	1	56
Mark Zinkula	741	43	0	0	784
2012					
Nigel Wilson	20	25	0	1	46
John Pollock	20	21	0	1	42
Mark Gregory	20	22	0	1	43
Mark Zinkula[1]	141	9	0	0	150

1. For 2012, his figures represent the period 18 September 2012 to 31 December 2012 when he was appointed to the Board.

Components of Benefits and how calculated

Footnote	Explanation
Dividend – note i	Value of all dividends received in 2013 or 2012 in respect of outstanding AVP awards made under the Share Bonus Plan (SBP), unvested matching shares under the employee share plan (ESP) and Group performance shares under the ESP.
Gain on SAYE – note ii	Any gain on SAYE vesting in the year – nothing vested in 2012 for the directors.
Matching shares – note iii	Value of matching shares under the ESP at date of purchase and Group performance shares awarded in the year valued at the date of award (does not include the amounts that vested).

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FOOTNOTE	EXPLANATION
Pension – note 2	The value of any registered pension using the HMRC formula for assessing the annual and lifetime allowance limits (i.e. 20 times the post inflation benefit for defined benefit provisions or for the defined contribution pensions the employer defined contributions as set out below). It does not necessarily represent the economic value of the pension accrual and is not money immediately available to the person. The negative figure is not due to a change in policy or underlying benefit but due to the volatility in the assumptions we are required to use.

For the defined contribution arrangements (applicable to Mark Gregory), any balance over and above the Annual Allowance limit is paid in cash. During 2012, Nigel Wilson took fixed protection and takes a cash allowance of 15% of base salary. Following enhanced protection in 2006 and changes to the pension plans in 2008, John Pollock receives a cash allowance of 22% of base salary in lieu of pension contributions. Mark Zinkula receives a cash contribution of 15% of base salary in lieu of joining the UK pension plan. He participates in the Legal & General America 401K plan and cash savings plan. All cash allowances are subject to normal payroll deductions of income tax and National Insurance.

Executive director	Cash in lieu £000	Defined benefit £000	Defined contribution £000	Other / Overseas Pension	Total pension £000
2013					
Nigel Wilson	113	0	0	0	113
John Pollock	112	-15	0	0	97
Mark Gregory	56	-3	24	0	77
Mark Zinkula[1]	76	0	0	4	80
2012					
Nigel Wilson	97	0	2	0	99
John Pollock	93	120	0	0	213
Mark Gregory	37	26	29	0	92
Mark Zinkula[1]	19	0	1	4	24

This table has been audited by PwC.

1. Mark Zinkula contributes to a 401K plan and participates in a non contributory US cash balance plan the values of which are included in the Other Overseas Pension value figure shown in the table above.

Further pension information

Name	Age at 31 December 2013	Accrued DB pension at 31 Dec 2013 £000	Normal retirement date	Additional value of pension on early retirement
Nigel Wilson	57	0	Age 65	0
John Pollock	55	191	Age 60	0
Mark Gregory	50	39	Age 60 in DB plan and age 65 in DC plan	0
Mark Zinkula[1]	46	0	Age 65	0

This table has been audited by PwC.

Bonus sacrifice into pension

Executive directors, like all managers, may elect, before its award, to sacrifice all or part of their cash bonus into pension. The opportunity for bonus sacrifice is at the discretion of the company and is reviewed each year. None of the executive directors elected for bonus sacrifice.

Annual variable pay (AVP) – note 3	The total bonus awarded in relation to performance in the year including the portion that is deferred. For bonus awarded in relation to 2013, 37.5% of this figure was deferred into shares for three years. There are no further performance conditions but leaver terms apply. See table on page 89 for information on performance against targets.
PSP/LTIPs – note 4	Value of PSP or LGIM LTIP awards that vested (as of the date of vest) during the year. The vesting of awards is dependent on the performance conditions as set out on pages 90 and 91. Note: For the PSP that vested in 2013, John Pollock exercised immediately, Nigel Wilson exercised in June 2013 and Mark Gregory during May 2013. The performance period ran from 4 May 2010 to 3 May 2013. The LGIM LTIP award was a legacy award made to Mark Zinkula prior to him joining the Board and the performance period ran from 1 January 2010 to 31 December 2012 with vesting as soon as practicable three years from date of grant in March 2010.

2013 ANNUAL VARIABLE PAY (AVP) AWARDS

The executive directors' AVP awards in relation to performance during 2013 were measured against a basket of metrics and objectives. These were weighted between Group KPIs (50%), Divisional, Strategic or other financial KPIs (30%) and other strategic and personal objectives (20%). Threshold levels were set, below which no award would be given. Target levels were set broadly in line with those envisaged in the strategic plan for 2013 with maximum being at a level above this but still within the company's risk appetite.

The Committee carefully assessed the performance against the Group KPIs, and the other financial and strategic targets to determine the associated AVP award. The Committee also took into consideration its view of the executive's overall performance, regulatory compliance and approach to risk (including environmental, social or governance (ESG) risks).

The Committee reviewed a comprehensive report from the Chief Risk Officer to ascertain that the executive directors' objectives had been fulfilled within the risk appetite of the company. In addition, the Committee received feedback from the Group Regulatory Risk and Compliance function and from the Group Legal Counsel that there were no material issues to consider around regulatory breaches, customer outcomes or litigation that would prevent payment of any AVP award or trigger any malus.

The Committee was satisfied that the AVP awards should be paid.

The table below shows the overall outcome.

AVP results

2013	Achievement %			Award		
Executive director	Group KPIs weighting 50%	Divisional / Strategic or Other Financial KPIs weighting 30%	Other Strategic / Personal objectives weighting 20%	Total AVP as % of maximum	Total AVP as % of pro-rated base salary	Maximum potential as % of base salary
Nigel Wilson	49.10%	27.00%	17.00%	93.10%	116.37%	125%
John Pollock	49.10%	28.02%	15.84%	93.00%	116.20%	125%
Mark Gregory – Note 1	49.10%	11.59%	29.02%	89.70%	112.14%	125%
Mark Zinkula	49.10%	23.53%	13.33%	86.00%	150.42%	175%
	Operating profit, operating cash, net cash, RoE, EPS and EEV per share	PBT operating profit, net cash, APE, Gross net new business and GWP.	Customer outcomes, employee engagement, risk management			

Note 1 – The weighting of Mark Gregory's objectives changed when he was appointed CFO on 1 July 2013 from 50%, 30%, 20% to 50% Group KPIs and 50% other Strategic / Personal.

Actual targets have not been disclosed due to commercial sensitivity but pages 2 and 3 show key Group results compared to 2012.

In recognition of base salary adjustments made during 2013 for the executive directors (excluding Nigel Wilson), AVP awards were calculated using pro-rated salaries to reflect these. Nigel Wilson had no adjustment to his base salary for 2013 and therefore his full base salary for the year was used.

AVP awarded for 2013 performance:

Of the AVP awarded in relation to 2013, a proportion was deferred for three years into shares or nil cost options under the share bonus plan (SBP), and is subject to malus and leaver terms. 37.5% of the 2013 award for each executive director was deferred for three years. In line with previous awards, dividends will be paid during the holding period.

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The table below shows the actual amount of deferral and AVP for each executive director:

Name	Total AVP awarded for 2013 £000	Amount paid in cash £000	Amount deferred £000
Nigel Wilson	873	546	327
John Pollock	593	371	222
Mark Gregory	573	358	215
Mark Zinkula	768	480	288

PERFORMANCE SHARE PLAN (PSP)/LGIM LTIP AWARDS

Details of how the 2010 PSP award vested

The 2010 PSP award vested in full in May 2013 as Legal and General's TSR exceeded the 80th percentile of the FTSE 100 and the bespoke comparator group over the three year performance period. In line with policy, the Committee carefully reviewed the company's underlying performance over the performance period. The review included considerations of partnerships entered into and maintained, cost management, capital management and risk. The Committee felt the company performance had been strong over the period and saw no reason not to allow the PSP to vest in accordance with the TSR out-turn.

The performance conditions were in line with those of the 2013 grant set out on page 91.

The results are shown below:

2010 PSP vesting

Grant date	Performance period	Legal & General's TSR	% of award vesting against FTSE 100	% of award vesting against Bespoke comparator group	Percentage of total award vesting
4 May 2010	4 May 2010 – 3 May 2013	117.3	50%	50%	100%

2010 PSP vesting	% of 2010 salary awarded	Face value at award £000	Share price at award £	Max number of shares	No of shares that vested	Vesting date	Share price at vest £	Value at date of vest (figure shown in single figure of remuneration) £000
Nigel Wilson	200%	1,072	0.8535	1,256,004	1,256,004	10 May 2013	1.8075	2,270
John Pollock	200%	800	0.8535	937,316	937,316	10 May 2013	1.8075	1,694
Mark Gregory	200%	720	0.8535	843,585	843,585	10 May 2013	1.8075	1,525
Mark Zinkula	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

This table has been audited by PwC.

LGIM long term incentive plan (LGIM LTIP) awards

Between March 2010 and March 2012 Mark Zinkula was granted LGIM LTIP awards as part of his remuneration as CEO LGIMA and CEO LGIM. Following his appointment as an executive director, Mark receives no further awards under this plan. Under the LGIM LTIP annual awards of notional shares in LGIM are granted to participants. The vesting of these notional shares is subject to the satisfaction of the cumulative growth in PBT condition over the three-year performance period. The value of the notional LGIM shares is delivered in cash after the end of the three-year performance period. Actual targets have not been disclosed due to commercial sensitivity. The table below shows the outcome of his 2010 award that vested in full in 2013.

Grant date	% of base salary	No. of notional shares at award	Face value at award £000	Notional share price at award £	Value at date of vest (figure shown in single figure of remuneration) £	Notional share price at time of vest £
15 March 2010	140%	135,798	338	2.49	643	4.73

This table has been audited by PwC.

SCHEME INTERESTS AWARDED DURING THE FINANCIAL YEAR

The following table shows the PSP awarded in 2013 and current performance to 31 December 2013.

	% of March 2013 base salary	Face Value £'000	Share price at award £	Max no. of shares	Threshold No of shares	L&G TSR as at 31.12.13	% of award vesting against FTSE 100 as at 31.12.13	% of award vesting against Bespoke Group as at 31.12.13	Percentage of total award vesting as at 31.12.13
Grant date 17 April 2013									
Nigel Wilson	200%	1,500	1.6863	889,521	222,380	30.80	50%	32%	82%
John Pollock	200%	922	1.6863	547,055	136,764	30.80	50%	32%	82%
Mark Gregory	200%	922	1.6863	547,055	136,764	30.80	50%	32%	82%
Mark Zinkula	200%	922	1.6863	547,055	136,764	30.80	50%	32%	82%

This table has been audited by PwC.

The grants were made under the legacy 2004 PSP plan – see policy section page 79.

The metrics are TSR, chosen to align outcomes with shareholder interests. The number of shares that vest is dependent on Legal & General's relative TSR performance over a three-year period as follows:

Legal & General's TSR relative to the comparator group	% of award which vests
Below median	0%
Median (threshold)	25%
Between median and 80th percentile	25%–100%
80th percentile or above	100%

Vesting condition for half of the award measures the Group's TSR versus the FTSE 100. Vesting condition for the other half measures TSR versus the insurance constituents in the FTSEurofirst 300 plus any FTSE 350 Life Insurance companies not in the FTSEurofirst 300. The constituents for this group are determined at the date of grant.

The two conditions are measured independently.

Performance against TSR conditions is independently reviewed by Kepler Associates.

The Remuneration Committee will also assess whether the TSR out-turn is reflective of the underlying financial performance of the company and may scale back vesting if deemed appropriate. The Committee has discretion only to reduce the level of award and may not increase it. The parameters which the Committee uses in making this assessment include, but are not limited to, market share, partnerships entered into and maintained, cost constraint, capital management, risk and shareholder perception.

The award was made in nil cost options. Any award vesting may be exercised at the end of the three-year performance period or at any time (excepting close periods) during the two-year period following vesting. The share price used to calculate the award is the average of the three days preceding grant.

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OTHER OUTSTANDING AWARDS

For information, other outstanding PSP awards are shown below. These were granted in 2011 and 2012 in line with the legacy plan and have the same performance conditions and vesting ability as above.

	% of base salary	Face Value £'000	Share price at award £	Max no. of shares	% of Face Value vesting at threshold	L&G TSR as at 31.12.13	% of award vesting against FTSE 100 as at 31.12.13	% of award vesting against Bespoke Group as at 31.12.13	Percentage of total award vesting as at 31.12.13
Grant date 27 April 2011									
Nigel Wilson	200%	1,100	1.1660	943,396	235,849	107.60	50%	50%	100%
John Pollock	200%	823	1.1660	706,003	176,501	107.60	50%	50%	100%
Mark Gregory	200%	800	1.1660	686,106	171,527	107.60	50%	50%	100%
Mark Zinkula[1]	80%	320	1.1660	274,442	68,611	107.60	50%	50%	100%
Grant date 24 April 2012									
Nigel Wilson	200%	1,117	1.1783	947,949	236,987	85.20	50%	50%	100%
John Pollock	200%	840	1.1783	712,871	178,218	85.20	50%	50%	100%
Mark Gregory	200%	836	1.1783	709,476	177,369	85.20	50%	50%	100%
Mark Zinkula[1]	80%	328	1.1783	278,359	69,590	85.20	50%	50%	100%

1. Mark Zinkula's award, prior to his board appointment, was 200% of base salary split between the PSP and LGIM LTIP – see table below for LGIM LTIP details.

	Max no. of shares	L&G TSR as at 31.12.13	% of award vesting against FTSE 100 as at 31.12.13	% of award vesting against Bespoke Group as at 31.12.13	Percentage of total award vesting as at 31.12.13
Additional grant to Nigel Wilson on appointment as Group chief executive – follows 2012 performance period but vests on 14 August 2015	291,765	85.20	50%	50%	100%

LGIM LONG TERM INCENTIVE PLAN (LGIM LTIP) AWARDS

The table below shows the current outstanding awards for Mark Zinkula. As stated on page 79, these awards were made prior to his Board appointment.

Grant date	% of base salary	No. of notional shares	Face value at grant £	Notional share price at grant £	Maximum value of award on vesting £	Value at 31.12.13 £
28 March 2011[1]	120%	126,850	480,000	3.78	960,000	423,053
1 March 2012[1]	120%	92,877	492,000	5.30	984,000	249,547

1. Mark Zinkula's award was 200% of base salary split between the LGIM LTIP and PSP. See above for PSP award.

OUTSTANDING SHARE BONUS PLAN (SBP) AWARDS

The table below shows the shares held under the SBP and those that were awarded or vested during 2013. The shares that vested relate to deferred AVP and, in the case of Mark Zinkula, include shares awarded when he was appointed as CEO LGIM and prior to him joining the Board. Part of these shares vested during 2013 and are shown in his single figure of remuneration. The shares awarded in 2013 relate to deferred AVP in relation to 2012 performance. The share price used to calculate the awards is the average of the three days preceding grant.

	Awards outstanding at 1 January 2013	Awards granted in 2013	Grant price £	Face value at grant price £	Awards vesting in 2013	Awards outstanding at 31 December 2013
Nigel Wilson	655,156	165,069	1.6863	278,356	322,158	498,067
John Pollock	396,557	115,649	1.6863	195,020	128,833	383,373
Mark Gregory	335,613	104,947	1.6863	176,973	119,859	320,701
Mark Zinkula	478,704	103,715	1.6863	174,896	182,101	400,318

STATEMENT OF DIRECTORS' SHAREHOLDING AND SHARE INTERESTS

SHAREHOLDING GUIDELINES

In line with our remuneration policy (page 79) which will be effective from shareholder approval, the Group chief executive will be expected to build a shareholding of 300% of base salary and the other executive directors 200% of base salary. The table below shows shareholding levels as at 31 December 2013.

	Actual share ownership as % of base salary: vested shares	New Guidelines on share ownership as a % of base salary	Guideline met	Salary at 1 March 2014	Share price at 31 December 2013 £
Nigel Wilson	747%	300%	Yes	£820,000	2.227
John Pollock	668%	200%	Yes	£560,000	2.227
Mark Gregory	573%	200%	Yes	£560,000	2.227
Mark Zinkula – Note 1	40%	200%	No	£560,000	2.227

This table has been audited by PwC.

Note 1: Mark Zinkula joined the Board on 1 September 2012

Shares used for the above calculation exclude those with performance conditions, i.e. those awarded under the PSP which are still within their performance period, any unexercised options, those shares subject to a holding period or period of deferral and any shares held in a private Trust where the executive director is not a Trustee. They include vested shares where the executive director has beneficial ownership, shares independently acquired in the market and those held by a spouse or civil partner or dependent child under the age of 18 years. The executive directors' shareholdings are shown below. The share price used is that at 31 December 2013.

Although share ownership guidelines are not contractually binding, executive directors are normally expected to retain any after tax vested share awards until the guideline is met. The Committee retains the discretion to withhold future grants under the PSP if executives are not making satisfactory progress against the guidelines. Once shareholding requirements have been met, executive directors may sell surplus shares if they wish. The Committee has discretion to allow executive directors to sell shares prior to the shareholding requirements being met if there are extenuating circumstances (for example, changes to personal circumstances such as divorce). Executive directors are not expected to purchase more shares if the share price was to fall substantially but they would then be expected to retain further post tax vested awards to regain their position against the guideline.

Total shareholding of executive directors

	Type	Owned outright/ vested shares	Value of owned outright/ vested shares £	Subject to deferral/ holding period	Value of shares subject to deferral/ holding period £	Total vested and unvested shares (excludes any shares with performance conditions)	Value of total vested and unvested shares (excludes any shares with performance conditions) £
Nigel Wilson	Shares	2,745,636	6,114,531	498,067	1,109,195	3,243,703	7,223,727
	ESP	6,019	13,404	2,944	6,556	8,963	19,961
	Options	0	0	0	0	0	0
		2,751,655	**6,127,936**	**501,011**	**1,115,751**	**3,252,666**	**7,243,687**
John Pollock	Shares	1,655,998	3,687,908	383,373	853,772	2,039,371	4,541,679
	ESP	24,768	55,158	5,660	12,605	30,428	67,763
	Options	0	0	11,029	24,562	11,029	24,562
		1,680,766	**3,743,066**	**400,062**	**890,938**	**2,080,828**	**4,634,004**
Mark Gregory	Shares	1,418,446	3,158,879	320,701	714,201	1,739,147	3,873,080
	ESP	23,610	52,579	5,580	12,427	29,190	65,006
	Options	0	0	27,767	61,837	27,767	61,837
		1,442,056	**3,211,459**	**354,048**	**788,465**	**1,796,104**	**3,999,924**
Mark Zinkula	Shares	100,155	223,045	400,318	891,508	500,473	1,114,553
	ESP	0	0	0	0	0	0
	Options	0	0	0	0	0	0
		100,155	**223,045**	**400,318**	**891,508**	**500,473**	**1,114,553**

This table has been audited by PwC.
ESP – Employee share plan

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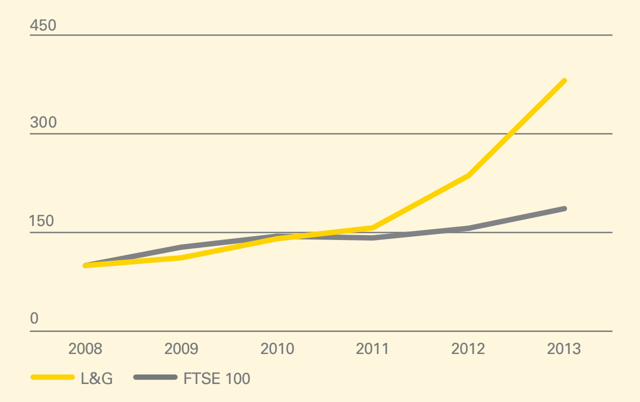
OTHER INFORMATION

TOTAL SHAREHOLDER RETURN (TSR)

The chart shows the value, as at 31 December 2013, of £100 investment in Legal & General shares on 31 December 2008, compared to £100 invested in the FTSE 100 on the same date. The other points plotted are the values at the intervening financial year-ends. The FTSE 100 Index was chosen as the Company is a member of this index.

Total shareholder return (at 31 December 2013)



HISTORIC CHIEF EXECUTIVE INFORMATION

The table below shows the remuneration of the Group chief executive in place at the time over the same period.

Year	Name		Group chief executive single figure of total remuneration (£'000)	Annual variable element against maximum opportunity	PSP vesting rates against maximum opportunity
2013	Nigel Wilson		4,072	93.10%	100%
2012[1]	Nigel Wilson	898	4,178	96.00%	0% – note 2
	Tim Breedon	3,280		84.80%	100% – note 3
2011	Tim Breedon		2,325	79.58%	16.6%
2010	Tim Breedon		1,526	89.98%	0%
2009	Tim Breedon		1,999	80.00%	0%

1. Tim Breedon retired as Group chief executive on 30 June 2012 and Nigel Wilson took over from that date having been the Chief Financial Officer.
2. The 2009 PSP vested in full in 2012. However, no PSP is shown in the figure for Nigel Wilson as, while he received the PSP, it vested during the time he was CFO.
3. The 2009 PSP vested in full in 2012. The PSP figure that vested for Tim Breedon is shown in his figure as it vested during the time he was Group chief executive.

PERCENTAGE CHANGE IN REMUNERATION OF DIRECTOR UNDERTAKING THE ROLE OF GROUP CHIEF EXECUTIVE

2013 over 2012

	Change to base salary %	Change to benefits %	Change in AVP %
Group chief executive	-4.21%	1.54%	-1.36%
Comparator	2.44%	2.44%	15.12%

Notes
The UK senior management employees (ex LGIM) have been chosen as the comparator group as it provided the most closely aligned population.
For 2012, figures for the Group chief executive reflect the fact that Tim Breedon held the position from 1 January 2012 to 30 June 2012 and Nigel Wilson held the position from 30 June 2012 to 31 December 2012.
Benefits: The Group chief executive participates in the same benefits as other senior management employees.
Increase in benefits for the employee comparators group relate to increases in salaries.

EXTERNAL APPOINTMENTS

The company considers that certain external appointments can help to broaden the experience and contribution to the Board of the executive directors. Any such appointments are subject to annual agreement by the company and must not be with competing companies. Subject to the company's agreement, any fees may be retained by the individual. However, they received no fees for the below appointments.

During 2013:

Nigel Wilson sat on the ABI committee.

Mark Gregory was an unpaid Director of Westdown Park Management Company Limited.

John Pollock was on the Financial Services Practitioner Panel and sat on the ABI Long Term Savings and Life Insurance Committee.

Mark Zinkula sat on the IMA Board and ABI Advisory Panel.

SHARE PURCHASES FROM 1 JANUARY 2014 TO 28 FEBRUARY 2014

Name	No. of shares
Nigel Wilson	178
John Pollock	178
Mark Gregory	178
Mark Zinkula	0

This table has been audited by PwC.

The executive directors' share purchases were made pursuant to their participation in the Employee Share Plan.

RELATIVE IMPORTANCE OF SPEND ON PAY

The table shows the relative importance of spend on pay compared to shareholder dividends and share buy-backs. We also consider our corporate tax liabilities of importance and details of these are shown on page 31.

Year	Distribution to shareholders by way of dividend £m	% change 2013 over 2012	Profit retained in the company £m	% change 2013 over 2012	Overall expenditure on pay £m – note 1	% change 2013 over 2012	Share buy back	% change 2013 over 2012
2013	550	21.41	896	12.28	630	18.42	0	0
2012	453		798		532		0	

Note 1 – Pay includes salaries, social security costs, share based incentive awards, defined benefit pension costs and defined contribution pension costs.
It covers 11,163 employees for 2013 and 9,864 employees for 2012. These numbers include the executive directors and consolidated private equity investment vehicles.

PAYMENTS TO PAST DIRECTORS

The information below has been audited by PwC.

There have been no payments to past directors during 2013 other than those made to Tim Breedon, former Group chief executive, who stood down from the Board on 30 June 2012 and retired as at 31 December 2012 and whose remuneration upon leaving the company was fully disclosed in the 2012 directors' remuneration report.

PAYMENTS FOR LOSS OF OFFICE

The information below has been audited by PwC.

There have been no payments for loss of office to executive directors during 2013.

STATEMENT OF VOTING AT THE ANNUAL GENERAL MEETING (AGM) 2013.

The table below shows the voting outcomes on the directors' remuneration report at the last AGM in May 2013.

YEAR	FOR % / NUMBER	AGAINST %/ NUMBER	ABSTAIN NUMBER	REASON FOR VOTES AGAINST IF KNOWN	ACTION TAKEN BY COMMITTEE
2012 REMUNERATION REPORT	99.14%	0.86%	–	Not known	The committee has had positive and constructive discussions and dialogue with shareholders during 2013 regarding the proposals for the 2014 executive director remuneration structure and encourages an open approach.
	4,009,276,082	34,764,807	139,185,561		

ANNUAL REPORT ON REMUNERATION.

NON-EXECUTIVE DIRECTORS (NEDS)

FEES

The table below shows the current fee structure and actual fees paid in 2013. There were no benefits for 2013. The current aggregate limit for fees paid to NEDs is £1,500,000 pa.

£000s	Henry Staunton **A** N Ri	Rudy Markham **R** N	Nick Prettejohn **Ri** A R N	Mike Fairey A R N	Dame Clara Furse N Ri	Stuart Popham N R Ri	Julia Wilson **A** N Ri	Lindsay Tomlinson **Ri** R N	Liz Zlatkus N Ri	John Stewart Chairman N
Base	65	65	65	65	65	65	65	65	65	340
Committee fee*	10		10	10		10	10	10		
Committee Chairman	30	30	30				30	30		
SID	20	20								
Total fee	**125**	**115**	**105**	**75**	**65**	**75**	**105**	**105**	**65**	**340**
Actual fee 2013	**52**	**106**	**46**	**75**	**27**	**75**	**85**	**61**	**5**	**340**
Actual fee 2012	125	95	106	75	66	75	65	–	–	340
	Note 1	Note 2	Note 3	Note 4	Note 5	Note 6	Note 7	Note 8	Note 9	

Key:
NED committee membership:
A = Audit
N = Nominations
R = Remuneration
Ri = Risk
■ = Chairman
* if sitting on two or more committees, excluding Nominations committee

SHAREHOLDING REQUIREMENTS

In line with the remuneration policy on page 84, NEDs are required to build up a shareholding equivalent to one times base fee. The table below shows their shareholding as at 2 January 2014, taking into account share purchases in relation to December 2013 fees, purchased on 2 January 2014.

NED Shareholding Requirement

Name	Shareholding	Value of holding £	Total Fee £	Base Fee £	Holding as a % of base fee	Met criteria of 1 x base fee	Shares purchased from 1 January 2014 to 28 February 2014 – Note 10
John Stewart	278,054	619,226	340,000	340,000	182%	yes	6,829
Henry Staunton – Note 1	314,069	699,432	125,000	65,000	1,076%	yes	–
Rudy Markham – Note 2	222,222	494,888	115,000	65,000	761%	yes	2,606
Nick Prettejohn – Note 3	–	–	–	–	–	–	–
Mike Fairey – Note 4	37,586	83,704	75,000	65,000	129%	yes	1,495
Stuart Popham – Note 6	39,750	88,523	75,000	65,000	136%	yes	1,495
Dame Clara Furse – Note 5	–	–	–	–	–	–	–
Julia Wilson – Note 7	28,164	62,721	105,000	65,000	96%	No	–
Lindsay Tomlinson – Note 8	8,210	18,284	105,000	65,000	28%	No	2,099
Liz Zlatkus – Note 9	695	1,548	65,000	65,000	2%	No	1,417

Share price used for calculations: £2.227 as at 31 December 2013.
The table includes shares purchased with December fees on 2 January 2014.

Note 1 – Henry Staunton stepped down from Board at AGM 2013
Note 2 – Rudy Markham assumed role of SID from AGM 2013
Note 3 – Nick Prettejohn stood down from the Board on 6 June 2013
Note 4 – Mike Fairey sits on two committees, excluding Nominations
Note 5 – Dame Clara Furse stood down from the Board on 1 May 2013
Note 6 – Stuart Popham sits on two committees, excluding Nominations
Note 7 – Julia Wilson assumed role of chairman of Audit Committee from AGM 2013 and sits on two committees, excluding Nominations
Note 8 – Lindsay Tomlinson joined the Board on 1 May 2013 and became chairman of the Risk Committee from 24 July 2013
Note 9 – Liz Zlatkus joined the Board on 1 December 2013
Note 10 – These were regular monthly purchases of shares as part of their remuneration

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN THE FOLLOWING FINANCIAL YEAR

SALARY INCREASES FOR 2014

As outlined in the Chairman of the Remuneration Committee's letter, the executive directors (excluding Nigel Wilson) received an interim salary adjustment during 2013 to recognise their increased responsibilities. Mark Gregory's, John Pollock's and Mark Zinkula's base salaries were increased to £560,000 pa with effect from 1 July 2013 when they officially took on their expanded roles.

As a result of this, there are no further increases to their salaries for 2014 and their next review will be in March 2015.

Nigel Wilson

In line with our policy of setting base salary at a level to allow a newly appointed executive director to progress into the role, Nigel's salary was set at £750,000 pa when he was appointed to Group chief executive on 1 July 2012. This was some £70,000 below the salary of the departing incumbent. It was agreed that Nigel's next salary review would be March 2014, 20 months after he assumed the position.

In line with our policy therefore, the Committee has decided to increase Nigel's salary to £820,000 pa with effect from 1 March 2014. It is felt that this level reflects what he has achieved to date in terms of financial results (see pages 2 and 3), increased strategic clarity and the energy, focus and drive within the organisation. His next review will be in March 2015.

BENEFITS FOR 2014

Benefits for 2014 will continue to be in line with our policy.

The table below summarises these changes.

Name	Salary at 31 December 2013	Salary with effect from 1 March 2014	% increase from December 2013	Next intended review date
Nigel Wilson	£750,000 (effective 30 June 2012)	£820,000 pa	9.3%	March 2015
John Pollock	£560,000 (effective 1 July 2013)	£560,000 pa	0%	March 2015
Mark Gregory	£560,000 (effective 1 July 2013)	£560,000 pa	0%	March 2015
Mark Zinkula	£560,000 (effective 1 July 2013)	£560,000 pa	0%	March 2015

ANNUAL VARIABLE PAY POTENTIAL (AVP) 2014

For 2014, in line with our proposed remuneration policy (page 76), the AVP potential for executive directors will be as follows:

Position	Maximum potential	£000 value maximum potential	New AVP on target	New AVP on target £000
Group chief executive	150% of base salary as at 1 March 2014	1,230	75% of salary as at 1 March 2014	615
CFO, CEO LGAS	150% of base salary as at 1 March 2014	840	75% of salary as at 1 March 2014	420
CEO LGIM	175% of base salary as at 1 March 2014	980	105% of salary as at 1 March 2014	588

ANNUAL REPORT ON REMUNERATION.

Performance Targets and Weightings

The performance targets and weightings for 2014 are shown in the table below

Name	Group KPIs	Divisional / Financial KPIs	Strategic objectives
Nigel Wilson	80%	–	20%
John Pollock	50%	30%	20%
Mark Gregory	80%	–	20%
Mark Zinkula	50%	30%	20%
	E.g. Operating Profit, Operating Cash, Net Cash, ROE, EPS	E.g. PBT, Operating Cash, Net Cash, GWP, Gross / Net New Business, Revenues and Expenses	E.g. Building a diversified and sustainable business, Customer outcomes, risk management, improving products and services, CSR, employee engagement.

The actual performance targets for 2014 are considered commercially sensitive and therefore will be considered for disclosure retrospectively.

PERFORMANCE SHARE PLAN (PSP) 2014

Subject to shareholder approval, it is the Committee's intention to award a PSP potential of 250% of 2014 base salaries to the executive directors after the 2014 AGM.

Performance period

The performance period will be three financial years from 1 January 2014.

Release

To the extent that the award vests, it will be available for exercise as soon as practicable in equal tranches of one third at the end of the 3rd, 4th and 5th years from the commencement date of the performance period (as described in the policy on page 77).

Due to the change in how the performance period is measured (i.e. it is moving from April to April to a performance period of January to December to coincide with the financial year) and release timing of the new PSP, there is the possibility that two PSPs may vest in the same year in 2016 (that granted under the legacy plan in 2013 and that granted in 2014 under the new plan). This is a one-time situation.

Quantum

The details of the award are shown below: The awards will be made as nil cost options.

Name	2014 award as % of March 2014 base salary	Face value of maximum potential award £000	Face Value of threshold level of award (15% of total award or 37.5% of base salary) £000
Nigel Wilson	250%	2,050	308
John Pollock	250%	1,400	210
Mark Gregory	250%	1,400	210
Mark Zinkula	250%	1,400	210

The above represents the maximum award that may vest. However, some, all or no awards may vest, dependent on performance conditions being met.

Approach to performance measures for 2014

The Committee gave careful consideration to the selection of the combination of measures for our 2014 PSP awards. The Committee has chosen measures which it believes directly support the company's strategy of achieving growth which is steady, sustainable and rewarding for shareholders, within our agreed risk appetite. These are:

Relative TSR	Ensures participants are aligned with the shareholder experience.
EPS growth % p.a.	Provides direct line of sight for executive directors, and will incentivise them to steadily grow earnings over time.
DPS growth % p.a.	The dividend is set by the Board as a whole (on which the majority of members are non-executives), so this measure reflects: the competing demands of capital retention versus distribution to shareholders, the sustainability of dividend policy, and provides an absolute rather than a relative measure of the dividend progression experienced by shareholders.
	In addition, the EPS/DPS growth metrics are supported by a capital efficiency measure in the form of an ROE underpin.

Performance measures

In line with our remuneration policy (page 77), we set out below the metrics that will be used for the 2014 award:

- 25% on TSR relative to the FTSE 100
- 25% on TSR relative to a bespoke group of insurers (for the 2014 award this group comprises the insurance constituents in the FTSEurofirst 300 plus any FTSE 350 Life Insurance companies not in the FTSEurofirst 300 and the five US firms Metlife, Prudential Financial, Ameriprise Financial, Principal Financial and Lincoln National).
- 50% on a financial matrix of Earnings Per Share and Dividends Per Share growth % p.a. A Return on Equity underpin also applies to this element.

Vesting

Relative TSR

For the relative TSR element (50% of the award for 2014), the awards will vest following a three-year performance period as follows:

Legal & General's TSR performance relative to the comparator groups

	% of award that vests
Below median	0%
Median (threshold)	15%
Between median and 80th percentile	15% – 100%
80th percentile or above	100%

Financial measures

The remainder of the award will be based on Legal & General's performance against an EPS and DPS matrix. Threshold vesting begins at 5% growth p.a. for both EPS and DPS. In addition, there is an ROE underpin such that mean ROE must be at least 12% over the three year performance period for 2014 awards. We will disclose the performance target ranges at the time of grant which will occur after our new PSP is approved at the AGM.

Assessment of performance

At the end of the three-year performance period the Committee will critically assess whether the formulaic vesting outcome produced by the matrix is justified. To do this the Committee will look at a number of factors including: whether the result is reflective of underlying performance and has been achieved within the company's agreed risk appetite; the quality of earnings; and the nature of any changes in leverage, key assumptions, dividend cover and behaviours etc. If such considerations mean that the formulaic outcome of the vesting schedule is not felt to be justified, then the Committee can exercise downwards discretion. The Committee will continue to responsibly exercise any scope for discretion/judgement, and is happy to be judged on its performance in this respect through the annual advisory vote.

NON-EXECUTIVE DIRECTOR (NED) FEES FOR 2014

There is no change to our NED fee structure as set out in the policy for 2014.

REMUNERATION COMMITTEE

The table below shows the members and attendees of the Remuneration Committee during 2013.

Committee Members, Attendees and Advice

Remuneration committee members	Position	Comments
Rudy Markham	Chairman of the Remuneration Committee	Independent
Nick Prettejohn	Member from 2 November 2010 until 6 June 2013	Independent
Mike Fairey	Member from 1 May 2011	Independent
Stuart Popham	Member from 1 July 2011	Independent
Lindsay Tomlinson	Member from 1 May 2013	Independent

Remuneration Committee attendees	Position	Comments
John Stewart	Standing attendee by invitation	Independent upon appointment on 1 March 2010
Nigel Wilson	Group chief executive	Attends by invitation

GOVERNANCE AND APPROACH.

Remuneration Committee attendees	Position	Comments
	The Group HR director and Group Head of Reward attend by invitation as executives responsible for advising on the remuneration policy. A member of Group Board Support acts as secretary to the Committee	
	Kepler Associates Partnership LLP	Attended by invitation as the Committee's independent adviser until October 2013
	Deloitte LLP	Attended by invitation from October 2013 as the independent adviser to the Committee

No person is present during any discussion relating to his or her own remuneration.

TERMS OF REFERENCE

The Committee's Terms of Reference are available on our website or on request. The remit of the Committee embraces the framework of the remuneration strategy and policy for the whole company as well as the executive directors. The Committee particularly focuses on:

- determining the individual remuneration for executive directors and for other designated individuals or for those who are discharging a Head of Control function;
- undertaking direct oversight on the remuneration of other high earners in the Group;
- undertaking oversight on an exceptions basis on the remuneration of Code staff and employees in the Control and oversight functions; and
- determining the framework of the remuneration policy for all other employees in the Group.

The Committee retains the ability to exercise powers under the share plans to claw back or reduce awards where it determines there has been fraud or malice or a breach of Group risk appetite.

MEETINGS IN 2013

The Committee normally meets at least three times per year. During 2013 it formally met eight times as well as having ongoing dialogue via email or telephone discussion. The additional meetings were principally held to discuss the following key issues:

- The appointment of Mark Gregory to Chief Financial Officer with effect from 1 July 2013 and the re-organisation of the business resulting in wider responsibilities for John Pollock and Mark Zinkula: see Chairman of the Remuneration Committee's letter page 71.
- The review of the executive directors' remuneration structure (see chairman of the Remuneration Committee's letter on page 70).

Regular meetings were held to review and discuss bonus awards in relation to performance in 2012, base salary adjustments for 2013 and budgets for the company 2014 pay review.

Details of the Remuneration Committee members can be found on page 99. Details of the independent advisers to the committee can be found in the next section.

ADVISERS TO THE REMUNERATION COMMITTEE

Kepler Associates Partnership LLP continued to be the independent advisers to the Remuneration Committee until October 2013. Kepler is also engaged to provide updated forecasts of the PSP vesting. This work has not been felt to be in conflict with the independence and objectivity of the work carried out for the Committee.

In October 2013, the Committee appointed Deloitte LLP to replace Kepler Associates as their independent advisers. As a full RFP had been carried out within the last 18 months, it was felt unnecessary to re-tender in the market place. The Committee principally moved to ensure continuity of advice and approach regarding their lead adviser and to benefit from the wider reach and resources that Deloitte could provide. Deloitte also provide the company with international tax advice and other advisory services. In addition, Deloitte provided specialist assistance with one-time projects involving claims handling and systems development. This work was commissioned prior to Deloitte becoming advisers to the committee. This work is carried out by an entirely separate group within Deloitte and has not been felt to be in conflict with the independence, and objectivity of the work carried out for the Committee.

Both Kepler Associates and Deloitte are signatories to the Remuneration Consultants' Group Code of Conduct in relation to Executive Remuneration Consulting in the UK.

During 2013, Kepler Associates and Deloitte have principally assisted the Committee with the review of the overall executive directors' remuneration structure.

The total fees from the independent advisers for 2013 in relation to Remuneration Committee work were £287K (£198k for Kepler and £89k for Deloitte) including VAT. While fee estimates are required for bespoke pieces of work , fees are generally charged based on time with hourly rates in line with the level of expertise and seniority of the adviser concerned.

ENGAGEMENT WITH SHAREHOLDERS

The Committee seeks to maintain an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and any changes to the company's executive pay arrangements in particular. More details can be found in the policy report under the 'Statement of consideration of shareholder views' on page 85.

CONSIDERING RISK

The Bonus Steering Committee (BSC) and the Group Regulatory Risk and Compliance Function make a key contribution to the process of designing reward structures and evaluating whether achievement of objectives and any payment from plans have taken into account the overall risk profile of the company.

BONUS STEERING COMMITTEE

Reporting to the Remuneration Committee, the BSC helps set the framework within which our incentive arrangements are normally reviewed and implemented, with a view to supporting business strategy, whilst acting within risk appetite.

The members of the BSC include the Group HR director and Group head of reward as well as the Group remuneration team, business heads of HR, the Chief Risk Officer (CRO) and the Group director of regulatory risk and compliance.

Where a business unit tables a proposal for consideration, the relevant business manager is required to attend the BSC meeting to explain the background and to answer all questions and challenges from the BSC.

In response to the strong regulatory focus in 2013 on structured incentive arrangements for direct sales teams in particular, the BSC commissioned an external review of structured incentives. The findings were broadly positive with some areas for improvement highlighted, which have been, or are being, addressed.

GROUP REGULATORY RISK AND COMPLIANCE FUNCTION

The Remuneration Committee also works closely with the Group Regulatory Risk and Compliance Function with respect to remuneration proposals.

In particular the Function reports to the Committee on an annual basis on whether any risks have been taken outside of pre-agreed parameters, there have been regulatory breaches, or they are aware of any other considerations that may lead the Committee to consider whether it should impact the payment of bonuses to staff (including in particular the executive directors and Code Staff).

The CRO also specifically looks at the overall risk profile of the company and whether executive directors have achieved objectives within the company's accepted risk appetite. The CRO also reviews the executive directors' objectives for the forthcoming year to ensure they are in line with the risk parameters.

GENERAL GOVERNANCE

The directors' report on remuneration has been prepared in accordance with the requirements of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013. It also describes the Group's compliance with the UK Corporate Governance Code in relation to remuneration. The company is an active member of the ABI and the Committee, consistent with its approach of operating within the highest standards of corporate governance, takes account of guidelines issued by the ABI and shareholder bodies (such as the NAPF) when setting the remuneration strategy for the company.

OTHER INFORMATION.

REMUNERATION FOR EMPLOYEES BELOW BOARD

GENERAL REMUNERATION POLICY

The Group's remuneration policy is applied broadly consistently for all employees and, in line with our remuneration principles, is designed to support recruitment, motivation and retention as well as to reward high performance in a framework of approved risk management. Remuneration is considered within the overall context of the Group's sector and the markets in which the divisions operate. The policy for the majority of employees continues to be to pay around the relevant mid-market range with a competitive package designed to align the interests of employees with those of shareholders, and with an appropriate proportion of total remuneration dependent upon performance.

We define core remuneration as base salary, annual bonus that is closely aligned to performance and other benefits such as pension. There is also the ability to participate in the performance share plan (PSP) for key employees.

SUMMARY OF REMUNERATION STRUCTURE FOR EMPLOYEES BELOW BOARD

ELEMENT	POLICY
BASE SALARY	We aim to attract and retain key employees by paying salaries which deliver competitive total remuneration, taking into account market pay levels at companies of similar size, scale and scope as well as overall business performance. A key factor is also the ability, experience and performance of the individual. For 2014, base salary budgets have been set at 2.5% for all management and staff employees below Board, including LGIM. However, this does not mean a flat increase for everyone. Increases to base salary are in line with position in base salary band and other criteria.
ANNUAL BONUS	The majority of employees have a discretionary bonus scheme based on individual performance against objectives. Normally deferral increases with the level of the bonus and is normally held in shares for three years. The company reserves the right to adjust deferral levels for Code staff as deemed appropriate. There are some bespoke bonus schemes, where business appropriate, but the Remuneration Committee has ultimate discretion over all bonus plans. Separate plans operate within LGIM consistent with industry practice.
PERFORMANCE SHARE PLAN (PSP)	Participation in the PSP generally is extended to the Leadership Group but may include other employees in key roles. This includes employees in LGIM whose roles cross business divisions and whose participation encourages synergy and teamwork across the company. Typically less than 100 employees participate in total in the PSP. Participation in the plan for one year does not guarantee participation in future years. Subject to shareholder approval the PSP will be awarded to under 100 employees for 2014. Where appropriate, grants under the PSP may also be made for new employees who join the company during the year in key roles.
PENSION	All employees are given opportunity to participate in a Group pension scheme.
SHAREHOLDING REQUIREMENTS	The Leadership Group is asked to build up a voluntary shareholding of 50% of base salary.

ANNUAL EQUAL PAY AUDIT

Management seeks to ensure that our pay policies and practices are free from unfair bias. Part of the pay review process is an annual equal pay audit that reviews pay and bonus decisions by gender, ethnicity, age and full-time versus part-time working. In addition, it considers the pay of the Control Function departments (Risk, Compliance and Internal Audit) as well as the 'oversight departments' of Finance and Human Resources and looks at decisions for employees who report directly to the business versus those who report to the function head. The review extends to all employees, including those in LGIM.

ALL EMPLOYEE SHARE SCHEMES

There are share schemes for all UK employees. Executive directors are entitled to participate on the same terms as all UK employees in the Savings-Related Share Option Scheme (SAYE) and the Employee Share Plan (ESP), both of which are approved by HMRC. Each year the Committee considers a grant of Group performance shares (Freeshares) after the annual results are known to tie any award more closely to company performance. For performance in relation to 2013, the Committee has agreed a grant of 280 shares to each employee (for 2012 performance this was 372 shares).

The SAYE allows employees to enter into a regular savings contract over either three or five years, coupled with a corresponding option over shares of the Group. The grant price is equal to 80% of the quoted market price of the Group shares on the invitation date.

Under the ESP, approved by HMRC, permanent UK employees may elect to purchase Group shares from the market at the prevailing market price on a monthly basis. The Group supplements the number of shares, purchased by matching the first £20 of each employee's contribution. From February 2013 the company also matched employee contributions between £20 and £125 on a one matching share for every two purchased. From time to time, the Group may make a grant of Freeshares (see above). Both the free and matching shares must be held in trust for three years before they may vest to the employee.

Dilution limits

The company's all-employee plans and the now-closed ESOS operate within the ABI's dilution limit of 5% of issued capital in 10 years for executive schemes and all its plans will operate within the 10% of issued capital in ten years limit for all schemes.

As at 31 December 2013, the company had 4.88% of share capital available under the 5% in 10 years limit, and 9.17% of share capital under the 10% in 10 years limit.

As at 31 December 2013, 27,465,738 shares were held by the Employee Benefit Trust to hedge outstanding awards of 46,521,095 shares for the PSP and SBP. This means that the Trust holds shares sufficient to cover 59.4% of outstanding awards.

RUDY MARKHAM
CHAIRMAN OF THE REMUNERATION COMMITTEE

IN THIS SECTION

"If Europe today accounts for just over 7% of the world's population, produces around 25% of global GDP and has to finance 50% of global social spending, then it's obvious that it will have to work very hard to maintain its prosperity and way of life."

ANGELA MERKEL, GERMAN CHANCELLOR
FINANCIAL TIMES INTERVIEW, DECEMBER 2012


REALITY CHECK.
UK
26 DAYS
WORKING AGE FAMILIES
11 DAYS
REALITY VERSUS PERCEPTION.
PERCEPTION: 72 DAYS
45%
23%
8%
4/5
HOUSEHOLDS ARE WORRIED ABOUT THE RISING COST OF LIVING
21%
13 YEARS.
33%
£1,010
EVERY DAY MATTERS*
Legal & General

CHANGES TO OUR FINANCIAL REPORTING

In last year's annual report we had adopted a different approach to presenting our financial information. We believe that organising the information in this way enables greater understanding of the financial position and performance of our business.

The Group Consolidated financial statements have been divided into 3 sections.

- The **Primary Statements and Performance** section includes the Group primary statements and other notes which we believe are integral to understanding our financial performance.
- The **Balance Sheet Management** section provides further details on our financial position and approach to risk management.
- The **Additional Financial Information** section includes disclosures required to be compliant with accounting standards or the Companies Act. We view this information as important, but less significant in understanding our business and performance.

CONTENTS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEGAL & GENERAL GROUP PLC

REPORT ON THE GROUP FINANCIAL STATEMENTS

Our opinion

In our opinion the Group financial statements, defined below:

- give a true and fair view of the state of the Group's affairs as at 31 December 2013 and of the Group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements, which are prepared by Legal & General Group Plc, comprise:

- the consolidated balance sheet as at 31 December 2013;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity and consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

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

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report & Accounts, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

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

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

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

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we set materiality for the Group financial statements as a whole at £70m. We concluded that operating profit before tax was the relevant benchmark because it reflects the underlying profit of the business. Our view on overall materiality was communicated to the Audit Committee.

We agreed with the Audit Committee that we would report to them all uncorrected misstatements identified during our audit greater than £3.5m, as well as misstatements below that threshold that, in our view, warranted reporting for qualitative reasons.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEGAL & GENERAL GROUP PLC (CONTINUED)

Overview of the scope of our audit

The Group is reported in five reportable segments: Legal & General Assurance Society (LGAS), Legal & General Retirement (LGR), Legal & General Investment Management (LGIM), Legal & General America (LGA), and Legal & General Capital (LGC). The Group financial statements are a consolidation of 84 reporting units, comprising the Group's operating businesses and centralised functions.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed on reporting units by us, as the group engagement team, or component audit teams within PwC UK and from other PwC network firms operating under our instructions. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Accordingly, of the Group's 84 reporting units, we identified 34 that, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics. Specific audit procedures on specific balances and transactions were performed at a further 11 reporting units. This, together with additional procedures performed at the Group level, gave us 87% coverage over total assets and 88% coverage over profit after tax. We concluded that this gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit.

Our areas of focus were communicated to the Audit Committee. The Audit Committee Report on page 64 sets out those matters that they consider to be significant issues in relation to the financial statements.

Area of focus specific to Legal & General Group Plc	How the scope of our audit addressed the area of focus
Valuation of non-participating insurance liabilities We focused on this area because the estimation of non-participating insurance liabilities is inherently judgemental. The most significant element is the annuity liabilities, whose valuation is sensitive to: – valuation interest rate – the discount rate derived from the yield on the assets backing the annuity liability used in calculating the present value of annuity payments. The discount rate also includes an explicit allowance for future default on the asset portfolio; and – longevity – how long the policyholders receiving annuity payments are expected to live.	
Valuation interest rate The valuation interest rate is particularly sensitive to: – investment data used to calculate the yield on the assets backing the insurance liabilities; – credit default assumptions; and – the methodology used to model the asset cash flows to calculate the internal rate of return.	We assessed the directors' processes for ensuring that the relevant investment data was included in the calculation of the yield on the assets, and tested the completeness and accuracy of that investment data and the calculations. We also tested the implementation of the strategic asset reporting system and other changes to the related processes. We assessed the appropriateness of the credit default allowance in light of changing market conditions and other market information available. We challenged the rationale for and tested changes to the actuarial process and model underlying the calculation of the valuation interest rate.
Longevity assumptions The longevity assumptions are calculated using internal experience analysis and the estimated future rate of mortality improvements.	We tested the operating effectiveness of controls over accuracy and completeness of the data used in determining the longevity assumptions. We tested the assumptions used by assessing the experience analysis performed and management's allowance for specific market indicators. We compared the annuitant longevity assumptions against independent industry data and challenged differences identified.
Financial investments Financial investments vary in complexity. Investments which are complex to value and require the use of significant judgement include: – over-the-counter (OTC) derivatives; – commercial mortgages; and – collateralised debt obligations.	
Valuation of complex investments We focused on the valuation of complex investments because changes in estimates could result in material changes in their valuation. Key estimates used in the valuation models reflect observable and unobservable inputs such as forward interest rates, foreign exchange rates and forward inflation rate curve. We also focused on the disclosure of financial instruments, which is complex under IFRSs.	We assessed the investment valuation processes and controls in place over all investments. We performed detailed testing of investments, comparing the valuation to independent external sources where available, or testing the financial models used to value the complex financial instruments. We compared the estimates used by the directors to external industry data, and in certain instances independently modelled valuations, to assess and challenge the appropriateness of the directors' models and key assumptions used. We checked that complex investments, such as derivatives and structured solutions were accounted for and disclosed in accordance with IFRSs.
Business combinations During 2013 Legal & General Group Plc made a number of acquisitions, notably Cofunds Limited and Lucida Limited.	
Business combinations The acquisitions of Lucida Limited and Cofunds Limited during the year were treated as business combinations which require a number of estimates and adjustments to be made including: – adjustments to the fair value of assets and liabilities acquired as part of the acquisition; and – the fair valuation of previously unrecognised identifiable intangible assets (brand name, customer relationships) and subsequent consideration of impairment of these assets.	We assessed the adequacy of the presentation of the acquisitions during the year. We tested the fair value of tangible assets and liabilities acquired including the adjustments to fair value made on initial recognition. We tested the inputs and key judgements used in estimating the fair value of the acquired intangible assets and the calculation of goodwill.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEGAL & GENERAL GROUP PLC (CONTINUED)

Areas of focus derived from auditing standards	How the scope of our audit addressed the area of focus
Fraud in revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. There is an inherent risk that revenue might be materially misstated.	We understood and evaluated the controls surrounding revenue recognition. We identified significant or unusual revenue transactions and agreed them to source documentation to check the validity of the revenue transaction.
Risk of management override of internal controls ISA (UK & Ireland) 240 requires that we consider this because there is an inherent risk that management might override controls that otherwise appear to be operating effectively.	We assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and the Group's internal audit function. We tested key reconciliations and manual journal entries. We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors that may represent a risk of material misstatement due to fraud. We also built in an element of "unpredictability" into our testing.

Going concern
Under the Listing Rules we are required to review the directors' statement, set out on page 264, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the Group's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Other matters on which we are required to report by exception
Adequacy of information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

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

Corporate Governance Statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code (the Code). We have nothing to report having performed our review.

On page 265 of the Annual Report & Accounts, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report & Accounts taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 65, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report & Accounts describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report & Accounts

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report & Accounts is:

- materially inconsistent with the information in the audited Group financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the Financial Statements and the Audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 265, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view.

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

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

Other matter

We have reported separately on the parent company financial statements of Legal & General Group Plc for the year ended 2013 and on the information in the Directors' Remuneration Report that is described as having been audited.

Andrew Kail (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2014

PRIMARY STATEMENTS AND PERFORMANCE

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013	Notes	2013 £m	2012[1] £m
Revenue			
Gross written premiums	31(iv)	**6,162**	5,668
Outward reinsurance premiums	31(iv)	**(874)**	(718)
Net change in provision for unearned premiums		**(18)**	(25)
Net premiums earned		**5,270**	4,925
Fees from fund management and investment contracts	7	**1,040**	875
Investment return	32	**32,221**	28,828
Operational income	3	**720**	342
Total revenue		**39,251**	34,970
Expenses			
Claims and change in insurance liabilities		**5,767**	8,588
Reinsurance recoveries		**(1,113)**	(779)
Net claims and change in insurance liabilities	33	**4,654**	7,809
Change in provisions for investment contract liabilities	22(ii)	**30,458**	23,656
Acquisition costs	11	**855**	784
Finance costs	25(ii)	**163**	165
Other expenses	3	**1,694**	1,194
Transfers to unallocated divisible surplus	23	**112**	155
Total expenses		**37,936**	33,763
Profit before tax		**1,315**	1,207
Tax expense attributable to policyholder returns	34(i)	**(181)**	(174)
Profit before tax		**1,134**	1,033
Total tax expense		**(419)**	(409)
Tax expense attributable to policyholder returns	34(i)	**181**	174
Tax expense attributable to equity holders	34(i)	**(238)**	(235)
Profit for the year		**896**	798
Attributable to:			
Non-controlling interests		**3**	(12)
Equity holders of the Company		**893**	810
Dividend distributions to equity holders of the Company during the year	4	**479**	394
Dividend distributions to equity holders of the Company proposed after the year end	4	**408**	337
		p	p
Earnings per share			
Based on profit attributable to equity holders of the Company	5	**15.20**	13.84
Diluted earnings per share			
Based on profit attributable to equity holders of the Company	5	**15.00**	13.61

1. The Consolidated Income Statement has been restated to reflect the adoption by the Group of amendments to IAS 19, ‘Employee Benefits’. Further details are contained in Note 1. The impact is to reduce profit for the year by £3m for 2012.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013	Notes	2013 £m	2012[1] £m
Profit for the year		**896**	798
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses on defined benefit pension schemes	26 (ii)	**(145)**	(101)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	26 (ii)	**49**	38
Total items that will not be reclassified to profit or loss subsequently		**(96)**	(63)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations		**(16)**	(13)
Net change in financial investments designated as available-for-sale		**(88)**	32
Total items that may be reclassified to profit or loss subsequently		**(104)**	19
Other comprehensive (expense) after tax		**(200)**	(44)
Total comprehensive income for the year		**696**	754
Total comprehensive income/(expense) attributable to:			
Non-controlling interests		**3**	(12)
Equity holders of the Company		**693**	766

1. The Consolidated Statement of Comprehensive Income has been restated to reflect the adoption by the Group of amendments to IAS 19, 'Employee Benefits'. Further details are contained in Note 1. The impact is to reduce profit for the year by £3m for 2012, offset by a corresponding change in the Other Comprehensive Income.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

CONSOLIDATED BALANCE SHEET

As at 31 December 2013	Notes	2013 £m	2012 £m
Assets			
Goodwill	30	**73**	–
Purchased interest in long term businesses and other intangible assets	10	**308**	211
Deferred acquisition costs	11	**1,880**	1,904
Investment in associates and joint ventures	45	**101**	87
Property, plant and equipment		**129**	92
Investment property	12(i)	**6,060**	5,143
Financial investments	12(i)	**331,802**	316,748
Reinsurers' share of contract liabilities	21(i)/22(i)	**2,897**	2,499
Deferred tax asset	34(iv)	**82**	316
Current tax recoverable	34(v)	**310**	194
Other assets	15	**2,115**	1,564
Assets of operations classified as held for sale[1]		**–**	891
Cash and cash equivalents	14	**17,407**	16,652
Total assets		**363,164**	346,301
Equity			
Share capital	38(i)	**148**	148
Share premium	38(i)	**959**	956
Employee scheme treasury shares	38(ii)	**(39)**	(43)
Capital redemption and other reserves		**57**	153
Retained earnings		**4,517**	4,227
Shareholders' equity		**5,642**	5,441
Non-controlling interests	39	**58**	39
Total equity		**5,700**	5,480
Liabilities			
Participating insurance contracts	21	**6,972**	8,116
Participating investment contracts	22	**7,493**	7,403
Unallocated divisible surplus	23	**1,221**	1,153
Value of in-force non-participating contracts	24	**(248)**	(242)
Participating contract liabilities		**15,438**	16,430
Non-participating insurance contracts	21	**40,273**	37,728
Non-participating investment contracts	22	**278,754**	264,958
Non-participating contract liabilities		**319,027**	302,686
Core borrowings	25	**2,453**	2,445
Operational borrowings	25	**704**	920
Provisions	26	**1,128**	983
Deferred tax liabilities	34(iv)	**362**	382
Current tax liabilities	34(iv)	**14**	68
Payables and other financial liabilities	27	**8,931**	8,083
Other liabilities	40	**1,032**	959
Net asset value attributable to unit holders	12(v)	**8,375**	7,702
Liabilities of operations classified as held for sale[1]		**–**	163
Total liabilities		**357,464**	340,821
Total equity and liabilities		**363,164**	346,301

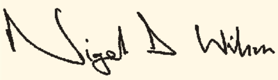
1. Assets and liabilities of operations classified as held for sale at 31 December 2012 relate to seed capital the Group had invested into newly established funds. They are classified as held for sale when the Group expects its ownership to reduce below the level for control within 12 months of classification. There are no such transactions at 31 December 2013.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

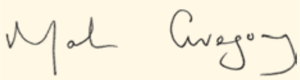
The notes on pages 119 to 227 form an integral part of these financial statements.

The financial statements on pages 112 to 227 and the supplementary financial statements on pages 228 to 248 were approved by the board of directors on 4 March 2014 and were signed on their behalf by:

John Stewart
Chairman



Nigel Wilson
Group Chief Executive



Mark Gregory
Group Chief Financial Officer

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
As at 1 January 2013	**148**	**956**	**(43)**	**153**	**4,227**	**5,441**	**39**	**5,480**
Profit for the year	–	–	–	–	893	893	3	896
Exchange differences on translation of overseas operations	–	–	–	(16)	–	(16)	–	(16)
Actuarial losses on defined benefit pension schemes	–	–	–	–	(145)	(145)	–	(145)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	–	–	–	–	49	49	–	49
Net change in financial investments designated as available-for-sale	–	–	–	(88)	–	(88)	–	(88)
Total comprehensive income/(expense) for the year	–	–	–	(104)	797	693	3	696
Options exercised under share option schemes:								
– Executive share option schemes	–	1	–	–	–	1	–	1
– Savings related share option scheme	–	2	–	–	–	2	–	2
Shares purchased	–	–	(12)	–	–	(12)	–	(12)
Shares vested	–	–	16	(19)	–	(3)	–	(3)
Employee scheme treasury shares:								
– Value of employee services	–	–	–	28	–	28	–	28
Share scheme transfers to retained earnings	–	–	–	–	(29)	(29)	–	(29)
Dividends	–	–	–	–	(479)	(479)	–	(479)
Movement in third party interests	–	–	–	–	–	–	16	16
Currency translation differences	–	–	–	(1)	1	–	–	–
As at 31 December 2013	**148**	**959**	**(39)**	**57**	**4,517**	**5,642**	**58**	**5,700**

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

For the year ended 31 December 2012	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves £m	Retained earnings[1] £m	Total £m	Non-controlling interests £m	Total equity £m
As at 1 January 2012	147	941	(48)	117	3,899	5,056	66	5,122
Profit for the year	–	–	–	–	810	810	(12)	798
Exchange differences on translation of overseas operations	–	–	–	(13)	–	(13)	–	(13)
Actuarial losses on defined benefit pension schemes	–	–	–	–	(101)	(101)	–	(101)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	–	–	–	–	38	38	–	38
Net change in financial investments designated as available-for-sale	–	–	–	32	–	32	–	32
Total comprehensive income/(expense) for the year	–	–	–	19	747	766	(12)	754
Options exercised under share option schemes:								
– Executive share option schemes	–	1	–	–	–	1	–	1
– Savings related share option scheme	1	14	–	–	–	15	–	15
Shares purchased	–	–	(3)	–	–	(3)	–	(3)
Shares vested	–	–	8	(21)	–	(13)	–	(13)
Employee scheme treasury shares:								
– Value of employee services	–	–	–	19	–	19	–	19
Share scheme transfers to retained earnings	–	–	–	–	(6)	(6)	–	(6)
Dividends	–	–	–	–	(394)	(394)	–	(394)
Movement in third party interests	–	–	–	–	–	–	(15)	(15)
Currency translation differences	–	–	–	19	(19)	–	–	–
As at 31 December 2012	148	956	(43)	153	4,227	5,441	39	5,480

1. The Consolidated Statement of Changes in Equity has been restated to reflect the adoption by the Group of amendments to IAS 19, 'Employee Benefits'. Further details are contained in Note 1. The impact is to reduce profit for the year by £3m for 2012.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2013	2013 £m	2012[1] £m
Cash flows from operating activities		
Profit for the year	**896**	798
Adjustments for non cash movements in net profit for the year		
Realised and unrealised gains on financial investments and investment properties	**(21,443)**	(18,429)
Investment income	**(9,504)**	(9,464)
Interest expense	**163**	165
Tax expense	**419**	409
Other adjustments	**98**	67
Net decrease/(increase) in operational assets		
Investments held for trading or designated as fair value through profit or loss	**3,571**	(1,118)
Investments designated as available-for-sale	**60**	30
Other assets	**553**	(3,008)
Net increase/(decrease) in operational liabilities		
Insurance contracts	**1,384**	3,221
Transfer from unallocated divisible surplus	**63**	112
Investment contracts	**13,835**	13,795
Value of in-force non-participating contracts	**(6)**	–
Other liabilities	**2,221**	7,026
Cash used in operations	**(7,690)**	(6,396)
Interest paid	**(169)**	(164)
Interest received	**4,981**	5,013
Tax paid[2]	**(287)**	(193)
Dividends received	**4,497**	4,539
Net cash flows from operating activities	**1,332**	2,799
Cash flows from investing activities		
Net acquisition of plant, equipment and intangibles	**(48)**	(59)
Acquisitions (net of cash acquired)[3]	**(97)**	(27)
Acquisition of joint ventures	**(68)**	–
Net cash flows from investing activities	**(213)**	(86)
Cash flows from financing activities		
Dividend distributions to ordinary equity holders of the Company during the year	**(479)**	(394)
Proceeds from issue of ordinary share capital	**3**	16
Purchase of employee scheme shares	**(4)**	(3)
Proceeds from borrowings	**1,231**	1,318
Repayment of borrowings	**(1,115)**	(1,105)
Net cash flows from financing activities	**(364)**	(168)
Net increase in cash and cash equivalents	**755**	2,545
Exchange gains/(losses) on cash and cash equivalents	**–**	(6)
Cash and cash equivalents at 1 January	**16,652**	14,113
Cash and cash equivalents at 31 December	**17,407**	16,652

1. The Consolidated Cash Flow Statement has been restated to reflect the adoption by the Group of amendments to IAS 19, 'Employee Benefits'. Further details are contained in Note 1. The impact is to reduce profit for the year by £3m for the year ended 31 December 2012, offset by corresponding changes to net cash flows from operating activities.
2. Tax comprises UK corporation tax paid of £133m (2012: £60m), overseas corporate taxes of £6m (2012: £8m) and overseas withholding tax of £148m (2012: £125m).
3. Net cash flows from acquisitions includes cash paid of £286m (2012: £33m) less cash and cash equivalents acquired of £190m (2012: £6m).

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

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

1 BASIS OF PREPARATION

Significant accounting policies

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union, and with those parts of the UK Companies Act 2006 applicable to companies reporting under IFRS. Except for the provisions of IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosures of Interests in Other Entities' which have been endorsed for compulsory application in the EU for financial periods beginning on or after 1 January 2014, the Group financial statements also comply with IFRS and interpretations by the IFRS Interpretations Committee as issued by the IASB. The Group financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

The Group has selected accounting policies which state fairly its financial position, financial performance and cash flows for a reporting period. The accounting policies have been consistently applied to all years presented, unless otherwise stated. Accounting policies that relate specifically to a balance or transaction are presented above the relevant numerical disclosure.

The Group presents its balance sheet in order of liquidity. This is considered to be more relevant than a before and after 12 months presentation, given the long term nature of the Group's core business. However, for each asset and liability line item which combines amounts expected to be recovered or settled before and after 12 months from the balance sheet date, disclosure of the split is made by way of a note. The presentation of the order of the notes to the financial statements has been amended to enable greater understanding of the Group's financial position and performance, details of which are outlined in the contents page to this report.

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

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. The functional currency of the Group's foreign operations is the currency of the primary economic environment in which the entity operates. The assets and liabilities of all of the Group's foreign operations are translated into sterling, the Group's presentation currency, at the closing rate at the date of the balance sheet. The income and expenses for each income statement are translated at average exchange rates. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to a separate component of shareholders' equity.

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

Certain standards, amendments and interpretations to existing standards have been published which are mandatory for the Group's accounting periods beginning on or after 1 January 2014 or later periods but which the Group has not adopted early. Details of these are contained within Note 12 (Financial investments and investment property at fair value) and Note 44 (Subsidiaries).

Use of estimates

The preparation of the financial statements includes the use of estimates and assumptions which affect items reported in the consolidated balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly. This is particularly relevant for the determination of fair values of investment property (Note 12) and unquoted and illiquid financial investments Note 12 (v); the estimation of deferred acquisition costs (Note 11); tax balances (Note 34); and the estimation of insurance and investment contract liabilities (Notes 21 and 22). The basis of accounting for these areas, and the significant judgements used in determining them, are outlined in the respective notes to the financial statements.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

1 BASIS OF PREPARATION (CONTINUED)

Reportable segments

During the year, the Group has changed the presentation of the reportable segments to reflect changes in our organisational structure. Details of the Group's reportable segments are included in Note 31. In accordance with the requirements of IFRS 8, 'Operating segments', the prior period segmental information has been restated to reflect these changes.

Consolidation principles

Subsidiary undertakings

The consolidated financial statements incorporate the assets, liabilities, equity, revenues, expenses and cash flows of the Company and of its subsidiary undertakings drawn up to 31 December each year. All intra-group balances, transactions, income and expenses are eliminated in full. Subsidiaries are those entities (including special purpose entities, mutual funds and unit trusts) over which the Group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits (Note 44). Profits or losses of subsidiary undertakings sold or acquired during the period are included in the consolidated results up to the date of disposal or from the date of gaining control. The interests of parties, other than the Group, in investment vehicles, such as unit trusts, are classified as liabilities and appear as 'Net asset value attributable to unit holders' (Note 12(v)) in the consolidated balance sheet. The assets and liabilities of all of the Group's foreign operations are translated into sterling, the Group's presentation currency, at the closing exchange rate at the date of the balance sheet. The income and expenses for each income statement are translated at average exchange rates.

Associates and joint ventures

The Group has interests in associates and joint ventures (Note 45) which form part of an investment portfolio held through private equity partnerships, mutual funds, unit trusts and similar entities. In accordance with the choices permitted by IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', these interests have been classified as fair value through profit or loss and measured at fair value within financial investments, with changes in fair value recognised in the income statement.

Associates which do not form part of an investment portfolio are initially recognised in the balance sheet at cost. The carrying amount of the associate is increased or decreased to reflect the Group's share of the profit or loss after the date of the acquisition.

Product classification

The Group's products are classified for accounting purposes as either insurance contracts (participating and non-participating) or investment contracts (participating and non-participating). The basis of accounting for these products is outlined in Notes 21 and 22 respectively.

Fiduciary activities

Assets associated with fiduciary activities and the income arising from those assets, together with associated commitments to return such assets to customers, are not included in these financial statements. Where the Group acts in a fiduciary capacity, for instance as a trustee or agent, it has no contractual rights over the assets concerned.

Foreign exchange and exchange rates

Foreign exchange gains and losses are recognised in the income statement, except when recognised in equity as qualifying cash flow or net investment hedges.

The year end exchange rates at 31 December 2013 are 1.66 United States Dollar, 1.20 Euro (at 31 December 2012: 1.63 United States Dollar, 1.23 Euro).

The average exchange rates for year ended 31 December 2013 are 1.57 United States Dollar, 1.18 Euro (year ended 31 December 2012: 1.58 United States Dollar, 1.23 Euro).

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

Changes to accounting policy – IAS 19 'Employee Benefits'

During 2013 the Group has changed its accounting policy on the recognition and measurement of defined benefit pension expense and termination benefits following the publication by the IASB in June 2011 of an amendment to IAS 19 'Employee Benefits'. This is compulsory for periods beginning on or after 1 January 2013. The impact of the amendment is to reduce profit for the year by £4m, following the allocation of the with-profit element to the unallocated divisible surplus, with an equivalent increase in other comprehensive income. The Consolidated Statement of Comprehensive Income therefore remains unchanged.

The impact of this change upon the 2012 Consolidated Income Statement, Consolidated Statement of Comprehensive Income, and Consolidated Cash Flow Statement is shown below. As the impact of the change is shown within investment variances there is no impact upon group operating profit.

	2012 £m
Profit for the year as previously reported	801
Investment return	
IAS 19 'Employee Benefits' amendment	(6)
Expenses	
Transfers to unallocated divisible surplus	3
Revised profit for the year (after tax)	798
Actuarial gain on defined benefit pension schemes	6
Actuarial gain on defined benefit pension schemes transferred to unallocated divisible surplus	(3)
Other items in other comprehensive income	(47)
Total comprehensive income for the year	754

The Consolidated Cash Flow Statement has been restated in line with these changes.

Changes to accounting policy – IFRS 13 'Fair Value Measurement'

On 1 January 2013 the Group adopted IFRS 13 'Fair Value Measurement'. This Standard defines fair value, sets out in a single IFRS framework for measuring fair value, and requires disclosure about fair value measurements. The main impact on the Group for the full year lies in the expansion of the fair value disclosure requirements, reflected in Notes 12, 22, 25 and 27.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

2 SUPPLEMENTARY OPERATING PROFIT INFORMATION

(i) Reconciliation between operating profit and profit from ordinary activities after income tax

	Notes	2013 £m	2012[1] £m
From continuing operations			
Legal & General Assurance Society (LGAS)	(iii)	**444**	462
Legal & General Retirement (LGR)	(iii)	**310**	281
Legal & General Investment Management (LGIM)	(v)	**304**	272
Legal & General Capital (LGC)	(vi)	**179**	163
Legal & General America (LGA)		**92**	99
Operating profit from divisions		**1,329**	1,277
Group debt costs[2]		**(127)**	(127)
Group investment projects and expenses[3]		**(44)**	(63)
Operating profit		**1,158**	1,087
Investment and other variances	(vii)	**(27)**	(42)
Gains/(losses) on non-controlling interests		**3**	(12)
Profit before tax		**1,134**	1,033
Tax expense attributable to equity holders of the Company	(viii)	**(238)**	(235)
Profit for the year		**896**	798

1. Investment and other variances have been adjusted to reflect the adoption by the Group of amendments to IAS 19, 'Employee Benefits'. The impact is to reduce profit for the year by £3m for 2012, offset by a corresponding change in the Consolidated Statement of Comprehensive Income.
2. Group debt costs exclude interest on non recourse financing.
3. Group investment projects and expenses include investment project costs of £25m (2012: £50m) that predominantly relate to the Economic Capital programme and other strategic projects.

This supplementary operating profit information (one of the Group's key performance indicators) provides further analysis of the results reported under IFRS and we believe gives shareholders a better understanding of the underlying performance of the business.

Operating profit measures the pre-tax result reflecting longer-term economic assumptions for our insurance businesses and shareholder funds, except for LGA which excludes unrealised investment returns to align with the liability measurement under US GAAP. Variances between actual and smoothed assumptions are reported below operating profit. Income and expenses arising outside the normal course of business, such as merger and acquisition and restructuring costs, are excluded from operating profit, as are profits and losses arising on the elimination of own debt holdings.

During the year, the Group has made changes to the organisational structure, effective from 1 July 2013. The prior period segmental information has been represented to reflect these changes.

LGAS represents Protection business (retail protection, group protection and general insurance) and Savings business (platforms, workplace, SIPPs, mature savings and with-profits). The LGAS segment also includes Legal & General France (LGF), Legal & General Netherlands (LGN) and emerging markets.

LGR represents Annuities (both individual and bulk purchase) and longevity insurance.

The LGIM segment represents institutional and retail investment management businesses.

LGC represents the long term investment return (less investment expenses) on Group invested assets, using assumptions applied to the average balance of Group invested assets (including interest bearing intra-group balances) calculated on a monthly basis.

The LGA segment comprises protection business written in the USA.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

(ii) Operational cash generation

The table below provides an analysis of the operational cash generation by each of the Group's business segments, together with a reconciliation to operating profit before tax.

For the year ended 31 December 2013	Operational cash generation[1] £m	New business strain £m	Net cash generation £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other[2] £m	Operating profit/(loss) after tax £m	Tax expense/(credit) £m	Operating profit/(loss) before tax £m
LGAS	**474**	**(73)**	**401**	**(34)**	**31**	**(69)**	**10**	**339**	**105**	**444**
– Protection	310	(15)	295	(7)	20	(47)	10	271	84	355
– Savings	164	(58)	106	(27)	11	(22)	–	68	21	89
LGR	**260**	**33**	**293**	**9**	**(13)**	**(48)**	**–**	**241**	**69**	**310**
LGIM	**239**	**–**	**239**	**–**	**–**	**–**	**–**	**239**	**65**	**304**
LGC	**137**	**–**	**137**	**–**	**–**	**–**	**–**	**137**	**42**	**179**
LGA	**44**	**–**	**44**	**–**	**–**	**–**	**14**	**58**	**34**	**92**
Total from divisions	**1,154**	**(40)**	**1,114**	**(25)**	**18**	**(117)**	**24**	**1,014**	**315**	**1,329**
Group debt costs	**(97)**	**–**	**(97)**	**–**	**–**	**–**	**–**	**(97)**	**(30)**	**(127)**
Group investment projects and expenses	**(15)**	**–**	**(15)**	**–**	**–**	**–**	**(19)**	**(34)**	**(10)**	**(44)**
Total	**1,042**	**(40)**	**1,002**	**(25)**	**18**	**(117)**	**5**	**883**	**275**	**1,158**

1. Operational cash generation includes dividends remitted from LGF of £2m (2012: £2m), LGN of £14m (2012: £12m) and LGA of £44m (2012: £40m).
2. International and other includes the operating profits not remitted as dividends from LGF of £4m (2012: £8m), LGN of £6m (2012: £9m) within the Protection line and LGA of £14m (2012: £22m).

Operational cash generation for LGAS and LGR represents the expected surplus generated in the period from the UK in-force non profit Protection, Savings and Annuities businesses using best estimate assumptions. The LGAS operational cash generation also includes the shareholders' share of bonuses on with-profits business, dividends remitted from LGF and LGN and operating profit after tax from remaining Savings businesses.

New business strain for LGAS and LGR represents the cost of acquiring new business and setting up regulatory reserves in respect of the new business for UK non profit Protection, Savings and Annuities, net of tax. The new business strain and operational cash generation for both LGAS and LGR exclude required solvency margin from the liability calculation.

Net cash generation for LGAS and LGR is defined as operational cash generation less new business strain.

Operational cash generation and net cash for LGIM represents the operating profit (net of tax).

Operational cash generation for LGC represents the long term expected investment returns (net of tax) on Group invested assets.

The operational cash generation for LGA represents the dividends received.

See Note 2(iii) for more detail on variances, assumption changes and non-cash items.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

2 SUPPLEMENTARY OPERATING PROFIT INFORMATION (CONTINUED)

(ii) Operational cash generation (continued)

For the year ended 31 December 2012	Operational cash generation[1] £m	New business strain £m	Net cash generation £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other[2] £m	Operating profit/(loss) after tax £m	Tax expense/(credit) £m	Operating profit/(loss) before tax £m
LGAS	436	(107)	329	(47)	45	4	15	346	116	462
– Protection	279	(45)	234	(8)	25	1	17	269	90	359
– Savings	157	(62)	95	(39)	20	3	(2)	77	26	103
LGR	243	14	257	43	(24)	(64)	–	212	69	281
LGIM	219	–	219	–	–	–	–	219	53	272
LGC	123	–	123	–	–	–	–	123	40	163
LGA	40	–	40	–	–	–	22	62	37	99
Total from divisions	1,061	(93)	968	(4)	21	(60)	37	962	315	1,277
Group debt costs	(96)	–	(96)	–	–	–	–	(96)	(31)	(127)
Group investment projects and expenses	(7)	–	(7)	–	–	–	(40)	(47)	(16)	(63)
Total	958	(93)	865	(4)	21	(60)	(3)	819	268	1,087

1. Operational cash generation includes dividends remitted from LGF of £2m, LGN of £12m and LGA of £40m.
2. International and other includes the operating profits not remitted as dividends from LGF of £8m, LGN of £9m within the Protection line and LGA of £22m.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

(iii) Analysis of LGAS and LGR operating profit

	LGAS 2013 £m	**LGR 2013 £m**	LGAS 2012 £m	LGR 2012 £m
Net cash generation	**401**	**293**	329	257
Experience variances				
Persistency	**5**	**1**	(3)	(2)
Mortality/Morbidity	**–**	**14**	(1)	5
Expenses	**(3)**	**–**	5	–
BPA Loading	**–**	**4**	–	37
Project and development costs[1]	**(23)**	**(11)**	(38)	(5)
Other	**(13)**	**1**	(10)	8
Total experience variances	**(34)**	**9**	(47)	43
Changes to valuation assumptions				
Persistency	**7**	**–**	(10)	–
Mortality/Morbidity[2]	**9**	**(13)**	9	(23)
Expenses	**8**	**–**	18	–
Other[3]	**7**	**–**	28	(1)
Total valuation assumption changes	**31**	**(13)**	45	(24)
Movement in non-cash items				
Deferred tax	**(4)**	**–**	(3)	(1)
Utilisation of brought forward trading losses	**(4)**	**(70)**	(2)	(70)
Acquisition expense tax relief[4]	**(51)**	**–**	14	–
Deferred acquisition costs (DAC)[5]	**(54)**	**–**	(9)	–
Deferred income liabilities (DIL)[6]	**47**	**–**	14	–
Other[7]	**(3)**	**22**	(10)	7
Total non-cash movement items	**(69)**	**(48)**	4	(64)
Other[8]	**10**	**–**	15	–
Operating profit after tax	**339**	**241**	346	212
Tax gross up	**105**	**69**	116	69
Operating profit before tax	**444**	**310**	462	281

1. The project and development costs in LGAS primarily relate to expenditure on workplace savings and the Retail Distribution Review. For LGR, it is primarily related to expenditure on our enhanced annuity platform proposition.
2. LGR adverse Mortality/Morbidity assumption changes primarily relate to the strengthening of the prudence margin for base mortality.
3. Other valuation assumption changes for LGAS in 2012 primarily relate to a reduction in the best estimate reserves within retail protection for reinsurer default and applying PS06/14 to a retail protection product.
4. Net cash for LGAS Protection and insured savings recognises tax relief from prior year acquisition expenses, which are spread evenly over seven years under relevant 'I-E' tax legislation in the period the cash flows actually occur. In contrast, operating profit typically recognises the value of these future cash flows in the same period as the underlying expense as deferred tax amounts. The reconciling amounts arising from these items are included in the table above. Following the removal of new retail protection business from the I-E tax regime, and the removal of commission from new insured savings business under the Retail Distribution Review at the end of 2012, no material amount of deferred tax assets arise on new acquisition expenses. From 2013, as the deferred tax asset on prior period acquisition expenses unwinds, no replacement asset is created resulting in a higher level of Net Cash in 2013, which will then reduce over the following 6 years.
5. The DAC in LGAS represents the amortisation charges offset by new acquisitions costs deferred in the year. The decrease in deferred costs reflects the removal of commission payable on savings and investment business following the implementation of the requirements of the Retail Distribution Review on 1 January 2013.
6. The DIL in LGAS reflects initial fees on insured savings business which relate to the future provision of services and are deferred and amortised over the anticipated period in which these services are provided. The significant movement in the year is driven by the implementation of the requirements of the Retail Distribution Review on 1 January 2013.
7. The £22m in other non-cash items in LGR primarily relates to movement in valuation differences between IFRS and regulatory bases.
8. Other in LGAS includes the operating profits not remitted back as dividends from LGF £4m (2012: £8m) and LGN £6m (2012: £9m).

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

2 SUPPLEMENTARY OPERATING PROFIT INFORMATION (CONTINUED)

(iv) General insurance combined operating ratio[1]

	2013 %	2012 %
General insurance combined operating ratio[2]	**84**	95

1. The calculation of the general insurance combined operating ratio incorporates commission and expenses as a percentage of earned premiums.
2. The reduced combined operating ratio reflects the continued pricing and underwriting discipline, improvements in the claims management processes during 2013 and benign weather experienced in the first 11 months of the year.

(v) LGIM

	2013 £m	2012 £m
Revenues	**594**	533
Expenses	**(290)**	(261)
Total LGIM operating profit[1]	**304**	272

1. Total LGIM operating profit includes £37m (2012: £29m) from retail investment management.

(vi) LGC

	2013 £m	2012 £m
Investment return	**185**	168
Investment expenses	**(6)**	(5)
Total LGC operating profit	**179**	163

(vii) Investment and other variances

	2013 £m	2012 £m
Investment variance[1]	**29**	(23)
M&A related[2]	**(16)**	–
Other[3]	**(40)**	(19)
Total	**(27)**	(42)

1. Investment variance is positive due to strong equity returns from shareholder funds and a positive impact from the increase in exposure to Direct Investments. This has been partly offset by the defined pension benefit scheme variance of £(30)m (2012: £40m), that reflects the actuarial gains and losses and valuation difference arising on annuity assets held by defined benefit pension schemes that have been purchased from Legal & General Assurance Society Limited. All other actuarial gains and losses on the defined benefit scheme assets and liabilities are presented in the Other Comprehensive Income.
2. M&A related includes gains, expenses and intangible amortisation relating to acquisitions.
3. Other includes new business start up costs, restructuring costs, and other non-investment related variance items.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

(viii) Analysis of tax attributable to equity holders

	Profit/ (loss) before tax 2013 £m	Tax (expense)/ credit 2013 £m	Profit/ (loss) before tax 2012[1] £m	Tax (expense)/ credit 2012 £m
LGAS	**444**	**(105)**	462	(123)
LGR	**310**	**(69)**	281	(69)
LGIM	**304**	**(65)**	272	(46)
LGC	**179**	**(42)**	163	(40)
LGA	**92**	**(34)**	99	(37)
Operating profit from divisions/Tax expense on divisions	**1,329**	**(315)**	1,277	(315)
Group debt costs	**(127)**	**30**	(127)	31
Group Investment projects and expenses	**(44)**	**10**	(63)	16
Operating profit/Tax expense	**1,158**	**(275)**	1,087	(268)
Investment variances	**(27)**	**40**	(42)	40
Impact of change in UK tax rates	**–**	**(3)**	–	(7)
Gains/(Losses) on non-controlling interests	**3**	**–**	(12)	–
Profit for the year/Tax expense for the year	**1,134**	**(238)**	1,033	(235)

1. Profit for the year has been restated to reflect the adoption by the Group of amendments to IAS 19, 'Employee Benefits'. Further details are contained in Note 1. The impact is to reduce profit for the year by £3m for 2012.

The equity holders' effective tax rate for the year is 21.0% (2012: 22.6%). The Group's effective tax rate remains slightly below the UK corporation tax rate due to differences between the measurement of accounting and taxable profits.

3 OTHER OPERATIONAL INCOME AND EXPENSE

Operational income comprises fee income from estate agency operations, agency fee income relating to distribution services, and revenue of £600m (2012: £295m) from consolidated private equity investments. Operational income is accounted for on an accruals basis. The total operational income for the year is £720m (2012: £342m).

Other expenses comprise:	Notes	2013 £m	2012 £m
Staff costs (including pensions and share-based payments)	36	**575**	495
Redundancy costs		**22**	17
Operating lease rentals[1]		**25**	25
Auditors' remuneration	35	**7**	8
Depreciation of plant and equipment		**18**	11
Amortisation of purchased interest in long term businesses and other intangibles	10	**39**	23
Reinsurance commissions		**(6)**	(7)
Direct operating expenses arising from investment properties which generate rental income		**34**	33
Expenses attributable to consolidated private equity investment vehicles		**596**	292
Other administrative expenses		**384**	297
Total other expenses		**1,694**	1,194

1. Where a significant proportion of the risks and rewards of ownership is retained by the lessor, leases are classified as operating leases. Payments made as lessees under operating leases (net of any incentives from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

4 DIVIDENDS

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 at a general meeting and interim dividends are recognised when paid.

	Dividend 2013 £m	Per share[1] 2013 p	Dividend 2012 £m	Per share[1] 2012 p
Ordinary share dividends paid in the year				
– Prior year final dividend	**337**	**5.69**	278	4.74
– Current year interim dividend	**142**	**2.40**	116	1.96
	479	**8.09**	394	6.70
Ordinary share dividend proposed[2]	**408**	**6.90**	337	5.69

1. The dividend per share calculation is based on the number of equity shares registered on the ex-dividend date.
2. The dividend proposed is not included as a liability in the balance sheet.

5 EARNINGS PER SHARE

Earnings per share is a measure of the portion of the Group's profit allocated to each outstanding share. It is calculated by dividing net income attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the year, excluding employee scheme treasury shares. For this purpose, net income is defined as the profit after tax derived from continuing operations.

For diluted earnings per share, the weighted average number of ordinary shares in issue, excluding employee scheme treasury shares, is adjusted to assume conversion of all dilutive potential ordinary shares, such as share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

A reconciliation of the earnings and weighted average number of shares used in the calculations is provided below:

(i) Earnings per share

	Profit after tax 2013 £m	Earnings per share[1] 2013 p	Profit after tax 2012[2] £m	Earnings per share[1] 2012 p
Operating profit	**883**	**15.03**	819	14.00
Investment and other variances	**13**	**0.22**	(2)	(0.04)
Impact of change in UK tax rates	**(3)**	**(0.05)**	(7)	(0.12)
Earnings per share based on profit attributable to equity holders	**893**	**15.20**	810	13.84

(ii) Diluted earnings per share

	Profit after tax 2013 £m	Number of shares[3] 2013 m	Earnings per share 2013 p	Profit after tax 2012[2] £m	Number of shares[3] 2012 m	Earnings per share 2012 p
Profit attributable to equity holders of the Company	**893**	**5,875**	**15.20**	810	5,851	13.84
Net shares under options allocable for no further consideration	**–**	**79**	**(0.20)**	–	99	(0.23)
Diluted earnings per share	**893**	**5,954**	**15.00**	810	5,950	13.61

1. Earnings per share is calculated by dividing profit after tax derived from continuing operations by the weighted average number of ordinary shares in issue during the year, excluding employee scheme treasury shares.
2. Profit for the year has been restated to reflect the adoption by the Group of amendments to IAS 19, 'Employee Benefits'. Further details are contained in Note 1. The impact is to reduce profit for the year by £3m for 2012.
3. For diluted earnings per share, the weighted average number of ordinary shares in issue, excluding employee scheme treasury shares, is adjusted to assume conversion of all potential ordinary shares, such as share options granted to employees.

PRIMARY STATEMENTS AND PERFORMANCE (CONTINUED)

6 NEW BUSINESS

New business premiums reflect income arising from the sale of new contracts during the reporting period and any changes to existing contracts, which were not anticipated at the outset of the contract.

New annual premiums arise where the terms and conditions of a policy anticipate more than one premium being paid over its lifetime; new single premiums comprise all premiums which are not categorised as new annual premiums.

	Annual 2013 £m	Single 2013 £m	Annual 2012 £m	Single 2012 £m
Group Protection	**70**	**–**	70	–
Retail Protection	**148**	**–**	151	–
France (LGF)	**22**	**264**	38	233
Netherlands (LGN)	**8**	**107**	13	82
Workplace Savings	**660**	**747**	502	1,115
Platforms (Cofunds & IPS)[1]	**43**	**2,452**	59	2,137
Suffolk Life	**–**	**1,330**	–	774
Mature retail savings[2]	**11**	**790**	17	1,331
With-profits	**53**	**80**	58	342
Total LGAS	**1,015**	**5,770**	908	6,014
Retail Investments[3]	**12**	**3,427**	10	2,311
Annuities				
– Individual	**–**	**1,277**	–	1,320
– Bulk purchase	**–**	**2,812**	–	1,019
Total LGR[4]	**–**	**4,089**	–	2,339
US Protection	**99**	**–**	90	–
India (26% share)	**5**	**46**	7	24
Egypt (55% share)	**13**	**–**	14	–
Gulf (50% share)	**2**	**3**	4	6
Total emerging markets new business	**20**	**49**	25	30
Total worldwide new business	**1,146**	**13,335**	1,033	10,694

1. Platforms premiums includes retail business only.
2. Includes bonds and retail pensions.
3. Includes retail unit trusts and structured products.
4. Total LGR new business excludes £270m (2012: £nil) of annual premiums in relation to longevity transactions. It is not included in the table due to the unpredictable deal flow from this type of business.

BALANCE SHEET MANAGEMENT

7 PRINCIPAL PRODUCTS

A significant part of the Group's business involves the acceptance and management of risk.

A description of the principal products offered by the Group's segments is outlined below. The Group seeks to manage its exposure to risk through control techniques which ensure that the residual exposures are within acceptable tolerances agreed by the board. The Group's risk appetite framework and the methods used to monitor risk exposures can be found on pages 42 to 49.

Details of the risks associated with the Group's principal products and the control techniques used to manage these risks can be found in Notes 8 and 18.

Long term insurance

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

The change in the insurance liability reflects the reduction in liabilities due to the payment of claims in the year, offset by liabilities arising from new business. The movement also reflects assumption changes relating to variables such as claims expectations, expenses and the unwind of the previous period's expectations.

LGAS

LGAS business comprises individual and group protection, general insurance productions, the businesses in France (LGF) and Netherlands (LGN) and Savings products.

Protection business (retail and group)

The Group offers protection products which provide mortality or morbidity benefits. They may include health, disability, critical illness and accident benefits; these additional benefits are commonly provided as supplements to main life policies but can also be sold separately. The benefit amounts would usually be specified in the policy terms. Some sickness benefits cover the policyholder's mortgage repayments and are linked to the prevailing mortgage interest rates. In addition to these benefits, some contracts may guarantee premium rates, provide guaranteed insurability benefits and offer policyholders conversion options.

General insurance

Claims and related reinsurance recoveries are accounted for in respect of all incidents up to the year end. Provision is made on the basis of available information for the estimated ultimate cost, including claims settlement expenses, claims reported but not yet settled and claims incurred but not yet reported. An unexpired risk provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums and after taking account of investment return.

The Group offers Household and Accident, Sickness and Unemployment (ASU) products:

- Household. These contracts provide cover in respect of policyholders' homes, investment properties, contents, personal belongings and incidental liabilities which they may incur as a property owner, occupier and individual. Exposure is normally limited to the rebuilding cost of the home, the replacement cost of belongings and a policy limit in respect of liability claims.
- Accident, Sickness and Unemployment (ASU). These contracts provide cover in respect of continuing payment liabilities incurred by customers when they are unable to work as a result of accident, sickness or unemployment. They protect predominantly mortgage payments. Exposure is limited to the monthly payment level selected by the customer sufficient to cover the payment and associated costs, up to the duration limit specified in the policy, usually 12 months.

In addition, there are portfolios of Motor Insurance and Domestic Mortgage Indemnity Insurance (DMI) in run off. Since 1993, the DMI contract has included a maximum period of cover of ten years, and a cap on the maximum claim. For business accepted prior to 1993, cover is unlimited and lasts until the insured property is remortgaged or redeemed. During 2012 the Group also commenced the sale of pet insurance products.

BALANCE SHEET MANAGEMENT (CONTINUED)

Legal & General France (LGF) and Legal & General Netherlands (LGN)

In addition to protection products, LGF and LGN also write savings business.

In LGF this includes unit linked savings, including shares of open ended investment vehicles (SICAVS), risks for which are borne by unit holders of these funds, Euro denominated funds with 100% profit sharing clause and bank based investment accounts.

In LGN this includes unit linked and index linked savings products, bank based investment accounts and corporate pension products.

Certain savings products include an exposure to interest rate and credit risk, managed through an active asset-liability management programme.

Savings

Fees charged for investment management services are recognised as revenue as the services are provided. Initial fees which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the anticipated period in which the services will be provided. The total fees earned from fund management and investment contracts for the year is £1,040m (2012: £875m).

A range of contracts are offered in a variety of different forms to meet customers' long term savings objectives. Policyholders may choose to include a number of protection benefits within their savings contracts. Typically, any guarantees under the contract would only apply on maturity or earlier death. On certain older contracts there may be provisions guaranteeing surrender benefits. Savings contracts may or may not guarantee policyholders an investment return. The contracts fall into three main types:

– Non-participating savings, pensions and endowment contracts;
– Participating savings business, comprising endowment contracts and with-profits bonds; and
– Unit linked savings contracts and collective investment savings products.

Non-participating business is written in the non profit part of the Society Long Term Fund (LTF). Profits accrue solely to shareholders. Participating contracts are supported by the with-profits part of the Society LTF. They offer policyholders the possibility of payment of benefits in addition to those guaranteed by the contract. The amount and timing of the additional benefits (usually called bonuses) are contractually at the discretion of the Group.

For unit linked savings contracts and collective investment savings products, there is a direct link between the investments and the obligations. The financial risk on these contracts is borne by the policyholders and therefore detailed risk disclosures have not been presented in respect of the associated assets and liabilities. Unit linked business is written in the Society LTF. Collective investment business is administered by Legal & General (Portfolio Management Services) Limited.

Pensions (individual and corporate)

These are long term savings contracts through which policyholders accumulate pension benefits. Some older contracts contain a basic guaranteed benefit expressed as an amount of pension payable or a guaranteed annuity option. Other options provided by these contracts include an open market option on maturity, early retirement and late retirement. The Group would generally have discretion over the terms on which the latter types of options are offered.

Endowment policies

These contracts provide a lump sum on maturity determined by the addition of annual and final bonuses over the duration of the contract. In addition, the contracts provide a minimum sum assured death benefit.

With-profits bonds

These contracts provide an investment return to the policyholder which is determined by the attribution of regular and final bonuses over the duration of the contract. In addition, the contracts provide a death benefit, typically of 101% of the value of the units allocated to the policyholder.

BALANCE SHEET MANAGEMENT (CONTINUED)

7 PRINCIPAL PRODUCTS (CONTINUED)

LGAS (continued)

Participating contracts

Discretionary increases to benefits on participating contracts are allowed in one or both of annual and final bonus form. These bonuses are determined in accordance with the principles outlined in the Group's PPFM for the management of the with-profits part of the Society LTF. The principles include:

- The with-profits part of the Society LTF will be managed with the objective of ensuring that its assets are sufficient to meet its liabilities without the need for additional capital;
- With-profits policies have no expectation of any distribution from the with-profits part of the Society LTF's inherited estate. The inherited estate is the excess of assets held within the Society LTF over and above the amount required to meet liabilities, including those which arise from the regulatory duty to treat customers fairly in settling discretionary benefits;
- Bonus rates will be smoothed so that some of the short term fluctuations in the value of the investments of the with-profits part of the Society LTF and the business results achieved in the with-profits part of the UK LTF are not immediately reflected in payments under with-profits policies; and
- Some older participating contracts include a guaranteed minimum rate of roll up of the policyholder's fund up to the date of retirement or maturity.

At 30 June 2005 an assessment was made of the expected cost of guarantees and options to be paid in the future, and funds with the same value to meet these costs were allocated from the capital in the with-profits sub-fund. The value of the funds is regularly assessed and is reduced by the cost of guarantees and options paid since 1 July 2005. At each assessment point, if the value of the funds is lower than the expected cost of guarantees and options, it is possible to make deductions from or refunds to asset shares to cover the difference. It is intended to limit deductions to no more than 0.75% each year, up to a maximum of 5% per policy. In 2013 the timing of the deduction/refund was changed to be based on period ending 30 September to ensure that in future the deduction/refund could be included in the forthcoming bonus declarations rather than delaying for a year.

Following the movement in the expected cost of guarantees and options and the value of the associated funds up to 30 September 2013, and in accordance with the Society's PPFM, neither a refund nor deduction from asset shares was deemed to be needed. This followed a refund of 0.75% made in respect of the year to 31 December 2012.

The distribution of surplus to shareholders depends upon the bonuses declared for the period. Typically, bonus rates are set having regard to investment returns, although the Group has some discretion setting rates and would normally smooth bonuses over time. The volatility of investment returns could impact the fund's capital position and its ability to pay bonuses. If future investment conditions were less favourable than anticipated, the lower bonus levels resulting would also reduce future distributions to shareholders. Business which is written in the with-profits part of the Society LTF is managed to be self-supporting. The unallocated divisible surplus in the fund would normally be expected to absorb the impact of these investment risks. Only in extreme scenarios, where shareholders were required to provide support to the with-profits part of the Society LTF to meet its liabilities, would these risks affect equity. As part of the 2007 Society LTF restructure, the 1996 Sub-fund (£321m) was merged into the Shareholder Retained Capital (SRC). As a result, Society's Board of Directors undertook to initially maintain £500m of assets within Society to support the with-profits business. The amount of the commitment reduced to £200m at the end of 2013 and will then gradually reduce to zero at the end of 2017. The Group's approach to setting bonus rates is designed to treat customers fairly. The approach is set out in the Society's PPFM for the with-profits part of the Society LTF. In addition, bonus declarations are also affected by PRA regulations relating to Treating Customers Fairly (TCF), which limit the discretion available when setting bonus rates.

LGR

Annuity products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump sum capital payment. No surrender value is available under any of these products. Immediate and deferred annuity contracts are offered. Immediate annuities provide a regular income stream to the policyholder, purchased with a lump sum investment, where the income stream starts immediately after the purchase. The income stream from a deferred annuity is delayed until a specified future date. Bulk annuities are also offered, where the Group accepts the assets and liabilities of a company pension scheme or a life fund. A small portfolio of immediate annuities has been written as participating business. Some non-participating deferred annuities sold by the Group contain guaranteed cash options, predominantly minimum factors for commuting part of the annuity income into cash at the date of vesting. The value of such guaranteed options are currently immaterial. There is a block of immediate and deferred annuities within the UK non profit business with benefits linked to changes in the RPI or for a minority the CPI, but with contractual maximum or minimum increases. In particular, most of these annuities have a provision that the annuity will not reduce if RPI, or for a minority CPI, becomes negative. The total of such annuities in payment at 31 December 2013 was £311m (2012: £301m).

BALANCE SHEET MANAGEMENT (CONTINUED)

Thus, 1% negative inflation, which was reversed in the following year, would result in a guarantee cost of approximately £3m (2012: £3m). Negative inflation sustained over a longer period would give rise to significantly greater guarantee costs. Some of these guarantee costs have been partially matched through the purchase of negative inflation hedges and limited price indexation swaps.

Deferred annuity contracts

The Group has written some deferred annuity contracts with guaranteed minimum pensions. These options expose the Group to interest rate and longevity risk as the cost would be expected to increase with decreasing interest rates and improved longevity. The market consistent value of these guarantees carried in the balance sheet is £140m (2012: £175m).

Longevity insurance contracts

The Group also provides longevity insurance products for company pension schemes, under which regular payments are made to the scheme reflecting their actual longevity experience, while the scheme makes an agreed set of regular payments in return. Some policies contain a guaranteed surrender value which is currently immaterial.

LGIM

Fees charged for investment management services are recognised as revenue as the services are provided.

LGIM offers both active and passive management on either a pooled or segregated basis. Assets are managed on behalf of pension funds, institutional clients, sovereign wealth clients, retails funds and subsidiary companies within the Legal & General Group. The core products are set out below.

Index Fund Management

LGIM provides a diversified range of pooled index funds, providing a wide choice and the ability to pursue specific benchmarks efficiently. In addition, segregated solutions are offered to institutional clients providing large scale customisation against established market capitalisation weighted and alternative indices.

Active Fixed Income and Liquidity Management

A range of pooled and segregated active fixed income funds. The LGIM liquidity funds offers institutional investors seeking an optimal solution for their cash management across a range of core currencies. The fund aims to deliver competitive returns with a high level of diversification, while focusing on capital preservation through portfolios of high quality, liquid assets.

Solution and Liability Driven Investment (LDI)

A wide variety of solutions to help de-risk defined benefit pension schemes and replace them with appropriate defined contribution or workplace savings schemes.

Active Equity

An active equity management business comprising focused teams managing stock selection across different regions.

Property

A range of pooled or segregated real estate funds to both UK and overseas investors, offered via a mixture of pooled funds, specialist funds and partnerships. The business is based around in-house sector specialists with a dedicated research team.

LGC

Investment Strategy and Implementation

Shareholder assets, which are managed by L&G Capital, include portfolios of equity, property, bond and other direct investments, not directly required to meet contractual obligations to policyholders. The value of, and income from, these assets is sensitive to conditions within investment markets and the broader economy. Potential volatility in returns are managed using a range of techniques, including performance benchmarks and limits on concentrations of exposures by asset type and geographic region.

Direct Investments and Structuring

Direct investments are becoming an increasingly important part of our growth strategy. We define Direct Investments as "one off" investments made with another counterparty, for example, a direct loan to another UK plc, such as a Housing Association. Direct Investments offer better risk adjusted returns and diversity than traded market instruments, allowing us to offer better policyholder rates and shareholder returns. Our investments will focus on Infrastructure, Commercial Lending, Property (commercial and residential) and asset finance.

BALANCE SHEET MANAGEMENT (CONTINUED)

7 PRINCIPAL PRODUCTS (CONTINUED)

LGC (continued)

Investments with long dated cash flows will be used to back our Annuity liabilities, while those with synergies to help grow our businesses in the Shareholders' Fund.

Group Treasury

The Group's Treasury function offers a Treasury service to other group entities. It manages the Group's banking relationships, capital raising activities, overall cash and liquidity position and the payment of dividends.

LGA

Protection business

Protection consists of individual term assurance, which provides death benefits over the medium to long term. The contracts have level premiums for an initial period with premiums set annually thereafter. During the initial period, there is generally an option to convert the contract to a universal life contract. After the initial period, the premium rates are not guaranteed, but cannot exceed the age-related guaranteed premium.

Reinsurance is used within the protection businesses to manage exposure to large claims. These practices lead to the establishment of reinsurance assets on the Group's balance sheet. Within LGA, reinsurance and securitisation is also used to provide regulatory solvency relief (including relief from regulation governing term insurance reserves and regulation governing universal life reserves).

Universal life

Universal life contracts written by LGA provide savings and death benefits over the medium to long term. The savings element has a guaranteed minimum growth rate. LGA has exposure to loss in the event that interest rates decrease and it is unable to earn enough on the underlying assets to cover the guaranteed rate. LGA is also exposed to loss should interest rates increase, as the underlying market value of assets will generally fall without a change in the surrender value. The reserves for universal life totalled $666m (£402m) at 31 December 2013 ($679m (£417m) at 31 December 2012). The guaranteed interest rates associated with those reserves ranged from 1.5% to 6%, with the majority of the policies having guaranteed rates ranging from 3% to 4% (2012: 3% to 4%).

Annuities

Immediate annuities have similar characteristics as products sold by LGR. Deferred annuity contracts written by LGA contain a provision that, at maturity, a policyholder may move the account value into an immediate annuity, at rates which are either those currently in effect, or rates guaranteed in the contract. The reserves for immediate annuities and deferred annuities totalled $11m (£7m) and $193m (£117m), respectively, at 31 December 2013 ($12m (£7m) and $195m (£120m) at 31 December 2012, respectively).

8 ASSET RISK

The Group is exposed to the following categories of risk as a consequence of offering the principal products outlined in Note 7.

Market risk

Exposure to loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets.

Credit risk

Exposure to loss if another party fails to perform its financial obligations to the Group.

Liquidity risk

The risk that the Group, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

The Group seeks to manage its exposures to risk through control techniques which ensure that the residual risk exposures are within acceptable tolerances agreed by the Board. A description of the risks associated with the Group's principal products and the associated control techniques is detailed overleaf.

BALANCE SHEET MANAGEMENT (CONTINUED)

Market Risk

Principal Risks	Product	Control
Investment Performance Risk		
The Group is exposed to the risk that the income from, and value of, assets held to back insurance liabilities do not perform in line with investment and product pricing assumptions leading to a potential financial loss.	Annuities (LGR) and Protection (LGAS)	Stochastic models are used to assess the impact of a range of future return scenarios on investment values and associated liabilities in order to determine optimum portfolios of invested assets. For immediate annuities, which are sensitive to interest rate risk, analysis of the liabilities is undertaken to create a portfolio of securities, the value of which changes in line with the value of liabilities when interest rates change.
The financial risk exposure for participating contracts is different from that for non-participating business. Greater emphasis is placed on investing to maximise future investment returns rather than matching assets to liabilities. This results in holding significant equity and property investments. Lower investment returns increase the costs associated with maturity and investment guarantees provided on these contracts.	With-profits (LGAS)	These risks are managed by maintaining capital sufficient to cover the consequences of mismatch under a number of adverse scenarios. In addition, different investment strategies are followed for assets backing policyholder asset shares and assets backing other participating liabilities and surplus. The former include significant equity and property holdings, whilst the latter are invested largely in fixed interest securities. The assets held are managed so as to provide a partial hedge to movements in fixed interest yields and equity markets. The methodology used to calculate the liabilities for participating contracts makes allowance for the possibility of adverse changes in investment markets on a basis consistent with the market cost of hedging the guarantees provided. The methodology also makes allowance for the cost of future discretionary benefits, guarantees and options. The value of future discretionary benefits depends on the return achieved on assets backing these contracts. The asset mix varies with investment conditions reflecting the Group's investment policy, which aims to optimise returns to policyholders over time whilst limiting capital requirements for this business.
For unit linked contracts, there is a risk of volatility in asset management fee income due to the impact of interest rate and market price movements on the fair value of the assets held in the linked funds, on which investment management fees are based. There is also the risk of expense over-runs should the market depress the level of charges which could be imposed.	Unit linked (LGAS)	The risk is managed through maintaining a diversified range of funds in which customers may invest. The performance of linked investment funds relative to their investment objectives are subject to regular monitoring. Periodic assessment is also made of the long term profitability to the Group of these funds. For some contracts the Group has discretion over the level of management charges levied.
Currency Risk		
To diversify credit risk within the annuities business corporate bond portfolio, investments are held in corporate bonds denominated in Euros and US Dollars. Fluctuations in the value of, or income from, these assets relative to liabilities denominated in Sterling could result in unforeseen loss.	Annuities (LGR)	To mitigate the risk of loss from currency fluctuations, currency swaps are used to hedge exposures to corporate bonds denominated in currencies other than Sterling. Hedging arrangements are placed only with strongly rated counterparties with collateral requirements being subject to regular review and reconciliation with the counterparties. It is not possible to perfectly hedge currency risk leading to some residual risk.
The balance sheet value of the Group's International subsidiaries are revalued into Sterling potentially resulting in a loss to reserves.	Group and LGC	Balance sheet foreign exchange currency translation exposure in respect of the Group's international subsidiaries is managed in accordance with a policy, agreed by the Group Board, which allows net foreign currency assets to be hedged through the use of derivatives.
Inflation Risk		
Inflation risk is the potential for loss as a result of relative or absolute changes in inflation rates. Annuity contracts may provide for future benefits to be paid taking account of changes in the level of inflation. Annuity contracts in payment may include an annual adjustment for movements in price indices.	Annuities (LGR)	The investment strategy for annuities business takes explicit account of the effect of movements in price indices on contracted liabilities. Significant exposures that may adversely impact profitability are hedged using inflation swaps. Annuity contracts also typically provide for a cap on the annual increase in inflation linked benefits in payment. It is not possible to perfectly hedge inflation risk linked with contracted liabilities leading to some residual risk.
Interest Rate Risk		
Interest rate risk is the risk that the Group is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets and liabilities arising from changes in underlying interest rates.	Annuities (LGR)	To mitigate the risk that guarantees and commitments are not met, the Group purchases financial instruments, which broadly match the expected non-participating policy benefits payable, by their nature and term. The composition of the investment portfolio is governed by the nature of the insurance or savings liabilities, the expected rate of return applicable on each class of asset and the capital available to meet the price fluctuations for each asset class, relative to the liabilities they support. Additionally, fluctuations in interest rates will vary the repayments on variable debt issued by the Group.
The Group is exposed to interest rate risk on the investment portfolio it maintains to meet the obligations and commitments under its non-linked insurance and investment contracts, in that the proceeds from the assets may not be sufficient to meet the Group's obligations to policyholders.	Group	Asset liability matching significantly reduces the Group's exposure to interest rate risk. IFRS sensitivity to interest rate changes is included in Note 20.

BALANCE SHEET MANAGEMENT (CONTINUED)

8 ASSET RISK (CONTINUED)

Credit Risk

Principal Risks	Product	Control
Bond Default Risk A significant portfolio of corporate bonds and commercial loans are held to back the liabilities arising from writing general insurance and annuities business. Whilst the portfolio is diversified, the asset class is inherently exposed to the risk of issuer default with financial loss.	Annuities (LGR) and General insurance (LGAS)	Issuer limits are set by financial strength rating, sector and geographic region so as to limit exposure from a default event. Issuer limits are regularly reviewed to take account of changes in market conditions, sector performance and the re-assessment of financial strength by rating agencies and the Group's own internal analysts. Exposures are monitored relative to limits. Financial instruments are also used to mitigate the impact of rating downgrades and defaults.
Reinsurance Counterparty Risk Exposure to insurance risk is mitigated by ceding part of the risks assumed to the reinsurance market. Default of a reinsurer would require the business to be re-brokered potentially on less advantageous terms, or for the risks to be borne directly.	Annuities (LGR) and Protection (LGAS)	When selecting new reinsurance partners, the Group considers only companies which have a minimum credit rating equivalent to A- from Standard & Poor's. For each reinsurer, exposure limits are determined based on credit ratings and projected exposure over the term of the treaty. Actual exposures are regularly monitored relative to these limits.
Property Lending Counterparty Risk As part of our asset diversification strategy, we hold property lending and sale and leaseback investments. We are inherently exposed to the risk of default by a borrower or tenant.	Annuities (LGR)	Each property lending and sale and leaseback investment transaction is subject to a due diligence process to assess the credit risks implicit in the transaction and confirm that any risk of default has been appropriately mitigated. We also protect our interests through taking security over the underlying property associated with the investment transaction.
Banking Counterparty Risk The Group is exposed to potential financial loss should banks or the issuers of financial instruments default on their obligations to us. We are also exposed to counterparty risks in respect of the providers of settlement and custody services.	Group and LGC	The Group controls its exposures to banking counterparties and the issuers of financial instruments using a framework of counterparty limits. These limits take account of the relative financial strength of the counterparty as well as other exposures that the Group may have. Limits are subject to regular review with actual exposures monitored to limits. The Group has defined criteria for the selection of custody and settlement services. The financial strength of providers is regularly reviewed.

Liquidity Risk

Principal Risks	Product	Control
Contingent Event Risk Events that result in liquidity risk may include a flu pandemic or natural disaster leading to significantly higher levels of claims than would normally be expected, or extreme market conditions impacting the timing of cash flows or the ability to realise investments at a given value within a specified timeframe.	Protection and General insurance (LGAS)	A limited level of contingent liquidity risk is an accepted element of writing contracts of insurance. However, the Group's insurance businesses seek to maintain sufficient liquid assets and standby facilities to meet a prudent estimate of the cash outflows that may arise from contingent events. The level of required liquidity is identified using techniques including stress tests for shock events, with the profile of actual liquid assets being regularly compared to the required profile. The Group's treasury function provides formal facilities to the Group to cover contingent liquidity requirements arising from more extreme events and where investment assets may not be readily realisable. The level of insurance funds held in cash and other readily realisable assets at 31 December 2013 was £2.6bn (2012: £2.9bn).
Collateral Liquidity Risk Within the Annuities business, the use of financial instruments to hedge default, interest rate, currency and inflation risks can require the posting of collateral with counterparties, and as such an appropriate pool of the asset types specified by counterparties must either be held or readily available.	Annuities (LGR)	Liquidity requirements to meet potential collateral calls are actively managed. Typically within the overall fund of investment assets held to meet the long term liabilities arising from annuity business, £500m is held in cash and other highly liquid investment types for general liquidity purposes. As at 31 December 2013 eligible assets worth 3.56 times the outstanding collateral were held (using the most representative definition of collateral contained within the company's different collateral agreements).

BALANCE SHEET MANAGEMENT (CONTINUED)

Liquidity Risk

Other Risks	Product	Control
Investment Liquidity Risk		
Within the with-profit fund, exposure to liquidity risk may arise if the profile of investment assets held to meet obligations to policyholders is not aligned with the maturity profile of policies, or the profile does not adequately take account of the rights of policyholders to exercise options or guarantees to specified early surrender terms or minimum rates of return.	With-profits (LGAS)	Liquidity risk is managed ensuring that an appropriate proportion of the fund is held in cash or other readily realisable assets to meet each tranche of maturities and anticipated early withdrawals as they fall due. Where policyholders have discretion to require early payment of policy proceeds, contractual safeguards are in place to ensure that the fund and remaining policyholders are not disadvantaged should a material number of policyholders exercise this discretion.
Non-participating savings contracts are exposed to liquidity risk in that certain asset classes in which underlying funds invest, such as property, may not be readily realisable in certain market conditions, or only realisable at a diminution of value.	Non-par savings (LGAS)	Liquidity risks associated with non-participating savings contracts are documented and communicated to customers within product terms and conditions. The terms also highlight that for certain asset classes such as property, the Group retains the right to defer the processing of fund withdrawal requests for up to six months, should underlying assets need to be realised to meet payment requests.
Groupwide Liquidity Risk	LGC	The Group seeks to manage its corporate funds and liquidity requirements on a pooled basis and to ensure the Group maintains sufficient liquid assets and standby facilities to meet a prudent estimate of its net cash outflows. In addition, it ensures that, even under adverse conditions, the Group has access to the funds necessary to cover surrenders, withdrawals and maturing liabilities. As at 31 December 2013, the Group had in place a £1bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in October 2017 with a further £0.96bn maturing in October 2018.

The financial risks associated with LGIM's businesses are directly borne by the investors in its funds. Therefore detailed risk disclosures have not been presented. The approach to the management of operational risks, including loss arising from trading errors, breach of fund management guidelines or valuation errors, where a breakdown in controls could lead to successful litigation against the company by one or more clients, is set out in Note 28.

The principal risks and associated controls relevant to our LGA business are consistent with those identified for our LGAS and LGR businesses and therefore have not been repeated here.

9 ASSETS ANALYSIS

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

• Unit linked

For unit linked contracts, there is a direct link between the investments and the obligations. Unit linked business is written in both the Society Long term fund (LTF) and in the LTF of Legal & General Assurance (Pensions Management) Limited. The financial risk on these contracts is borne by the policyholders. The Group is, therefore, not directly exposed to any market risk, currency risk or credit risk for these contracts. As a result, risk disclosures have not been presented for unit linked assets and liabilities.

• With-profits

Policyholders and shareholders share in the risks and returns of the with-profits part of the Society LTF. The return to shareholders on virtually all participating products is in the form of a transfer to shareholders' equity, which is analogous to a dividend from the Society LTF and is dependent upon the bonuses credited or declared on policies in that year. The bonuses are broadly based on historic and current rates of return on equity, property and fixed income securities, as well as expectations of future investment returns. With-profits also includes participating business in the LGF operation which shares similar characteristics. The with-profits classification excludes unit linked contracts.

• Non profit non-unit linked

Shareholders are exposed to the risk and rewards of ownership of assets backing non profit non-unit linked business held within UK LTFs, which comprise of Annuities, Protection and Non profit savings products in UK business.

• Shareholder

All other assets are classified as shareholder assets. Shareholders of the Group are directly exposed to market and credit risk on these assets. This includes the assets and liabilities of our overseas insurance operations and general insurance.

The table overleaf presents an analysis of the balance sheet by category. All of the quantitative risk disclosures in Note 16 and 17 have been provided using this categorisation.

BALANCE SHEET MANAGEMENT (CONTINUED)

9 ASSETS ANALYSIS (CONTINUED)

As at 31 December 2013	Shareholder £m	Non profit non-unit linked £m	With-profits £m	Unit linked £m	Total £m
Assets					
Goodwill and Purchased interests in long term business	**287**	**18**	**76**	**–**	**381**
Investment in associates and joint ventures	**89**	**–**	**12**	**–**	**101**
Property, plant and equipment	**86**	**31**	**12**	**–**	**129**
Investments[1]	**9,107**	**34,184**	**17,380**	**294,581**	**355,252**
Reinsurers' share of contract liabilities	**312**	**2,271**	**1**	**313**	**2,897**
Other operational assets	**2,035**	**975**	**289**	**1,088**	**4,387**
Total assets	**11,916**	**37,479**	**17,770**	**295,982**	**363,147**
Liabilities					
Core borrowings	**2,513**	**–**	**–**	**(60)**	**2,453**
Operational borrowings	**447**	**2**	**185**	**70**	**704**
Participating contract liabilities	**–**	**15**	**14,847**	**576**	**15,438**
Non-participating contract liabilities	**2,078**	**34,384**	**2,223**	**280,342**	**319,027**
Other liabilities[1]	**2,560**	**1,716**	**493**	**15,056**	**19,825**
Total liabilities	**7,598**	**36,117**	**17,748**	**295,984**	**357,447**

As at 31 December 2012	Shareholder £m	Non profit non-unit linked £m	With-profits £m	Unit linked £m	Total £m
Assets					
Goodwill and Purchased interests in long term business	104	20	87	–	211
Investment in associates and joint ventures	60	–	27	–	87
Property, plant and equipment	64	17	11	–	92
Investments[1]	9,323	33,364	18,605	277,149	338,441
Reinsurers' share of contract liabilities	310	1,961	3	225	2,499
Other operational assets	2,198	971	340	1,360	4,869
Total assets	12,059	36,333	19,073	278,734	346,199
Liabilities					
Core borrowings	2,515	–	–	(70)	2,445
Operational borrowings	620	2	173	125	920
Participating contract liabilities	–	19	16,097	314	16,430
Non-participating contract liabilities	2,051	31,763	2,378	266,494	302,686
Other liabilities[1]	2,559	3,447	449	11,783	18,238
Total liabilities	7,745	35,231	19,097	278,646	340,719

1. For risk management purposes, bespoke consolidated CDOs are considered on a net basis. Accordingly, the table above presents derivative liabilities of £17m (2012: £102m) as a deduction to non profit non-unit linked investments and other liabilities.

BALANCE SHEET MANAGEMENT (CONTINUED)

10 PURCHASED INTEREST IN LONG TERM BUSINESSES (PILTB) AND OTHER INTANGIBLE ASSETS

Portfolios of in-force insurance or investment contracts acquired either directly or through the acquisition of a subsidiary undertaking are capitalised at fair value. The value of business acquired represents the present value of anticipated future profits in acquired contracts. These amounts are amortised over the anticipated lives of the related contracts in the portfolio.

Intangible assets acquired via business combinations, such as the value of customer relationships, are recognised at fair value and are subsequently amortised over their useful life in line with the expected emergence of profit from the business. Where software costs are separately identifiable and measurable they are capitalised at cost and amortised over their expected useful life.

Purchased interest in long term businesses and other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

	PILTB insurance contracts 2013 £m	PILTB investment contracts 2013 £m	Other intangible assets 2013 £m	Total 2013 £m
Cost				
As at 1 January	**331**	**77**	**174**	**582**
Acquisition of subsidiaries	**–**	**34**	**58**	**92**
Additions	**–**	**–**	**36**	**36**
Net exchange difference	**5**	**–**	**–**	**5**
As at 31 December	**336**	**111**	**268**	**715**
Accumulated amortisation and impairment				
As at 1 January	**(303)**	**(38)**	**(30)**	**(371)**
Amortisation for the year	**(8)**	**(7)**	**(24)**	**(39)**
Net exchange difference	**3**	**–**	**–**	**3**
As at 31 December	**(308)**	**(45)**	**(54)**	**(407)**
Net book value as at 31 December	**28**	**66**	**214**	**308**
To be amortised within 12 months				**50**
To be amortised after 12 months				**258**

	PILTB insurance contracts 2012 £m	PILTB investment contracts 2012 £m	Other intangible assets 2012 £m	Total 2012 £m
Cost				
As at 1 January	340	77	88	505
Acquisition of subsidiaries	–	–	54	54
Additions	–	–	32	32
Net exchange difference	(9)	–	–	(9)
As at 31 December	331	77	174	582
Accumulated amortisation and impairment				
As at 1 January	(302)	(32)	(23)	(357)
Amortisation for the year	(10)	(6)	(7)	(23)
Net exchange difference	9	–	–	9
As at 31 December	(303)	(38)	(30)	(371)
Net book value as at 31 December	28	39	144	211
To be amortised within 12 months				33
To be amortised after 12 months				178

BALANCE SHEET MANAGEMENT (CONTINUED)

11 DEFERRED ACQUISITION COSTS

The Group incurs costs to obtain and process new business. These are accounted for in line with the appropriate accounting standards as follows:

Long term insurance business

Acquisition costs comprise direct costs, such as initial commission, and the indirect costs of obtaining and processing new business. Acquisition costs relating to non-participating insurance contracts written outside the with-profits part of the UK Long Term Funds (LTFs) which are incurred during a financial year are deferred by use of an asset which is amortised over the period during which the costs are expected to be recoverable, and in accordance with the expected incidence of future related margins. For participating contracts, acquisition costs are charged to the income statement when incurred.

General insurance

A proportion of commission and other acquisition costs relating to unearned premiums is carried forward as deferred acquisition costs or, in respect of reinsurance outwards, as deferred income.

Investment contracts

For participating investment contracts, acquisition costs comprise direct costs such as initial commission and the indirect costs of obtaining and processing new business. These costs are charged to the income statement when incurred. For non-participating investment contracts, only directly attributable costs relating to investment management services which vary with, and are related to, securing new contracts and renewing existing contracts, are capitalised and amortised over the period during which the costs are expected to be recoverable from future revenue. All other costs are recognised as expenses when incurred.

	Insurance contract 2013 £m	Investment contract 2013 £m	Total 2013 £m	Insurance contract 2012 £m	Investment contract 2012 £m	Total 2012 £m
As at 1 January	**906**	**998**	**1,904**	875	958	1,833
Acquisition costs deferred	**277**	**10**	**287**	202	99	301
Amortisation charged to income	**(189)**	**(119)**	**(308)**	(155)	(101)	(256)
(Decrease)/increase due to currency translation	**(18)**	**1**	**(17)**	(46)	(1)	(47)
Other	**15**	**(1)**	**14**	30	43	73
As at 31 December	**991**	**889**	**1,880**	906	998	1,904
To be amortised within 12 months	**107**	**141**	**248**	102	206	308
To be amortised after 12 months	**884**	**748**	**1,632**	804	792	1,596

Of the total gross deferred acquisition costs £909m (2012: £829m) relates to the LGA insurance business.

The deferred acquisition costs for re-insurance contracts are £67m (2012: £71m). The total acquisition costs incurred for the year is £855m (2012: £784m).

12 FINANCIAL INVESTMENTS AND INVESTMENT PROPERTY

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

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

The Group's policy is to measure investments at FVTPL except for certain overseas assets where the related liability is valued on a passive basis (not using current information), in which case investments are classified as AFS. All derivatives other than those designated as hedges are classified as HFT.

Certain financial investments held by the Group are designated as FVTPL as their performance is evaluated on a total return basis, consistent with asset performance reporting to the Group Investment and Market Risk Committee and the Group's investment strategy. Assets designated as FVTPL include debt securities and equity instruments which would otherwise have been classified as AFS under IAS 39, 'Financial instruments: recognition and measurement'. Assets backing participating and non-participating policyholder

BALANCE SHEET MANAGEMENT (CONTINUED)

liabilities outside the US are designated as FVTPL. For participating contracts the assets are managed on a fair value basis to maximise the total return to policyholders over the contract life. The Group's non-participating investment contract liabilities outside of the US are measured on the basis of current information and are designated as FVTPL to avoid an accounting mismatch in the income statement.

The fair values of quoted financial investments are based on bid prices, which management believe to be representative of fair value. If the market for a financial investment is not active, the Group establishes fair value by using valuation techniques such as recent arm's length transactions, consensus market pricing, reference to similar listed investments, discounted cash flow models or option pricing models.

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

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

Financial investments classified as AFS are measured at fair value with unrealised gains and losses recognised in a separate reserve within equity. Realised gains and losses, impairment losses, dividends, interest and foreign exchange movements on non-equity instruments are reflected in the income statement. Directly attributable transaction costs are included in the initial measurement of the investment.

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

Investment property comprises land and buildings which are held for long term rental yields and capital growth. It is carried at fair value with changes in fair value recognised in the income statement within investment return.

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

The Group provides seed capital to newly established funds which may result in such funds becoming newly acquired subsidiaries of the Group. Where the Group is actively seeking to reduce its investment in a subsidiary and it is considered highly probable that the Group will relinquish control of the subsidiary within 12 months of classification, the subsidiary is classified as held for sale.

On 1 January 2013 the Group adopted IFRS 13 'Fair Value Measurement'. This Standard defines fair value, sets out in a single IFRS a framework for measuring fair value, and requires disclosure about fair value measurements. The main impact on the Group for the full year lies in the expansion of the fair value disclosure requirements.

Future developments

IFRS 9, 'Financial Instruments' issued in November 2009 (now effective for annual periods commencing no earlier than 1 January 2018) is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest, otherwise it must be measured at fair value through profit or loss. The Standard retains most of the IAS 39 requirements for liabilities, including amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group does not intend to early adopt this Standard.

BALANCE SHEET MANAGEMENT (CONTINUED)

12 FINANCIAL INVESTMENTS AND INVESTMENT PROPERTY (CONTINUED)

(i) Financial investments and Investment property at fair value

	Note	Shareholder 2013 £m	Non profit non-unit linked 2013 £m	With-profits 2013 £m	Unit linked 2013 £m	Total 2013 £m
Financial investments at fair value designated as:						
Fair value through profit or loss		**5,358**	**29,734**	**15,049**	**274,824**	**324,965**
Available-for-sale		**1,754**	**–**	**–**	**7**	**1,761**
Held for trading		**207**	**2,100**	**48**	**2,391**	**4,746**
Financial investments at fair value		**7,319**	**31,834**	**15,097**	**277,222**	**331,472**
Loans and receivables	(iii)	**79**	**–**	**30**	**221**	**330**
Total financial investments		**7,398**	**31,834**	**15,127**	**277,443**	**331,802**
Investment property		**147**	**1,294**	**940**	**3,679**	**6,060**
Total financial investments and investment property		**7,545**	**33,128**	**16,067**	**281,122**	**337,862**
Expected to be received within 12 months						**45,023**
Expected to be received after 12 months						**292,839**

	Note	Shareholder 2012 £m	Non profit non-unit linked 2012 £m	With-profits 2012 £m	Unit linked 2012 £m	Total 2012 £m
Financial investments at fair value designated as:						
Fair value through profit or loss		4,980	29,091	15,889	258,032	307,992
Available-for-sale		1,954	–	–	5	1,959
Held for trading		160	2,913	46	3,296	6,415
Financial investments at fair value		7,094	32,004	15,935	261,333	316,366
Loans and receivables	(iii)	54	–	22	306	382
Total financial investments		7,148	32,004	15,957	261,639	316,748
Investment property		117	656	1,179	3,191	5,143
Total financial investments and investment property		7,265	32,660	17,136	264,830	321,891
Expected to be received within 12 months						43,791
Expected to be received after 12 months						278,100

Investment risks on unit linked assets are borne by the policyholders. The remaining risks associated with financial investments are outlined in Note 8.

Financial investments include £313m (2012: £746m) of debt securities pledged as collateral against derivative liabilities. The assets used as collateral are Treasury Gilts, Foreign Government Bonds, AAA Supranational Bonds and AA Corporate Bonds (2012: Treasury Gilts, Foreign Government Bonds, AAA Supranational Bonds and AAA Corporate Bonds) having a residual maturity of over 42 years (2012: over 43 years). The Group is entitled to receive all of the cash flows from the asset during the period when it is pledged as collateral. Further, there is no obligation to pay or transfer these cash flows to another entity. The Group can decide to substitute an asset which is designated as collateral at any time, provided the relevant terms and conditions of the International Swap Dealers Association agreement are met.

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

BALANCE SHEET MANAGEMENT (CONTINUED)

Held for sale assets

The Group provides seed capital to newly established funds which may result in such funds becoming newly acquired subsidiaries of the Group. Where the Group is actively seeking to reduce its investment in a subsidiary and it is considered highly probable that the Group will relinquish control of the subsidiary within 12 months of classification, the subsidiary is classified as held for sale.

Two funds were seeded in this manner during 2012, meeting the above classification, with their assets and liabilities being classified as held for sale. There were no such transactions during 2013.

Non-consolidated private equity investments are included within equity securities. A loss of £10m (2012: loss of £2m) has been recognised in the consolidated income statement in respect of the movement in fair value of these investments.

Property investments which are held via partnerships or unit trust vehicles are also included within equity securities. A profit of £nil (2012: profit of £nil) has been recognised in the income statement in respect of the movement in fair value of these investments.

Included within unit linked equity securities are £306m (2012: £244m) of debt instruments which incorporate an embedded derivative linked to the value of the Group's share price.

	Note	Shareholder 2013 £m	Non profit non-unit linked 2013 £m	With-profits 2013 £m	Unit linked 2013 £m	Total 2013 £m
Equity securities		**1,433**	**83**	**4,540**	**166,628**	**172,684**
Debt securities[1]		**5,624**	**29,251**	**10,357**	**107,177**	**152,409**
Accrued interest		**55**	**400**	**152**	**1,026**	**1,633**
Derivative assets	13	**207**	**2,100**	**48**	**2,391**	**4,746**
Total investments at fair value		**7,319**	**31,834**	**15,097**	**277,222**	**331,472**

	Note	Shareholder 2012 £m	Non profit non-unit linked 2012 £m	With-profits 2012 £m	Unit linked 2012 £m	Total 2012 £m
Equity securities		1,235	–	4,159	150,332	155,726
Debt securities[1]		5,608	28,712	11,557	106,649	152,526
Accrued interest		61	379	173	1,056	1,669
Derivative assets	13	190	2,913	46	3,296	6,445
Total investments at fair value		7,094	32,004	15,935	261,333	316,366

1. Non profit non-unit linked debt securities includes £568m (2012: £327m) of commercial loans designated as fair value through profit and loss.

BALANCE SHEET MANAGEMENT (CONTINUED)

12 FINANCIAL INVESTMENTS AND INVESTMENT PROPERTY (CONTINUED)

(ii) CDOs

The Group holds collateralised debt obligations (CDOs) with a market value of £1,098m at 31 December 2013 (2012: £1,097m).

These holdings include £983m (2012: £948m) relating to four CDOs that were constructed in 2007 and 2008 in accordance with terms specified by Legal & General as part of a strategic review of the assets backing the annuity portfolio. These CDOs mature in 2017 and 2018. The Group selected at outset and manages the reference portfolios underlying the CDOs to give exposure to globally diversified portfolios of investment grade corporate bonds. The Group is able to substitute the constituents of the original reference portfolios with new reference assets, allowing the management of the underlying credit risk and there have been no substitutions in 2012 or 2013. A breakdown of the underlying CDO reference portfolio by sector is provided below:

Sector	2013 %	2012 %
Banks	**14**	14
Utilities	**10**	10
Consumer Services & Goods	**25**	25
Financial Services	**6**	6
Technology & Telecoms	**9**	9
Insurance	**6**	6
Industrials	**20**	20
Oil & Gas	**6**	6
Health Care	**4**	4
	100	100

The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the four CDOs, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses.

Beyond 27.5% of default losses on the reference portfolio, losses to the CDO would occur at a rate that is a multiple of the loss rate on the reference portfolio. For illustration a £200m loss could be incurred if default losses to the reference portfolios exceeded 30.4% or if 43.5% of the names in the reference portfolio defaulted, with an average 30% recovery rate. (All figures are averages across the four CDOs).

The underlying reference portfolio has had no reference entity defaults in 2012 or 2013.

Losses are limited under the terms of the CDOs to assets and collateral invested.

These CDOs also incorporate features under which, in certain circumstances, the Group can choose either to post additional cash collateral or to allow wind up of the structures. These features are dependent on the portfolios' weighted average spreads, default experience to date and time to maturity. No additional collateral was posted to any of the CDOs during 2013 (2012: £nil). During 2013, the Group received £nil (2012: £nil) of previously posted collateral. The amount of the cash equivalent collateral attached to CDOs during the year is outlined in Note 14.

These CDOs are valued using an external valuation based on observable market inputs, which include CDX and iTraxx index tranches and CDS spreads on underlying reference entities. This is then validated against the internal valuation.

The remaining balance of CDO holdings is £115m (2012: £149m). A decrease is due to a disposal of an equity tranche of a bespoke CDO.

BALANCE SHEET MANAGEMENT (CONTINUED)

(iii) Loans and receivables

	Shareholder 2013 £m	Non profit non-unit linked 2013 £m	With-profits 2013 £m	Unit linked 2013 £m	Total 2013 £m
Deposits with credit institutions	**9**	**–**	**–**	**221**	**230**
Policy loans	**40**	**–**	**29**	**–**	**69**
Other loans	**30**	**–**	**1**	**–**	**31**
Total loans and receivables	**79**	**–**	**30**	**221**	**330**

	Shareholder 2012 £m	Non profit non-unit linked 2012 £m	With-profits 2012 £m	Unit linked 2012 £m	Total 2012 £m
Deposits with credit institutions	4	–	–	306	310
Policy loans	43	–	21	–	64
Other loans	7	–	1	–	8
Total loans and receivables	54	–	22	306	382

There are no material differences between the carrying values reflected above and the fair values of these loans. Were these loans to be held at fair value they would fall within level 2 of the fair value hierarchy.

(iv) Fair value hierarchy

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

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflects the Group's view of market assumptions in the absence of observable market information. The Group utilises techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

The levels of fair value measurement bases are defined as follows:
Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: fair values measured using valuation techniques for all inputs significant to the measurement other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs).

All of the Group's level 2 assets have been valued using standard market pricing sources, such as iBoxx, IDC and Bloomberg, which use mathematical modelling and multiple source validation in order to determine "consensus" prices, except for bespoke CDO and swaps holdings (see below). In normal market conditions, we would consider these market prices to be observable market prices. Following consultation with our pricing providers and a number of their contributing brokers, we have considered that these prices are not from a suitably active market and have classified them as level 2.

These CDOs are valued using an external valuation based on observable market inputs, which include CDX and iTRaxx index tranches and CDS spreads on underlying reference entities. This is then validated against the internal valuation. Accordingly, these assets have also been classified in level 2.

There have been no significant transfers between level 1 and level 2 in 2013 (2012: £nil).

BALANCE SHEET MANAGEMENT (CONTINUED)

12 FINANCIAL INVESTMENTS AND INVESTMENT PROPERTY (CONTINUED)

(iv) Fair value hierarchy (continued)

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

For the year ended 31 December 2013	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Shareholder					
Equity securities	1,433	1,253	28	152	–
Debt securities	5,624	2,071	3,493	60	–
Accrued interest	55	26	29	–	–
Derivative assets	207	62	145	–	–
Loans and receivables	79	–	–	–	79
Investment property	147	–	–	147	–
Non profit non-unit linked					
Equity securities	83	72	–	11	–
Debt securities	29,251	4,371	24,331	549	–
Accrued interest	400	38	358	4	–
Derivative assets	2,100	171	1,929	–	–
Loans and receivables	–	–	–	–	–
Investment property	1,294	–	–	1,294	–
With-profits					
Equity securities	4,540	3,956	19	565	–
Debt securities	10,357	4,155	6,184	18	–
Accrued interest	152	53	99	–	–
Derivative assets	48	43	5	–	–
Loans and receivables	30	–	–	–	30
Investment property	940	–	–	940	–
Unit linked					
Equity securities	166,628	163,615	2,688	325	–
Debt securities	107,177	61,067	46,108	2	–
Accrued interest	1,026	313	713	–	–
Derivative assets	2,391	625	1,766	–	–
Loans and receivables	221	–	–	–	221
Investment property	3,679	–	–	3,679	–
Total financial investments and investment property	**337,862**	**241,891**	**87,895**	**7,746**	**330**

BALANCE SHEET MANAGEMENT (CONTINUED)

For the year ended 31 December 2012	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Shareholder					
Equity securities	1,235	972	162	101	–
Debt securities	5,608	2,623	2,984	1	–
Accrued interest	61	38	23	–	–
Derivative assets	190	44	146	–	–
Loans and receivables	54	–	–	–	54
Investment property	117	–	–	117	–
Non profit non-unit linked					
Debt securities	28,712	3,973	24,648	91	–
Accrued interest	379	29	349	1	–
Derivative assets	2,913	111	2,802	–	–
Loans and receivables	–	–	–	–	–
Investment property	656	–	–	656	–
With-profits					
Equity securities	4,159	3,551	9	599	–
Debt securities	11,557	4,733	6,819	5	–
Accrued interest	173	76	97	–	–
Derivative assets	46	14	32	–	–
Loans and receivables	22	–	–	–	22
Investment property	1,179	–	–	1,179	–
Unit linked					
Equity securities	150,332	148,244	1,823	265	–
Debt securities	106,649	66,571	40,077	1	–
Accrued interest	1,056	325	731	–	–
Derivative assets	3,296	445	2,851	–	–
Loans and receivables	306	–	–	–	306
Investment property	3,191	–	–	3,191	–
Total financial investments and investment property	321,891	231,749	83,553	6,207	382

BALANCE SHEET MANAGEMENT (CONTINUED)

12 FINANCIAL INVESTMENTS AND INVESTMENT PROPERTY (CONTINUED)

(iv) Fair value hierarchy (continued)

(a) Assets measured at fair value based on level 3

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

In many situations, inputs used to measure the fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, the Group determines the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. As a result, both observable and unobservable inputs may be used in the determination of fair values that the Group has classified within level 3.

The Group determines the fair values of certain financial assets and liabilities based on quoted market prices, where available. The Group also determines fair value based on estimated future cash flows discounted at the appropriate current market rate. As appropriate, fair values reflect adjustments for counterparty credit quality, the Group's credit standing, liquidity and risk margins on unobservable inputs.

Where quoted market prices are not available, fair value estimates are made at a point in time, based on relevant market data, as well as the best information about the individual financial instrument. Illiquid market conditions have resulted in inactive markets for certain of the Group's financial instruments. As a result, there is generally no or limited observable market data for these assets and liabilities. Fair value estimates for financial instruments deemed to be in an illiquid market are based on judgments regarding current economic conditions, liquidity discounts, currency, credit and interest rate risks, loss experience and other factors. These fair values are estimates and involve considerable uncertainty and variability as a result of the inputs selected and may differ significantly from the values that would have been used had a ready market existed, and the differences could be material. As a result, such calculated fair value estimates may not be realisable in an immediate sale or settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique could significantly affect these fair value estimates.

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

	Equity securities 2013 £m	Other financial investments[1] 2013 £m	Investment property 2013 £m	Total 2013 £m	Equity securities 2012 £m	Other financial investments[1] 2012 £m	Investment property 2012 £m	Total 2012 £m
As at 1 January	**965**	**99**	**5,143**	**6,207**	1,138	46	4,894	6,078
Total gains or (losses) for the period recognised in profit:								
– in other comprehensive income	**–**	**(1)**	**–**	**(1)**	–	–	–	–
– realised (losses) or gains	**(74)**	**2**	**26**	**(46)**	(59)	–	74	15
– unrealised gains or (losses)	**86**	**(2)**	**209**	**293**	9	–	(181)	(172)
Purchases/Additions	**365**	**397**	**1,258**	**2,020**	14	87	698	799
Improvements	**–**	**–**	**23**	**23**	–	–	14	14
Sales/Disposals	**(323)**	**(4)**	**(599)**	**(926)**	(137)	(6)	(356)	(499)
Issues	**–**	**–**	**–**	**–**	–	–	–	–
Transfers into level 3[2]	**34**	**143**	**–**	**177**	2	1	–	3
Transfers out of level 3[2]	**–**	**(1)**	**–**	**(1)**	–	(35)	–	(35)
Other	**–**	**–**	**–**	**–**	(2)	6	–	4
As at 31 December	**1,053**	**633**	**6,060**	**7,746**	965	99	5,143	6,207

1. Other financial investments comprise debt securities and accured interest.
2. As a Group we hold regular discussion with our pricing providers to determine whether transfers between levels of the fair value hierarchy have occurred. The above transfers occurred as result of this process.

BALANCE SHEET MANAGEMENT (CONTINUED)

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

Fair values of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the level 3 financial instruments carried at fair value as at the balance sheet date, the valuation basis, main assumptions used in the valuation of these instruments and reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

For the year ended 31 December 2013 Financial instruments and Investment property	Main assumptions	Current fair value £m	Reasonably possible alternative assumptions Increase in fair value £m	 Decrease in fair value £m
Assets				
Shareholder				
– Private equity investment vehicles[1]	Price earnings multiple	**24**	**1**	**(1)**
– Unquoted investments in property vehicles[2]	Property yield; occupancy	**137**	**9**	**(9)**
– Untraded debt securities	Cash flows; expected defaults	**51**	**3**	**(3)**
– Investment property[2]	Property yield; occupancy	**147**	**7**	**(7)**
Non profit non-linked				
– Untraded debt securities	Cash flows; expected defaults	**162**	**1**	**(1)**
– Asset backed securities	Cash flows; expected defaults	**402**	**20**	**(20)**
– Investment property[2]	Property yield; occupancy	**1,294**	**65**	**(65)**
With-profits				
– Private equity investment vehicles[1]	Price earnings multiple	**213**	**14**	**(14)**
– Unquoted investments in property vehicles[2]	Property yield; occupancy	**370**	**19**	**(19)**
– Investment property[2]	Property yield; occupancy	**940**	**47**	**(47)**
Unit linked				
– Unquoted investments in property vehicles[2]	Property yield; occupancy	**304**	**15**	**(15)**
– Suspended securities	Estimated recoverable amount	**17**	**1**	**(1)**
– Untraded debt securities	Cash flows; expected defaults	**6**	**2**	**(2)**
– Investment property[2]	Property yield; occupancy	**3,679**	**184**	**(184)**
Total		**7,746**	**388**	**(388)**

1. Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined using alternative price earnings multiples.
2. Unquoted investments in property vehicles and direct holdings in investment property are valued by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. Valuation techniques may include discounted cash flow calculations using net current rent, and estimated rental and terminal values; they may also include yield methodology calculations using market rental values capitalised with a market capitalisation rate. Both of these are then further validated against actual market transactions to produce a final valuation.

BALANCE SHEET MANAGEMENT (CONTINUED)

12 FINANCIAL INVESTMENTS AND INVESTMENT PROPERTY (CONTINUED)

(iv) Fair value hierarchy (continued)

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

For the year ended 31 December 2012 Financial instruments and Investment property	Main assumptions	Current fair value £m	Reasonably possible alternative assumptions Increase in fair value £m	Decrease in fair value £m
Assets				
Shareholder				
– Private equity investment vehicles[1]	Price earnings multiple	14	1	(1)
– Unquoted investments in property vehicles[2]	Property yield; occupancy	87	4	(4)
– Untraded debt securities	Cash flows; expected defaults	1	–	–
– Investment property[2]	Property yield; occupancy	117	6	(6)
Non profit non-linked				
– Unquoted investments in property vehicles[2]	Property yield; occupancy	92	5	(5)
– Investment property[2]	Property yield; occupancy	656	33	(33)
With-profits				
– Private equity investment vehicles[1]	Price earnings multiple	220	20	(20)
– Unquoted investments in property vehicles[2]	Property yield; occupancy	384	19	(19)
– Investment property[2]	Property yield; occupancy	1,179	59	(59)
Unit linked				
– Unquoted investments in property vehicles[2]	Property yield; occupancy	233	12	(12)
– Suspended securities	Estimated recoverable amount	13	2	(2)
– Untraded debt securities	Cash flows; expected defaults	20	7	(7)
– Investment property[2]	Property yield; occupancy	3,191	196	(196)
Total		6,207	364	(364)

1. Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined using alternative price earnings multiples.
2. Unquoted investments in property vehicles and direct holdings in investment property are valued by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. Valuation techniques may include discounted cash flow calculations using net current rent, and estimated rental and terminal values; they may also include yield methodology calculations using market rental values capitalised with a market capitalisation rate. Both of these are then further validated against actual market transactions to produce a final valuation.

(v) Net asset value attributable to unit holders

Amounts attributable to unit holders are repayable on demand and the Group is responsible for ensuring there is sufficient liquidity within the corresponding asset portfolio to enable the liability to be met as it falls due.

At 31 December 2013, level 1 net asset value attributable to unit holders is £8,375m (31 December 2012: £7,702m).

BALANCE SHEET MANAGEMENT (CONTINUED)

13 DERIVATIVE ASSETS AND LIABILITIES

The Group's activities expose it to the financial risks of changes in foreign exchange rates and interest rates. The Group uses derivatives such as foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The Group uses hedge accounting, provided the prescribed criteria in IAS 39 are met, to recognise the offsetting effects of changes in the fair value or cash flow of the derivative instrument and the hedged item. The Group's principal uses of hedge accounting are to:

(i) recognise in shareholders' equity the changes in the fair value of derivatives designated as hedges of a net investment in a foreign operation. Any cumulative gains and/or losses are recognised in the income statement on disposal of the foreign operation;
(ii) defer in equity the changes in the fair value of derivatives designated as the hedge of a future cash flow attributable to a recognised asset or liability, a highly probable forecast transaction, or a firm commitment until the period in which the future transaction affects profit or loss or is no longer expected to occur; and
(iii) hedge the fair value movements in loans due to interest rate and exchange rate fluctuations. Any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement.

The relationship between the hedging instrument and the hedged item, together with the risk management objective and strategy for undertaking the hedge transaction, are documented at the inception of the transaction. The effectiveness of the hedge is documented and monitored on an ongoing basis. Hedge accounting is only applied for highly effective hedges (between 80% and 125% effectiveness) with any ineffective portion of the gain or loss recognised in the income statement, within other expenses, in the current period.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any 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.

BALANCE SHEET MANAGEMENT (CONTINUED)

13 DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

	Contract/ notional amount 2013 £m	Fair values Assets 2013 £m	Fair values Liabilities[1] 2013 £m	Contract/ notional amount 2012 £m	Fair values Assets 2012 £m	Fair values Liabilities[1] 2012 £m
Shareholder derivatives:						
Interest rate contracts – held for trading	**2,809**	**58**	**57**	2,637	75	100
Forward foreign exchange contracts – net investment hedges	**558**	**9**	**2**	710	2	–
Forward foreign exchange contracts – held for trading	**616**	**133**	**–**	488	104	–
Equity/index derivatives – held for trading	**(901)**	**3**	**22**	(349)	6	1
Credit derivatives – held for trading	**–**	**4**	**5**	109	3	5
Total shareholder derivatives		**207**	**86**		190	106
Non profit non-unit linked derivatives:						
Interest rate contracts – held for trading	**24,603**	**1,760**	**1,044**	26,461	2,621	2,539
Forward foreign exchange contracts – held for trading	**–**	**170**	**1**	–	90	24
Equity/index derivatives – held for trading	**48**	**–**	**–**	97	22	–
Currency swap contracts – held for trading	**3,750**	**71**	**–**	3,384	32	2
Inflation swap contracts – held for trading	**6,274**	**98**	**188**	6,256	132	393
Credit derivatives – held for trading	**1,411**	**1**	**5**	1,476	3	83
Other derivatives – held for trading	**383**	**–**	**53**	1,577	13	116
Total non profit non-unit linked derivatives		**2,100**	**1,291**		2,913	3,157
With-profits derivatives:						
Interest rate contracts – held for trading	**1,076**	**1**	**38**	1,068	10	3
Forward foreign exchange contracts – held for trading	**–**	**29**	**–**	–	11	3
Equity/index derivatives – held for trading	**(177)**	**18**	**27**	(357)	25	6
Other derivatives – held for trading	**1**	**–**	**–**	1	–	–
Total with-profits derivatives		**48**	**65**		46	12
Unit linked derivatives:						
Interest rate contracts – held for trading	**19,194**	**1,619**	**617**	23,282	2,812	1,185
Forward foreign exchange contracts – held for trading	**–**	**561**	**182**	–	428	126
Credit derivatives – held for trading	**1,025**	**11**	**5**	(682)	2	5
Equity/index derivatives – held for trading	**3,232**	**31**	**791**	3,133	27	659
Other derivatives – held for trading	**22**	**–**	**–**	28	–	–
Inflation rate contracts – held for trading	**7,394**	**169**	**82**	6,108	27	479
Total unit linked derivatives		**2,391**	**1,677**		3,296	2,454
Total derivative assets and liabilities		**4,746**	**3,119**		6,445	5,729

1. Derivative liabilities are reported in the balance sheet within Payables and other financial liabilities (Note 27).

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

The contractual undiscounted cash flows in relation to non-unit linked derivatives have the following maturity profile. Unit linked derivatives have not been included as shareholders are not directly exposed to liquidity risks.

BALANCE SHEET MANAGEMENT (CONTINUED)

As at 31 December 2013	Fair values £m	Maturity profile of undiscounted cash flows Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Cash inflows							
Shareholder derivatives							
Derivative assets	207	1,541	502	–	–	17	2,060
Derivative liabilities	(86)	1	–	–	–	–	1
Non profit non-unit linked derivatives							
Derivative assets	2,100	8,882	4,164	4,539	4,183	4,956	26,724
Derivative liabilities	(1,291)	213	1,189	4,002	3,657	3,549	12,610
With-profits derivatives							
Derivative assets	48	928	3	–	–	–	931
Derivative liabilities	(65)	42	49	76	27	2	196
Total	913	11,607	5,907	8,617	7,867	8,524	42,522
Cash outflows							
Shareholder derivatives							
Derivative assets	207	(1,480)	(402)	–	(19)	–	(1,901)
Derivative liabilities	(86)	(42)	(14)	–	–	–	(56)
Non profit non-unit linked derivatives							
Derivative assets	2,100	(8,469)	(3,567)	(3,782)	(3,469)	(4,107)	(23,394)
Derivative liabilities	(1,291)	(454)	(2,168)	(4,295)	(3,167)	(3,763)	(13,847)
With-profits derivatives							
Derivative assets	48	(883)	–	–	–	–	(883)
Derivative liabilities	(65)	(62)	(56)	(121)	(35)	(2)	(276)
Total	913	(11,390)	(6,207)	(8,198)	(6,690)	(7,872)	(40,357)
Net shareholder derivatives cash flows		20	86	–	(19)	17	104
Net non profit non-unit linked derivatives cash flows		172	(382)	464	1,204	635	2,093
Net with-profits derivatives cash flows		25	(4)	(45)	(8)	–	(32)

BALANCE SHEET MANAGEMENT (CONTINUED)

13 DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

As at 31 December 2012	Fair values £m	Maturity profile of undiscounted cash flows: Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Cash inflows							
Shareholder derivatives							
Derivative assets	190	1,549	536	–	–	–	2,085
Derivative liabilities	(106)	155	5	2	–	–	162
Non profit non-unit linked derivatives							
Derivative assets	2,913	9,296	2,703	4,281	4,171	4,665	25,116
Derivative liabilities	(3,157)	2,586	1,320	3,382	2,794	3,026	13,108
With-profits derivatives							
Derivative assets	46	741	67	68	20	2	898
Derivative liabilities	(12)	437	6	14	10	–	467
Total	(126)	14,764	4,637	7,747	6,995	7,693	41,836
Cash outflows							
Shareholder derivatives							
Derivative assets	190	(1,514)	(415)	–	–	–	(1,929)
Derivative liabilities	(106)	(180)	(47)	(2)	–	–	(229)
Non profit non-unit linked derivatives							
Derivative assets	2,913	(8,850)	(1,668)	(3,164)	(3,402)	(3,799)	(20,883)
Derivative liabilities	(3,157)	(3,021)	(2,803)	(4,291)	(3,339)	(3,273)	(16,727)
With-profits derivatives							
Derivative assets	46	(715)	(29)	(85)	(27)	(3)	(859)
Derivative liabilities	(12)	(446)	(5)	(17)	(15)	–	(483)
Total	(126)	(14,726)	(4,967)	(7,559)	(6,783)	(7,075)	(41,110)
Net shareholder derivatives cash flows		10	79	–	–	–	89
Net non profit non-unit linked derivatives cash flows		11	(448)	208	224	619	614
Net with-profits derivatives cash flows		17	39	(20)	(12)	(1)	23

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.

Future cash flows on the floating legs of interest rate and exchange derivatives are calculated using current spot rates, which may differ from the market expectation incorporated in the fair value.

Cash flows arising from implied events covered by credit derivatives are presented in the table above on an expected basis as cash flows within one year.

BALANCE SHEET MANAGEMENT (CONTINUED)

Forward foreign exchange contracts – net investment hedges

The Group hedges part of the foreign exchange translation exposure on its net investment in its overseas subsidiaries, using forward foreign exchange contracts. It recognises the portion of the gain or loss which is determined to be an effective hedge through reserves within shareholders' equity, along with the gain or loss on translation of the foreign subsidiaries.

Interest rate swap contracts – fair value hedges

The Group uses interest rate swap contracts to hedge fixed rate loans in particular to hedge the movement in the fair value of a loan due to interest rates. (All such contracts were terminated during 2012).

Fair value gains and losses arising from fair value hedging relationships are as follows:
Fair value gains of £nil arose on hedging instruments (2012: losses of £7m).
Fair value gains of £nil arose on the hedged item attributable to the hedged risk (2012: gains of £6m).

The total fair value gain on hedging instruments shown above excludes fair value gains arising from factors which are outside the designated hedging relationship of £nil (2012: £nil).

Derivative contracts – held for trading

The Group uses certain derivative contracts which are effective hedges of economic exposures in accordance with the Group's risk management policy, but for various reasons are not designated within a formal hedge accounting relationship. Therefore, these contracts must be designated as held for trading, and gains and losses on these contracts are recognised immediately in the income statement.

14 CASH AND CASH EQUIVALENTS

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

	Shareholder 2013 £m	**Non profit non-unit linked[1] 2013 £m**	**With-profits 2013 £m**	**Unit linked 2013 £m**	**Total 2013 £m**
Cash at bank and in hand	**622**	**151**	**160**	**992**	**1,925**
Cash equivalents	**940**	**922**	**1,153**	**12,467**	**15,482**
Cash and cash equivalents	**1,562**	**1,073**	**1,313**	**13,459**	**17,407**

	Shareholder 2012 £m	Non profit non-unit linked[1] 2012 £m	With-profits 2012 £m	Unit linked 2012 £m	Total 2012 £m
Cash at bank and in hand	728	176	107	941	1,952
Cash equivalents	1,329	631	1,362	11,378	14,700
Cash and cash equivalents	2,057	807	1,469	12,319	16,652

1. Included within cash equivalents is £384m (2012: £265m) of collateral posted to CDOs which is not available for shareholder liquidity requirements.

BALANCE SHEET MANAGEMENT (CONTINUED)

15 OTHER ASSETS

	Note	Total 2013 £m	Total 2012 £m
Reinsurance receivables		**51**	40
Receivables under finance leases	(i)	**118**	118
Accrued interest and rent		**152**	164
Prepayments and accrued income		**438**	388
Other receivables		**1,356**	854
Other assets		**2,115**	1,564
Due within 12 months		**1,854**	1,333
Due after 12 months		**261**	231

(i) Receivables under finance leases

On creation of a finance lease, the leased asset is derecognised from the balance sheet and replaced with a receivable equivalent to the net investment in the lease at the balance sheet date. Finance income is recognised in the income statement on a pattern reflecting a constant periodic rate of return on the Group's net investment in the lease.

The Group acts as a lessor of two finance leases, which are both of 45 years duration and relate to the provision of student accommodation. The other party, as lessee, is regarded to be the economic owner of the leased assets.

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

	Total future payments 2013 £m	Unearned interest income 2013 £m	Present value 2013 £m	Total future payments 2012 £m	Unearned interest income 2012 £m	Present value 2012 £m
Not later than 1 year	**6**	**(1)**	**5**	6	(1)	5
Between 1 and 5 years	**23**	**(3)**	**20**	23	(4)	19
Later than 5 years	**273**	**(180)**	**93**	278	(184)	94
Total	**302**	**(184)**	**118**	307	(189)	118

BALANCE SHEET MANAGEMENT (CONTINUED)

16 MARKET RISK

(i) Investment performance risk

(a) Equity securities

The Group controls its exposure to geographic price risks by using internal country credit ratings. These ratings are based on macroeconomic data and key qualitative indicators. The latter take into account economic, social and political environments. The table below indicates the Group's exposure to different equity markets around the world. Unit linked equity investments are excluded from the table as the risk is retained by the policyholder.

Exposure to worldwide equity markets	Shareholder 2013 £m	Non profit non-unit linked 2013 £m	With-profits 2013 £m	Total 2013 £m	Shareholder 2012 £m	Non profit non-unit linked 2012 £m	With-profits 2012 £m	Total 2012 £m
United Kingdom	570	69	1,663	2,302	523	–	1,411	1,934
North America	12	–	722	734	129	–	416	545
Europe	307	3	846	1,156	177	–	883	1,060
Japan	–	–	260	260	–	–	254	254
Asia Pacific	72	–	549	621	169	–	647	816
Other	55	–	109	164	60	–	125	185
Listed equities	1,016	72	4,149	5,237	1,058	–	3,736	4,794
Unlisted UK equities	23	11	43	77	11	–	59	70
Holdings in unit trusts	394	–	348	742	166	–	364	530
Total equities	1,433	83	4,540	6,056	1,235	–	4,159	5,394

(b) Debt securities

Total debt securities and accrued interest[1]	Shareholder 2013 £m	Non profit non-unit linked 2013 £m	With-profits 2013 £m	Total 2013 £m	Shareholder 2012 £m	Non profit non-unit linked 2012 £m	With-profits 2012 £m	Total 2012 £m
United Kingdom	1,079	13,099	4,661	18,839	1,009	11,569	5,547	18,125
USA	2,542	7,237	1,009	10,788	2,462	8,394	1,085	11,941
Netherlands	428	1,736	583	2,747	606	1,661	543	2,810
France	299	1,382	1,705	3,386	429	1,313	1,729	3,471
Germany	380	411	480	1,271	335	316	696	1,347
GIIPS:								
– Ireland	37	234	222	493	18	271	219	508
– Italy	150	636	75	861	108	636	104	848
– Portugal	16	15	–	31	3	13	–	16
– Spain	85	178	66	329	68	192	59	319
Rest of Europe	422	1,299	1,012	2,733	445	1,191	1,070	2,706
Rest of World	241	2,693	696	3,630	186	2,601	678	3,465
CDO	–	1,098	–	1,098	–	1,097	–	1,097
	5,679	30,018	10,509	46,206	5,669	29,254	11,730	46,653
Analysed as[1]								
Debt securities	5,624	29,618	10,357	45,599	5,608	28,875	11,557	46,040
Accrued interest	55	400	152	607	61	379	173	613
	5,679	30,018	10,509	46,206	5,669	29,254	11,730	46,653

1. For financial risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the balance sheet the components of the CDOs are shown within non profit non-unit linked investments (2013: £616m; 2012: £812m), cash equivalents (2013: £384m; 2012: £265m) and derivative liabilities (2013: £(17)m; 2012: £(102)m).

BALANCE SHEET MANAGEMENT (CONTINUED)

16 MARKET RISK (CONTINUED)

(i) Investment performance risk (continued)

(c) Additional disclosures on shareholder and non profit non-unit linked debt securities exposure

Analysed by sector	2013 £m	2013 %	2012 £m	2012 %
Sovereigns, Supras and Sub-Sovereigns	**6,502**	**18**	6,328	18
Banks:				
– Tier 1	**105**	**–**	223	1
– Tier 2 and other subordinated	**698**	**2**	776	2
– Senior	**2,169**	**6**	2,243	6
Financial Services:				
– Tier 1	**5**	**–**	4	–
– Tier 2 and other subordinated	**251**	**1**	67	–
– Senior	**1,041**	**3**	1,127	3
Insurance:				
– Tier 1	**152**	**–**	142	–
– Tier 2 and other subordinated	**625**	**2**	575	2
– Senior	**552**	**2**	645	2
Utilities	**4,329**	**12**	4,177	12
Consumer Services and Goods & Health Care	**3,716**	**10**	3,966	12
Technology and Telecoms	**2,333**	**7**	2,337	7
Industrials & Oil and Gas	**3,626**	**10**	3,825	11
Property	**1,053**	**3**	698	2
Asset backed securities:				
– Traditional	**1,395**	**4**	1,512	4
– Securitisations and debentures	**6,047**	**17**	5,181	15
CDO	**1,098**	**3**	1,097	3
Total	**35,697**	**100**	34,923	100

Analysis of Sovereigns, Supras and Sub-Sovereigns	2013 £m	2012 £m
Market value by region		
United Kingdom	**3,725**	3,552
USA	**664**	470
Netherlands	**194**	423
France	**220**	299
Germany	**472**	380
GIIPS:		
– Greece	**–**	–
– Ireland	**7**	6
– Italy	**323**	312
– Portugal	**16**	4
– Spain	**14**	47
Rest of Europe	**661**	669
Rest of World	**206**	166
Total	**6,502**	6,328

BALANCE SHEET MANAGEMENT (CONTINUED)

(ii) Currency risk

The table below summarises the Group's exposure to foreign currency exchange risk, in sterling. The functional currency represents the currency of the primary economic environment in which each of the Group's subsidiaries operates.

As at 31 December 2013	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Shareholder						
Total assets	**713**	**(35)**	**65**	**298**	**10,875**	**11,916**
Total liabilities	**667**	**29**	**–**	**–**	**6,902**	**7,598**
Net assets/(liabilities)	**46**	**(64)**	**65**	**298**	**3,973**	**4,318**
Non profit non-unit linked						
Total assets	**677**	**712**	**–**	**–**	**36,090**	**37,479**
Total liabilities[1]	**537**	**487**	**–**	**–**	**35,093**	**36,117**
Net assets/(liabilities)	**140**	**225**	**–**	**–**	**997**	**1,362**

1. For risk management purposes, bespoke consolidated CDOs are considered on a net basis. Accordingly, the table above presents derivative liabilities of £17m as a deduction to non profit non-unit linked investments and other liabilities.

With-profits	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Total assets	**531**	**740**	**268**	**1,074**	**15,157**	**17,770**
Total liabilities	**(10)**	**10**	**2**	**20**	**17,726**	**17,748**
Net assets/(liabilities)	**541**	**730**	**266**	**1,054**	**(2,569)**	**22**

As at 31 December 2012	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Shareholder						
Total assets	865	(151)	55	352	10,938	12,059
Total liabilities	884	152	–	–	6,709	7,745
Net assets/(liabilities)	(19)	(303)	55	352	4,229	4,314
Non profit non-unit linked						
Total assets	1,805	1,292	–	27	33,209	36,333
Total liabilities[1]	1,825	1,279	–	–	32,127	35,231
Net assets/(liabilities)	(20)	13	–	27	1,082	1,102

1. For risk management purposes, bespoke consolidated CDOs are considered on a net basis. Accordingly, the table above presents derivative liabilities of £102m as a deduction to non profit non-unit linked investments and other liabilities.

With-profits	Euro £m	US Dollar £m	Japanese Yen £m	Other £m	Functional currency £m	Carrying value £m
Total assets	800	466	259	1,115	16,433	19,073
Total liabilities	248	30	2	16	18,801	19,097
Net assets/(liabilities)	552	436	257	1,099	(2,368)	(24)

BALANCE SHEET MANAGEMENT (CONTINUED)

16 MARKET RISK (CONTINUED)

(ii) Currency risk (continued)

The Group's management of currency risk reduces shareholders' exposure to exchange rate fluctuations. The Group's exposure to a 10% exchange movement in the US Dollar and Euro on an IFRS basis, net of hedging activities, is detailed below.

Currency sensitivity analysis

Currency sensitivity test	Impact on pre-tax profit 2013 £m	Impact on equity 2013 £m	Impact on pre-tax profit 2012 £m	Impact on equity 2012 £m
10% Euro appreciation	**19**	**15**	(4)	(3)
10% US Dollar appreciation	**16**	**13**	(29)	(22)

The credit profile of the Group's assets exposed to credit risk is shown in Note 17. The credit rating bands are provided by independent rating agencies. For unrated assets, the Group maintains internal ratings which are used to manage exposure to these counterparties. Unit linked assets have not been included as shareholders are not directly exposed to risk.

17 CREDIT RISK

As at 31 December 2013	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated bespoke CDOs £m	Unrated other £m	Total £m
Shareholder									
Government securities		**1,050**	**285**	**17**	**143**	**43**	**–**	**23**	**1,561**
Other fixed rate securities		**344**	**423**	**1,282**	**969**	**217**	**–**	**154**	**3,389**
Variable rate securities		**360**	**141**	**152**	**2**	**8**	**–**	**11**	**674**
Total debt securities	12(i)	**1,754**	**849**	**1,451**	**1,114**	**268**	**–**	**188**	**5,624**
Accrued interest	12(i)	**12**	**7**	**16**	**16**	**3**	**–**	**1**	**55**
Loans and receivables	12(iii)	**–**	**14**	**23**	**–**	**–**	**–**	**42**	**79**
Derivative assets	13	**–**	**10**	**171**	**–**	**–**	**–**	**26**	**207**
Cash and cash equivalents[1]	14	**160**	**469**	**619**	**6**	**1**	**–**	**307**	**1,562**
Financial assets excluding equities		**1,926**	**1,349**	**2,280**	**1,136**	**272**	**–**	**564**	**7,527**
Reinsurers' share of contract liabilities		**–**	**124**	**102**	**–**	**–**	**–**	**86**	**312**
Other assets		**17**	**63**	**49**	**–**	**–**	**–**	**602**	**731**
		1,943	**1,536**	**2,431**	**1,136**	**272**	**–**	**1,252**	**8,570**

1. 'A' rated cash and cash equivalents include £nil (2012: £5m) holdings in commercial paper which are short term instruments which carry a short term rating of A1+/A1 from Standard & Poor's.

BALANCE SHEET MANAGEMENT (CONTINUED)

As at 31 December 2013	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated bespoke CDOs £m	Unrated other £m	Total £m
Non profit non-unit linked									
Government securities		219	3,232	4	265	–	–	–	3,720
Other fixed rate securities		914	2,746	8,544	7,224	581	–	1,377	21,386
Variable rate securities[1]		225	703	1,539	692	9	983	361	4,512
Total debt securities	12(i)	1,358	6,681	10,087	8,181	590	983	1,738	29,618
Accrued interest	12(i)	20	62	149	145	13	–	11	400
Loans and receivables	12(iii)	–	–	–	–	–	–	–	–
Derivative assets	13	–	167	1,933	–	–	–	–	2,100
Cash and cash equivalents	14	12	310	315	–	–	–	52	689
Financial assets excluding equities		1,390	7,220	12,484	8,326	603	983	1,801	32,807
Reinsurers' share of contract liabilities		–	1,482	648	–	–	–	141	2,271
Other assets		–	–	–	–	–	–	338	338
		1,390	8,702	13,132	8,326	603	983	2,280	35,416

1. For financial risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the balance sheet the components of the CDOs are shown within non profit non-unit linked investments (2013: £616m; 2012: £812m), cash equivalents (2013: £384m; 2012: £265m) and derivative liabilities (2013: £(17)m; 2012: £(102)m).

At the year end, the Group held £953m (2012: £429m) of collateral in respect of non-unit linked derivative assets.

	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated bespoke CDOs £m	Unrated other £m	Total £m
With-profits									
Government securities		137	3,353	43	83	15	–	2	3,633
Other fixed rate securities		1,221	1,078	1,796	1,937	129	–	516	6,677
Variable rate securities		–	–	12	5	7	–	23	47
Total debt securities	12(i)	1,358	4,431	1,851	2,025	151	–	541	10,357
Accrued interest	12(i)	24	57	29	40	1	–	1	152
Loans and receivables	12(iii)	–	–	–	–	–	–	30	30
Derivative assets	13	–	3	45	–	–	–	–	48
Cash and cash equivalents	14	205	651	446	–	–	–	11	1,313
Financial assets excluding equities		1,587	5,142	2,371	2,065	152	–	583	11,900
Reinsurers' share of contract liabilities		–	1	–	–	–	–	–	1
Other assets		32	–	1	–	–	–	156	189
		1,619	5,143	2,372	2,065	152	–	739	12,090

BALANCE SHEET MANAGEMENT (CONTINUED)

17 CREDIT RISK (CONTINUED)

As at 31 December 2012	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated bespoke CDOs £m	Unrated other £m	Total £m
Shareholder									
Government securities		1,125	223	–	154	26	–	8	1,536
Other fixed rate securities		485	503	1,305	789	24	–	21	3,127
Variable rate securities		417	177	335	12	4	–	–	945
Total debt securities	12(i)	2,027	903	1,640	955	54	–	29	5,608
Accrued interest	12(i)	16	9	14	13	–	–	9	61
Loans and receivables	12(iii)	–	2	6	–	–	–	46	54
Derivative assets	13	–	2	157	–	–	–	31	190
Cash and cash equivalents	14	206	820	687	9	–	–	335	2,057
Financial assets excluding equities		2,249	1,736	2,504	977	54	–	450	7,970
Reinsurers' share of contract liabilities		–	88	119	–	–	–	103	310
Other assets		9	31	71	3	–	–	462	576
		2,258	1,855	2,694	980	54	–	1,015	8,856
Non profit non-unit linked									
Government securities		3,246	44	3	286	–	–	–	3,579
Other fixed rate securities		1,089	2,574	8,459	7,638	460	–	992	21,212
Variable rate securities[1]		530	581	1,204	559	–	975	235	4,084
Total debt securities	12(i)	4,865	3,199	9,666	8,483	460	975	1,227	28,875
Accrued interest	12(i)	34	41	147	141	7	–	9	379
Loans and receivables	12(iii)	–	–	–	–	–	–	–	–
Derivative assets	13	–	315	2,598	–	–	–	–	2,913
Cash and cash equivalents	14	17	256	250	–	–	–	19	542
Financial assets excluding equities		4,916	3,811	12,661	8,624	467	975	1,255	32,709
Reinsurers' share of contract liabilities		–	1,282	508	–	–	–	171	1,961
Other assets		–	–	6	–	–	–	299	305
		4,916	5,093	13,175	8,624	467	975	1,725	34,975

1. For financial risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the balance sheet the components of the CDOs are shown within investments (£812m), cash equivalents (£265m) and derivative liabilities (£(102)m).

BALANCE SHEET MANAGEMENT (CONTINUED)

As at 31 December 2012	Notes	AAA £m	AA £m	A £m	BBB £m	BB and below £m	Unrated bespoke CDOs £m	Unrated other £m	Total £m
With-profits									
Government securities		2,879	373	–	30	–	–	–	3,282
Other fixed rate securities		2,335	1,582	1,962	2,018	125	–	171	8,193
Variable rate securities		26	27	21	3	–	–	5	82
Total debt securities	12(i)	5,240	1,982	1,983	2,051	125	–	176	11,557
Accrued interest	12(i)	64	29	34	44	1	–	1	173
Loans and receivables	12(iii)	–	–	–	–	–	–	22	22
Derivative assets	13	–	3	43	–	–	–	–	46
Cash and cash equivalents	14	212	651	603	3	–	–	–	1,469
Financial assets excluding equities		5,516	2,665	2,663	2,098	126	–	199	13,267
Reinsurers' share of contract liabilities		–	1	–	–	–	–	2	3
Other assets		–	9	–	–	–	–	191	200
		5,516	2,675	2,663	2,098	126	–	392	13,470

BALANCE SHEET MANAGEMENT (CONTINUED)

17 CREDIT RISK (CONTINUED)

Impairment

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

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

The table below provides information regarding the carrying value of financial assets which have been impaired and the ageing analysis of financial assets which are past due but not impaired. Unit linked assets have not been included as shareholders are not exposed to the risks from unit linked policies.

Ageing of financial assets that are past due but not impaired

As at 31 December 2013	Neither past due nor impaired £m	Financial assets that are past due but not impaired 0-3 months £m	3-6 months £m	6 months-1 year £m	Over 1 year £m	Financial assets that have been impaired £m	Carrying value £m
Shareholder	**7,914**	**30**	**3**	**1**	**–**	**–**	**7,948**
Non profit non-unit linked[1]	**35,088**	**149**	**11**	**8**	**9**	**–**	**35,265**
With-profits	**11,910**	**20**	**–**	**–**	**–**	**–**	**11,930**

1. For risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the balance sheet the components of the CDOs are shown within investments (£616m), cash equivalents (£384m) and derivative liabilities (£(17)m).

As at 31 December 2012	Neither past due nor impaired £m	Financial assets that are past due but not impaired 0-3 months £m	3-6 months £m	6 months-1 year £m	Over 1 year £m	Financial assets that have been impaired £m	Carrying value £m
Shareholder	8,104	22	1	1	–	–	8,128
Non profit non-unit linked[1]	34,574	207	1	6	9	–	34,797
With-profits	13,350	12	–	–	1	–	13,363

1. For risk management purposes, bespoke consolidated CDOs are considered net. For presentation in the balance sheet the components of the CDOs are shown within investments (£812m), cash equivalents (£265m) and derivative liabilities (£(102)m).

BALANCE SHEET MANAGEMENT (CONTINUED)

18 INSURANCE RISK

The Group is exposed to insurance risk as a consequence of offering the principal products outlined in Note 7. Insurance risk is the exposure to loss arising from claims experience being different to that anticipated. Detailed below are the risks associated with each of the Group's segments and the associated controls operated.

LGAS

Insurance Risk

Principal Risks	Product	Control
Longevity, Mortality and Morbidity Risks		
For contracts providing death benefits, higher mortality rates would lead to an increase in claims costs. The cost of health related claims depends on both the incidence of policyholders becoming ill and the duration over which they remain ill. Higher than expected incidence or duration would increase costs over the level currently assumed in the calculation of liabilities.	Protection	The pricing of protection business is based on assumptions as to future trends in mortality and morbidity having regard to past experience. Underwriting criteria are defined setting out the risks that are unacceptable and the terms for non-standard risks presented by the lives to be insured. Extensive use of reinsurance is made within individual protection business, placing a proportion of all risks meeting prescribed criteria. Mortality and morbidity experience is compared to that assumed within the pricing basis with variances subject to actuarial investigation.
For savings contracts providing minimum assured death benefits, higher mortality rates may result in an increase in claims costs.	Savings	The pricing basis for contracts providing minimum assured death benefits include provision for future trends in mortality based on past experience. The level of mortality risk accepted within each contract is not sufficiently material to warrant formal underwriting at an individual policy level.
Older contracts containing a basic guaranteed benefit expressed as an amount of pension payable or a guaranteed annuity option, expose the Group to interest rate and longevity risk. The cost of guarantees increases during periods when interest rates are low or when annuitant mortality improves faster than expected.	Pensions	The ultimate cost of basic guarantees provided on older contracts will depend on the take up rate of any option and the final form of annuity selected by the policyholder. The Group has limited ability to control the take up of these options. However, the book of business itself is diminishing in size. As at 31 December 2013 the value of guarantees is estimated to be £31m (31 December 2012: £51m).
Persistency Risk		
In the early years of a policy, lapses may result in a loss to the Group, as the acquisition costs associated with the contract would not have been recovered from product margins.	Protection	The pricing basis for protection business includes provision for policy lapses. Following the adoption of PS06/14 in 2006 the persistency assumption for non-participating protection business allows for the expected pattern of persistency, adjusted to incorporate a margin for adverse deviation. Actual trends in policy lapse rates are monitored with adverse trends being subject to actuarial investigation.
In the early years of a policy, lapses and surrenders are likely to result in a loss to the Group, as the acquisition costs associated with the contract would not have been recovered from product margins.	Savings	For insured contracts, terms and conditions typically include surrender deductions to mitigate the risk. In later periods, once the acquisition costs have been recouped, the effect of lapses and surrenders depends upon the relationship between the exit benefit, if any, and the liability for that contract. Exit benefits are not generally guaranteed and the Group has some discretion in determining the amount of the payment. As a result, the effect on profit in later periods is expected to be broadly neutral.
Expense Risk		
In pricing long term insurance business, assumptions are made as to the future cost of product servicing. A significant adverse divergence in actual expenses experience could reduce product profitability.	Protection and Savings	In determining pricing assumptions, account is taken of changes in price indices and the costs of employment, with stress testing used to evaluate the effect of significant deviations. Actual product servicing costs are monitored relative to the costs assumed with the product pricing basis, with variances investigated.
Concentration (Catastrophe) Risk		
Insurance risk may be concentrated in geographic regions, altering the risk profile of the Group. The most significant exposure of this type arises for group protection business, where a single event could result in a large number of related claims.	Protection and General insurance	Group protection business contracts include an 'event limit' capping the total liability under the policy from a single event. Excess of loss reinsurance further mitigates loss from the exposure. For general insurance business, the risk acceptance policy, terms and premiums reflect expected claims and cost associated with a location and avoids adverse selection. Additionally, exposure by location is monitored to ensure there is a geographic spread of risk. Catastrophe reinsurance cover also mitigates loss from concentrations of risk.

BALANCE SHEET MANAGEMENT (CONTINUED)

18 INSURANCE RISK (CONTINUED)

LGAS (continued)

Insurance Risk (continued)

Principal Risks	Product	Control
Catastrophe (Epidemics) The spread of an epidemic could cause large aggregate claims across the Group's portfolio of protection businesses.	Protection	The pricing basis for protection business includes an assessment of potential claims as a result of epidemic risks. Quota share and excess of loss reinsurance contracts are used by individual and group protection, respectively, to further mitigate the risk. Depending on the nature of an epidemic, mortality experience may lead to a reduction in the cost of claims for annuity business.
Weather events Significant weather events such as windstorms, and coastal and river floods can lead to higher instance of claims than anticipated.	General insurance	The impact of events are mitigated by excess of loss catastrophe treaties, under which the cost of claims from a weather event in excess of an agreed retention level, is recovered from insurers. The reinsurance is designed to protect against a modelled windstorm and coastal flood event with a return probability of 1 in 200 years.
Other Risks	Product	Control
Subsidence The incidence of subsidence can have a significant impact on the level of claims on household policies.	General insurance	Underwriting criteria for general insurance business includes assessment of subsidence risk, with an appropriate premium being charged for the risk accepted. Reinsurance arrangements are used to further mitigate the risk.

LGR

Insurance Risk

Risk	Product	Control
Longevity, Mortality and Morbidity Risks For annuity contracts, the Group is exposed to the risk that mortality experience is lower than assumed; lower than expected mortality would require payments to be made for longer and increase the cost of benefits provided.	Annuities	Annuity business is priced having regard to trends in improvements in future mortality. Enhanced annuities, which are priced taking account of impairments to life expectancy, are subject to specific underwriting criteria. Certain annuitant mortality risks, including enhanced annuities, are placed with reinsurers. The Group regularly reviews its mortality experience and industry projections of longevity and adjusts the pricing and valuation assumptions accordingly.
Expense Risk In pricing long term insurance business, assumptions are made as to the future cost of product servicing. A significant adverse divergence in actual expenses experience could reduce product profitability.	Annuities	In determining pricing assumptions, account is taken of changes in price indices and the costs of employment, with stress testing used to evaluate the effect of significant deviations. Product servicing costs are monitored relative to the costs assumed with the product pricing basis.

The financial risks associated with LGIM's businesses are directly borne by the investors in its funds. Therefore detailed risk disclosures have not been presented. The approach to the management of operational risks, including loss arising from trading errors, breach of fund management guidelines or valuation errors, where a breakdown in controls could lead to successful litigation against the company by one or more clients, is set out in Note 28.

The principal risks and associated controls relevant to our LGA business are consistent with those identified for our LGAS and LGR businesses and therefore have not been repeated here.

Accumulation of risks

There is limited potential for single incidents to give rise to a large number of claims across the different contract types written by the Group. In particular, there is little significant overlap between the long term and short term insurance business written by the Group. However, there are potentially material correlations of insurance risk with other types of risk exposure. These correlations are difficult to estimate though they would tend to be more acute as the underlying risk scenarios became more extreme. An example of the accumulation of risk is the correlation between reinsurer credit risk and mortality and morbidity exposures.

BALANCE SHEET MANAGEMENT (CONTINUED)

19 LONG TERM INSURANCE VALUATION ASSUMPTIONS

The Group's insurance assumptions, described below, relate exclusively to the UK insurance business. The non-UK businesses do not constitute a material component of the Group's operations and consideration of geographically determined assumptions is therefore not included.

(i) Non-participating business

For its non-participating business the Group seeks to make prudent assumptions about its future experience based on current market conditions and recent experience. The approach used to set non-participating assumptions is generally similar to that used to determine the assumptions used for PRA statutory Peak 1, although the actual assumptions may sometimes differ from those used for regulatory reporting purposes. These assumptions incorporate prudent margins in excess of our best estimate assumptions to reduce the possibility of actual experience being less favourable than assumed.

Valuation rates of interest and discount rates

The valuation interest rate for each contract type is based on the yield on the assets backing the contract adjusted for the risk that asset proceeds are not received by the Group. For some business, this yield is the gross redemption yield on fixed interest securities and the running yield on variable interest securities. For other business it is the Internal Rate of Return on the portfolio of backing assets.

In 2013, the Group continued to hold an additional reserve to protect against the risk of an uplift in defaults in the current economic environment and also maintained the level of the long term default allowance at 40bps per annum (2012: 40bps) for unapproved securities backing non profit business and 35bps per annum (2012: 35bps) for unapproved securities backing non-participating with-profits business. For approved securities and swaps backing the non profit business, the allowance increased to 9bps per annum (2012: 5bps). For approved securities and swaps backing non-participating with-profits business the allowance increased to 5bps per annum (2012: 3bps). For unapproved securities backing non profit annuity business, the credit default allowances equate to 56bps per annum (2012: 58bps) when experienced over the duration of the assets held, leading to an overall total default provision of £1.8bn (2012: £1.7bn). A similar methodology has been used for assets backing non-participating with-profits business.

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

For equity investments, the yield is based on the current dividend yield, adjusted for prudence.

For property holdings, yields are based on the rental income payable, adjusted for the cost of default. Default rates used in the calculations vary by tenant category.

Mortality and morbidity

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

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

BALANCE SHEET MANAGEMENT (CONTINUED)

19 LONG TERM INSURANCE VALUATION ASSUMPTIONS (CONTINUED)

Persistency

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

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

For non-participating contracts where explicit persistency assumptions are not made, prudence is also incorporated into the liabilities by ensuring that they are sufficient to cover the more onerous of the two scenarios where the policies either remain in-force until maturity or where they discontinue at the valuation date.

Expenses

The Group monitors its expense experience and carries out detailed investigations regularly to determine the expenses incurred in writing and administering the different products and classes of business. Adjustments may be made for known future changes in the administration processes, in line with the Group's business plan. An allowance for expense inflation in the future is also made, taking account of both salary and price information. The expense assumptions also include an appropriate allowance for prudence.

Premiums

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

(ii) Participating business

For its participating business, the Group seeks to establish its liabilities at their realistic value in line with the requirements set out in FRS 27.

Non-economic assumptions

Non-economic assumptions are set to represent the Group's best estimates of future experience.

Premiums

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

BALANCE SHEET MANAGEMENT (CONTINUED)

Economic assumptions

The PRA's realistic reporting regime requires a market consistent economic model. The model is calibrated using market data from a variety of market sources. This enables assumptions to be determined for the term structure of risk free interest rates, and for property and equity volatility. Risk free interest rates are determined with reference to the gilt yield curve on the valuation date increased by ten basis points.

Property volatility is set with reference to historic variations in property prices. Equity volatility is set so that the model reproduces observed market prices of traded equity derivatives. Correlations between asset classes are based on historic data.

Each investment scenario contains a consistent set of assumptions for investment returns and inflation.

Future bonuses

Future reversionary and terminal bonuses are consistent with the bonus policies set out in Society's Principles and Practices of Financial Management (PPFM).

Guaranteed annuity options

The guarantees are valued on a market consistent basis. The valuation methodology allows for the correlation between interest rates and the proportion of the policyholders who take up the option.

Guaranteed cash options

The liability is determined assuming that policyholders choose the most valuable alternative between the annuity and cash available at retirement.

Value of in-force non-participating contracts

The Group makes a deduction from the liabilities for the expected value of future profits arising on non-participating contracts written in the with-profits part of the Society Long Term Fund.

The economic assumptions used to calculate the value of these profits are consistent with those used to calculate liabilities for with-profits business, with the addition of a liquidity premium in respect of assets backing non-participating annuity business. Non-economic assumptions represent best estimates of expected future experience on this business. An explicit allowance is made for non-market risk.

BALANCE SHEET MANAGEMENT (CONTINUED)

19 LONG TERM INSURANCE VALUATION ASSUMPTIONS (CONTINUED)

(iii) Long term valuation assumptions

The table below sets out the current valuation assumptions used to establish the long term liabilities for Society, Legal & General Pensions Limited (LGPL) and Legal & General Assurance (Pensions Management) Limited.

	2013	2012
Rate of interest/discount rates		
Non-participating business		
Life assurances	**2.00% pa and 6.60% pa[1]**	2.00% pa and 6.60% pa[1]
Pension assurances	**2.00% pa and 6.60% pa[1]**	2.00% pa and 6.60% pa[1]
Annuities in deferment	**3.960% pa**	3.750% pa
Annuities in deferment (RPI-linked; net rate after allowance for inflation)	**0.56% pa**	0.75% pa
Vested annuities	**1.00% – 3.960% pa**	1.00% – 3.750% pa
Vested annuities (RPI-linked; net rate after allowance for inflation)	**-0.20% – 0.56% pa**	-0.50% – 0.75% pa
Participating business		
Risk free rate (10 years)	**3.31% pa**	2.00% pa
Future bonuses	**Determined stochastically in line with bonus policy as stated in PPFM**	Determined stochastically in line with bonus policy as stated in PPFM
UK equity volatility (10 year option term)	**22.4%**	26.2%
Property volatility	**15.0%**	15.0%
Mortality tables		
Non-participating business		
Non-linked individual term assurances		
Smokers	**82% TMS00/TFS00 Sel 5**	83% TMS00/TFS00 Sel 5
Non-smokers	**89% TMN00/TFN00 Sel 5**	89% TMN00/TFN00 Sel 5
Non-linked individual term assurances with terminal illness		
Smokers	**83% – 100% TMS00/TFS00 Sel 5[2]**	86% – 108% TMS00/TFS00 Sel 5[2]
Non-smokers	**79% – 103% TMN00/TFN00 Sel 5[2]**	85% – 114% TMN00/TFN00 Sel 5[2]
Non-linked individual term assurances with critical illness		
Smokers	**91% – 102% CIBT93M/F Ult Comb[3]**	85% – 102% CIBT93M/F Ult Comb[3]
Non-smokers	**60% – 69% CIBT93M/F Ult Comb[3]**	60% – 67% CIBT93M/F Ult Comb[3]
Other non-linked non profit life assurances	**100% of A67/70 ultimate tables**	100% of A67/70 ultimate tables
Annuities in deferment	**81.3% – 88.0% PNMA00/PNFA00[4]**	83.5% – 88.6% PNMA00/PNFA00[4]
Vested annuities[5]		
Bulk purchase annuities	**82.2% – 88.0% PCMA00/PCFA00**	85.3% – 89.5% PCMA00/PCFA00
Other annuities	**63.9% – 111.9% PCMA00/PCFA00**	67.4% – 114.3% PCMA00/PCFA00

1. For product groups where liabilities are positive, the lower interest rate of 2.00% is used. However, for product groups where liabilities are negative, the higher rate of 6.60% is used.
2. The percentage of the table varies with the duration that the policy has been in-force for the first five years.
3. The percentage of the table varies with the duration that the policy has been in-force for the first two years. For term assurance with critical illness, morbidity rates are assumed to deteriorate at a rate of 0.5% p.a. for males and 0.75% p.a. for females (2012: 0.50% p.a. for males and 0.75% p.a. for females). There is an additive loading of 1% (2012: 1%) for guaranteed term contracts post policy duration 5.
4. Table created by blending PCXA00 with PNXA00 tables. The base table to be used for BPA policies in deferment is PNMA00 up to and including age 55 and PCMA00 for age 65 and above for males. The identical method is applied to females using PNFA00 and PCFA00.
5. For vested annuities, mortality rates are assumed to reduce according to CMIB's mortality improvement model; CMI 2012 (2012: CMI 2011) with the following parameters:
   Males: Long Term Rate of 2% p.a. (2012: 2% p.a.) up to age 85 tapering to 0% at 120
   Females: Long Term Rate of 1.5% p.a. (2012: 1.5% p.a.) up to age 85 tapering to 0% at 120
   For certain annuities, a further allowance is made for the effect of initial selection.
   The basis above is applicable up to age 90. After age 90 the basis is blended towards a bespoke table from age 100 onwards.

BALANCE SHEET MANAGEMENT (CONTINUED)

Persistency assumptions

Lapse rates assumptions are used in the PRA statutory Peak 1 valuation of certain classes of long term business. Where this is the case, the valuation persistency basis is set by applying a prudential margin over the best estimate assumptions. The tables below show the major products where lapse rates have been used.

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

For unitised business, the margin acts to either increase or decrease the best estimate lapse rates, depending upon which approach results in the higher liability. The direction of the margin is assessed for unit life business and unit pensions business separately.

A summary of the lapse basis for major classes of business (participating and non-participating), as defined by the requirements of the annual returns to the PRA, is shown below. The lapse rates for unitised with-profits and unit linked business represent the decrement from in-force to surrender.

	2013 Average lapse rate for the policy years			
Product	1-5 %	6-10 %	11-15 %	16-20 %
Level term	12.5	8.8	6.5	4.6
Decreasing term	12.5	8.8	6.7	6.7
Accelerated critical illness cover	19.7	11.9	5.6	5.6
Pensions term	11.3	7.9	6.0	6.0
Whole of Life (conventional non profit)	7.4	2.3	–	–
Savings endowment (unitised with-profits)	–	0.1	2.0	3.9
Target cash endowment (unitised with-profits)	–	–	2.9	2.4
Savings endowment (unit linked)	–	0.1	2.0	3.9
Target cash endowment (unit linked)	–	–	2.9	2.4
Bond (unitised with-profits)	0.9	2.7	3.3	1.9
Bond (unit linked)	1.7	6.2	3.7	3.0
Individual pension regular premium (unitised with-profits)	2.0	2.0	2.0	2.0
Individual pension regular premium (unit linked)	2.8	2.4	1.6	1.5
Group pension regular premium (unitised with-profits)	6.4	6.4	6.3	6.2
Group pension regular premium (unit linked)	2.2	2.4	1.8	1.7
Individual pension single premium (unitised with-profits)	1.8	1.8	1.7	1.7
Individual pension single premium (unit linked)	4.0	3.8	2.1	2.0
Group pension single premium (unitised with-profits)	8.4	8.4	8.4	8.4
Group pension single premium (unit linked)	3.8	3.8	3.8	3.8
Trustee Investment Plan single premium (unitised with-profits)	3.0	7.6	4.1	3.8
Trustee Investment Plan single premium (unit linked)	3.1	7.2	4.1	3.9

BALANCE SHEET MANAGEMENT (CONTINUED)

19 LONG TERM INSURANCE VALUATION ASSUMPTIONS (CONTINUED)

	2012 Average lapse rate for the policy years			
Product	1-5 %	6-10 %	11-15 %	16-20 %
Level term	13.2	9.0	6.6	4.7
Decreasing term	13.3	9.1	6.9	6.8
Accelerated critical illness cover	20.8	11.7	5.7	5.7
Pensions term	11.8	8.0	6.1	6.1
Whole of Life (conventional non profit)	7.4	2.2	–	–
Savings endowment (unitised with-profits)	–	0.8	2.4	3.9
Target cash endowment (unitised with-profits)	–	4.7	3.0	2.3
Savings endowment (unit linked)	–	0.8	2.4	3.9
Target cash endowment (unit linked)	–	4.7	3.0	2.3
Bond (unitised with-profits)	0.9	2.2	2.4	1.7
Bond (unit linked)	2.4	6.1	3.8	3.3
Individual pension regular premium (unitised with-profits)	1.2	1.2	1.2	1.2
Individual pension regular premium (unit linked)	1.8	1.8	1.2	1.2
Group pension regular premium (unitised with-profits)	2.1	2.1	2.0	2.0
Group pension regular premium (unit linked)	1.0	1.2	1.1	1.0
Individual pension single premium (unitised with-profits)	3.3	3.3	3.1	3.1
Individual pension single premium (unit linked)	4.7	4.2	2.9	2.8
Group pension single premium (unitised with-profits)	12.3	12.3	12.3	12.3
Group pension single premium (unit linked)	5.6	5.6	5.6	5.6
Trustee Investment Plan single premium (unitised with-profits)	3.6	7.8	4.5	4.3
Trustee Investment Plan single premium (unit linked)	3.8	7.7	4.7	4.4

Endowment reserve

The endowment reserve has been set taking reasonable account of an assessment of the expected future population of complaints, the expected uphold rate for these complaints, the potential impact of any Financial Ombudsman Service decisions on referred complaints and the average compensation per complaint.

Overseas business

In calculating the long term business provisions for international long term business operations, local actuarial tables and interest rates are used.

BALANCE SHEET MANAGEMENT (CONTINUED)

20 IFRS SENSITIVITY ANALYSIS

	Impact on pre-tax Group profit net of re-insurance 2013 £m	**Impact on Group equity net of re-insurance 2013 £m**	Impact on pre-tax Group profit net of re-insurance 2012 £m	Impact on Group equity net of re-insurance 2012 £m
Economic sensitivity				
Long-term insurance				
1% increase in interest rates	**39**	**32**	8	7
1% decrease in interest rates	**(11)**	**(10)**	(46)	(35)
Credit spread widens by 100bps with no change in expected defaults	**(100)**	**(76)**	(123)	(93)
1% increase in inflation	**45**	**36**	(10)	(8)
10% decrease in listed equities	**(143)**	**(114)**	(124)	(95)
10% fall in property values	**(53)**	**(41)**	(31)	(24)
10bps increase in credit default assumption	**(284)**	**(218)**	(282)	(213)
10bps decrease in credit default assumption	**292**	**224**	280	212
Non-economic sensitivity				
Long-term insurance				
1% decrease in annuitant mortality	**(105)**	**(80)**	(96)	(73)
Default of largest reinsurer	**(666)**	**(512)**	(651)	(491)
General Insurance				
Single storm event with 1 in 200 year probability	**(73)**	**(56)**	(63)	(47)
Subsidence event – worst claims ratio in last 30 years	**(55)**	**(42)**	(50)	(37)
5% decrease in overall claims ratio	**7**	**5**	8	6
5% surplus over claims liabilities	**5**	**4**	5	4

For any single event with claims in excess of £43m (2012: £36m) but less than £456m (2012: £360m), the ultimate cost to Legal & General Insurance Limited (LGI) would be £43m (2012: £36m). The ultimate cost to the Group is greater as a proportion of the catastrophe reinsurance cover is placed with Legal & General Assurance Society Limited, which is exposed to 70% of claims between £43m and £85m, 70% of claims between £85m and £195m and 40% of claims between £195m and £447m. The impact of a 1 in 500 year modelled windstorm and coastal flood event would exceed the upper limit of the catastrophe cover by approximately £210m (2012: £180m), with an estimated total cost to LGI of £287m (2012: £246m) and to the Group of £481m (2012: £346m).

BALANCE SHEET MANAGEMENT (CONTINUED)

20 IFRS SENSITIVITY ANALYSIS (CONTINUED)

The table shows the impacts on Group pre-tax profit and equity, net of reinsurance, under each sensitivity scenario for the Group. The participating funds have been excluded in the above sensitivity analysis as the impact of the sensitivities on IFRS profit and equity is offset by the movement in the unallocated divisible surplus (UDS). The shareholders' share of with-profit bonus declared in the year is relatively insensitive to market movements due to the smoothing policies applied.

The above sensitivity analyses do not reflect management actions which could be taken to reduce the impacts. The Group seeks to actively manage its asset and liability position. A change in market conditions may lead to changes in the asset allocation or charging structure which may have a more, or less, significant impact on the value of the liabilities. The analyses also ignore any second order effects of the assumption change, including the potential impact on the Group asset and liability position and any second order tax effects. In calculating the alternative values, all other assumptions are left unchanged, though in practice, items of the Group's experience may be correlated. The sensitivity of the profit and equity to changes in assumptions may not be linear. These results should not be extrapolated to changes of a much larger order.

The interest rate sensitivity assumes a 100 basis point change in the gross redemption yield on fixed interest securities together with a 100 basis point change in the real yields on variable securities. For the UK long-term funds, valuation interest rates are assumed to move in line with market yields adjusted to allow for the impact of PRA regulations. The interest rate sensitivities reflect the impact of the regulatory restrictions on the reinvestment rate used to value the liabilities of the long-term business.

In the sensitivity for credit spreads, corporate bond yields have increased by 100bps, gilt and approved security yields are unchanged, and there has been no adjustment to the default assumptions.

The inflation stress adopted is a 1% pa increase in inflation resulting in a 1% pa reduction in real yield and no change to the nominal yield. In addition the expense inflation rate is increased by 1% pa.

The equity stress is a 10% fall in listed equity market values. The property stress adopted is a 10% fall in property market value. Rental income is assumed to be unchanged; however the vacant possession value is stressed down by 10% in line with the market value stress. Where property is being used to back liabilities, the valuation interest rate used to place a value on the liabilities moves with the implied change in property yields.

The annuitant mortality stress is a 1% reduction in the mortality rates for immediate and deferred annuitants with no change to the mortality improvement rates.

The credit default stress assumes a +/-10bps stress to the current credit default assumption for unapproved corporate bonds which will have an impact on the valuation interest rates used to discount liabilities. The credit default assumption is set based on the credit rating of the individual bonds in the asset portfolio and their outstanding term using Moody's global credit default rates.

For the sensitivity to the default of the Group's largest reinsurer, the reinsurer stress shown is equal to the technical provisions ceded to the reinsurer and represents the impact of the default of largest reinsurer at an entity level.

Details of IGD sensitivity analysis can be found in Table 2 of Note 29.

The Group also uses embedded value financial statements information to manage risk. The effect of alternative assumptions on the long-term embedded value, prepared in accordance with the guidance issued by the European Insurance CFO Forum in October 2005 are contained in Note 8 of the European Embedded Value section.

BALANCE SHEET MANAGEMENT (CONTINUED)

21 INSURANCE CONTRACT LIABILITIES

Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract.

A number of insurance and investment contracts contain discretionary participating features (DPF) which entitle the policyholders to receive guaranteed benefits as well as additional benefits:

- the amount or timing of which is contractually at the discretion of the Group; and
- which are contractually based on:
  – the performance of a specified pool of contracts or a specified type of contract;
  – realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  – the profit or loss of the Company, fund or other entity which issues the contract.

Contracts with DPF are referred to as participating contracts. With-profits contracts in the UK and most *Garantie Long Terme* contracts in France are classified as participating.

Long term insurance

Under current IFRS requirements, insurance contract liabilities are measured using local Generally Accepted Accounting Principles (GAAP), as permitted by IFRS 4, 'Insurance contracts'.

– UK

In the UK, insurance contract liabilities are determined following an annual investigation of the long term funds (LTFs) in accordance with regulatory requirements.

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

For participating contracts, the liabilities to policyholders are determined on a realistic basis in accordance with Financial Reporting Standard (FRS) 27, 'Life assurance'. This includes an assessment of the cost of any future options and guarantees granted to policyholders valued on a market consistent basis. The calculation also takes account of bonus decisions which are consistent with Legal & General Assurance Society Limited's (Society's) Principles and Practices of Financial Management (PPFM). The shareholders' share of the future cost of bonuses is excluded from the assessment of the realistic liability.

In determining the realistic value of liabilities for participating contracts, the value of future profits on non-participating business written in the with-profits part of the fund is accounted for as part of the calculation. The present value of future profits (VIF) for this business is separately determined and its value is deducted from the sum of the liabilities for participating contracts and the unallocated divisible surplus.

Unitised liabilities are recognised when premiums are received and non-unitised liabilities are recognised when premiums are due.

– Overseas

The long term insurance contract liabilities for business transacted by overseas subsidiaries are determined on the basis of recognised actuarial methods which reflect local supervisory principles or, in the case of the US, on the basis of US GAAP.

General insurance

Liabilities, together with related reinsurance recoveries, are established on the basis of current information. Such liabilities can never be definitive as to their timing or the amount of claims and are therefore subject to subsequent reassessment on a regular basis. Claims and related reinsurance recoveries are accounted for in respect of all incidents up to the year end. Provision is made on the basis of available information for the estimated ultimate cost, including claims settlement expenses, claims reported but not yet settled and claims incurred but not yet reported. An unexpired risk provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums and after taking account of investment return.

BALANCE SHEET MANAGEMENT (CONTINUED)

21 INSURANCE CONTRACT LIABILITIES (CONTINUED)

Liability adequacy tests

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

Reinsurance

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

BALANCE SHEET MANAGEMENT (CONTINUED)

(i) Analysis of insurance contract liabilities

	Notes	Gross 2013 £m	Re-insurance 2013 £m	Gross 2012 £m	Re-insurance 2012 £m
Participating insurance contracts	21(iii)	**6,972**	**(1)**	8,116	(1)
Non-participating insurance contracts	21(iv)	**39,975**	**(2,596)**	37,445	(2,277)
General insurance contracts	21(v)	**298**	**(5)**	283	(8)
Insurance contract liabilities		**47,245**	**(2,602)**	45,844	(2,286)

During the year, the Group continued utilising prospective reinsurance arrangements which resulted in a reduction of IFRS reserves of £270m (2012: £231m). This profit has been reflected in the consolidated income statement for the year.

(ii) Expected insurance contract liability cash flows

	Date of undiscounted cash flow					
As at 31 December 2013	**0-5 years £m**	**5-15 years £m**	**15-25 years £m**	**Over 25 years £m**	**Total £m**	**Carrying value £m**
Participating insurance contracts	**3,917**	**2,882**	**748**	**269**	**7,816**	**6,972**
Non-participating insurance contracts	**9,846**	**18,856**	**16,257**	**18,509**	**63,468**	**28,684**
General insurance contracts[1]	**99**	**4**	**–**	**–**	**103**	**103**
Insurance contract liabilities	**13,862**	**21,742**	**17,005**	**18,778**	**71,387**	**35,759**

	Date of undiscounted cash flow					
As at 31 December 2012	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating insurance contracts	4,631	2,967	886	403	8,887	8,116
Non-participating insurance contracts	8,476	16,307	14,126	15,777	54,686	26,779
General insurance contracts[1]	104	–	–	–	104	104
Insurance contract liabilities	13,211	19,274	15,012	16,180	63,677	34,999

1. Excludes unearned premium reserve of £195m (2012: £179m) for which there are no cash flows.

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

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

BALANCE SHEET MANAGEMENT (CONTINUED)

21 INSURANCE CONTRACT LIABILITIES (CONTINUED)

(iii) Movement in participating insurance contract liabilities

	Gross 2013 £m	Re-insurance 2013 £m	Gross 2012 £m	Re-insurance 2012 £m
As at 1 January	**8,116**	**(1)**	8,750	(1)
New liabilities in the year	**75**	**–**	262	–
Liabilities discharged in the year	**(1,606)**	**–**	(1,413)	–
Unwinding of discount rates	**79**	**–**	78	–
Effect of change in non-economic assumptions	**4**	**–**	4	–
Effect of change in economic assumptions	**291**	**–**	329	–
Other	**13**	**–**	106	–
As at 31 December	**6,972**	**(1)**	8,116	(1)
Expected to be settled within 12 months (net of reinsurance)	**1,387**		1,539	
Expected to be settled after 12 months (net of reinsurance)	**5,584**		6,576	

(iv) Movement in non-participating insurance contract liabilities

	Gross 2013 £m	Re-insurance 2013 £m	Gross 2012 £m	Re-insurance 2012 £m
As at 1 January	**37,445**	**(2,277)**	33,761	(2,110)
New liabilities in the year[1]	**3,872**	**(334)**	2,667	(392)
Liabilities discharged in the year	**(2,307)**	**167**	(2,271)	213
Unwinding of discount rates	**1,308**	**(134)**	1,311	(118)
Effect of change in non-economic assumptions	**77**	**(25)**	(124)	132
Effect of change in economic assumptions	**(430)**	**–**	2,229	(17)
Foreign exchange adjustments	**10**	**7**	(128)	15
As at 31 December	**39,975**	**(2,596)**	37,445	(2,277)
Expected to be settled within 12 months (net of reinsurance)	**3,721**		3,573	
Expected to be settled after 12 months (net of reinsurance)	**33,658**		31,595	

1. New liabilities includes those acquired with Lucida Ltd of £1,294m (See Note 30).

(v) Analysis of General insurance contract liabilities

	Gross 2013 £m	Re-insurance 2013 £m	Gross 2012 £m	Re-insurance 2012 £m
Outstanding claims	**66**	**–**	74	–
Claims incurred but not reported	**37**	**–**	30	–
Unearned premiums	**195**	**(5)**	179	(8)
General insurance contract liabilities	**298**	**(5)**	283	(8)

BALANCE SHEET MANAGEMENT (CONTINUED)

(vi) Movement in General insurance claim liabilities

	Gross 2013 £m	Re-insurance 2013 £m	Gross 2012 £m	Re-insurance 2012 £m
As at 1 January	**104**	**–**	93	(1)
Claims arising	**175**	**–**	181	–
Claims paid	**(156)**	**–**	(172)	1
Adjustments to prior year liabilities	**(20)**	**–**	2	–
As at 31 December	**103**	**–**	104	–
Expected to be settled within 12 months (net of reinsurance)	**57**		72	
Expected to be settled after 12 months (net of reinsurance)	**46**		32	

(vii) Unearned premiums

	Gross 2013 £m	Re-insurance 2013 £m	Gross 2012 £m	Re-insurance 2012 £m
As at 1 January	**179**	**(8)**	152	(5)
Earned in the period	**(375)**	**10**	(152)	5
Gross written premiums in respect of future periods	**391**	**(7)**	179	(8)
As at 31 December	**195**	**(5)**	179	(8)
Expected to be earned within 12 months (net of reinsurance)	**190**		171	
Expected to be earned after 12 months (net of reinsurance)	**–**		–	

(viii) Claims development – General insurance

Changes may occur in the amount of the Group's obligations at the end of a contract period. The top section of each table below illustrates how the estimate of total claims outstanding for each accident year developed over time. The bottom section of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

Gross of reinsurance

Accident year	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	Total £m
Estimate of ultimate claims costs:						
– At end of accident year	**164**	**174**	**124**	**164**	**162**	
– One year later	**156**	**187**	**119**	**149**	**–**	
– Two years later	**156**	**185**	**118**	**–**	**–**	
– Three years later	**155**	**181**	**–**	**–**	**–**	
– Four years later	**155**	**–**	**–**	**–**	**–**	
Estimate of cumulative claims	**155**	**181**	**118**	**149**	**162**	**765**
Cumulative payments	**(153)**	**(175)**	**(118)**	**(140)**	**(85)**	**(671)**
Outstanding claims provision	**2**	**6**	**–**	**9**	**77**	**94**
Prior period outstanding claims						**5**
Claims handling provision						**4**
Total claims liabilities recognised in the balance sheet						**103**

BALANCE SHEET MANAGEMENT (CONTINUED)

21 INSURANCE CONTRACT LIABILITIES (CONTINUED)

(viii) Claims development – General insurance (continued)

Net of reinsurance

Accident year	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	Total £m
Estimate of ultimate claims costs:						
– At end of accident year	162	173	123	164	162	
– One year later	155	187	119	149	–	
– Two years later	154	184	117	–	–	
– Three years later	154	181	–	–	–	
– Four years later	154	–	–	–	–	
Estimate of cumulative claims	154	181	117	149	162	763
Cumulative payments	(152)	(175)	(117)	(140)	(85)	(669)
Outstanding claims provision	2	6	–	9	77	94
Prior period outstanding claims						5
Claims handling provision						4
Total claims liabilities recognised in the balance sheet						103

22 INVESTMENT CONTRACT LIABILITIES

Under current IFRS requirements, participating investment contract liabilities are measured using local GAAP, as permitted by IFRS 4. In the UK, participating investment contract liabilities are determined in accordance with FRS 27, including a value for guarantees, in the same way as participating insurance contracts.

Non-participating investment contracts are unit linked contracts. Unit linked liabilities are measured at fair value by reference to the value of the underlying net asset values of the Group's unitised investment funds at the balance sheet date.

Unitised liabilities are recognised when premiums are received and non-unitised liabilities are recognised when premiums are due.

Claims are not included in the income statement but are deducted from investment contract liabilities. The movement in investment contract liabilities consists of claims incurred in the period less the corresponding elimination of the policyholder liability originally recognised in the balance sheet and the investment return credited to policyholders.

BALANCE SHEET MANAGEMENT (CONTINUED)

(i) Analysis of investment contract liabilities

	Gross 2013 £m	Re-insurance 2013 £m	Gross 2012 £m	Re-insurance 2012 £m
Participating investment contracts	**7,493**	**–**	7,403	(2)
Non-participating investment contracts	**278,754**	**(295)**	264,958	(211)
Investment contract liabilities	**286,247**	**(295)**	272,361	(213)
Expected to be settled within 12 months (net of reinsurance)	**39,582**		38,356	
Expected to be settled after 12 months (net of reinsurance)	**246,370**		233,792	

(ii) Movement in investment contract liabilities

	Gross 2013 £m	Re-insurance 2013 £m	Gross 2012 £m	Re-insurance 2012 £m
As at 1 January	**272,361**	**(213)**	258,621	(172)
Reserves in respect of new business	**30,816**	**(237)**	28,347	(281)
Amounts paid on surrenders and maturities during the year	**(47,055)**	**66**	(37,662)	16
Investment return and related benefits	**30,369**	**89**	23,432	224
Management charges	**(295)**	**–**	(300)	–
Foreign exchange adjustments	**51**	**–**	(55)	–
Other	**–**	**–**	(22)	–
As at 31 December	**286,247**	**(295)**	272,361	(213)

Change in provisions for investment contract liabilities represents the total gross and reinsurance investment return and related benefits of £30,458m (2012: £23,656m).

Fair value movements of £30,095m (2012: £23,199m) are included within the consolidated income statement arising from movements in investment contract liabilities designated as FVTPL.

BALANCE SHEET MANAGEMENT (CONTINUED)

22 INVESTMENT CONTRACT LIABILITIES (CONTINUED)

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

As at 31 December 2013	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Non-participating investment contracts	**278,754**	**276,759**	**1,953**	**42**	**–**

As at 31 December 2012	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Non-participating investment contracts	264,958	263,491	1,433	34	–

The fair value of financial liabilities are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data.

Non-participating unit linked investment contracts include £42m (2012: £34m) valued using significant unobservable inputs and have been classified as level 3. These liabilities have limited transactions and are backed by property investments.

There have been no significant transfers between any of the levels.

(iv) Expected investment contract liability cash flows

As at 31 December 2013	Date of undiscounted cash flow 0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating investment contracts	**2,893**	**4,210**	**1,763**	**527**	**9,393**	**7,493**

As at 31 December 2012	Date of undiscounted cash flow 0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Participating investment contracts	2,941	3,723	1,435	440	8,539	7,403

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

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

A maturity analysis based on the earliest contractual repayment date would present investment contract liabilities as due on the earliest period of the table because policyholders can exercise cancellation options at their discretion. In such a scenario, the liability would be reduced due to the application of surrender penalties.

BALANCE SHEET MANAGEMENT (CONTINUED)

23 UNALLOCATED DIVISIBLE SURPLUS

The participating funds operate with an excess of assets over the amount required to meet the policyholder liabilities.

The nature of benefits for the contracts within these funds is such that the allocation of surpluses between ordinary equity holders and participating policyholders is uncertain. The amount of surplus which has not been allocated at the balance sheet date is classified within liabilities as the unallocated divisible surplus. Adjustments made to comply with FRS 27 are charged to the unallocated divisible surplus.

	2013 £m	2012[1] £m
As at 1 January	**1,153**	1,038
Transferred from the income statement	**112**	155
Actuarial losses on defined benefit pension schemes transferred from the statement of comprehensive income	**(49)**	(38)
Foreign exchange adjustments	**5**	–
Other	**–**	(2)
As at 31 December	**1,221**	1,153

1. The Consolidated Income Statement has been restated to reflect the adoption by the Group of amendments to IAS 19, 'Employee Benefits'. Further details are contained in Note 1.

The with-profits part of the LTF is managed on the basis that it will remain open to new business and therefore there is no expectation of any distribution from the inherited estate.

24 VALUE OF IN-FORCE NON-PARTICIPATING CONTRACTS

(i) Movement in value of in-force non-participating contracts

	2013 £m	2012 £m
As at 1 January	**242**	242
Unwinding of the discount rates	**4**	8
Investment return	**77**	(46)
Other	**(75)**	38
As at 31 December	**248**	242
Expected to be settled within 12 months	**20**	25
Expected to be settled after 12 months	**228**	217

(ii) Expected net cash flows

	Date of undiscounted cash flow					
As at 31 December 2013	**0-5 years £m**	**5-15 years £m**	**15-25 years £m**	**Over 25 years £m**	**Total £m**	**Carrying value £m**
Value of in-force non-participating contracts	**120**	**100**	**46**	**26**	**292**	**248**

	Date of undiscounted cash flow					
As at 31 December 2012	0-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m	Carrying value £m
Value of in-force non-participating contracts	119	105	49	23	296	242

Value of in-force (VIF) non-participating undiscounted net cash flows are based on the expected date of realisation. The VIF relates entirely to insurance contracts.

BALANCE SHEET MANAGEMENT (CONTINUED)

25 BORROWINGS

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

Borrowings comprise core borrowings such as tier 1 and tier 2 bond issues, short and long term unsecured senior debt such as long dated bond issues. Operational borrowings also includes borrowings secured on commercial paper issuance and bank borrowings under both committed and uncommitted debt facilities including bank overdrafts. Borrowings secured on specific assets/cash flows such as Triple X securitisations and private equity fund linked partnership assets are included as non recourse borrowings. Mortgage loans raised by SIPP clients secured on those properties invested in their portfolio of linked SIPP investments which we manage on their behalf are treated as unit linked borrowings.

(i) Analysis by type

	Borrowings excluding unit linked borrowings 2013 £m	Unit linked borrowings 2013 £m	Total 2013 £m	Borrowings excluding unit linked borrowings 2012 £m	Unit linked borrowings 2012 £m	Total 2012 £m
Core borrowings	**2,453**	**–**	**2,453**	2,445	–	2,445
Operational borrowings	**576**	**128**	**704**	795	125	920
Total borrowings	**3,029**	**128**	**3,157**	3,240	125	3,365

Unit linked borrowings are excluded from the analysis below as the risk is retained by the policyholders.

(ii) Borrowings excluding unit linked borrowings – Analysis by nature

(a) Core borrowings

	Carrying amount 2013 £m	Coupon rate 2013 %	Fair value 2013 £m	Carrying amount 2012 £m	Coupon rate 2012 %	Fair value 2012 £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities (Tier 1)	**680**	**6.39**	**650**	700	6.39	636
5.875% Sterling undated subordinated notes (Tier 2)	**418**	**5.88**	**438**	419	5.88	425
4.0% Euro subordinated notes 2025 (Tier 2)	**498**	**4.00**	**531**	479	4.00	502
10% Sterling subordinated notes 2041 (Tier 2)	**309**	**10.00**	**417**	309	10.00	425
Client fund holdings of Group debt[1]	**(13)**	**–**	**(13)**	(17)	–	(17)
Total subordinated borrowings	**1,892**		**2,023**	1,890		1,971
Senior borrowings						
Sterling medium term notes 2031-2041	**608**	**5.88**	**721**	608	5.88	767
Client fund holdings of Group debt[1]	**(47)**	**–**	**(55)**	(53)	–	(66)
Total senior borrowings	**561**		**666**	555		701
Total core borrowings	**2,453**		**2,689**	2,445		2,672

1. £60m (2012: £70m) of the Group's subordinated and senior debt, £13m and £47m respectively, (2012: £17m and £53m) is currently held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total borrowings in the table above.

All of the Group's core borrowings are measured using amortised cost. The presented fair values of the Group's core borrowings reflect quoted prices in active markets and have been classified as level 1 in the fair value hierarchy.

BALANCE SHEET MANAGEMENT (CONTINUED)

(b) Operational borrowings

	Carrying amount 2013 £m	Coupon rate 2013 %	Fair value 2013 £m	Carrying amount 2012 £m	Coupon rate 2012 %	Fair value 2012 £m
Short term operational borrowings						
Euro Commercial paper	**173**	**0.25**	**173**	333	0.16	333
Bank loans/other	**4**	**0.38**	**4**	4	0.47	4
Total short term operational borrowings	**177**		**177**	337		337
Non recourse borrowings						
US Dollar Triple X securitisation 2037	**268**	**0.54**	**230**	272	0.58	272
LGV 6/LGV 7 Private Equity Fund Limited Partnership	**131**	**4.04**	**131**	128	3.93	128
Consolidated Property Limited Partnerships	**58**	**1.15**	**58**	58	1.16	58
Total non recourse borrowings	**457**		**419**	458		458
Group holding of operational borrowings[1]	**(58)**	**–**	**(49)**	–	–	–
Total operational borrowings	**576**		**547**	795		795

1. The Group investments in operational borrowings have been eliminated from the Group consolidated balance sheet.

£127m of interest expense was incurred during the period (2012: £127m) on borrowings excluding non recourse and unit linked borrowings. The total financing costs incurred for the year is £163m (2012: £165m).

The presented fair values of the Group's operational borrowings reflect observable market information and have been classified as level 2 in the fair value hierarchy.

BALANCE SHEET MANAGEMENT (CONTINUED)

25 BORROWINGS (CONTINUED)

Subordinated borrowings

6.385% Sterling perpetual capital securities

In 2007, Legal & General Group Plc issued £600m of 6.385% Sterling perpetual capital securities. Simultaneous with the issuance, the fixed coupon was swapped into six month LIBOR plus 0.94% pa. These securities are callable at par on 2 May 2017 and every three months thereafter. If not called, the coupon from 2 May 2017 will be reset to three month LIBOR plus 1.93% pa. For regulatory purposes these securities are treated as innovative tier 1 capital.

5.875% Sterling undated subordinated notes

In 2004, Legal & General Group Plc issued £400m of 5.875% Sterling undated subordinated notes. These notes are callable at par on 1 April 2019 and every five years thereafter. If not called, the coupon from 1 April 2019 will be reset to the prevailing five year benchmark gilt yield plus 2.33% pa. These notes are treated as tier 2 capital for regulatory purposes.

4.0% Euro subordinated notes 2025

In 2005, Legal & General Group Plc issued €600m of 4.0% Euro dated subordinated notes. The proceeds were swapped into sterling. The notes are callable at par on 8 June 2015 and each year thereafter. If not called, the coupon from 8 June 2015 will reset to a floating rate of interest based on prevailing three month Euribor plus 1.7% pa. These notes mature on 8 June 2025 and are treated as tier 2 capital for regulatory purposes.

10% Sterling subordinated notes 2041

On 16 July 2009, Legal & General Group Plc issued £300m of 10% dated subordinated notes. The notes are callable at par on 23 July 2021 and every five years thereafter. If not called, the coupon from 23 July 2021 will be reset to the prevailing five year benchmark gilt yield plus 9.325% pa. These notes mature on 23 July 2041 and are treated as tier 2 capital for regulatory purposes.

Non recourse financing

US Dollar Triple X securitisation 2037

In 2006, a subsidiary of LGA issued US$450m of non recourse debt in the US capital markets to meet the Triple X reserve requirements of part of the US term insurance written after 2005 and 2006. It is secured on the cash flows related to that tranche of business.

LGV 6/LGV 7 Private Equity Fund Limited Partnerships

These borrowings are non recourse bank borrowings.

Consolidated Property Limited Partnerships

These borrowings are non recourse bank borrowings.

BALANCE SHEET MANAGEMENT (CONTINUED)

(iii) Borrowings excluding unit linked borrowings – Analysis by maturity

		Maturity profile of undiscounted cash flows					
As at 31 December 2013	**Carrying amount £m**	**Within 1 year £m**	**1-5 years £m**	**5-15 years £m**	**15-25 years £m**	**Over 25 years £m**	**Total £m**
Subordinated borrowings							
6.385% Sterling perpetual capital securities (Tier 1)	680	–	–	–	–	(600)	(600)
5.875% Sterling undated subordinated notes (Tier 2)	418	–	–	–	–	(400)	(400)
4.0% Euro subordinated notes 2025 (Tier 2)	498	–	–	(499)	–	–	(499)
10% Sterling subordinated notes 2041 (Tier 2)	309	–	–	–	–	(300)	(300)
Senior borrowings							
Sterling medium term notes 2031-2041	608	–	–	–	(590)	(10)	(600)
Client fund holdings of Group debt	(60)	–	–	–	–	–	–
Total core borrowings	2,453	–	–	(499)	(590)	(1,310)	(2,399)
Short term operational borrowings							
Euro Commercial paper	173	(173)	–	–	–	–	(173)
Bank loans/other	4	(4)	–	–	–	–	(4)
Non recourse							
– US Dollar Triple X securitisation 2037	268	–	–	–	(272)	–	(272)
– LGV 6/LGV 7 Private Equity Fund Limited Partnership	131	(45)	(77)	(10)	–	–	(132)
– Consolidated Property Limited Partnerships	58	–	(58)	–	–	–	(58)
– Group holding of operational borrowings	(58)	–	–	–	–	–	–
Total operational borrowings	576	(222)	(135)	(10)	(272)	–	(639)
Total borrowings excluding unit linked borrowings	3,029	(222)	(135)	(509)	(862)	(1,310)	(3,038)
Contractual undiscounted interest payments		(154)	(603)	(1,417)	(1,069)	(77)	(3,320)
Total contractual undiscounted cash flows		(376)	(738)	(1,926)	(1,931)	(1,387)	(6,358)

BALANCE SHEET MANAGEMENT (CONTINUED)

25 BORROWINGS (CONTINUED)

(iii) Borrowings excluding unit linked borrowings – Analysis by maturity (continued)

		Maturity profile of undiscounted cash flows					
As at 31 December 2012	Carrying amount £m	Within 1 year £m	1-5 years £m	5-15 years £m	15-25 years £m	Over 25 years £m	Total £m
Subordinated borrowings							
6.385% Sterling perpetual capital securities (Tier 1)	700	–	–	–	–	(600)	(600)
5.875% Sterling undated subordinated notes (Tier 2)	419	–	–	–	–	(400)	(400)
4.0% Euro subordinated notes 2025 (Tier 2)	479	–	–	(488)	–	–	(488)
10% Sterling subordinated notes 2041 (Tier 2)	309	–	–	–	–	(300)	(300)
Senior borrowings							
Sterling medium term notes 2031-2041	608	–	–	–	(590)	(10)	(600)
Client fund holdings of Group debt	(70)	–	–	–	–	–	–
Total core borrowings	2,445	–	–	(488)	(590)	(1,310)	(2,388)
Short term operational borrowings							
Euro Commercial paper	333	(333)	–	–	–	–	(333)
Bank loans/other	4	(4)	–	–	–	–	(4)
Non recourse							
– US Dollar Triple X securitisation 2037	272	–	–	–	(276)	–	(276)
– LGV 6/LGV 7 Private Equity Fund Limited Partnership	128	(35)	(58)	(35)	–	–	(128)
– Consolidated Property Limited Partnerships	58	(58)	–	–	–	–	(58)
Total operational borrowings	795	(430)	(58)	(35)	(276)	–	(799)
Total borrowings excluding unit linked borrowings	3,240	(430)	(58)	(523)	(866)	(1,310)	(3,187)
Contractual undiscounted interest payments		(153)	(605)	(1,451)	(1,106)	(107)	(3,422)
Total contractual undiscounted cash flows		(583)	(663)	(1,974)	(1,972)	(1,417)	(6,609)

As at 31 December 2013, the Group had in place a £1.00bn syndicated committed revolving credit facility provided by a number of its key relationship banks, £0.04bn matures in October 2017 and £0.96bn matures in October 2018. A test drawing was made under this facility during 2013. No amounts were outstanding at 31 December 2013.

The maturity profile above is calculated on the basis that a facility to refinance a maturing loan is not recognised unless the facility and loan are related. If refinancing under the Group's credit facilities was recognised, then all amounts shown as repayable within one year would be reclassified as repayable between one and five years.

Undiscounted interest payments are estimated based on the year end applicable interest rate and spot exchange rates.

Short term assets available at the holding company level exceeded the amount of non-unit linked short term operational borrowings of £177m (2012: £337m). Short term operational borrowings comprise Euro Commercial paper, bank loans and overdrafts.

BALANCE SHEET MANAGEMENT (CONTINUED)

26 PROVISIONS

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

(i) Analysis of provisions

	Note	2013 £m	2012 £m
Retirement benefit obligations[1]	(ii)	**1,113**	969
Other provisions		**15**	14
		1,128	983

1. Retirement benefit obligations are presented gross of £646m of annuity obligations insured by Society (2012: £636m).

(ii) Retirement benefit obligations

Defined contribution plans

The Group operates the following principal defined contribution pension schemes in the UK and overseas:
- Legal & General Group Personal Pension Plan (UK).
- Legal & General Staff Stakeholder Pension Scheme (UK).
- Legal & General America Inc. Savings Plan (US).
- Régime de Retraite Professionnel (France).
- Legal & General Nederland Stichting Pensioenfonds (Netherlands); replacing the early retirement scheme previously part of the defined benefit plan.
- Legal & General International (Ireland) Limited Retirement Solution Plan (Ireland).

The Group pays contractual contributions in respect of defined contribution schemes. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Contributions of £50m (2012: £40m) were charged as expenses during the year in respect of defined contribution plans.

Defined benefit plans

The Group operates the following defined benefit pension schemes in the UK and overseas:
- Legal & General Group UK Pension and Assurance Fund (the Fund). The Fund was closed to new members from January 1995; last full actuarial valuation as at 31 December 2009.
- Legal & General Group UK Senior Pension Scheme (the Scheme). The Scheme was, with a few exceptions (principally transfers from the Fund), closed to new members from August 2000 and finally closed to new members from April 2007; last full actuarial valuation as at 31 December 2009.
- Legal & General America Inc. Cash Balance Plan (US); last full actuarial valuation as at 31 December 2012.
- Legal & General Nederland Stichting Pensioenfonds (Netherlands); last full actuarial valuation as at 31 December 2013.
- Régime de Retraite à Prestations Définies de Legal & General (France); last full actuarial valuation as at 31 December 2011.

The assets of all UK defined benefit schemes are held in separate trustee administered funds which are subject to regular actuarial valuation every three years, updated by formal reviews at reporting dates.

The liability recognised in the balance sheet in respect of defined benefit pension schemes is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, provided any surplus in the fund is not restricted. Plan assets exclude any insurance contracts issued by the Group. The defined benefit obligation is calculated actuarially each year using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The discount rate is based on market yields of high quality corporate bonds which are denominated in the currency in which the benefits will be paid, and that have terms to maturity which approximate to those of the related pension liability.

Where the unallocated divisible surplus or equity holders' funds are affected as a result of actuarial gains and losses on the defined benefit pension scheme, the charge or credit is not recognised in the income statement but through the statement of comprehensive income.

BALANCE SHEET MANAGEMENT (CONTINUED)

26 PROVISIONS (CONTINUED)

(ii) Retirement benefit obligations (continued)

Defined benefit plans (continued)

The benefits paid from the defined benefit schemes are based on percentages of the employees' final pensionable salary for each year of credited service. The Group has no liability for retirement benefits other than for pensions, except for a small scheme in LGF (Indemnités de Fin de Carrière), which provides lump sum benefits on retirement. The Fund and Scheme account for all of the UK and over 97% of worldwide assets of the Group's defined benefit schemes.

The principal actuarial assumptions for the UK defined benefit schemes were:

	Fund and Scheme 2013 %	Fund and Scheme 2012 %
Rate used to discount liabilities	**4.40**	4.40
Rate of increase in salaries[1]	**2.30**	2.20
Rate of increase in pensions in payment	**3.70**	3.30
Rate of increase in deferred pensions	**4.20**	3.50
Rate of general inflation (RPI)	**3.50**	2.80
Rate of wage inflation	**2.30**	2.20
Post retirement mortality		

2013: 100% (Fund)/85% (Scheme) of PCMA/PCFA 00 with improvement at CMI 2011 base date 2000 with long term rates 1.5% pa males and 1.0% pa females, with tapering linearly down to nil between ages 90 and 120.

2012: 100% (Fund)/85% (Scheme) of PCMA/PCFA 00 with improvement at CMI 2011 base date 2000 with long term rates 1.5% pa males and 1.0% pa females, with tapering linearly down to nil between ages 90 and 120.

1. On 1 December 2008, the conditions of the Fund and Scheme were amended to cap future pensionable salary increases at a maximum of 2.5% each year with effect from 1 January 2009; benefits accrued before that date have an underpin of the early leaver benefits.

Average life expectancy:

	Fund and Scheme 2013 years	Fund and Scheme 2012 years
Normal retirement age	**60.0**	60.0
Male life expectancy at retirement age	**88.9**	88.8
Female life expectancy at retirement age	**90.3**	90.2
Male life expectancy at 20 years younger than retirement age	**91.4**	91.3
Female life expectancy at 20 years younger than retirement age	**91.9**	91.9

BALANCE SHEET MANAGEMENT (CONTINUED)

	Fund and Scheme 2013 £m	Overseas 2013 £m	Fund and Scheme 2012[1] £m	Overseas 2012 £m
Movement in present value of defined benefit obligations				
As at 1 January	**(1,851)**	**(39)**	(1,663)	(32)
Current service cost	**(11)**	**(2)**	(11)	(1)
Interest expense	**(81)**	**(2)**	(77)	(2)
Actuarial remeasurement (recognised in statement of comprehensive income)	**(208)**	**1**	(157)	(13)
Benefits paid	**65**	**1**	57	1
Exchange differences	**–**	**–**	–	1
Curtailment	**17**	**–**	–	7
As at 31 December	**(2,069)**	**(41)**	(1,851)	(39)
Movement in fair value of plan assets				
As at 1 January	**884**	**40**	793	36
Expected return on plan assets at liability discount rate	**39**	**2**	38	2
Actuarial remeasurement (recognised in statement of comprehensive income)	**38**	**1**	51	2
Employer contributions	**60**	**2**	59	2
Benefits paid	**(65)**	**(1)**	(57)	(1)
Exchange differences	**–**	**–**	–	(1)
As at 31 December	**956**	**44**	884	40
Gross pension obligations	**(1,113)**	**3**	(967)	1
Restricted surplus not recognised	**–**	**(3)**	–	(3)
Gross pension obligations included in provisions	**(1,113)**	**–**	(967)	(2)
Annuity obligations insured by Society	**646**	**–**	636	–
Gross defined benefit pension deficit	**(467)**	**–**	(331)	(2)
Deferred tax on defined benefit pension deficit	**93**	**–**	76	–
Net defined benefit pension deficit	**(374)**	**–**	(255)	(2)

1. The comparatives have been restated in line with the amendments to IAS 19 (see Note 1).

The total amount of actuarial losses net of tax recognised in the statement of comprehensive income for the year was £(145)m; cumulative £(647)m (2012: £(101)m; cumulative £(502)m). Actuarial losses net of tax relating to with-profits policyholders of £(49)m (2012: £(38)m) have been allocated to the unallocated divisible surplus.

In 2013, a curtailment is recognised in the UK schemes due to the assignment of annuities to members with small pensions following the purchase of additional annuities in respect of future increments for them.

In line with the requirements of IFRS, the surplus in the Legal & General Nederland Stichting Pensioenfonds of £3m (2012: £3m) has not been reflected in the net defined benefit deficit. In 2012, a curtailment was recognised with regard to employees in the Legal & General Nederland Stichting Pensioenfonds scheme, where future indexation accrued to existing pension rights had become conditional.

The mortality base assumptions are aligned with those used by the scheme's trustees at the last valuation, but a more up to date improvement rate is used. The effect of assuming reasonable alternative assumptions in isolation to the gross defined benefit pension deficit are shown below. Opposite sensitivities are broadly symmetrical, but larger sensitivities are not necessarily broadly proportionate due to the existence of maxima and minima for inflation linked benefits.

	2013 £m	2012 £m
1 year increase in longevity	**(47)**	(38)
0.1% decrease in the rate used to discount liabilities	**(32)**	(27)
0.1% increase in the rate of general inflation (RPI)	**(38)**	(33)
0.1% increase in the rate of wage inflation	**–**	–

BALANCE SHEET MANAGEMENT (CONTINUED)

26 PROVISIONS (CONTINUED)

(ii) Retirement benefit obligations (continued)

The historic funding and experience adjustments are as follows:

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of defined benefit obligations	**(2,110)**	(1,890)	(1,695)	(1,527)	(1,474)
Fair value of plan assets	**1,000**	924	829	781	728
Restricted surplus not recognised	**(3)**	(3)	(5)	(2)	–
Gross pension obligations included in provisions	**(1,113)**	(969)	(871)	(748)	(746)
Experience adjustments on plan liabilities	**(11)**	(10)	(17)	(8)	18
Experience adjustments on plan assets[1]	**39**	53	1	13	48

1. Experience adjustments on plan assets have been restated for all previous periods in line with the amendments to IAS 19 (see Note 1).

The fair value of the plan assets at the end of the year is made up as follows:

	Valuation based on quoted market price		**Valuation based on other than quoted market price**	
As at 31 December 2013	**UK £m**	**Overseas £m**	**UK £m**	**Overseas £m**
Equities	**492**	**11**	**–**	**2**
Bonds	**413**	**28**	**–**	**–**
Properties	**–**	**–**	**50**	**–**
Other investments	**–**	**–**	**–**	**4**
	905	**39**	**50**	**6**

	Valuation based on quoted market price		Valuation based on other than quoted market price	
As at 31 December 2012	UK £m	Overseas £m	UK £m	Overseas £m
Equities	420	11	–	–
Bonds	418	25	–	–
Properties	–	–	46	–
Other investments	–	–	–	4
	838	36	46	4

In 2013, the return on plan assets was £80m (2012: £93m). The average credit rating of the bond portfolio is A (2012: A).

Employer contributions of £62m (2012: £61m) include a pension deficit reduction payment of £47m (2012: £47m). Employer contributions of £96m are expected to be paid to the plan during 2014.

The following amounts have been charged/(credited) to the income statement:

	2013 £m	2012 £m
Current service costs	**13**	12
Net interest expense[1]	**42**	39
Curtailment	**(17)**	(7)
Total included in other expenses	**38**	44

1. Net interest expense has been restated in line with the amendments to IAS 19 (see Note 1).

BALANCE SHEET MANAGEMENT (CONTINUED)

27 PAYABLES AND OTHER FINANCIAL LIABILITIES

Trail commission

The Group operates distribution agreements with intermediaries where further commission costs are payable in each period in which a relevant policy remains in-force. For relevant non-participating investment contracts, a liability for the present value of this future commission cost is recognised in the balance sheet on inception of the contract. The present value of future commission costs is deferred as an asset and amortised over the period during which the related revenue will be recognised. At each subsequent reporting date the liability is remeasured to fair value because this financial liability is part of a portfolio of unit linked assets and liabilities whose performance is evaluated on a fair value basis. Any increase in the liability is recognised as an additional deferred cost. Any change in lapse assumptions or revisions to the underlying assumptions for future cash flows will be reflected in the fair value movement for a period. If the future commission liability decreases, a corresponding adjustment is made to the amortisation of the asset.

	2013 £m	2012 £m
Derivative liabilities	**3,119**	5,729
Collateral received from banks	**989**	21
Other	**4,823**	2,333
Payables and other financial liabilities	**8,931**	8,083
Settled within 12 months	**7,213**	4,766
Settled after 12 months	**1,718**	3,317

Other includes future commission payments which have contingent settlement provisions of £176m (2012: £189m). This liability has been determined using the net present value of the future commission which will be payable on fund values. This valuation technique uses assumptions which are consistent with the Group's effective rate of interest, investment return assumptions and persistency assumptions used in other valuations, but it is not determined by reference to published price quotations.

The undiscounted value which is expected to be paid at maturity in respect of such commission is £247m (2012: £248m).

Payables and other financial liabilities settled after 12 months are expected to be settled within five years with the exception of derivative liabilities, as disclosed in Note 13.

Fair value hierarchy

As at 31 December 2013	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	**3,119**	**274**	**2,845**	**–**	**–**
Collateral received from banks	**989**	**989**	**–**	**–**	**–**
Other	**4,823**	**58**	**43**	**176**	**4,546**
Payables and other financial liabilities	**8,931**	**1,321**	**2,888**	**176**	**4,546**

As at 31 December 2012	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	5,729	214	5,515	–	–
Collateral received from banks	21	21	–	–	–
Other	2,333	108	29	189	2,007
Payables and other financial liabilities	8,083	343	5,544	189	2,007

Trail commissions are modelled using expected cash flows, incorporating expected future persistency. They have therefore been classified as level 3 liabilities. The entire movement in the balance has been reflected in the income statement during the period. A reasonably possible alternative persistency assumption would have the effect of increasing or decreasing the liability by £5m (2012: £6m).

Significant transfers between levels

There have been no significant transfers between levels 1, 2 and 3 for the year ended 31 December 2013 (2012: No significant transfers between levels 1, 2 and 3).

BALANCE SHEET MANAGEMENT (CONTINUED)

28 OPERATIONAL RISK

Operational risk is defined as exposure to loss arising from inadequate or failed internal processes, people, systems, or from external events.

Potential for exposure to operational risk extends to all the Group's businesses. All business managers are required to confirm regularly the adequacy of controls to mitigate those operational risks relevant to their responsibilities. Significant control issues are escalated to senior and executive management through the Group's risk management framework. The framework is supported by Risk Oversight teams which facilitate the identification, assessment, monitoring and control of risks across the Group's businesses.

There are a number of categories under which operational risk and its management across the Group can be considered, and these are outlined in the following paragraphs.

Internal process failure

The Group is potentially exposed to the risk of loss from failure of the internal processes with which it transacts its business. Each business division is responsible for ensuring the adequacy of the controls over its processes. Regular reviews are undertaken of their appropriateness and effectiveness.

People

The Group is potentially exposed to the risk of loss from inappropriate actions by its staff. Recruitment is managed centrally by HR functions, and all new recruits undergo a formal induction programme. All employees have job descriptions setting out their accountabilities and reporting lines, and are appraised annually in accordance with agreed performance management frameworks. Employees in regulated subsidiaries are provided with appropriate training to enable them to meet the relevant regulatory requirements. Risks relating to health and safety and other legislation are managed through the provision of relevant training to all staff.

Outsourcing

The Group is potentially exposed to the actions or failure of suppliers contracted to provide services on an outsourced basis. The Group has defined minimum standards of control to be applied for all outsourced arrangements within a formal outsourcing and critical supplier policy.

Legal

Legal risk is the risk of loss from unclear or deficient product documentation; inadequate documentation in support of material contracts such as reassurance treaties; the incorrect interpretation of changes in legislation; employment related disputes and claims; and commercial disputes with suppliers. The risks are managed through the Group Legal Risk framework, which defines minimum standards of control to be applied to minimise the risk of loss.

Compliance

Compliance risk within the Group relates to the risk of non-adherence to legislative requirements, regulations and internal policies and procedures. Responsibility for ensuring adherence to relevant legal and regulatory requirements is vested in individual business managers. The Regulatory Risk and Compliance functions have oversight of the Group's compliance with conduct of business requirements and standards, providing policy advice and guidance and oversight of compliance arrangements and responsibilities.

Event

Event risk relates to the potential for loss arising from significant external events such as terrorism, financial crisis, major changes in fiscal systems or disaster. Typically, such events have a low likelihood of occurrence, a material impact and can be difficult to prevent. The Group's risk mitigation focuses on minimising the business disruption and potential financial loss which may ensue from such an event. This includes maintaining a framework for the management of major incidents, the maintenance and regular testing of detailed business, technical and location recovery plans and the provision of insurance cover for the loss of buildings, contents and information technology systems and for the increased cost of working in the event of business disruption.

BALANCE SHEET MANAGEMENT (CONTINUED)

Fraud

The Group is potentially exposed to the risk of internal fraud, claims-related fraud, and external action by third parties. The risk of internal fraud is managed through a number of processes including the screening of staff at recruitment, segregation of duties and management oversight. The activities of Internal Audit also act to counter the risk. Claims-related fraud is managed by ensuring business processes are designed to fully validate claims and ensure that only bona fide claims are settled. Anti-fraud techniques are regularly updated to mitigate risks and emerging threats. The Group's approach to mitigating fraud and other dishonest acts is supported by promoting an open and honest culture in all dealings between employees, managers and those parties with which the Group has contact. A formal code of ethics sets out the Group's expectations in this respect. Effective and honest communication is essential if malpractice is to be effectively dealt with. The Group has defined whistle blowing procedures to enable all employees and those who work with Legal & General to raise matters of concern relating to Legal & General in confidence.

Technology

The Group places a high degree of reliance on IT in its business activities. The failure of IT systems could potentially expose the Group to significant business disruption and loss. To mitigate this risk, standards and methodologies for developing, testing and operating IT systems are maintained. Disaster recovery facilities enable IT operations to be conducted at remote locations in the event of the loss of computer facilities.

Contagion

The potential for contagion risk arises as a consequence of the use of a common brand across the majority of the Group and the provision of intra-group loans and indemnities. The Group has defined policies and procedures for managing matters that may have reputational implications, to ensure that Legal & General's position is correctly understood. The Group also has defined policies for the provision of guarantees, indemnities and letters of comfort.

BALANCE SHEET MANAGEMENT (CONTINUED)

29 MANAGEMENT OF CAPITAL RESOURCES

Capital structure

From a regulatory perspective the Group is required to measure and monitor its capital resources on an ongoing basis and to comply with the minimum capital requirements of regulators in each territory in which we operate. At 31 December 2013, Legal & General's unaudited Insurance Group Directive (IGD) capital resources were £4.0bn (2012: £4.1bn) in excess of capital requirements of £3.3bn (2012: £3.1bn), representing a solvency coverage ratio of 222% (2012: 234%). This surplus capital is after accruing for a 2013 final dividend of £408m (2012: £337m).

The Group writes a range of long term insurance and investment business in the long term fund (LTF) of its main operating insurance subsidiary, Legal & General Assurance Society Limited (Society). This fund is segregated from the Group's other assets. The fund includes participating (with-profits) business where policyholders and shareholders share in the risks and rewards, and non-participating (non profit) business, where the shareholders receive profits or incur losses. Capital in excess of the amount required to cover the liabilities is currently held within Society. This capital provides support for new and existing non profit business within our UK non profit LGAS and Retirement businesses.

The non-linked, non profit pensions and annuity business of Society is ceded, on arm's length terms, to a wholly owned Insurance Special Purpose Vehicle (ISPV), Legal & General Pensions Limited (LGPL). Whilst an ISPV is not required to segregate policyholder assets within a LTF, LGPL continues to manage policyholder and shareholder assets separately for internal purposes.

Managed pension fund business is written through Legal & General Assurance (Pensions Management) Limited (PMC), which is a life company writing predominantly non-participating group pension business effected by trustees of occupational schemes in the UK (or their equivalent overseas). The assets are held in a LTF and are separate from other assets within the Group.

In addition, the Group operates three UK long term insurance businesses acquired in 2013 (Lucida Limited) and in 2008 (Nationwide Life Limited and Suffolk Life Annuities Limited). General insurance business is written in the UK by Legal & General Insurance Limited, and long term insurance business is also written by LGA, LGN and LGF.

Capital management policies and objectives

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

Capital measures

The Group measures its capital on a number of different bases, including those which comply with the regulatory frameworks within which the Group operates and those which the directors consider most appropriate for managing the business. The measures used by the Group include:

• Accounting bases

Management use the primary financial statements prepared on an IFRS basis to manage capital and cash flow usage and to determine dividend paying capacity. In addition, the supplementary accounts prepared using EEV principles provide further insight into the value of the business to shareholders. Accordingly the Group's net asset value and total capital employed are also analysed and measured on this basis.

• Regulatory bases

The financial strength of the Group's insurance subsidiaries is measured under various local regulatory requirements (see below). One of these regulatory measures, Individual Capital Assessment (ICA), measures capital using risk based stochastic techniques, and provides a measure of the level of economic capital required to run the Group's business.

Basis of regulatory capital and corresponding regulatory capital requirements

In each country in which the Group operates, the local insurance regulator specifies rules and guidance for the minimum amount and type of capital which must be held by long term insurance subsidiaries in excess of their insurance liabilities. The minimum required capital must be maintained at all times throughout the year. This helps to ensure that payments to policyholders can be made as they fall due.

BALANCE SHEET MANAGEMENT (CONTINUED)

The required capital is calculated by either assessing the additional assets which would be required to meet the insurance company's liabilities in specified, stressed financial conditions, or by applying fixed percentages to the insurance company's liabilities and risk exposures. The requirements in the different jurisdictions in which the Group operates are detailed below:

UK regulatory basis
Required capital for the life business is based on PRA rules. Society must hold assets in excess of the higher of two amounts; the first being calculated using the PRA rules specified by the Regulator (pillar 1), the second being an economic capital assessment by the Company which is reviewed by the PRA (pillar 2), otherwise known as ICA.

The public pillar 1 capital calculation is calculated by applying fixed percentages to liabilities and sums assured at risk or setting aside a proportion of expenses (Peak 1). There are further stress tests for participating business, as measured in the Realistic Balance Sheet (Peak 2), which may increase the required capital under Peak 1 calculations.

The private pillar 2 capital calculation is an assessment of the economic capital required to ensure that the Company can meet its liabilities, with a high likelihood, as they fall due. This is achieved by application of stochastic modelling and scenario testing. The result is reviewed and may be modified by the PRA.

Regulatory capital for the general insurance business is also calculated using PRA pillar 1 and pillar 2 requirements. The pillar 1 calculation applies fixed percentages to premiums and claims. Pillar 2 creates a higher capital requirement and is therefore applied in this business.

Internally, the Group have developed economic capital models to meet the future Solvency II requirements. The Group has sufficient capital to meet its economic capital requirements with respect to risks inherent in long-term insurance operations. This risk based measure is considered by management in the internal decision making process.

US regulatory basis
Required capital is determined to be the Company Action Level Risk Based Capital (RBC) based on the National Association of Insurance Commissioners RBC model. RBC is a method of measuring the minimum amount of capital appropriate for an insurance company to support its overall business operations, taking into account its size and risk profile. The calculation is based on applying factors to various asset, premium, claim, expense and reserve items, with higher factors used for those items with greater underlying risk and lower factors for less risky items.

French and Dutch regulatory bases
The minimum required capital is defined by the French Ministry of Finance's 'Code des Assurances' and the 'De Nederlandsche Bank N.V.' (Dutch Supervisory Body) respectively. The basis of the calculation is a percentage of the liabilities plus a percentage of the sum assured at risk and, for some contracts, the premium. The percentages depend on the guarantees given and the amount of reinsurance cover.

Group regulatory basis
In addition to the regulatory capital calculations for the individual firms, the Group is required to comply with the requirements of the Insurance Group's Directive (IGD).

Available regulatory capital resources
Capital resources available to meet regulatory UK capital requirements are determined using PRA valuation rules. The asset valuation rules are based on applicable GAAP, adjusted for admissibility, counterparty exposure limits and specific valuation differences.

The Group's regulatory capital position statement in Table 1 sets out the different sources of capital held within the Group. The Group's total available capital resources, under FRS 27 requirements, are £6.6bn (2012: £6.6bn) of which £4.5bn (2012: £4.2bn) is held by the life businesses. The use of capital held by the UK and overseas life businesses is generally constrained by local regulatory requirements, and may not be available to provide funding for other businesses.

The total available capital resources of the Group's with-profits business (with-profits estate) is determined in accordance with the Realistic Balance Sheet rules prescribed by the PRA.

At 31 December 2013, the excess of realistic assets over realistic liabilities was £0.8bn (2012: £0.7bn). The capital resources reflect the surplus in that part of the fund which is in excess of any constructive obligation to policyholders. The liabilities within the Consolidated Balance Sheet do not include the amount representing the shareholders' share of future bonuses.

BALANCE SHEET MANAGEMENT (CONTINUED)

29 MANAGEMENT OF CAPITAL RESOURCES (CONTINUED)

Table 1 – Regulatory capital position statement

As at 31 December 2013	UK with-profits £m	UK non profit and SRC[1] £m	LGPL £m	Overseas and PMC £m	Total life £m	Shareholders' equity and other activities £m	Total £m
Ordinary shareholders' equity outside the LTF	–	27	1,298	1,475	2,800	1,060	3,860
Ordinary shareholders' equity held in the LTF	–	1,752	–	30	1,782	–	1,782
Capital and reserves attributable to ordinary equity holders of the Company	–	1,779	1,298	1,505	4,582	1,060	5,642
Adjustments onto regulatory basis:							
Unallocated divisible surplus	1,077	–	–	144	1,221	–	1,221
Other[2]	(314)	(505)	–	(520)	(1,339)	(294)	(1,633)
Other qualifying capital:							
Subordinated borrowings	–	–	–	–	–	1,790	1,790
Internal loans	–	–	–	–	–	–	–
Proposed dividend	–	–	–	–	–	(408)	(408)
Total available capital resources	763	1,274	1,298	1,129	4,464	2,148	6,612
IFRS liability analysis:							
UK participating liabilities on realistic basis							
– Options and guarantees	689	–	–	–	689	–	689
– Other policyholder obligations	11,047	16	–	–	11,063	–	11,063
Overseas participating liabilities	–	–	–	2,713	2,713	–	2,713
Unallocated divisible surplus	1,077	–	–	144	1,221	–	1,221
Value of in-force non-participating contracts	(248)	–	–	–	(248)	–	(248)
Participating contract liabilities	12,565	16	–	2,857	15,438	–	15,438
Unit linked non-participating life assurance liabilities	516	479	–	1,260	2,255	–	2,255
Non-linked non-participating life assurance liabilities	2,223	33,255	–	2,242	37,720	–	37,720
Unit linked non-participating investment contract liabilities	8,765	26,944	–	243,045	278,754	–	278,754
General insurance liabilities	–	–	–	–	–	298	298
Non-participating contract liabilities	11,504	60,678	–	246,547	318,729	298	319,027

1. UK non profit and SRC includes Lucida Limited, Nationwide Life Limited and Suffolk Life Annuities Limited.
2. Other consists of shareholders' share in realistic liabilities of £297m and changes to the values of assets and liabilities on a regulated basis of £1,336m.

BALANCE SHEET MANAGEMENT (CONTINUED)

As at 31 December 2012	UK with-profits £m	UK non profit and SRC[1] £m	LGPL £m	Overseas and PMC £m	Total life £m	Shareholders' equity and other activities £m	Total £m
Ordinary shareholders' equity outside the LTF	–	41	1,243	1,494	2,778	1,004	3,782
Ordinary shareholders' equity held in the LTF	–	1,629	–	30	1,659	–	1,659
Capital and reserves attributable to equity holders of the Company	–	1,670	1,243	1,524	4,437	1,004	5,441
Adjustments onto regulatory basis:							
Unallocated divisible surplus	959	–	–	194	1,153	–	1,153
Other[2]	(300)	(531)	–	(595)	(1,426)	(13)	(1,439)
Other qualifying capital:							
Subordinated borrowings	–	–	–	–	–	1,777	1,777
Internal loans	–	–	–	–	–	–	–
Proposed dividend	–	–	–	–	–	(337)	(337)
Total available capital resources	659	1,139	1,243	1,123	4,164	2,431	6,595
IFRS liability analysis:							
UK participating liabilities on realistic basis							
– Options and guarantees	919	–	–	–	919	–	919
– Other policyholder obligations	12,088	19	–	–	12,107	–	12,107
Overseas participating liabilities	–	–	–	2,493	2,493	–	2,493
Unallocated divisible surplus	959	–	–	194	1,153	–	1,153
Value of in-force non-participating contracts	(242)	–	–	–	(242)	–	(242)
Participating contract liabilities	13,724	19	–	2,687	16,430	–	16,430
Unit linked non-participating life assurance liabilities	504	474	–	1,241	2,219	–	2,219
Non-linked non-participating life assurance liabilities	2,325	30,734	–	2,167	35,226	–	35,226
Unit linked non-participating investment contract liabilities	8,219	23,634	–	233,105	264,958	–	264,958
General insurance liabilities	–	–	–	–	–	283	283
Non-participating contract liabilities	11,048	54,842	–	236,513	302,403	283	302,686

1. UK non profit and SRC includes Nationwide Life Limited and Suffolk Life Annuities Limited.
2. Other consists of shareholders' share in realistic liabilities of £238m and changes to the values of assets and liabilities on a regulated basis of £1,201m.

BALANCE SHEET MANAGEMENT (CONTINUED)

29 MANAGEMENT OF CAPITAL RESOURCES (CONTINUED)

Available regulatory capital resource risks

The Group's available capital resources are sensitive to changes in market conditions, both to changes in the value of the assets and to the impact which changes in investment conditions may have on the value of the liabilities. Capital resources are also sensitive to assumptions and experience relating to mortality and morbidity and, to a lesser extent, expenses and persistency. The most significant sensitivities arise from the following four risks:

- market risk in relation to UK participating business which would crystallise if adverse changes in the value of the assets supporting this business could not be fully reflected in payments to policyholders because of the effect of guarantees and options. The capital position of this business would also deteriorate if increases to the market cost of derivatives resulted in an increase in the liability for guarantees and options in the realistic balance sheet.
- market risk in relation to the UK annuity business, which would crystallise if the return from the fixed interest investments supporting this business were lower than that assumed for reserving.
- mortality risk in relation to the UK annuity business, which would crystallise if the mortality of annuitants improved more rapidly than the assumptions used for reserving.
- mortality risk in relation to the UK and US term assurance businesses, which would crystallise if mortality of the lives insured was higher than that assumed, possibly because of an epidemic.

A range of management actions is available to mitigate any adverse impact from changing market conditions and experience, including changes to with-profits bonus rates, changes to discretionary surrender terms and charging for guarantees. To the extent that management actions are expected only to offset partially adverse experience, then liabilities would be increased to anticipate the future impact of the adverse experience and total capital resources would be reduced.

Table 2 below provides management estimates of the impact on IGD surplus to changes in market conditions:

Table 2 – IGD sensitivity analysis

	Impact on surplus capital 2013 £bn	Impact on surplus capital 2012 £bn
Sensitivity test		
20% fall in equity values	**(0.6)**	(0.3)
40% fall in equity values	**(1.5)**	(0.7)
15% fall in property values	**(0.1)**	(0.1)
100bp increase in interest rates	**(0.1)**	(0.1)
100bp increase in credit spreads	**(0.1)**	(0.1)

Details of IFRS sensitivity analysis can be found in Note 20. EEV sensitivity analysis can be found in Note 8 to the EEV financial statements.

BALANCE SHEET MANAGEMENT (CONTINUED)

Table 3 – Movements in life business regulatory capital resources

	UK with-profits £m	UK non profit and SRC[1] £m	LGPL £m	Overseas and PMC £m	Total life £m
As at 1 January 2013	**659**	**1,139**	**1,243**	**1,123**	**4,164**
Effect of investment variations	**94**	**31**	**37**	**(62)**	**100**
Effect of changes in valuation assumptions	**(68)**	**11**	**(9)**	**–**	**(66)**
Changes in management policy	**–**	**–**	**–**	**–**	**–**
Changes in regulatory requirements	**–**	**19**	**–**	**–**	**19**
New business	**(8)**	**(17)**	**(82)**	**(51)**	**(158)**
Cash distributions	**–**	**(150)**	**–**	**(206)**	**(356)**
Other factors	**86**	**241**	**109**	**325**	**761**
As at 31 December 2013	**763**	**1,274**	**1,298**	**1,129**	**4,464**

	UK with-profits £m	UK non profit and SRC[1] £m	LGPL £m	Overseas and PMC £m	Total life £m
As at 1 January 2012	733	1,000	1,472	846	4,051
Effect of investment variations	20	50	(65)	198	203
Effect of changes in valuation assumptions	(34)	8	(7)	–	(33)
Changes in management policy	–	5	–	–	5
Changes in regulatory requirements	(37)	12	–	–	(25)
New business	(16)	(51)	(42)	(62)	(171)
Cash distributions	–	(50)	–	(190)	(240)
Other factors	(7)	165	(115)	331	374
As at 31 December 2012	659	1,139	1,243	1,123	4,164

1. UK non profit and SRC includes Lucida Limited (2013 only), Nationwide Life Limited and Suffolk Life Annuities Limited.

BALANCE SHEET MANAGEMENT (CONTINUED)

30 ACQUISITIONS

Business combinations are accounted for using the purchase method, under which the acquirer recognises the acquiree's fair value of the identifiable assets, liabilities and contingent liabilities at the acquisition date. Purchased goodwill is recognised as an asset on the balance sheet and is carried at cost less any accumulated impairment losses in accordance with IAS 36, 'Impairment of Assets'.

Private equity investment vehicles classified as subsidiaries are those entities over which the Group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. Profits or losses of subsidiary undertakings sold or acquired during the period are included in the consolidated results up to the date of disposal or the date of gaining control.

(i) Subsidiaries

Cofunds (Holdings) Limited

On 22 May 2013, the Group increased its holding in the ordinary share capital of Cofunds (Holdings) Limited, the UK's largest platform by assets under administration. This increased the Group's holding in Cofunds (Holdings) Limited from 25% to 100%. The acquisition provides the Group with scale and distribution in the investment platform market.

Goodwill arising on acquisition was £65m. This represents the value of the consideration in excess of the recognised tangible assets, liabilities and intangible assets, primarily relating to future profits in excess of those recognised on current business or those expected to arise from current relationships with financial advisors. Goodwill has been allocated for impairment testing purposes to the Cofunds business unit.

In the period since acquisition of 100% of the ordinary share capital of Cofunds (Holdings) Limited, the pre-tax profit was £2m. Cofunds (Holdings) Limited would have contributed £4.3m to Group consolidated pre-tax profits if the acquisition had occurred on 1 January 2013.

In accordance with IFRS 3, Business Combinations, the acquisition has been treated as an acquisition achieved in stages. Revaluation of the previous carrying value of the Group's 25% holding to acquisition date fair value has resulted in the recognition of a gain of £21m reported within operational income in the Consolidated Income Statement.

Lucida Limited

On 5 August 2013, the Group acquired 100% of the issued share capital of Lucida Limited (formerly Lucida PLC), an annuity provider, for £149m of cash, with no deferred consideration.

Negative goodwill arising on acquisition was £14m. This represents the fair value of the assets and liabilities acquired in excess of the consideration. Negative goodwill has been recognised immediately in the Consolidated Income Statement.

Since 5 August 2013 Lucida Limited has contributed £49m to Group consolidated profit before tax. Lucida Limited would have contributed £64m to Group consolidated profit before tax if the acquisition had occurred on 1 January 2013.

Investment Discounts Online Ltd (IDOL)

On 27 September 2013, the Group increased its existing shareholding of IDOL from 49% to 95% for a consideration of £6m. In accordance with IFRS 3, the Group has remeasured its previously held 49% equity interest on the acquisition date to fair value of £6m. Goodwill of £8m is recognised as the difference between the amount paid (£12m being the notional payment for 100%) and the fair value of the assets and liabilities acquired.

BALANCE SHEET MANAGEMENT (CONTINUED)

	Lucida 2013 £m	Cofunds 2013 £m	IDOL 2013 £m	Total 2013 £m
Consideration at date of acquisition				
Cash payment for 100% acquisition	149	–	–	149
Cash payment for 75% acquisition	–	131	–	131
Cash payment for 46% holding	–	–	6	6
Acquisition date fair value of the 25% holding immediately prior to the acquisition	–	44	–	44
Acquisition date fair value of the 49% holding immediately prior to the acquisition	–	–	6	6
Total consideration for 100% holding	149	175	12	336
Recognised amounts of identifiable assets transferred and liabilities assumed at fair value				
Purchased interest in long term business and other intangible assets	–	88	4	92
Other assets	1,351	44	1	1,396
Cash and cash equivalents	168	22	–	190
Non-participating contract liabilities	(1,294)	–	–	(1,294)
Other liabilities	(62)	(44)	(1)	(107)
Net assets attributable to equity holders of the Company	163	110	4	277
Goodwill arising on acquisition recognised in the Consolidated Income Statement	(14)	–	–	(14)
Goodwill arising on acquisition recognised in the Consolidated Balance Sheet	–	65	8	73

(ii) Associates/Joint Ventures

CALA Group Limited

On 18 March 2013, the Group paid £60m with an additional £7m deferred consideration for a 46.5% equity stake in CALA Group Limited. This investment has been made by way of a combination of £44m equity shares and a £23m subscription for loan notes (of which £7m is deferred). The equity investment has been accounted for as a joint venture applying the equity method.

On 18 December 2013, the Group made a £8m additional capital contribution, increasing the equity stake in CALA Group Limited to 47.1%.

(iii) Acquisitions of consolidated investment vehicles

On 5 October 2012, the Group acquired 55% of the ordinary share capital and £32m of loan notes issued by intermediate holding companies investing in Air Energi Holdings Limited, a provider of specialist services to the oil and gas industry. No goodwill arose in respect of this transaction.

There have been no acquisitions of consolidated investment vehicles in the current year.

ADDITIONAL FINANCIAL INFORMATION

31 SEGMENTAL ANALYSIS

The Group provides a segmental analysis to enhance the understanding of the financial statements.

Under the requirements of IFRS 8, 'Operating segments', operating and reportable segments are presented in a manner consistent with the internal reporting provided to the chief operating decision maker, which has been identified as the Board of Legal & General Group Plc.

Reportable segments

The Group has five reportable segments comprising LGAS, LGR, LGIM, LGC and group expenses and LGA.

LGAS represents Protection business (retail protection, group protection and general insurance) and Savings business (platforms, workplace, SIPPs, mature savings and with-profits). The LGAS segment also includes Legal & General France (LGF), Legal & General Netherlands (LGN) and emerging markets.

LGR represents Annuities, (both individual and bulk purchase) and longevity insurance.

The LGIM segment represents institutional and retail investment management businesses.

Shareholders' equity supporting the non profit LGR and LGAS businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within LGC and group expenses. This also includes capital within the Group's treasury function, and unit trust funds and property partnerships, which are managed on behalf of clients but are required to be consolidated under IFRS, which do not constitute a separately reportable segment. The LGC and group expenses segment also includes inter-segmental elimination.

The LGA segment represents protection business written in the USA.

Transactions between reportable segments are on normal commercial terms, and are included within the reported segments.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

(i) Operating profit/(loss)

For the year ended 31 December 2013	LGAS £m	LGR £m	LGIM £m	LGC and group expenses[1] £m	LGA £m	Total £m
Operating profit	**444**	**310**	**304**	**8**	**92**	**1,158**
Investment and other variances	**(73)**	**63**	**(6)**	**2**	**(13)**	**(27)**
Gains attributable on non-controlling interests	**–**	**–**	**–**	**3**	**–**	**3**
Profit from continuing operations before tax	**371**	**373**	**298**	**13**	**79**	**1,134**
Tax (expense)/credit attributable on equity holders of the Company	**(83)**	**(83)**	**(65)**	**36**	**(43)**	**(238)**
Profit for the year after tax	**288**	**290**	**233**	**49**	**36**	**896**

For the year ended 31 December 2012	LGAS £m	LGR £m	LGIM £m	LGC and group expenses[1] £m	LGA £m	Total £m
Operating profit/(loss)	462	281	272	(27)	99	1,087
Investment and other variances	28	(42)	(5)	(23)	–	(42)
Losses attributable on non-controlling interests	–	–	–	(12)	–	(12)
Profit/(loss) from continuing operations before tax	490	239	267	(62)	99	1,033
Tax (expense)/credit attributable on equity holders of the Company	(118)	(58)	(51)	29	(37)	(235)
Profit/(loss) for the year after tax	372	181	216	(33)	62	798

1. For segmental purposes, investment projects of £25m (2012: £50m) have been included in LGC and group expenses.

The segmental analysis of operating profit/(loss) has been restated to reflect the adoption by the Group of amendments to IAS 19, 'Employee Benefits.' Further details are contained in Note 1. The impact is to reduce profit for the year by £3m for 2012.

(ii) Revenue

For the year ended 31 December 2013	LGAS £m	LGR £m	LGIM £m	LGC and group expenses £m	LGA £m	Total £m
Internal revenue	**210**	**–**	**146**	**(285)**	**(71)**	**–**
External revenue	**6,600**	**4,468**	**27,173**	**550**	**460**	**39,251**
Total revenue	**6,810**	**4,468**	**27,319**	**265**	**389**	**39,251**

For the year ended 31 December 2012	LGAS £m	LGR £m	LGIM £m	LGC and group expenses £m	LGA £m	Total £m
Internal revenue	69	–	149	(164)	(54)	–
External revenue	7,549	5,608	20,941	458	414	34,970
Total revenue	7,618	5,608	21,090	294	360	34,970

Total revenue includes investment return of £32,221m (2012: £28,828m).

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

31 SEGMENTAL ANALYSIS (CONTINUED)

(iii) Consolidated balance sheet

As at 31 December 2013	LGAS £m	LGR £m	LGIM £m	LGC and group expenses[1] £m	LGA £m	Total £m
Assets						
Investments	52,619	33,974	249,396	17,383	1,998	355,370
Other assets	9,891	2,491	1,335	(8,316)	2,393	7,794
Total assets	62,510	36,465	250,731	9,067	4,391	363,164
Shareholders' equity	783	–	421	3,622	816	5,642
Non-controlling interests	–	–	–	58	–	58
Total equity	783	–	421	3,680	816	5,700
Liabilities						
Core borrowings	–	–	–	2,453	–	2,453
Operational borrowings[2]	252	2	8	174	268	704
Participating contract liabilities	15,438	–	–	–	–	15,438
Non-participating contract liabilities	42,939	32,218	243,009	(847)	1,708	319,027
Other liabilities	3,098	4,245	7,293	3,607	1,599	19,842
Total liabilities	61,727	36,465	250,310	5,387	3,575	357,464
Total equity and liabilities	62,510	36,465	250,731	9,067	4,391	363,164

1. LGC and group expenses includes inter-segmental eliminations.
2. Includes non recourse financing.

As at 31 December 2012	LGAS £m	LGR £m	LGIM £m	LGC and group expenses[1] £m	LGA £m	Total £m
Assets						
Investments	51,846	33,199	238,571	12,863	2,151	338,630
Other assets	7,555	1,210	1,449	(4,823)	2,280	7,671
Total assets	59,401	34,409	240,020	8,040	4,431	346,301
Shareholders' equity	685	–	423	3,414	919	5,441
Non-controlling interests	–	–	–	39	–	39
Total equity	685	–	423	3,453	919	5,480
Liabilities						
Core borrowings	–	–	–	2,445	–	2,445
Operational borrowings[2]	251	2	2	393	272	920
Participating contract liabilities	16,430	–	–	–	–	16,430
Non-participating contract liabilities	38,977	29,826	233,069	(830)	1,644	302,686
Other liabilities	3,058	4,581	6,526	2,579	1,596	18,340
Total liabilities	58,716	34,409	239,597	4,587	3,512	340,821
Total equity and liabilities	59,401	34,409	240,020	8,040	4,431	346,301

1. LGC and group expenses includes inter-segmental eliminations.
2. Includes non recourse financing.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

(iv) Gross written premiums on insurance contracts

Gross written premium is the total written by the Group before deductions for reinsurance.

Long term insurance premiums are recognised as revenue when due for payment. General insurance premiums are accounted for in the period in which the risk commences. Estimates are included for premiums not notified by the year end and provision is made for the anticipated lapse of renewals not yet confirmed. Those proportions of premiums written in a year which relate to periods of risk extending beyond the end of the year are carried forward as unearned premiums.

Premiums received relating to investment contracts are not recognised as revenue, but are included in the balance sheet investment contract liability.

Outward reinsurance premiums of £874m (2012: £718m) are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured.

	2013 £m	2012 £m
From continuing operations		
LGAS		
Non-participating UK Protection business	**1,326**	1,267
Non-participating UK Savings business	**36**	39
Participating UK Savings business	**116**	336
Netherlands (LGN)	**200**	172
France (LGF)	**444**	406
General insurance		
– Household	**352**	327
– Other business	**23**	22
Total LGAS	**2,497**	2,569
LGR		
Non-participating UK Annuity business	**3,011**	2,515
LGA	**654**	584
Total gross written premiums	**6,162**	5,668

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

32 INVESTMENT RETURN

Investment return includes fair value gains and losses, excluding fair value movements attributable to available-for-sale (AFS) investments, dividends, rent and interest. Dividends are accrued on an ex-dividend basis. Interest and rent are included on an accruals basis. Interest income for financial assets which are not classified as fair value through profit or loss (FVTPL) is recognised using the effective interest method.

The Group earns an investment return from holdings in financial instruments and property investments, held to back insurance and investment contracts on behalf of policyholders, and as Group capital.

	2013 £m	2012 £m
Dividend income	**4,496**	4,445
Interest income on financial investments at fair value through profit or loss[1]	**4,939**	4,907
Other investment income	**(173)**	120
Gains on financial investments at fair value through profit or loss	**21,004**	18,418
Gains on derivative instruments (designated as held for trading)	**1,314**	653
Realised gains on available for sale financial assets	**38**	39
Losses on loans and receivables	**(2)**	(1)
Financial investment return[2]	**31,616**	28,581
Rental income	**373**	366
Fair value gains/(losses) on properties	**232**	(119)
Property investment return	**605**	247
Investment return	**32,221**	28,828

1. 2012 comparative has changed due to IAS 19 “Employee Benefits” amendment. Please refer to Note 1 for further details.
2. Interest income of £63m (2012: £64m) arose on financial investments designated as AFS. There were no impairments on assets classified as AFS during the year (2012: £nil).

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

33 NET CLAIMS AND CHANGE IN INSURANCE LIABILITIES

Insurance claims are paid in accordance with the individual policy terms typically arising from an insured event.

Long term insurance

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

The change in the insurance liability reflects the reduction in liabilities due to the payment of claims in the year, offset by liabilities arising from new business. The movement also reflects assumption changes relating to variables such as claims expectations, expenses and the unwind of the previous period's expectations.

General insurance

Claims and related reinsurance recoveries are accounted for in respect of all incidents up to the year end. Provision is made on the basis of available information for the estimated ultimate cost, including claims settlement expenses, claims reported but not yet settled and claims incurred but not yet reported. An unexpired risk provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums and after taking account of investment return.

	Long term insurance 2013 £m	**General insurance 2013 £m**	**Total 2013 £m**	Long term insurance 2012 £m	General insurance 2012 £m	Total 2012 £m
Claims paid						
– gross	**5,558**	**156**	**5,714**	5,165	155	5,320
– reinsurance recoveries	**(792)**	**–**	**(792)**	(585)	(1)	(586)
	4,766	**156**	**4,922**	4,580	154	4,734
Change in insurance liabilities						
– gross	**55**	**(2)**	**53**	3,256	12	3,268
– reinsurance recoveries	**(321)**	**–**	**(321)**	(193)	–	(193)
Net claims and change in insurance liabilities	**4,500**	**154**	**4,654**	7,643	166	7,809

The roll-forward of the insurance contract liabilities is provided in Note 21.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

34 TAX

The tax shown in the consolidated income statement comprises current and deferred tax.

Current Tax
Current tax comprises tax payable on current period profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous periods. Current tax is recognised in the income statement unless it relates to items which are recognised in other comprehensive income.

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

The tax shown in the income statement has been apportioned between that attributable to policyholders and that attributable to equity holders.

The judgements made in arriving at tax balances in the financial statements are discussed in the notes below.

Tax Rates
The table below provides a summary of the current tax and deferred tax rates for the year.

	2013		2012	
	Current tax	Deferred tax	Current tax	Deferred Tax
UK	**23.3%**	**20.0%**	24.5%	23.0%
USA	**35.0%**	**35.0%**	35.0%	35.0%
France	**38.0%**	**34.4%**	36.1%	34.4%
Netherlands	**25.0%**	**25.0%**	25.0%	25.0%
Ireland	**12.5%**	**12.5%**	12.5%	12.5%

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

(i) Tax charge in the Income statement

	2013 £m	2012 £m
Current tax	**104**	183
Deferred tax		
– Movement in temporary differences	**308**	225
– Reduction in UK corporate tax rate to 20% (2012: 23%)	**3**	7
Total deferred tax	**311**	232
Adjustment to equity holders tax in respect of prior years	**4**	(6)
Total tax	**419**	409
Less tax attributable to policyholder returns	**(181)**	(174)
Tax attributable to equity holders	**238**	235

The total movement in deferred tax of £311m (2012: £232m) disclosed above differs from the amount of £302m (2012: £241m) disclosed in the note below by £9m (2012: £9m) being the deferred tax prior year adjustment included within the 'Adjustment to equity holders' tax in respect of the prior years' line.

The tax attributable to equity holders differs from the tax calculated at the standard UK corporation tax rate as follows:

	2013 £m	2012 £m
Profit before tax attributable to equity holders	**1,134**	1,033
Tax calculated at 23.25% (2012: 24.5%)	**264**	254
Effects of:		
Adjustments in respect of prior years, mainly relating to resolution of tax issues with HMRC	**4**	(6)
Lower tax on Shareholder Retained Capital	**–**	(30)
Income not subject to tax, such as dividends	**(6)**	(3)
Change in valuation of tax losses	**(19)**	8
Higher rate of tax on profits taxed overseas	**23**	14
Expenses not deductible for tax purposes	**(11)**	(5)
Impact of reduction in UK corporate tax rate to 20% (2012: 23%) on deferred tax balances	**3**	7
Differences between taxable and accounting investment gains, e.g. RPI relief	**(19)**	(5)
Other	**(1)**	1
Tax attributable to equity holders	**238**	235
Equity holders' effective tax rate	**21.0%**	22.7%

Equity holders' effective tax rate is calculated by dividing the tax attributable to equity holders over profit before tax attributable to equity holders.

Tax calculated on profit before tax at 23.25% (2012: 24.5%) would amount to £306m (2012: £296m). The difference between this number and the total tax of £419m (2012: £409m) is made up of the reconciling items above, which total £(26)m (2012: £(19)m), and the effect of the apportionment methodology on tax applicable to policyholder returns of £139m (2012: £132m).

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

34 TAX (CONTINUED)

(ii) Tax charge to Equity

Deferred tax recognised directly in equity	2013 £m	2012 £m
Relating to net gains or losses recognised directly in equity	**(74)**	(22)
Exchange gains	**(4)**	13
Deferred tax recognised directly in equity	**(78)**	(9)

(iii) Disclosure of tax effects relating to each component of other comprehensive income

	Before tax 2013 £m	Tax credited/ (charged) 2013 £m	After tax 2013 £m	Before tax 2012 £m	Tax credited/ (charged) 2012 £m	After tax 2012 £m
Actuarial (losses)/gains on defined benefit pension schemes	**(168)**	**23**	**(145)**	(120)	13	(107)
Actuarial losses/(gains) on defined benefit pension schemes transferred to unallocated divisible surplus	**56**	**(7)**	**49**	46	(5)	41
Exchange differences on translation of overseas operations	**(16)**	**–**	**(16)**	(13)	–	(13)
Net change in financial investments designated as available-for-sale	**(135)**	**47**	**(88)**	58	(26)	32
Other comprehensive income	**(263)**	**63**	**(200)**	(29)	(18)	(47)

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

(iv) Deferred tax – Balance sheet

Deferred tax assets and liabilities have been recognised/(provided) for the temporary differences and unused tax losses. The recognition of a deferred tax asset in respect of tax losses is supported by management's best estimate of future taxable profits to absorb the losses in future years. These taxable profit projections are based on assumptions consistent with those used for EEV reporting purposes. Deferred tax assets and liabilities have been offset to the extent it is permissible under the accounting standard. The net movement in deferred tax assets and liabilities during the year is as follows:

(a) UK deferred tax asset

	Net tax asset as at 1 January 2013 £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to equity £m	Transfers in on acquisitions £m	Net tax asset as at 31 December 2013 £m
Realised and unrealised losses on investments	**14**	**(174)**	**–**	**–**	**(160)**
Excess of depreciation over capital allowances	**43**	**(19)**	**–**	**–**	**24**
Excess expenses	**234**	**(42)**	**–**	**–**	**192**
Deferred acquisition expenses	**(77)**	**–**	**5**	**–**	**(72)**
Difference between the tax and accounting value of insurance contracts	**(99)**	**29**	**–**	**–**	**(70)**
Accounting provisions	**9**	**(18)**	**4**	**13**	**8**
Trading losses	**128**	**(48)**	**–**	**13**	**93**
Pension fund deficit	**76**	**(2)**	**19**	**–**	**93**
Purchased interest in long term business	**(12)**	**2**	**–**	**(16)**	**(26)**
UK deferred tax asset	**316**	**(272)**	**28**	**10**	**82**

	Net tax asset as at 1 January 2012 £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to equity £m	Transfers in on acquisitions £m	Net tax asset as at 31 December 2012 £m
Realised and unrealised losses on investments	147	(133)	–	–	14
Excess of depreciation over capital allowances	43	–	–	–	43
Excess expenses	233	1	–	–	234
Deferred acquisition expenses	(80)	6	(3)	–	(77)
Difference between the tax and accounting value of insurance contracts	(72)	(27)	–	–	(99)
Accounting provisions	9	–	–	–	9
Trading losses	159	(31)	–	–	128
Pension fund deficit	72	(7)	11	–	76
Purchased interest in long term business	(18)	6	–	–	(12)
UK deferred tax asset	493	(185)	8	–	316

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

34 TAX (CONTINUED)

(iv) Deferred tax – Balance sheet (continued)

(b) Overseas deferred tax liabilities

	Net tax liability as at 1 January 2013 £m	**Tax (charged)/ credited to the income statement £m**	**Tax (charged)/ credited to equity £m**	**Transfers in on acquisitions £m**	**Net tax liability as at 31 December 2013 £m**
Realised and unrealised gains on investments	**(84)**	**4**	**47**	**–**	**(33)**
Deferred acquisition expenses	**(222)**	**(22)**	**3**	**–**	**(241)**
Difference between the tax and accounting value of insurance contracts	**(264)**	**32**	**3**	**–**	**(229)**
General provisions	**–**	**(20)**	**–**	**–**	**(20)**
Trading losses	**185**	**(24)**	**(3)**	**–**	**158**
Pension fund deficit	**3**	**–**	**–**	**–**	**3**
Overseas deferred tax liabilities	**(382)**	**(30)**	**50**	**–**	**(362)**

	Net tax liability as at 1 January 2012 £m	Tax (charged)/ credited to the income statement £m	Tax (charged)/ credited to equity £m	Transfers in on acquisitions £m	Net tax liability as at 31 December 2012 £m
Realised and unrealised gains on investments	(57)	(7)	(20)	–	(84)
Deferred acquisition expenses	(217)	(22)	17	–	(222)
Difference between the tax and accounting value of insurance contracts	(303)	17	22	–	(264)
Trading losses	246	(43)	(18)	–	185
Pension fund deficit	4	(1)	–	–	3
Overseas deferred tax liabilities	(327)	(56)	1	–	(382)

Unrecognised deferred tax assets

The Group has the following unrelieved tax losses carried forward as at 31 December 2013. No deferred tax asset has been recognised in respect of these tax losses as at 31 December 2013 (or 31 December 2012), as it is not probable that there will be suitable taxable profits emerging in future periods against which to relieve them. Relief for these tax losses will only be recognised if it becomes probable that suitable taxable profits will arise in future periods. The potential deferred tax asset unrecognised as at 31 December 2013 is £29m (2012: £51m).

	Gross 2013 £m	**Tax 2013 £m**	Gross 2012 £m	Tax 2012 £m
Trading losses	**43**	**7**	24	3
Realised and unrealised losses on investments	**169**	**18**	186	40
Post cessation losses	**5**	**1**	19	4
Unrelieved expenses	**–**	**–**	5	1
Unrelieved interest payments on debt instruments	**14**	**3**	14	3
Unrecognised deferred tax asset	**231**	**29**	248	51

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

(v) Current tax – Balance sheet

	2013 £m	2012 £m
Tax due within 12 months	**98**	8
Tax due after 12 months	**212**	186
Current tax assets	**310**	194

	2013 £m	2012 £m
Tax due within 12 months	**14**	68
Tax due after 12 months	**–**	–
Current tax liabilities	**14**	68

35 AUDITORS' REMUNERATION

	2013 £m	2012[1] £m
Remuneration receivable by the Company's auditors for the audit of the consolidated and Company financial statements	**1.1**	1.1
Remuneration receivable by the Company's auditors and its associates for the supply of other services to the Company and its associates, including remuneration for the audit of the financial statements of the Company's subsidiaries:		
The audit of the Company's subsidiaries	**3.1**	2.2
Audit related assurance services	**1.4**	1.3
Other assurance services	**0.1**	1.8
Tax compliance services	**0.1**	0.2
Other tax services	**0.3**	0.3
Internal audit services	**0.1**	–
Services related to corporate finance transactions	**0.2**	0.4
Other services not covered above	**0.6**	0.2
Total remuneration	**7.0**	7.5

1. The prior year remuneration has been analysed to reflect the categories required under statutory instrument 2011/2198 pertaining to the disclosure of auditors' remuneration. Total remuneration is unchanged.

In addition to the above, fees payable to the Company's auditors and its associates for audit services supplied to the Company's associated pension schemes amounted to £33k (2012: £22k).

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

36 EMPLOYEE INFORMATION

	2013	2012
Average number of staff employed during the year:		
UK	**8,268**	7,396
Europe	**424**	442
USA	**545**	491
Total excluding consolidated private equity investment vehicles	**9,237**	8,329
Consolidated private equity investment vehicles[1]	**1,926**	1,535
Worldwide employees	**11,163**	9,864

	Notes	2013 £m	2012 £m
Salaries		**410**	346
Social security costs		**54**	44
Share-based incentive awards	37	**23**	22
Defined benefit pension costs	26	**38**	44
Defined contribution pension costs	26	**50**	39
Total excluding consolidated private equity investment vehicles		**575**	495
Consolidated private equity investment vehicles[1]		**55**	37
		630	532

1. The private equity investment vehicles are controlled by virtue of majority holdings owned by the with-profits part of the LTF. The £55m (2012: £37m) costs of employment for private equity investment subsidiaries primarily comprise salaries and £0.4m of defined contribution pension costs (2012: £1m).

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

37 SHARE-BASED PAYMENTS

The fair value at the date of grant of the equity instrument is recognised as an expense, spread over the vesting period of the instrument. The total amount to be expensed is determined by reference to the fair value of the awards, excluding the impact of any non-market vesting conditions. At each balance sheet date, the Group revises its estimate of the number of equity instruments which are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment is made to equity. On vesting or exercise, the difference between the expense charged to the income statement and the actual cost to the Group is transferred to retained earnings. Where new shares are issued, the proceeds received are credited to share capital and share premium.

(i) Description of schemes

The Group provides a number of equity settled share-based long term incentive plans for directors and eligible employees. Options are normally forfeited if the employee leaves the Group.

The Savings related share option scheme (SAYE) allows employees to enter into a regular savings contract over either three, five or seven years, coupled with a corresponding option over shares of the Group. The grant price is equal to 80% of the quoted market price of the Group shares on the invitation date. Fair value is calculated using the Black-Scholes model.

Conditional shares can be granted to top managers under the Performance share plan (PSP), based upon individual and Company performance. Under the PSP, the number of performance shares transferred to the individual at the end of the three year vesting period is dependent on the Group's relative Total shareholder return (TSR).

The Company share option scheme (CSOP), approved by HMRC, and unapproved Executive share option scheme (ESOS) are designed to provide a long term incentive to directors and managers of the Group. The number of options granted is based on the manager's grade, salary and performance. In order for the options to be exercisable, Legal & General's TSR must exceed the median TSR of the FTSE 100 for a period of at least three years commencing on the date of the grant. Fair value is calculated using a binomial model, reflecting the historic exercise patterns.

The Share bonus plan (SBP) awards restricted shares and nil-paid options. Recipients of restricted shares are entitled to both vote and receive dividends. Fair value is calculated as the market value on the grant date, adjusted to reflect the eligibility for dividend payments.

Under the Employee share plan (ESP), approved by HMRC, permanent UK employees may elect to purchase Group shares from the market at the prevailing market price on a monthly basis. The Group supplements the number of shares purchased by giving employees one free matching share for every one partnership share purchased up to the first £20 of the employees' contributions and one free matching share for every two partnership shares purchased with contributions between £20 and £125. From time to time, the Group may make a grant of free shares. Both the free and matching shares must be held in trust for three years before they may vest to the employee. The fair value of granted shares is equal to the market value at grant date.

The fair values of the share grants made during the year have been calculated using the following assumptions:

	SAYE	SAYE	PSP
Award date	1-Oct-13	10-Apr-13	17-Apr-13
Weighted average share price	197p	171p	167p
Weighted average exercise price	160p	136p	n/a
Expected volatility	35%-41%	37%-42%	n/a
Expected life	3-5 years	3-5 years	3 years
Risk free investment rate	0.85%-1.55%	0.37%-0.75%	n/a
Dividend yield	4.3% pa	4.8% pa	n/a

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

37 SHARE-BASED PAYMENTS (CONTINUED)

(ii) Total recognised expense

The total recognised expense relating to share-based payments in 2013 was £23m (2012: £22m) before tax, all of which related to equity settled share schemes. This is broken down between the Group's plans as detailed below.

	2013 £m	2012 £m
Share bonus plan (SBP)	11	10
Performance share plan (PSP)	6	6
Employee share plan (ESP)	3	3
Savings related share option scheme (SAYE)	3	3
Total share-based payment expense	**23**	**22**

(iii) Outstanding share options

	SAYE Options 2013	Weighted average exercise price 2013 p	CSOP/ESOS Options 2013	Weighted average exercise price 2013 p	SBP Options 2013	Weighted average exercise price 2013 p
Outstanding at 1 January	41,195,772	58	13,694,159	101	460,734	–
Granted during the year	5,166,415	147	1,244,272	169	165,400	–
Forfeited during the year	(1,151,667)	92	–	–	–	–
Exercised during the year	(2,861,483)	62	(7,131,655)	84	(73,402)	–
Expired during the year	(544,769)	74	(543,912)	105	(151,660)	–
Outstanding at 31 December	41,804,268	67	7,262,864	126	401,072	–
Exercisable at 31 December	100,433	78	41,007	85	–	–
Weighted average remaining contractual life (years)	2		3		8	

Exercised during the year includes 5,709,328 of options, which are predominantly CSOP options linked to SBP which have been settled using employee scheme shares.

	SAYE Options 2012	Weighted average exercise price 2012 p	CSOP/ESOS Options 2012	Weighted average exercise price 2012 p	SBP Options 2012	Weighted average exercise price 2012 p
Outstanding at 1 January	73,775,654	41	18,155,486	107	376,214	–
Granted during the year	8,772,329	107	3,167,110	118	162,595	–
Forfeited during the year	(2,004,502)	70	(452,465)	108	–	–
Exercised during the year	(38,989,455)	37	(2,157,446)	85	(64,021)	–
Expired during the year	(358,254)	57	(5,018,526)	141	(14,054)	–
Outstanding at 31 December	41,195,772	58	13,694,159	101	460,734	–
Exercisable at 31 December	131,609	59	1,532,327	83	–	–
Weighted average remaining contractual life (years)	2		1		8	

Exercised during the year includes 530,968 of options which are predominantly CSOP options linked to SBP which have been settled using employee scheme shares.

(iv) Total options

Options over 49,468,204 shares (2012: 55,350,665 shares) are outstanding under CSOP, ESOS, SAYE and SBP as at 31 December 2013. These options have a range of exercise prices between 0p and 170p (2012: 0p and 150p) and maximum remaining contractual life up to 2023 (2012: 2022).

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

38 SHARE CAPITAL, SHARE PREMIUM AND EMPLOYEE SCHEME TREASURY SHARES

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

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

Where any Group entity purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to shareholders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to shareholders, net of any directly attributable incremental transaction costs and the related income tax effects. Shares held on behalf of employee share schemes are disclosed as such on the balance sheet.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

38 SHARE CAPITAL, SHARE PREMIUM AND EMPLOYEE SCHEME TREASURY SHARES (CONTINUED)

(i) Share capital and share premium

Authorised share capital	2013 Number of shares	2013 £m	2012 Number of shares	2012 £m
At 31 December: ordinary shares of 2.5p each	**9,200,000,000**	**230**	9,200,000,000	230

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2013	**5,912,782,826**	**148**	**956**
Options exercised under share option schemes			
– Executive share option scheme	**1,422,327**	**–**	**1**
– Savings related share option scheme	**2,861,483**	**–**	**2**
As at 31 December 2013	**5,917,066,636**	**148**	**959**

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2012	5,872,166,893	147	941
Options exercised under share option schemes			
– Executive share option scheme	1,626,478	–	1
– Savings related share option scheme	38,989,455	1	14
As at 31 December 2012	5,912,782,826	148	956

There is one class of ordinary shares of 2.5p each. All shares issued carry equal voting rights.

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

(ii) Employee scheme treasury shares

The Group uses the Employee Share Ownership Trust (ESOT) and the Legal & General Group Employee Share Plan (ESP) to purchase and hold shares of the Group for delivery to employees under various employee share schemes. Shares owned by these vehicles are included at cost in the Consolidated Balance Sheet and are shown as a deduction from shareholders' equity. They are disclosed as employee scheme treasury shares until they vest to employees. Share-based liabilities to employees may also be settled via purchases directly from the market or by the issue of new shares.

The ESOT has waived its voting rights and its rights to some of the dividends payable on the shares it holds. Employees are entitled to dividends on the shares held on their behalf within the ESP.

	2013 Number of shares	2013 £m	2012 Number of shares	2012 £m
As at 1 January	**40,400,259**	**43**	45,554,040	48
Shares purchased	**7,313,358**	**12**	3,318,136	3
Shares vested	**(14,811,170)**	**(16)**	(8,471,917)	(8)
As at 31 December	**32,902,447**	**39**	40,400,259	43

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

39 NON-CONTROLLING INTERESTS

Non-controlling interests represent third party interests in private equity and property investment vehicles which are consolidated in the Group's results. The net increase in the non-controlling interests in 2013 arises from the additional investment and revaluation of the third party interests in the UK Property Ungeared Fund Limited Partnership.

40 OTHER LIABILITIES

	2013 £m	2012 £m
Accruals	**280**	231
Reinsurers' share of deferred acquisition costs	**67**	71
Deferred income liabilities	**290**	379
Other	**395**	278
Other liabilities	**1,032**	959
Settled within 12 months	**678**	467
Settled after 12 months	**354**	492

Other liabilities settled after 12 months are expected to be settled within five years.

41 RELATED PARTY TRANSACTIONS

There were no material transactions between key management and the Legal & General group of companies. All transactions between the Group and its key management are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment defined benefit plans were £62m (2012: £61m), for all employees.

At 31 December 2013 and 31 December 2012 there were no loans outstanding to officers of the Company.

Key management personnel compensation

The aggregate compensation for key management personnel, including executive and non-executive directors, is as follows:

	2013 £m	2012 £m
Salaries	**8**	7
Social security costs	**3**	1
Post-employment benefits	**–**	3
Share-based incentive awards	**4**	4
Key management personnel compensation	**15**	15
Number of key management personnel	**18**	17

The Group UK defined benefit pension schemes have purchased annuity contracts issued by Society for consideration of £68m (2012: £60m) during the period, priced on an arm's length basis.

The Group's investment portfolio includes investments in venture capital, property and financial investments which are held via collective investment vehicles. Net investments into associate investment vehicles totalled £2,023m during the period (2012: £690m). The Group has outstanding loans to these associates of £4m (2012: £1m) and received investment management fees of £33m during the period (2012: £26m). Distributions from these investment vehicles to the Group totalled £45m (2012: £49m).

On 22 May 2013, the Group increased its holding in the ordinary share capital of Cofunds (Holdings) Limited from 25% to 100%. For the period to 22 May 2013, the Group paid platform hosting fees to Cofunds (Holdings) Limited of £5m (2012: £12m). Payables outstanding at 22 May 2013 were £3m (2012: £1m).

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

42 CONTINGENT LIABILITIES, GUARANTEES AND INDEMNITIES

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

Various Group companies receive claims and become involved in actual or threatened litigation and regulatory issues from time to time. The relevant members of the Group ensure that they make prudent provision as and when circumstances calling for such provision become clear, and that each has adequate capital and reserves to meet reasonably foreseeable eventualities. The provisions made are regularly reviewed. It is not possible to predict, with certainty, the extent and the timing of the financial impact of these claims, litigation or issues.

In 1975, Legal & General Assurance Society Limited (the Society) was required by the Institute of London Underwriters (ILU) to execute the ILU form of guarantee in respect of policies issued through the ILU's Policy Signing Office on behalf of NRG Victory Reinsurance Company Ltd (Victory), a company which was then a subsidiary of the Society. In 1990, Nederlandse Reassurantie Groep Holding NV (the assets and liabilities of which have since been assumed by Nederlandse Reassurantie Groep NV under a statutory merger in the Netherlands) acquired Victory and provided an indemnity to the Society against any liability the Society may have as a result of the ILU's requirement, and the ILU agreed that its requirement of the Society would not apply to policies written or renewed after the acquisition. Nederlandse Reassurantie Groep NV is now owned by Columbia Insurance Company, a subsidiary of Berkshire Hathaway Inc. Whether the Society has any liability as a result of the ILU's requirement and, if so, the amount of its potential liability is uncertain. The Society has made no payment or provision in respect of this matter.

Group companies have given indemnities and guarantees as a normal part of their business and operating activities or in relation to capital market transactions. Legal & General Group Plc has provided indemnities and guarantees in respect of the liabilities of Group companies in support of their business activities, including Pension Protection Fund compliant guarantees in respect of certain Group companies' liabilities under the Group pension fund and scheme.

43 COMMITMENTS

(i) Capital commitments

	2013 £m	2012 £m
Authorised and contracted commitments not provided for in respect of investment property development, payable after 31 December		
– Long term business	**193**	188

(ii) Operating lease commitments

	2013 £m	2012 £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
– Not later than 1 year	**30**	26
– Later than 1 year and not later than 5 years	**103**	92
– Later than 5 years	**468**	362
	601	480
Future aggregate minimum sublease payments expected to be received under operating subleases	**157**	97
The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:		
– Not later than 1 year	**342**	297
– Later than 1 year and not later than 5 years	**1,167**	987
– Later than 5 years	**3,489**	2,648
	4,998	3,932

The Group leases offices and other premises under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

44 SUBSIDIARIES

Subsidiaries are those entities (including special purpose entities, mutual funds and unit trusts) over which the Group directly or indirectly has the power to govern the operating and financial policies in order to gain economic benefits. Profits or losses of subsidiary undertakings sold or acquired during the period are included in the consolidated results up to the date of disposal or from the date of gaining control. The interests of parties, other than the Group, in investment vehicles, such as unit trusts, are classified as liabilities and appear as 'Net asset value attributable to unit holders' in the consolidated balance sheet. The basis by which subsidiaries are consolidated in the Group financial statements is outlined in the basis of preparation (Note 1).

Future Developments

IFRS 10, 'Consolidated Financial Statements', IFRS 11, 'Joint Arrangements' and IFRS 12, 'Disclosures of Interests in Other Entities', together with amendments to IAS 28, 'Associates and joint ventures' (effective in the EU for annual periods beginning on or after 1 January 2014).

This suite of standards:

- Provides enhanced guidance when determining whether an entity is controlled and is therefore included within the consolidated financial statements.
- Provides a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
- Enhances the disclosure requirements around interests in other entities.

As a result of the implementation of these new standards the Group is likely to consolidate some investment vehicles that were previously not consolidated, while also increasing the level of disclosures required in respect of the Group's interest in other entities.

We estimate the impact of the change on the 2013 Consolidated Balance Sheet to be to increase the reported gross assets by £1.6bn with a commensurate increase in liabilities of £1.4bn and minority interests of £0.2bn. The impact on profit attributable to equity holders is £nil.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

44 SUBSIDIARIES (CONTINUED)

(i) Operating subsidiaries

In the opinion of the directors, the following subsidiaries principally affected the Company's results as set out in the annual accounts and are consolidated in these financial statements. The information required to be provided under section 409 of the Companies Act 2006 is provided only in relation to these undertakings and the undertakings listed under Notes 44(ii) and 45. A complete list of undertakings will be annexed to the Company's annual return which will be available from Companies House.

Company name	Nature of business	Country of incorporation
Legal & General Finance PLC[1]	Treasury operations	England and Wales
Legal & General Resources Limited[1]	Provision of services	England and Wales
Legal & General Assurance Society Limited	Long term and general insurance	England and Wales
Legal & General Insurance Limited	General insurance	England and Wales
Legal & General Investment Management Limited	Institutional fund management	England and Wales
Legal & General Assurance (Pensions Management) Limited	Long term business	England and Wales
Legal & General Pensions Limited	Reinsurance	England and Wales
Legal & General Partnership Services Limited	Provision of services	England and Wales
Legal & General (Portfolio Management Services) Limited	Institutional fund management	England and Wales
Legal & General Property Limited	Property management	England and Wales
Legal & General (Unit Trust Managers) Limited	Unit trust management	England and Wales
Suffolk Life Annuities Limited	Long term business	England and Wales
Suffolk Life Pensions Limited	Long term business	England and Wales
LGV Capital Limited	Private equity	England and Wales
Cofunds (Holdings) Limited	Provision of services	England and Wales
Investment Discounts Online Limited	Provision of services	England and Wales
Lucida Limited	Long term business	England and Wales
Legal & General (France) SA	Long term business	France
Legal & General Bank (France) SA	Financial services	France
Legal & General Risques Divers (France) SA	Insurance company	France
Legal & General International (Ireland) Limited	Long term business	Ireland
Legal & General Nederland Levensverzekering Maatschappij NV	Long term business	Netherlands
Banner Life Insurance Company Inc	Long term business	USA
William Penn Life Insurance Company of New York Inc	Long term business	USA
Legal & General Investment Management America Inc	Institutional fund management	USA
First British American Reinsurance Company II	Reinsurance	USA
First British Vermont Reinsurance Company	Reinsurance	USA
First British Vermont Reinsurance Company II	Reinsurance	USA
First British Bermuda Reinsurance Company II Limited	Reinsurance	Bermuda
Legal & General Investment Management Asia Limited	Institutional fund management	Hong Kong

1. Directly held by Legal & General Group Plc. All other subsidiaries are held through intermediate holding companies.

The main territory of operation of subsidiaries incorporated in England and Wales is the UK. For overseas subsidiaries the principal country of operation is the same as the country of incorporation. All operating subsidiaries have a 31 December year end reporting date and are 100% owned apart from Investment Discounts Online Limited, which is 95% owned.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

(ii) Investment vehicles

The following mutual funds and partnerships have been consolidated as a result of the Group's ability to exert control over the financial and operating activities of the investment vehicle so as to obtain economic benefits.

Vehicle name	Vehicle type	Territory	Year end reporting date	% of equity shares held by the Group
Chineham Shopping Centre Limited Partnership	Limited partnership	England and Wales	31/12/2013	100.0
Ealing Shopping Centre Limited Partnership	Limited partnership	England and Wales	31/12/2013	100.0
Gresham Street Limited Partnership	Limited partnership	England and Wales	31/12/2013	100.0
Legal & General City Offices Limited Partnership	Limited partnership	England and Wales	31/12/2013	100.0
Legal & General Investment Management (Ireland) Risk Management Solutions Plc	Open ended investment company	Ireland	31/12/2013	100.0
Legal & General Life Fund Limited Partnership	Limited partnership	England and Wales	31/12/2013	100.0
Legal & General SICAV	Societe d'Investissement A Capital Variable	France	31/12/2013	100.0
Northampton Shopping Centre Limited Partnership	Limited partnership	England and Wales	31/12/2013	100.0
Performance Retail Limited Partnership	Limited partnership	England and Wales	31/12/2013	100.0
Performance Retail Unit Trust	Property unit trust	Jersey	31/12/2013	100.0
Legal & General Investment Management UK Smaller Companies Alpha Fund Plc	Open ended investment company	Ireland	31/12/2013	99.9
Legal & General UK Special Situations Trust	Equity unit trust	England and Wales	14/09/2013	99.5
LGV 7 Private Equity Fund Limited Partnership	Private equity partnership	England and Wales	31/12/2013	99.7
LGV 6 Private Equity Fund Limited Partnership	Private equity partnership	England and Wales	31/12/2013	99.5
Legal & General Global Environmental Enterprises Fund	Equity unit trust	England and Wales	01/12/2013	93.7
Legal & General Global Macro Themes Fund	Mixed asset unit trust	England and Wales	14/09/2013	93.7
Legal & General Growth Trust	Equity unit trust	England and Wales	15/05/2013	87.7
Legal & General North American Trust	Equity unit trust	England and Wales	16/01/2013	86.8
Legal & General UK Absolute Fund	Mixed asset unit trust	England and Wales	30/01/2013	86.0
Legal & General Emerging Markets Government Bond (US$) Index Fund	Fixed interest unit trust	England and Wales	10/11/2013	85.0
Legal & General Investment Management Global Corporate Bond Fund	Open ended investment company	England and Wales	31/12/2013	84.6
Legal & General Asian Income Trust	Equity unit trust	England and Wales	10/09/2013	80.3
ARC Property Fund Unit Trust	Property unit trust	Jersey	31/12/2013	80.0
Legal & General Pacific Growth Trust	Equity unit trust	England and Wales	18/09/2013	79.6
Legal & General Equity Trust	Equity unit trust	England and Wales	15/08/2013	71.0
Legal & General European Trust	Equity unit trust	England and Wales	28/07/2013	69.8
Legal & General Global Growth Trust	Equity unit trust	England and Wales	15/01/2013	66.0
Legal & General UK Smaller Companies Trust	Equity unit trust	England and Wales	18/06/2013	59.4
Legal & General High Income Trust	Fixed interest unit trust	England and Wales	05/09/2013	59.1
Legal & General European Index Trust	Equity unit trust	England and Wales	31/07/2013	56.6
Legal & General Investment Management Liquidity Funds Plc	Open ended investment company	Ireland	31/12/2013	55.9
Legal & General Sterling Corporate Bond Index Fund	Debt security unit trust	England and Wales	20/05/2013	54.6
Legal & General Global Emerging Market Index Fund	Equity unit trust	England and Wales	31/07/2013	54.2
Legal & General UK Active Opportunities Trust	Equity unit trust	England and Wales	14/04/2013	54.1
Legal & General UK Equity Income Fund	Equity unit trust	England and Wales	24/01/2013	53.7
Legal & General Pacific Index Trust	Equity unit trust	England and Wales	25/03/2013	51.1
Lagoon Finance Limited[1]	Limited liability company	Ireland	31/12/2013	–

1. Lagoon Finance Limited is consolidated on the basis that the Group has the power to govern the financial and operating policies and has the rights to receive 100% of the economic benefits.

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

45 ASSOCIATES AND JOINT VENTURES

Associates are entities over which the Group has significant influence but which it does not control. Consistent with IAS 28, 'Investments in associates', it is presumed that the Group has significant influence where it has between 20% and 50% of the voting rights in the investee. Joint ventures are entities where the Group and other parties undertake an activity which is subject to joint control. The basis by which associates and joint ventures are consolidated in the Group financial statements is outlined in the Basis of Preparation (Note 1).

The Group has the following significant holdings which have been included as financial investments, investments in associates or joint ventures. The gross assets of these companies are in part funded by borrowings which are non recourse to the Group.

Company name	Country of incorporation	Accounting treatment	Year end reporting date	% of equity shares held by the Group
Bracknell Property Unit Trust[1]	Jersey	FVTPL	31/03/2013	50.4
Central St Giles Unit Trust	Jersey	FVTPL	31/12/2013	50.0
Legal & General Gulf BSC[2]	Bahrain	Equity method	31/03/2013	50.0
Mithras Capital Fund Limited Partnership	Scotland	FVTPL	31/12/2013	50.0
Warrington Retail Unit Trust	Jersey	FVTPL	31/12/2013	50.0
Meteor Industrial Partnership	England and Wales	FVTPL	31/12/2013	49.9
Legal & General Ethical Trust	England and Wales	FVTPL	12/12/2013	47.6
Legal & General US Index Trust	England and Wales	FVTPL	05/12/2013	47.6
CALA Group Limited	Scotland	Equity method	30/06/2013	46.5
Legal & General UK Alpha Trust	England and Wales	FVTPL	18/06/2013	45.8
Legal & General Japanese Index Trust	England and Wales	FVTPL	24/10/2013	45.7
Arlington Business Parks Unit Trust	Jersey	FVTPL	31/12/2013	41.3
Novus Leisure Limited	England and Wales	FVTPL	30/06/2013	40.5
Legal & General Fixed Interest Trust	England and Wales	FVTPL	05/09/2013	37.9
English Cities Fund	England and Wales	FVTPL	31/12/2013	37.5
The Leisure Fund Unit Trust	Jersey	FVTPL	31/12/2013	27.6
IndiaFirst Life Insurance Company Limited[2]	India	Equity method	31/03/2013	26.0

1. The Bracknell Property Unit Trust is not consolidated as the Group does not have the power to control the entity.
2. Legal & General Gulf BSC and IndiaFirst Life Insurance Company Limited are joint venture operations. During the year, the Group provided £nil further capital contribution to IndiaFirst Life Insurance Company Limited (2012: £nil).

ADDITIONAL FINANCIAL INFORMATION (CONTINUED)

Summarised financial information for associates and joint ventures are shown below.

2013	Equity method Associates and Joint ventures £m	Classified as FVTPL Private equity £m	Classified as FVTPL Property partnerships £m	Classified as FVTPL Unit trusts £m	Total £m
Aggregate revenues	**424**	**124**	**139**	**388**	**651**
Aggregate profit/(loss)	**5**	**(4)**	**66**	**72**	**134**
Gross assets	**840**	**155**	**2,009**	**4,769**	**6,933**
Gross liabilities	**688**	**130**	**671**	**374**	**1,175**

2012	Equity method Associates and Joint ventures £m	Classified as FVTPL Private equity £m	Classified as FVTPL Property partnerships £m	Classified as FVTPL Unit trusts £m	Total £m
Aggregate revenues	267	142	104	154	400
Aggregate profit/(loss)	(5)	(6)	50	78	122
Gross assets	418	206	1,983	1,958	4,147
Gross liabilities	313	133	770	46	949

The value of the Group's share of investment in associates and joint ventures disclosed in the Consolidated Balance Sheet is £101m (2012: £87m)

EUROPEAN EMBEDDED VALUE BASIS

GROUP EMBEDDED VALUE – SUMMARY

For the year ended 31 December 2013	Covered business UK business £m	LGAS overseas business £m	LGA £m	Non-covered business £m	Total £m
At 1 January					
Value of in-force business (VIF)	4,402	146	735	–	5,283
Shareholder net worth (SNW)	3,178	296	239	(96)	3,617
Embedded value at 1 January 2013	7,580	442	974	(96)	8,900
Exchange rate movements	–	9	(14)	(10)	(15)
Operating profit after tax for the year	804	16	70	168	1,058
Non-operating profit/(loss) for the year	222	60	(24)	(27)	231
Profit for the year	1,026	76	46	141	1,289
Intra-group distributions[1]	(602)	(15)	(44)	661	–
Dividends to equity holders of the Company	–	–	–	(479)	(479)
Transfer to non-covered business[2]	(27)	–	–	27	–
Other reserve movements including pension deficit[3]	(35)	–	(29)	(45)	(109)
Embedded value at 31 December 2013	7,942	512	933	199	9,586
Value of in-force business	4,693	197	699	–	5,589
Shareholder net worth	3,249	315	234	199	3,997
Embedded value per share (p)[4]					162

1. UK intra-group distributions reflect a £625m dividend paid from Society to Group, and dividends of £10m (2012: £40m) paid to Society from subsidiaries (primarily Nationwide Life). Dividends of €16m (2012: €15m) from LGN are also paid to Society. Dividends of $69m (2012: $63m) from LGA and €2m (2012: €3m) from LGF were paid to Group.
2. The transfer to non-covered business represents the IFRS profits arising in the period from the provisions of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.
3. The other reserve movements reflect the pension deficit movement, the movement of investment project costs from covered to non-covered business and the effect of reinsurance arrangement transactions between UK and US covered business.
4. The number of shares in issue at 31 December 2013 was 5,917,066,636 (31 December 2012: 5,912,782,826).

Further analysis of the LGAS and LGR covered business can be found in Note 2.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

For the year ended 31 December 2012[1]	Covered business UK business £m	Covered business LGAS overseas business £m	Covered business LGA £m	Non-covered business £m	Total £m
At 1 January					
Value of in-force business (VIF)	4,247	217	913	–	5,377
Shareholder net worth (SNW)	3,218	252	149	(388)	3,231
At 1 January 2012	7,465	469	1,062	(388)	8,608
Exchange rate movements	–	(12)	(50)	40	(22)
Operating profit after tax for the year	653	19	77	71	820
Non-operating loss for the year	(23)	(20)	(18)	(26)	(87)
Profit/(loss) for the year	630	(1)	59	45	733
Intra-group distributions[2]	(473)	(14)	(40)	527	–
Dividends to equity holders of the Company	–	–	–	(394)	(394)
Transfer to non-covered business[3]	(22)	–	–	22	–
Other reserve movements including pension deficit[4]	(20)	–	(57)	52	(25)
Embedded value at 31 December 2012	7,580	442	974	(96)	8,900
Value of in-force business	4,402	146	735	–	5,283
Shareholder net worth	3,178	296	239	(96)	3,617
Embedded value per share (p)[5]					151

1. This note has been restated to reflect an amendment to IAS 19 'Employee Benefits'. Details of this restatement are outlined in Note 1.
2. UK intra-group distributions reflect a £525m dividend paid from Society to Group and dividends of £40m paid to Society from subsidiaries (primarily Nationwide Life). Dividends of €15m from LGN are also paid to Society. Dividends of $63m from LGA and €3m from LGF were paid to Group.
3. The transfer to non-covered business represents the IFRS profits arising in the period from the provisions of investment management services by Legal & General Investment Management to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.
4. The other reserve movements reflect the pension deficit movement, the movement of investment project costs from covered to non-covered business and the effect of reinsurance arrangement transactions between UK and US covered business.
5. The number of shares in issue at 31 December 2012 was 5,912,782,826.

Further analysis of the LGAS and LGR covered business can be found in Note 2.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

1 METHODOLOGY

Basis of preparation

The supplementary financial statements have been prepared in accordance with the European Embedded Value (EEV) Principles issued in May 2004 by the European Insurance CFO Forum.

The supplementary financial statements have been reviewed by PricewaterhouseCoopers LLP and prepared with assistance from our consulting actuary Milliman in the USA.

Changes to accounting policy–IAS 19 'Employee Benefits'

During 2013 the Group has changed its accounting policy on the recognition and measurement of defined benefit pension expense and termination benefits following the publication by the IASB in June 2011 of an amendment to IAS 19 'Employee Benefits'. This is compulsory for years beginning on or after 1 January 2013. The impact of the amendment is to reduce profit for the year by £2m. This reflects the non-covered business component, since the with profit element is transferred to the unallocated divisible surplus and the non profit element is included within covered business (Other reserve movements), with an equivalent increase in Other Comprehensive Income. Total Comprehensive Income therefore remains unchanged.

The impact of this change upon the 2012 annual profit for the year and group embedded value – summary are shown below. As the impact of the change is shown within investment variances there is no impact upon group operating profit.

	2012 £m
Profit for the year as previously reported	734
Economic variances	
IAS 19 'Employee Benefits' amendment	(1)
Revised profit for the year (after tax)	**733**
Actuarial gain on defined benefit pension schemes	4
Actuarial gain on defined benefit pension schemes transferred to unallocated divisible surplus	(3)
Previously reported income	(40)
Total comprehensive income for the year	**694**
Earnings per share	p
Based on profit attributable to equity holders of the Company as previously reported	12.75
IAS 19 'Employee Benefits' amendment	–
Revised earnings per share based on profit attributable to equity holders of the Company	**12.75**
Diluted earnings per share	
Based on profit attributable to equity holders of the Company as previously reported	12.54
IAS 19 'Employee Benefits' amendment	–
Revised diluted earnings per share based on profit attributable to equity holders of the Company	**12.54**

Covered business

The Group uses EEV methodology to value individual and group life assurance, pensions and annuity business written in the UK, Continental Europe and the US. The UK covered business also includes non-insured self invested personal pension (SIPP) business.

The managed pension funds business has been excluded from covered business and is reported on an IFRS basis.

All other businesses are accounted for on the IFRS basis adopted in the primary financial statements.

There is no distinction made between insurance and investment contracts in our covered business as there is under IFRS.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

Description of methodology

The objective of EEV is to provide shareholders with realistic information on the financial position and current performance of the Group.

The methodology requires assets of an insurance company, as reported in the primary financial statements, to be attributed between those supporting the covered business and the remainder. The method accounts for assets in the covered business on an EEV basis and the remainder of the Group's assets on the IFRS basis adopted in the primary financial statements.

The EEV methodology recognises profit from the covered business as the total of:

i. cash transfers during the relevant period from the covered business to the remainder of the Group's assets; and
ii. the movement in the present value of future distributable profits to shareholders arising from the covered business over the relevant reporting period.

Embedded value

Shareholders' equity on the EEV basis comprises the embedded value of the covered business plus the shareholders' equity of other businesses, less the value included for purchased interests in long term business.

The embedded value is the sum of the shareholder net worth (SNW) and the value of the in-force business (VIF). SNW is defined as those amounts, within covered business (both within the long term fund and held outside the long term fund but used to support long term business), which are regarded either as required capital or which represent free surplus.

The VIF is the present value of future shareholder profits arising from the covered business, projected using best estimate assumptions, less an appropriate deduction for the cost of holding the required level of capital and the time value of financial options and guarantees (FOGs).

Service companies

All services relating to the UK covered business are charged on a cost recovery basis, with the exception of investment management services provided to Legal & General Pensions Limited (LGPL) and to Legal & General Assurance Society Limited (Society). Profits arising on the provision of these services are valued on a look through basis.

As the EEV methodology incorporates the future capitalised cost of these internal investment management services, the equivalent IFRS profits have been removed from the Investment management segment and are instead included in the results of the LGAS and LGR segments on an EEV basis.

The capitalised value of future profits emerging from internal investment management services are therefore included in the embedded value and new business contribution calculations for the LGAS and LGR segments. However, the historical profits which have emerged continue to be reported in the shareholders' equity of the LGIM segment on an IFRS basis. Since the look through into service companies includes only future profits and losses, current intra-group profits or losses must be eliminated from the closing embedded value and in order to reconcile the profits arising in the financial period within each segment with the net assets on the opening and closing balance sheet, a transfer of IFRS profits for the period from the UK SNW is deemed to occur.

New business

New business premiums reflect income arising from the sale of new contracts during the reporting period and any changes to existing contracts, which were not anticipated at the outset of the contract.

In-force business comprises previously written single premium, regular premium, recurrent single premium contracts and payments in relation to existing longevity insurance. Department of Work and Pensions rebates have not been treated as recurring and are included in single premium new business when received. Longevity insurance product comprises the exchange of a stream of fixed leg payments for a stream of floating payments, with the value of the income stream being the difference between the two legs. New business annual premiums have been excluded for longevity insurance due to the unpredictable deal flow from this type of business.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

1 METHODOLOGY (CONTINUED)

New business (continued)

New business contribution arising from the new business premiums written during the reporting period has been calculated on the same economic and operating assumptions used in the embedded value at the end of the financial period. This has then been rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.

The present value of future new business premiums (PVNBP) has been calculated and expressed at the point of sale. The PVNBP is equivalent to the total single premiums plus the discounted value of regular premiums expected to be received over the term of the contracts using the same economic and operating assumptions used for the embedded value at the end of the financial period. The discounted value of longevity insurance regular premiums is calculated on a net of reinsurance basis to enable a more representative margin figure.

The new business margin is defined as new business contribution at the end of the reporting period divided by the PVNBP. The premium volumes and projection assumptions used to calculate the PVNBP are the same as those used to calculate new business contribution.

Intra-group reinsurance arrangements are in place between the US and UK businesses, and it is expected that these arrangements will be periodically extended to cover recent new business. US new business premiums and contribution reflect the groupwide expected impact of US directly-written business.

Projection assumptions

Cash flow projections are determined using best estimate assumptions for each component of cash flow and for each policy group. Future economic and investment return assumptions are based on conditions at the end of the financial period. Future investment returns are projected by one of two methods. The first method is based on an assumed investment return attributed to assets at their market value. The second, which is used by LGA, where the investments of that subsidiary are substantially all fixed interest, projects the cash flows from the current portfolio of assets and assumes an investment return on reinvestment of surplus cash flows. The assumed discount and inflation rates are consistent with the investment return assumptions.

Detailed projection assumptions including mortality, morbidity, persistency and expenses reflect recent operating experience and are normally reviewed annually. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favourable changes in operating experience are not anticipated until the improvement in experience has been observed.

All costs relating to the covered business, whether incurred in the covered business or elsewhere in the Group, are allocated to that business. The expense assumptions used for the cash flow projections therefore include the full cost of servicing this business.

Tax

The projections take into account all tax which is expected to be paid, based on best estimate assumptions, applying current legislation and practice together with known future changes.

Allowance for risk

Aggregate risks within the covered business are allowed for through the following principal mechanisms:

i. setting required capital levels with reference to both the Group's internal risk based capital models, and an assessment of the strength of regulatory reserves in the covered business;
ii. allowing explicitly for the time value of financial options and guarantees within the Group's products; and
iii. setting risk discount rates by deriving a Group level risk margin to be applied consistently to local risk free rates.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

Required capital and free surplus

Regulatory capital for the UK LGAS and LGR businesses is provided by assets backing the with-profits business or by the SNW. The SNW comprises all shareholders' capital within Society, including those funds retained within the long term fund and the excess assets in LGPL (collectively Society shareholder capital).

Society shareholder capital is either required to cover EU solvency margin or is free surplus as its distribution to shareholders is not restricted.

For UK with-profits business, the required capital is covered by the surplus within the with-profits part of the fund and no effect is attributed to shareholders except for the burn-through cost, which is described later. This treatment is consistent with the Principles and Practices of Financial Management for this part of the fund.

For UK non profit business, the required capital will be maintained at no less than the level of the EU minimum solvency requirement. This level, together with the margins for adverse deviation in the regulatory reserves, is, in aggregate, in excess of internal capital targets assessed in conjunction with the Individual Capital Assessment (ICA) and the with-profits support account.

The initial strains relating to new non profit business, together with the related EU solvency margin, are supported by releases from existing non profit business and the Society shareholder capital. As a consequence, the writing of new business defers the release of capital to free surplus. The cost of holding required capital is defined as the difference between the value of the required capital and the present value of future releases of that capital. For new business, the cost of capital is taken as the difference in the value of that capital assuming it was available for release immediately and the present value of the future releases of that capital. As the investment return, net of tax, on that capital is less than the risk discount rate, there is a resulting cost of capital which is reflected in the value of new business.

For LGA, the Company Action Level (CAL) of capital has been treated as required capital for modelling purposes. The CAL is the regulatory capital level at which the company would have to take prescribed action, such as submission of plans to the State insurance regulator, but would be able to continue operating on the existing basis. The CAL is currently twice the level of capital at which the regulator is permitted to take control of the business.

For LGN, required capital has been set at 100% of EU minimum solvency margin for all products without FOGs. For those products with FOGs, capital of between 100% and 350% of the EU minimum solvency margin has been used. At total level a check is made to ensure the total requirement meets the 160% Solvency I (both EEV and NBVA) from the capital policy. The level of capital has been determined using risk based capital techniques.

For LGF, 100% of EU minimum solvency margin has been used for EV modelling purposes for all products both with and without FOGs. The level of capital has been determined using risk based capital techniques.

The contribution from new business for our International businesses reflects an appropriate allowance for the cost of holding the required capital.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

1 METHODOLOGY (CONTINUED)

Financial options and guarantees

Under the EEV Principles an allowance for time value of FOGs is required where a financial option exists which is exercisable at the discretion of the policyholder. These types of option principally arise within the with-profits part of the fund and their time value is recognised within the with-profits burn-through cost described below. Additional financial options for non profit business exist only for a small amount of deferred annuity business where guaranteed early retirement and cash commutation terms apply when the policyholders choose their actual retirement date.

Further financial guarantees exist for non profit business, in relation to index-linked annuities where capped or collared restrictions apply. Due to the nature of these restrictions and the manner in which they vary depending on the prevailing inflation conditions, they are also treated as FOGs and a time value cost recognised accordingly.

The time value of FOGs has been calculated stochastically using a large number of real world economic scenarios derived from assumptions consistent with the deterministic EEV assumptions and allowing for appropriate management actions where applicable. The management action primarily relates to the setting of bonus rates. Future regular and terminal bonuses on participating business within the projections are set in a manner consistent with expected future returns available on assets deemed to back the policies within the stochastic scenarios.

In recognising the residual value of any projected surplus assets within the with-profits part of the fund in the deterministic projection, it is assumed that terminal bonuses are increased to exhaust all of the assets in the part of the fund over the future lifetime of the in-force with-profits policies. However, under stochastic modelling, there may be some extreme economic scenarios when the total projected assets within the with-profits part of the fund are insufficient to pay all projected policyholder claims and associated costs. The average additional shareholder cost arising from this shortfall has been included in the time value cost of financial options and guarantees and is referred to as the with-profits burn-through cost.

Economic scenarios have been used to assess the time value of the financial guarantees for non profit business by using the inflation rate generated in each scenario. The inflation rate used to project index-linked annuities will be constrained in certain real world scenarios, for example, where negative inflation occurs but the annuity payments do not reduce below pre-existing levels. The time value cost of FOGs allows for the projected average cost of these constrained payments for the index-linked annuities. It also allows for the small additional cost of the guaranteed early retirement and cash commutation terms for the minority of deferred annuity business where such guarantees have been written.

LGA FOGs relate to guaranteed minimum crediting rates and surrender values on a range of contracts, as well as impacts on no-lapse guarantees (NLG). The guaranteed surrender value of the contract is based on the accumulated value of the contract including accrued interest. The crediting rates are discretionary but related to the accounting income for the amortising bond portfolio. The majority of the guaranteed minimum crediting rates are between 3% and 4%. The assets backing these contracts are invested in US Dollar denominated fixed interest securities.

LGN separately provides for two types of guarantees: interest rate guarantees and maturity guarantees. Certain contracts provide an interest rate guarantee where there is a minimum crediting rate based on the higher of 1-year Euribor and the policy guarantee rate. This guarantee applies on a monthly basis. Certain other linked contracts provide a guaranteed minimum value at maturity where the maturity amount is the higher of the fund value and a guarantee amount. The fund values for both these contracts are invested in Euro denominated fixed interest securities.

For LGF, FOGs which have been separately provided for relate to guaranteed minimum crediting rates and surrender values on a range of contracts. The guaranteed surrender value of the contract is the accumulated value of the contract including accrued bonuses. The bonuses are based on the accounting income for the amortising bond portfolios plus income and releases from realised gains on any equity type investments. Policy liabilities equal guaranteed surrender values. Local statutory accounting rules require the establishment of a specific liability when the accounting income for a company is less than 125% of the guaranteed minimum credited returns, although this has never been required. In general, the guaranteed annual bonus rates are between 0% and 4.5%.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

Risk free rate

The risk free rate is set to reflect both the pattern of the emerging profits under EEV and the relevant duration of the liabilities where backing assets reflect this assumption (e.g. equity returns). For the UK, it is set by reference to the gross redemption yield on the 15 year gilt index. For LGA, the risk free rate is the 10 year US Treasury effective yield, while the 10 year ECB AAA-rated Euro area central government bond par yield is used for LGN and LGF.

Risk discount rate

The risk discount rate (RDR) is a combination of the risk free rate and a risk margin, which reflects the residual risks inherent in the Group's covered businesses, after taking account of prudential margins in the statutory provisions, the required capital and the specific allowance for FOGs.

The risk margin has been determined based on an assessment of the Group's weighted average cost of capital (WACC). This assessment incorporates a beta for the Group, which measures the correlation of movements in the Group's share price to movements in a relevant index. Beta values therefore allow for the market's assessment of the risks inherent in the business relative to other companies in the chosen index.

The WACC is derived from the Group's cost of equity and debt, and the proportion of equity to debt in the Group's capital structure measured using market values. Each of these three parameters is forward looking, although informed by historic information and appropriate judgements where necessary. The cost of equity is calculated as the risk free rate plus the equity risk premium for the chosen index multiplied by the Company's beta. Forward-looking or adjusted betas make allowance for the observed tendency for betas to revert to 1 and therefore a weighted average of the historic beta and 1 tends to be a better estimate of the Company's beta for the future period. We have computed the WACC using an arithmetical average of forward-looking betas against the FTSE 100 index.

The cost of debt used in the WACC calculations takes account of the actual locked-in rates for our senior and subordinated long term debt. All debt interest attracts tax relief at a rate of 20.1%.

Whilst the WACC approach is a relatively simple and transparent calculation to apply, subjectivity remains within a number of the assumptions. Management believes that the chosen margin, together with the levels of required capital, the inherent strength of the Group's regulatory reserves and the explicit deduction for the cost of options and guarantees, is appropriate to reflect the risks within the covered business.

Analysis of profit

Operating profit is identified at a level which reflects an assumed longer term level of investment return.

The contribution to operating profit in a period is attributed to four sources:

i. new business;
ii. the management of in-force business;
iii. development costs; and
iv. return on shareholder net worth.

Further profit contributions arise from actual investment return differing from the assumed long term investment return (investment return variances), and from the effect of economic assumption changes.

The contribution from new business represents the value recognised at the end of each period from new business written in that period, after allowing for the actual cost of acquiring the business and of establishing the required technical provisions and reserves and after making allowance for the cost of capital. New business contributions are calculated using closing assumptions.

The contribution from in-force business is calculated using opening assumptions and comprises:

i. expected return – the discount earned from the value of business in-force at the start of the year;
ii. experience variances – the variance in the actual experience over the reporting period from that assumed in the value of business in-force as at the start of the year; and
iii. operating assumption changes – the effects of changes in future assumptions, other than changes in economic assumptions from those used in valuing the business at the start of the year. These changes are made prospectively from the end of the year.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

1 METHODOLOGY (CONTINUED)

Analysis of profit (continued)

Development costs relate to investment in strategic systems and development capability.

The contribution from shareholder net worth comprises the increase in embedded value based on assumptions at the start of the year in respect of the expected investment return on the Society shareholder capital.

Further profit contributions arise from investment return variances and the effect of economic assumption changes.

Economic variances represent:

i. the effect of actual investment performance and changes to investment policy on SNW and VIF business from that assumed at the beginning of the period; and
ii. the effect of changes in economic variables on SNW and VIF business from that assumed at the beginning of the period, which are beyond the control of management, including associated changes to valuation bases to the extent that they are reflected in revised assumptions.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

2 LGAS AND LGR EMBEDDED VALUE RECONCILIATION

	Shareholder net worth				
For the year ended 31 December 2013	Free surplus £m	Required capital £m	Total £m	Value of in-force £m	Total embedded value £m
At 1 January 2013[1]	1,259	2,215	3,474	4,548	8,022
Exchange movement	3	3	6	3	9
Operating profit/(loss) after tax – UK business:					
– New business contribution[2]	(324)	284	(40)	484	444
– Expected return on VIF	–	–	–	266	266
– Expected transfer from non profit VIF to SNW[3]	815	(181)	634	(634)	–
– With-profits transfer	54	–	54	(54)	–
– Expected return on SNW	40	76	116	–	116
Generation of embedded value	585	179	764	62	826
– Experience variances	5	(9)	(4)	14	10
– Operating assumption changes	(24)	2	(22)	21	(1)
– Development costs	(31)	–	(31)	–	(31)
Variances	(50)	(7)	(57)	35	(22)
Operating profit after tax – LGAS overseas	7	1	8	8	16
Operating profit after tax	542	173	715	105	820
Non-operating profit/(loss) after tax – UK business:					
– Economic variances	109	(8)	101	80	181
– Effect of tax rate changes and other taxation impacts[4]	–	–	–	41	41
Non-operating profit after tax – LGAS overseas	20	–	20	40	60
Non-operating profit/(loss) after tax for the year	129	(8)	121	161	282
Profit for the year	671	165	836	266	1,102
Intra-group distributions[5]	(617)	–	(617)	–	(617)
Transfer to non-covered business[6]	(27)	–	(27)	–	(27)
Other reserve movements including pension deficit[7]	(115)	7	(108)	73	(35)
Embedded value at 31 December 2013	**1,174**	**2,390**	**3,564**	**4,890**	**8,454**

1. Opening balances at 1 January 2013 include LGF and LGN.
2. The UK free surplus reduction of £324m to finance new business includes £40m new business strain and £284m additional required capital.
3. The increase in UK free surplus of £815m from the expected transfer from the in-force non profit business includes £634m of operational cash generation and a £181m reduction in required capital.
4. Reflects the implementation of the UK planned future reductions in corporation tax to 20% on 1 April 2015.
5. UK intra-group dividends reflect a £625m dividend paid from Society to Group and dividends of £10m paid to Society from subsidiaries (primarily Nationwide Life). Dividends of €16m from LGN are also paid to Society.
6. The transfer to non-covered business represents the IFRS profits arising in the period from the provisions of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.
7. The other reserve movements reflects the pension deficit movement, the movement of investment project costs from covered to non-covered business and the effect of reinsurance arrangement transactions between UK and US covered business.

The value of in-force business of £4,890m is comprised of £4,454m of non profit business and £436m of with-profits business.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

2 LGAS AND LGR EMBEDDED VALUE RECONCILIATION (CONTINUED)

	Shareholder net worth				
For the year ended 31 December 2012	Free surplus £m	Required capital £m	Total £m	Value of in-force £m	Total embedded value £m
At 1 January 2012	1,492	1,978	3,470	4,464	7,934
Exchange movement	(3)	(3)	(6)	(6)	(12)
Operating profit/(loss) after tax – UK business:					
– New business contribution[1]	(275)	182	(93)	386	293
– Expected return on VIF	–	–	–	270	270
– Expected transfer from non profit VIF to SNW[2]	762	(171)	591	(591)	–
– With-profits transfer	52	–	52	(52)	–
– Expected return on SNW	53	63	116	–	116
Generation of embedded value	592	74	666	13	679
– Experience variances	(26)	18	(8)	20	12
– Operating assumption changes	13	1	14	(23)	(9)
– Development costs	(29)	–	(29)	–	(29)
Variances	(42)	19	(23)	(3)	(26)
Operating profit after tax – LGAS overseas	11	10	21	(2)	19
Operating profit after tax	561	103	664	8	672
Non-operating profit/(loss) after tax – UK business:					
– Economic variances	(182)	107	(75)	(37)	(112)
– Effect of tax rate changes and other taxation impacts[3]	–	–	–	89	89
Non-operating profit after tax – LGAS overseas	24	19	43	(63)	(20)
Non-operating (loss)/profit after tax for the year	(158)	126	(32)	(11)	(43)
Profit for the year	403	229	632	(3)	629
Intra-group distributions[4]	(487)	–	(487)	–	(487)
Transfer to non-covered business[5]	(22)	–	(22)	–	(22)
Other reserve movements including pension deficit[6]	(124)	11	(113)	93	(20)
Embedded value at 31 December 2012	1,259	2,215	3,474	4,548	8,022

1. The UK free surplus reduction of £275m to finance new business includes £93m new business strain and £182m additional required capital.
2. The increase in UK free surplus of £762m from the expected transfer from the in-force non profit business includes £591m of operational cash generation and a £171m reduction in required capital.
3. Reflects the implementation of the UK planned future reductions in corporation tax to 21% on 1 April 2014.
4. UK intra-group dividends reflect a £525m dividend paid from Society to Group and dividends of £40m paid to Society from subsidiaries (primarily Nationwide Life). Dividends of €15m from LGN were also paid to Society.
5. The transfer to non-covered business represents the IFRS profits arising in the period from the provisions of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.
6. The other reserve movements reflects the pension deficit movement, the movement of investment project costs from covered to non-covered business and the effect of reinsurance arrangement transactions between UK and US covered business.

The value of in-force business of £4,548m is comprised of £4,154m of non profit business and £394m of with-profits business.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

3 ANALYSIS OF SHAREHOLDERS' EQUITY

As at 31 December 2013	LGAS and LGR £m	LGIM £m	LGC and group expenses £m	LGA £m	Total £m
Analysed as:					
IFRS basis shareholders' equity[1]	**783**	**421**	**3,622**	**816**	**5,642**
Additional retained profit/(loss) on an EEV basis	**4,830**	**–**	**(1,003)**	**117**	**3,944**
Shareholders' equity on an EEV basis	**5,613**	**421**	**2,619**	**933**	**9,586**
Comprising:					
Business reported on an IFRS basis	**408**	**421**	**(630)**	**–**	**199**
Business reported on an EEV basis:					
Shareholder net worth					
– Free surplus[2]	**67**		**1,107**	**192**	**1,366**
– Required capital to cover solvency margin	**248**		**2,142**	**42**	**2,432**
Value of in-force					
– Value of in-force business[3]	**5,398**			**711**	**6,109**
– Cost of capital	**(508)**			**(12)**	**(520)**

1. Shareholders' equity supporting the UK non profit LGAS and LGR businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within the LGC and group expenses segment.
2. Free surplus is the value of any capital and surplus allocated to, but not required to support, the in-force covered business at the valuation date.
3. Value of in-force business includes a deduction for the time value of options and guarantees of £23m (2012: £30m).

As at 31 December 2012	LGAS and LGR £m	LGIM £m	LGC and group expenses £m	LGA £m	Total £m
Analysed as:					
IFRS basis shareholders' equity[1]	685	423	3,414	919	5,441
Additional retained profit/(loss) on an EEV basis	4,484	–	(1,080)	55	3,459
Shareholders' equity on an EEV basis	5,169	423	2,334	974	8,900
Comprising:					
Business reported on an IFRS basis	325	423	(844)	–	(96)
Business reported on an EEV basis:					
Shareholder net worth					
– Free surplus[2]	57		1,202	206	1,465
– Required capital to cover solvency margin	239		1,976	33	2,248
Value of in-force					
– Value of in-force business[3]	5,054			745	5,799
– Cost of capital	(506)			(10)	(516)

1. Shareholders' equity supporting the UK non profit LGAS and LGR businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within the LGC and group expenses segment.
2. Free surplus is the value of any capital and surplus allocated to, but not required to support, the in-force covered business at the valuation date.
3. Value of in-force business includes a deduction for the time value of options and guarantees of £30m.

Further analysis of shareholders' equity is included in Note 4.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

4 SEGMENTAL ANALYSIS OF SHAREHOLDERS' EQUITY

	Covered business EEV basis 2013 £m	**Other business IFRS basis 2013 £m**	**Total 2013 £m**	Covered business EEV basis 2012 £m	Other business IFRS basis 2012 £m	Total 2012 £m
LGAS						
– LGAS UK Protection and Savings	**2,331**	**–**	**2,331**	2,197	–	2,197
– LGAS overseas business	**512**	**–**	**512**	442	–	442
– General insurance and other	**–**	**408**	**408**	–	325	325
Total LGAS	**2,843**	**408**	**3,251**	2,639	325	2,964
LGR	**2,362**	**–**	**2,362**	2,205	–	2,205
LGIM	**–**	**421**	**421**	–	423	423
LGC and group expenses	**3,249**	**(630)**	**2,619**	3,178	(844)	2,334
LGA	**933**	**–**	**933**	974	–	974
Total	**9,387**	**199**	**9,586**	8,996	(96)	8,900

5 RECONCILIATION OF SHAREHOLDER NET WORTH

	UK covered business 2013 £m	**Total 2013 £m**	UK covered business 2012 £m	Total 2012 £m
SNW of long term operations (IFRS basis)	**4,291**	**5,443**	4,294	5,537
Other assets/(liabilities) (IFRS basis)	**–**	**199**	–	(96)
Shareholders' equity on the IFRS basis	**4,291**	**5,642**	4,294	5,441
Purchased interest in long term business	**(52)**	**(59)**	(63)	(64)
Deferred acquisition costs/deferred income liabilities	**(223)**	**(1,129)**	(235)	(1,093)
Deferred tax[1]	**(162)**	**232**	(253)	74
Other[2]	**(605)**	**(689)**	(565)	(741)
Shareholder net worth on the EEV basis	**3,249**	**3,997**	3,178	3,617

1. Deferred tax represents all tax which is expected to be paid under current legislation.
2. Other primarily relates to the different treatment of annuities and LGA Triple X securitisation on an EEV and IFRS basis.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

6 PROFIT/(LOSS) FOR THE YEAR

For the year ended 31 December 2013	Note	LGAS and LGR £m	LGIM £m	LGC and group expenses £m	LGA £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	7	544			107	651
Contribution from in-force business:						
– expected return[1]		358			68	426
– experience variances[2]		52			(23)	29
– operating assumption changes[3]		(9)			(52)	(61)
Development costs		(40)			–	(40)
Contribution from shareholder net worth		5		113	7	125
Operating profit on covered business		910	–	113	107	1,130
Business reported on an IFRS basis[4,5,6]		47	270	(106)	–	211
Total operating profit		957	270	7	107	1,341
Economic variances[7]		250	(6)	8	(37)	215
Gains on non-controlling interests		–	–	3	–	3
Profit before tax		1,207	264	18	70	1,559
Tax (expense)/credit on profit from ordinary activities		(251)	(57)	21	(24)	(311)
Effect of tax rate changes and other taxation impacts[8]		41	–	–	–	41
Profit for the year		997	207	39	46	1,289
Operating profit attributable to:						
LGAS		360				
LGR		597				

	p
Earnings per share	
Based on profit attributable to equity holders of the Company	21.91
Diluted earnings per share	
Based on profit attributable to equity holders of the Company	21.61

1. The expected return on in-force is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the UK LGAS and LGR business was £4,402m in 2013 (2012: £4,247m). This is adjusted for the effects of opening model changes of £27m (2012: £86m) to give an adjusted opening base VIF of £4,429m (2012: £4,333m). This is then multiplied by the opening risk discount rate of 6.0% (2012: 6.2%) and the result grossed up at the notional attributed tax rate of 20% (2012: 21%) to give a return of £331m (2012: £340m). The same approach has been applied for the LGAS overseas businesses.
2. LGAS and LGR variance primarily reflects UK cost of capital unwind, bulk purchase annuity data loading, fewer retail protection lapses and better longevity experience. LGA experience variance primarily relates to adverse persistency experience and mortality experience within term assurance and universal life products respectively.
3. LGAS and LGR assumption changes primarily reflects mortality assumption changes in LGR. LGA assumption changes primarily relate to improved modelling of term business in the period after the end of the guaranteed level premium period.
4. LGAS and LGR non-covered business primarily reflects GI operating profit and other of £47m (2012: £10m).
5. LGIM operating profit includes Retail Investments and excludes £34m (2012: £27m) of profits arising from the provision of investment management services at market referenced rates to the covered business on a look through basis and as a consequence are included in the LGAS and LGR covered business on an EEV basis.
6. LGC and group expenses non-covered business primarily reflects the shareholder interest expense and Investment projects (predominantly Economic Capital Programme and other strategic investments).
7. The LGAS and LGR positive variance has resulted from a number of factors including equity market outperformance, favourable default experience, actions to improve the yield on annuity assets and a lower risk margin offset by a higher risk free rate. The higher risk free rate has contributed to a negative variance in LGA.
8. Primarily reflects the implementation of the UK planned future reductions in corporation tax to 20% on 1 April 2015.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

6 PROFIT/(LOSS) FOR THE YEAR (CONTINUED)

For the year ended 31 December 2012[1]	Note	LGAS and LGR £m	LGIM £m	LGC and group expenses £m	LGA £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	7	377			98	475
Contribution from in-force business:						
– expected return[2]		372			76	448
– experience variances[3]		12			(59)	(47)
– operating assumption changes[4]		(11)			(18)	(29)
Development costs		(37)			–	(37)
Contribution from shareholder net worth		6		134	5	145
Operating profit on covered business		719	–	134	102	955
Business reported on an IFRS basis[5,6,7,8]		10	245	(165)	(4)	86
Total operating profit/(loss)		729	245	(31)	98	1,041
Economic variances[9]		(157)	(5)	(41)	8	(195)
Losses attributable to non-controlling interests		–	–	(12)	–	(12)
Profit/(loss) before tax		572	240	(84)	106	834
Tax (expense)/credit on profit from ordinary activities		(121)	(46)	27	(28)	(168)
Effect of tax rate changes and other taxation impacts[10]		89	–	–	(22)	67
Profit/(loss) for the year		540	194	(57)	56	733
Operating profit attributable to:						
LGAS		291				
LGR		438				

	p[1]
Earnings per share	
Based on profit attributable to equity holders of the Company	12.73
Diluted earnings per share	
Based on profit attributable to equity holders of the Company	12.52

1. The Profit for the period has been restated to reflect an amendment to IAS 19 'Employee Benefits'. Details of this restatement are outlined in Note 1.
2. The expected return on in-force is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the UK LGAS and LGR business was £4,247m. This is adjusted for the effects of opening model changes of £86m to give an adjusted opening base VIF of £4,333m. This is then multiplied by the opening risk discount rate of 6.2% and the result grossed up at the notional attributed tax rate of 21% to give a return of £340m. The same approach has been applied for the LGAS overseas businesses.
3. LGAS and LGR primarily reflects UK cost of capital unwind and bulk purchase annuity data loading, partially offset by model changes and negative persistency experience as a result of higher than expected lapses in unit linked bonds. LGA modelling and other experience variances mostly relate to additional reserving associated with the introduction of AG38 regulatory requirements.
4. Operating assumption changes in LGAS and LGR have been driven by negative mortality and demographic assumption changes in the annuity business and higher investment expense assumptions, largely offset by positive impacts reflecting changes in UK tax legislation. LGA operating assumption changes mostly relate to higher mortality assumptions on unit linked secondary guarantee business.
5. LGAS and LGR non-covered business primarily reflects GI operating profit and other of £10m.
6. LGIM operating profit excludes £27m of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis and as a consequence are included in the LGAS, LGR and L&G Capital and group expenses covered business on an EEV basis.
7. LGA non-covered business includes business unit costs of £4m allocated to the LGA segment.
8. LGC and group expenses non-covered business primarily reflects the shareholder interest expense and Investment projects (predominantly Economic Capital Programme and other strategic investments).
9. LGAS and LGR primarily reflect the impact of changes in reinvestment and disinvestment rates, higher costs of capital on increasing reserves mainly due to narrowing credit spreads, and other consequential impacts within lower yielding environments, partially offset by a lower risk discount rate.
10. Primarily reflects the implementation of the UK planned future reductions in corporation tax to 21% on 1 April 2014.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

7 NEW BUSINESS BY PRODUCT[1]

For the year ended 31 December 2013	Annual premiums £m	Present value of annual premiums £m	Capitalisation factor[2]	Single premiums £m	PVNBP £m	Contribution from new business[3] £m	Margin %
UK Protection	**218**	**1,141**	**5.2**	**–**	**1,141**	**101**	**8.9**
Overseas business	**30**	**229**	**7.6**	**371**	**600**	**5**	**0.8**
UK Savings	**724**	**2,516**	**3.5**	**2,495**	**5,011**	**2**	**–**
Total LGAS	**972**	**3,886**	**4.0**	**2,866**	**6,752**	**108**	**1.6**
LGR[4]	**n/a**	**939**	**n/a**	**4,089**	**5,028**	**436**	**8.7**
LGA	**99**	**926**	**9.4**	**–**	**926**	**107**	**11.6**
Total new business	**1,071**	**5,751**	**5.4**	**6,955**	**12,706**	**651**	**5.1**
Cost of capital						**72**	
Contribution from new business before cost of capital						**723**	

For the year ended 31 December 2012	Annual premiums £m	Present value of annual premiums £m	Capitalisation factor[2]	Single premiums £m	PVNBP £m	Contribution from new business[3] £m	Margin %
UK Protection	221	1,176	5.3	–	1,176	139	11.8
Overseas business	51	409	8.0	315	724	5	0.7
UK Savings	577	2,117	3.7	3,002	5,119	27	0.5
Total LGAS	849	3,702	4.4	3,317	7,019	171	2.4
LGR[4]	n/a	–	n/a	2,339	2,339	206	8.8
LGA	90	830	9.2	–	830	98	11.8
Total new business	939	4,532	4.8	5,656	10,188	475	4.7
Cost of capital						60	
Contribution from new business before cost of capital						535	

1. Covered business only.
2. The capitalisation factor is the present value of annual premiums divided by the amount of annual premiums.
3. The contribution from new business is defined as the present value at point of sale of assumed profits from new business written in the period and then rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.
4. LGR includes present value of annual premiums for longevity insurance on a net of reinsurance basis to enable a more representative margin figure. The gross of reinsurance longevity insurance annual premium is £270m (2012 : £nil). The LGR PVNBP contribution from new business and margin are also inclusive of longevity insurance.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

8 SENSITIVITIES

In accordance with the guidance issued by the European Insurance CFO Forum in October 2005 the table below shows the effect of alternative assumptions on the long term embedded value and new business contribution.

Effect on embedded value as at 31 December 2013

	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
LGAS and LGR[1]	8,454	614	(525)	295	(241)	128
LGA	933	115	(96)	38	(37)	–
Total covered business	9,387	729	(621)	333	(278)	128

	As published £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse rate £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
LGAS and LGR[1]	8,454	(261)	115	85	(268)	73
LGA	933	–	12	4	n/a	129
Total covered business	9,387	(261)	127	89	(268)	202

Effect on new business contribution for the year

	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
LGAS and LGR[1]	544	76	(63)	–	(5)	15
LGA	107	14	(12)	1	(1)	–
Total covered business	651	90	(75)	1	(6)	15

	As published £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse rates £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
LGAS and LGR[1]	544	(5)	23	16	(23)	10
LGA	107	–	2	2	n/a	17
Total covered business	651	(5)	25	18	(23)	27

1. Includes LGC.

Opposite sensitivities are broadly symmetrical.

Sensitivity to changes in assumptions may not be linear, and as such, they should not be extrapolated to changes of a much larger order. A 2% higher risk discount rate would result in a £913m negative impact on UK embedded value and a £108m negative impact on UK new business contribution for the year.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

9 ASSUMPTIONS

UK assumptions

The assumed future pre-tax returns on fixed interest and RPI linked securities are set by reference to the portfolio yield on the relevant backing assets held at market value at the end of the reporting period. The calculated return takes account of derivatives and other credit instruments in the investment portfolio. Indicative yields on the portfolio, excluding annuities within LGR, but after allowance for long term default risk, are shown below.

For LGR, separate returns are calculated for new and existing business. Indicative combined yields, after allowance for long term default risk and the following additional assumptions, are also shown below. These additional assumptions are:

i. Where cash balances and debt securities are held at the reporting date in excess of, or below strategic investment guidelines, then it is assumed that these cash balances or debt securities are immediately invested or disinvested at current yields.

ii. Where interest rate swaps are used to reduce risk, it is assumed that these swaps will be sold before expiry and the proceeds reinvested in corporate bonds with a redemption yield 0.70% p.a. (0.70% p.a. at 31 December 2012) greater than the swap rate at that time (i.e. the long term credit rate).

iii. Where reinvestment or disinvestment is necessary to rebalance the asset portfolio in line with projected outgo, this is also assumed to take place at the long term credit rate above the swap rate at that time.

The returns on fixed and index-linked securities are calculated net of an allowance for default risk which takes account of the credit rating, outstanding term of the securities, and increase in the expectation of credit defaults over the economic cycle. The allowance for corporate securities expressed as a level rate deduction from the expected returns for annuities was 27bps at 31 December 2013 (26bps at 31 December 2012).

UK covered business

i. Assets are valued at market value.

ii. Future bonus rates have been set at levels which would fully utilise the assets supporting the policyholders' portion of the with-profits business in accordance with established practice. The proportion of profits derived from with-profits business allocated to shareholders amounts to almost 10% throughout the projection.

iii. The value of in-force business reflects the cost, including administration expenses, of providing for benefit enhancement or compensation in relation to certain products.

iv. Other actuarial assumptions have been set at levels commensurate with recent operating experience, including those for mortality, morbidity, persistency and maintenance expenses (excluding the development costs referred to below). These are normally reviewed annually.

An allowance is made for future mortality improvement, commencing 1 January 2010 as per CMIB's mortality improvement model (CMI 2012) with the following parameters:
Males: Long Term Rate of 1.5% p.a. for future experience and 2.0% p.a. for statutory reserving, up to age 85 tapering to 0% at 120;
Females: Long Term Rate of 1.0% p.a. for future experience and 1.5% p.a. for statutory reserving, up to age 85 tapering to 0% at 120.
Future improvements are generally assumed to converge to the long term rate in 2026.

On this basis, the best estimate of the expectation of life for a new 65 year old Male CPA annuitant is 24.3 years (31 December 2012: 24.1 years). The expectation of life on the regulatory reserving basis is 25.8 years (31 December 2012: 25.7 years).

v. Development costs relate to investment in strategic systems and development capability that are charged to the covered business. Projects charged to the non-covered business are included within Group Investment projects in LGC and group expenses.

Overseas covered business

vi. Other actuarial assumptions have been set at levels commensurate with recent operating experience, including those for mortality, morbidity, persistency and maintenance expenses.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

9 ASSUMPTIONS (CONTINUED)

Economic assumptions

	As at 2013 % p.a.	As at 2012 % p.a.	As at 2011 % p.a.
Risk margin	**3.4**	3.7	3.7
Risk free rate[1]			
– UK	**3.4**	2.3	2.5
–Europe	**2.2**	1.7	2.6
–US	**3.1**	1.8	1.9
Risk discount rate (net of tax)			
– UK	**6.8**	6.0	6.2
– Europe	**5.6**	5.4	6.3
– US	**6.5**	5.5	5.6
Reinvestment rate (US)	**5.8**	4.3	4.2
Other UK business assumptions			
Equity risk premium	**3.3**	3.3	3.3
Property risk premium	**2.0**	2.0	2.0
Investment return (excluding annuities in LGPL)			
– Gilts:			
– Fixed interest	**2.7 – 3.0**	1.9 – 2.3	1.8 – 2.5
– RPI linked	**3.6**	2.7	2.6
– Non gilts:			
– Fixed interest	**2.2 – 3.3**	1.9 – 2.9	3.0 – 4.6
– Equities	**6.7**	5.6	5.8
– Property	**5.4**	4.3	4.5
Long-term rate of return on non profit annuities in LGPL	**4.6**	4.3	5.0
Inflation			
– Expenses/earnings	**4.1**	3.4	3.5
– Indexation	**3.6**	2.9	3.0

1. The risk free rate is the gross redemption yield on the 15 year gilt index. The Europe risk free rate is the 10 year ECB AAA-rated euro area central government bond par yield. The LGA risk free rate is the 10 year US Treasury effective yield.

Tax

vii. The profits on the covered business, except for the profits on the Society shareholder capital held outside the long term fund, are calculated on an after tax basis and are grossed up by the notional attributed tax rate for presentation in the income statement. For the UK, the after tax basis assumes the annualised current tax rate of 23.25% and the subsequent planned future reductions in corporation tax to 21% from 1 April 2014, and 20% from 1 April 2015. The tax rate used for grossing up is the long term corporate tax rate in the territory concerned, which for the UK is 20% (31 December 2012: 21%) taking into account the expected further rate reductions to 20% by 1 April 2015. The profits on the Society shareholder capital held outside the long term fund are calculated before tax and therefore tax is calculated on an actual basis.

US, Netherlands and France covered business profits are also grossed up using the long term corporate tax rates of the respective territories i.e. US is 35% (31 December 2012: 35%), France is 34.43% (31 December 2012: 34.3%) and Netherlands is 25% (31 December 2012: 25%).

Stochastic calculations

viii. The time value of options and guarantees is calculated using economic and non-economic assumptions consistent with those used for the deterministic embedded value calculations.

A single model has been used for UK and international business, with different economic assumptions for each territory reflecting the significant asset classes in each territory.

Government nominal interest rates are generated using a LIBOR Market Model projecting full yield curves at annual intervals. The model provides a good fit to the initial yield curve.

The total annual returns on equities and property are calculated as the return on 1 year bonds plus an excess return. The excess return is assumed to have a lognormal distribution. Corporate bonds are modelled separately by credit rating using stochastic credit spreads over the risk free rates, transition matrices and default recovery rates. The real yield curve model assumes that the real short rate follows a mean-reverting process subject to two normally distributed random shocks.

The significant asset classes are:
- UK with-profits business – equities, property and fixed rate bonds of various durations;
- UK annuity business – fixed rate and index-linked bonds of various durations; and
- International business – fixed rate bonds of various durations.

The risk discount rate is scenario dependent within the stochastic projection. It is calculated by applying the deterministic risk margin to the risk free rate in each stochastic projection.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

Sensitivity calculations

ix. A number of sensitivities have been produced on alternative assumption sets to reflect the sensitivity of the embedded value and the new business contribution to changes in key assumptions. Relevant details relating to each sensitivity are:

- 1% variation in discount rate – a one percentage point increase/decrease in the risk margin has been assumed in each case (for example a 1% increase in the risk margin would result in a 4.4% risk margin).
- 1% variation in interest rate environment – a one percentage point increased/decreased parallel shift in the risk free curve with consequential impacts on fixed asset market values, investment return assumptions, risk discount rate, including consequential changes to valuation bases.
- 1% higher equity/property yields – a one percentage point increase in the assumed equity/property investment returns, excluding any consequential changes, for example, to risk discount rates or valuation bases, has been assumed in each case (for example a 1% increase in equity returns would increase assumed total equity returns from 6.7% to 7.7%).
- 10% lower equity/property market values – an immediate 10% reduction in equity and property asset values.
- 10% lower maintenance expenses, excluding any consequential changes, for example, to valuation expense bases or potentially reviewable policy fees (for example a 10% decrease on a base assumption of £10 per annum would result in a £9 per annum expense assumption).
- 10% lower assumed persistency experience rates, excluding any consequential changes to valuation bases, incorporating a 10% decrease in lapse, surrender and premium cessation assumptions (for example a 10% decrease on a base assumption of 7% would result in a 6.3% lapse assumption).
- 5% lower mortality and morbidity rates, excluding any consequential changes to valuation bases but including assumed product repricing action where appropriate (for example if base experienced mortality is 90% of a standard mortality table then, for this sensitivity, the assumption is set to 85.5% of the standard table).

The sensitivities for covered business allow for any material changes to the cost of financial options and guarantees but do not allow for any changes to reserving bases or capital requirements within the sensitivity calculation, unless indicated otherwise above.

EUROPEAN EMBEDDED VALUE BASIS (CONTINUED)

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF LEGAL & GENERAL GROUP PLC ON THE SUPPLEMENTARY FINANCIAL STATEMENTS – EUROPEAN EMBEDDED VALUE BASIS

Our Opinion
In our opinion, the supplementary financial statements for the year ended 31 December 2013 have been properly prepared in all material respects in accordance with the EEV basis set out in Note 1 – Methodology.

What we have audited
We have audited the supplementary financial statements - European Embedded Value Basis of Legal & General Group Plc ('the Group') for the year ended 31 December 2013 which comprise the Group Embedded Value – Summary as at 31 December 2013 and the related notes ('the supplementary financial statements') which have been prepared in accordance with the European Embedded Value ('EEV') basis set out in Note 1 – Methodology and which should be read in conjunction with the Group's financial statements.

What an audit of supplementary financial statements involves
An audit involves obtaining evidence about the amounts and disclosures in the supplementary financial statements sufficient to give reasonable assurance that the supplementary financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

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

In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited supplementary financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

RESPONSIBILITIES FOR THE SUPPLEMENTARY FINANCIAL STATEMENTS

Our responsibilities and those of the directors
The directors are responsible for preparing the supplementary financial statements on the EEV basis in accordance with the EEV basis set out in Note 1 – Methodology.

Our responsibility, as set out in our letter of engagement agreed with you dated 19th December 2013, is to audit and express an opinion on the supplementary financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Group's directors as a body in accordance with our letter of engagement dated 19th December 2013 and for no other purpose. We do not, in giving this opinion, 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.

PricewaterhouseCoopers LLP
Chartered Accountants
London
4 March 2014

COMPANY FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEGAL & GENERAL GROUP PLC

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion the parent company financial statements, defined below:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2013;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The parent company financial statements, which are prepared by Legal & General Group Plc, comprise:

- the parent company balance sheet as at 31 December 2013;
- the parent company statement of total recognised gains and losses;
- the parent company reconciliation of movements in total shareholders' funds for the year then ended; and
- the notes to the parent company financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Report & Accounts (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

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

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

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.
- The part of the Directors' Report on Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Report on Remuneration to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

COMPANY FINANCIAL STATEMENTS (CONTINUED)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEGAL & GENERAL GROUP PLC (CONTINUED)

Other information in the Annual Report
Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited parent company financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the parent company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the directors
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view.

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

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

Other matter
We have reported separately on the group financial statements of Legal & General Group Plc for the year ended 31 December 2013.

Andrew Kail (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

4 March 2014

COMPANY FINANCIAL STATEMENTS (CONTINUED)

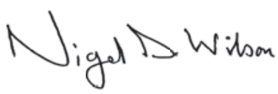
COMPANY BALANCE SHEET

As at 31 December 2013	Notes	2013 £m	2012 £m
Fixed assets			
Investments	7	**6,493**	6,290
Current assets			
Debtors	8	**1,602**	1,632
Derivative assets	11	**138**	139
Other financial investments		**3**	–
Cash at bank and in hand		**16**	–
Current liabilities			
Creditors: amounts falling due within one year	9	**(67)**	(52)
Derivative liabilities	11	**(27)**	(49)
Net current assets		**1,665**	1,670
Total assets less current liabilities		**8,158**	7,960
Creditors: amounts falling due after more than one year	10	**(2,525)**	(2,529)
Net assets		**5,633**	5,431
Capital and reserves			
Called up share capital	13/14	**148**	148
Share premium account	14	**959**	956
Revaluation reserve	14	**2,459**	2,644
Capital redemption and other reserves	14	**67**	63
Profit and loss account	14	**2,000**	1,620
Total shareholders' funds		**5,633**	5,431

The notes on pages 253 to 261 form an integral part of these financial statements.

The financial statements on pages 251 to 261 were approved by the directors on 4 March 2014 and were signed on their behalf by:

John Stewart
Chairman



Nigel Wilson
Group Chief Executive

Mark Gregory
Group Chief Financial Officer

COMPANY FINANCIAL STATEMENTS (CONTINUED)

COMPANY STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2013	Note	2013 £m	2012 £m
Profit for the financial year		**888**	592
(Losses)/ gains on revaluation of investments in subsidiary undertakings	7	**(185)**	30
Total recognised gains and losses relating to the year		**703**	622

COMPANY RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' FUNDS

For the year ended 31 December 2013	Note	2013 £m	2012 £m
As at 1 January		**5,431**	5,191
Total recognised gains and losses		**703**	622
Dividend distributions to equity holders of the Company during the year	2	**(479)**	(394)
Issue of share capital		**3**	16
Net movement in share-based payments reserve		**(25)**	(4)
As at 31 December		**5,633**	5,431

COMPANY FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of fixed asset investments and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

The Company's financial statements have been prepared in compliance with Section 394 and 396 of the Companies Act 2006 adopting the exemption of omitting the profit and loss account conferred by Section 408 of that Act.

Investment income

Investment income includes dividends and interest. Dividends receivable from group companies are recognised in the period in which the dividends are declared and approved at the general meeting or paid. Interest income is recognised using the effective interest method.

Distributions

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 at a general meeting and interim dividends are recognised when paid.

Interest expense

Interest expense reflects the underlying cost of borrowing, based on the effective interest method, and includes payments and receipts made under derivative instruments which are amortised over the interest period to which they relate.

Investment in subsidiary undertakings

Shares in subsidiary undertakings are stated at current value. Unrealised gains or losses arising on investments in subsidiary undertakings are taken to the revaluation reserve.

Loans and receivables

Loans and receivables are held at amortised cost using the effective interest method.

Derivative financial instruments and hedge accounting

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. The Company uses hedge accounting, provided the prescribed criteria are met, to recognise the offsetting effects of changes in the fair value or cash flow of the derivative instrument and the hedged item. The Company's principal use of hedge accounting is to hedge the fair value movements in loans due to interest rate and exchange rate fluctuations. Any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the profit and loss account. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the profit and loss account.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments which do not qualify for hedge accounting are recognised immediately in the profit and loss account.

Borrowings

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

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future periods has been entered into by the subsidiary.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities expressed in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Non-monetary items are maintained at historic rates. Exchange gains or losses are recognised in the profit and loss account, except those arising upon the revaluation of fixed assets, which are included in the revaluation reserve.

COMPANY FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

Pension costs

The Company participates in multi-employer defined benefit schemes, within the meaning of FRS 17, 'Retirement Benefits', which, as its share of the underlying assets and liabilities cannot be identified, have been treated for reporting purposes as defined contribution schemes. In addition to these schemes the Company also contributes to defined contribution schemes. The Company charges the costs of its pension schemes against profit as incurred. Any difference between the cumulative amounts charged against profits and contribution amounts paid is included as a provision or prepayment in the balance sheet.

The assets of the defined benefit schemes and the defined contribution schemes are held in separate trustee administered funds, which have been subject to regular valuation every three years and updated by formal reviews at reporting dates by qualified actuaries who were employees of the Group.

Related Party Transactions

The Company has taken advantage of the exemptions of FRS 8, 'Related Party Transactions', not to disclose transactions with other group companies.

Share-based payments

The Company operates a number of share-based payment plans on behalf of its subsidiaries. The fair value of the equity instruments granted is spread over the vesting period of the instrument and treated as a capital contribution to the respective subsidiary. The total capital contribution is determined by reference to the fair value of the awards, excluding the impact of any non-market vesting conditions. The capital contribution to the subsidiaries is accounted for as an increase in the investment in the parent company's financial statements.

At each balance sheet date, the Company revises its estimate of the number of equity instruments which are expected to become exercisable. It recognises the impact of the revision of original estimate, if any, in the cost of the investment in the subsidiary and a corresponding adjustment is made to equity over the remaining vesting period. On vesting or exercise, the difference between the accumulated capital contribution and the actual cost to the Company is transferred to retained earnings. Where new shares are issued, the proceeds received are credited to share capital and share premium. Any capital contribution is subsequently recharged to the respective subsidiary as incurred and the corresponding cost of investment is reduced.

Risk Management

The Company has taken advantage of the exemptions provided in FRS 29, 'Financial Instruments: Disclosures', which states that disclosure of financial instruments is not required in parent company financial statements where these are included in publicly available Consolidated Financial Statements.

COMPANY FINANCIAL STATEMENTS (CONTINUED)

2 DIVIDENDS

	Per share 2013 p	Total 2013 £m	Per share 2012 p	Total 2012 £m
Ordinary share dividends paid in the year				
– Prior year final dividend	**5.69**	**337**	4.74	278
– Current year interim dividend	**2.40**	**142**	1.96	116
	8.09	**479**	6.70	394
Ordinary share dividend proposed[1]	**6.90**	**408**	5.69	337

1. The dividend proposed has not been included as a liability in the balance sheet.

3 DIRECTORS' EMOLUMENTS AND OTHER EMPLOYEE INFORMATION

Full disclosures of Legal & General Group Plc directors' emoluments are contained within those parts of the Directors' Report on Remuneration which are described as having been audited. At 31 December 2013 there were £nil outstanding with directors of the Company (2012: £nil). The Company has nil other employees (2012: nil).

4 PENSIONS

There were £nil contributions prepaid or outstanding at either 31 December 2013 (2012: £nil) in respect of these schemes, and there were £nil current service costs incurred in respect of these schemes for year ended 31 December 2013 (2012: £nil). The Company had £nil liability for retirement benefits at 31 December 2013 (2012: £nil).

Defined contribution plans

The Company operates the following defined contribution pension schemes in the UK:

- Legal & General Group Personal Pension Plan (UK).
- Legal & General Staff Stakeholder Pension Scheme (UK).

Defined benefit plans

The Company operates the following defined benefit pension schemes in the UK:

- Legal & General Group UK Pension and Assurance Fund (the Fund). The Fund was closed to new members from January 1995; last full actuarial valuation as at 31 December 2009.
- Legal & General Group UK Senior Pension Scheme (the Scheme). The Scheme was, with a few exceptions (principally transfers from the Fund), closed to new members from August 2000 and finally closed to new members from April 2007; last full actuarial valuation as at 31 December 2009.

In the UK, the Fund and the Scheme are multi-employer defined benefit schemes, which, as the Company's share of the underlying assets and liabilities cannot be identified, have been treated for reporting purposes as defined contribution schemes. There was a deficit in respect of these schemes for the year ended 31 December 2013 of £374m (2012: £255m) and the contributions in respect of them for the year were £60m (2012: £59m). Further information is given in Note 26 of the Group's consolidated financial statements.

5 SHARE-BASED PAYMENTS

Legal & General Group Plc grants share-based payments to employees within the Legal & General Group. The Group recognises an expense for these payments measured indirectly by reference to the fair value of the equity instruments granted. The expense is recognised over the vesting period as the services are received. The relevant company is recharged its share of this expense with reference to the benefits it receives from the employees. The full disclosures required by FRS 20 are provided in the Group's consolidated financial statements.

The total expense recharged to the Company in relation to share-based payments was £nil (2012: £nil).

COMPANY FINANCIAL STATEMENTS (CONTINUED)

6 AUDITORS' REMUNERATION

Remuneration receivable by the Company's auditor for the audit of the Company's financial statements is not presented. The Group's consolidated IFRS financial statements disclose the aggregate remuneration receivable by the Company's auditor for the audit of the Group's annual financial statements, which include the Company's financial statements.

The disclosure of fees payable to the auditor and its associates for other (non-audit) services has not been made because the Group's consolidated financial statements are required to disclose such fees on a consolidated basis.

7 INVESTMENTS

	Shares in Group companies 2013 £m	Loans to Group companies 2013 £m	Total 2013 £m	Shares in Group companies 2012 £m	Loans to Group companies 2012 £m	Total 2012 £m
At valuation, 1 January	**5,549**	**741**	**6,290**	5,519	863	6,382
Additions[1]	**385**	**–**	**385**	–	–	–
Repayment	**–**	**–**	**–**	–	(86)	(86)
Revaluation	**(185)**	**3**	**(182)**	30	(36)	(6)
At valuation, 31 December	**5,749**	**744**	**6,493**	5,549	741	6,290
At cost, 31 December	**3,180**	**746**	**3,926**	2,939	746	3,685

1. During the year, the Company received a dividend of £146m in respect of Banner Life shares at net asset value from Legal & General Insurance Holdings (No.2) Limited. The Company then passed these shares to Legal & General Overseas Operations Limited in return for £1 share capital and £146m share premium.

Additions represent capital injections into Group undertakings.

Full disclosure of the Company's investments in subsidiary undertakings is contained in Note 44 of the Group's consolidated financial statements.

8 DEBTORS

	2013 £m	2012 £m
Amounts owed by Group undertakings	**1,544**	1,583
Corporation tax	**28**	31
Deferred tax	**14**	14
Other debtors	**16**	4
	1,602	1,632

Amounts owed by Group undertakings are repayable at the request of either party and include an £211m (2012: £338m) interest bearing balance with a current interest rate of LIBOR-12.5 bps.

At 31 December 2013, there is an unrecognised deferred tax asset in respect of timing differences of £3m (2012: £3m).

COMPANY FINANCIAL STATEMENTS (CONTINUED)

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013 £m	2012 £m
Amounts owed to Group undertakings	**58**	35
Other creditors	**9**	17
	67	52

Amounts owed to Group undertakings falling due within one year are interest free and repayable at the request of either party.

10 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Note	**2013 £m**	2012 £m
Subordinated borrowings	12	**1,905**	1,907
Amounts owed to Group undertakings		**620**	622
		2,525	2,529

Amounts owed to Group undertakings falling due after more than one year are unsecured and include £601m (2012: £601m) of interest bearing balances with current interest rates between 5.71% and 6.12% (2012: 5.71% and 6.12%).

11 DERIVATIVE ASSETS AND LIABILITIES

	Contract/ notional amount 2013 £m	**Fair values**	
		Assets 2013 £m	**Liabilities 2013 £m**
Interest rate contracts – held for trading	**1,129**	**31**	**27**
Forward foreign exchange contracts – net investment hedges	**558**	**6**	**–**
Forward foreign exchange contracts – held for trading	**499**	**101**	**–**
Derivative assets and liabilities		**138**	**27**

	Contract/ notional amount 2012 £m	Fair values	
		Assets 2012 £m	Liabilities 2012 £m
Interest rate contracts – held for trading	1,118	45	49
Forward foreign exchange contracts – net investment hedges	710	2	–
Forward foreign exchange contracts – held for trading	488	92	–
Derivative assets and liabilities		139	49

The descriptions of each type of derivative are given in Note 13 of the Group's consolidated financial statements.

COMPANY FINANCIAL STATEMENTS (CONTINUED)

12 BORROWINGS

Analysis by nature	Carrying amount 2013 £m	Coupon rate 2013 %	Fair value 2013 £m	Carrying amount 2012 £m	Coupon rate 2012 %	Fair value 2012 £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities (Tier 1)	**680**	**6.39**	**650**	700	6.39	636
5.875% Sterling undated subordinated notes (Tier 2)	**418**	**5.88**	**438**	419	5.88	425
4.0% Euro subordinated notes 2025 (Tier 2)	**498**	**4.00**	**531**	479	4.00	502
10% Sterling subordinated notes 2041 (Tier 2)	**309**	**10.00**	**417**	309	10.00	425
Total borrowings	**1,905**		**2,036**	1,907		1,988

As at 31 December 2013, the Group had in place a £1.00bn syndicated committed revolving credit facility provided by a number of its key relationship banks, £0.04bn matures in October 2017 and £0.96bn matures in October 2018. A test drawing was made under this facility during 2013. No amounts were outstanding at 31 December 2013.

6.385% Sterling perpetual capital securities

In 2007, Legal & General Group Plc issued £600m of 6.385% Sterling perpetual capital securities. Simultaneous with the issuance, the fixed coupon was swapped into six month LIBOR plus 0.94% pa. These securities are callable at par on 2 May 2017 and every three months thereafter. If not called, the coupon from 2 May 2017 will be reset to three month LIBOR plus 1.93% pa. For regulatory purposes these securities are treated as innovative tier 1 capital.

5.875% Sterling undated subordinated notes

In 2004, Legal & General Group Plc issued £400m of 5.875% Sterling undated subordinated notes. These notes are callable at par on 1 April 2019 and every five years thereafter. If not called, the coupon from 1 April 2019 will be reset to the prevailing five year benchmark gilt yield plus 2.33% pa. These notes are treated as tier 2 capital for regulatory purposes.

4.0% Euro subordinated notes 2025

In 2005, Legal & General Group Plc issued €600m of 4.0% Euro dated subordinated notes. The proceeds were swapped into sterling. The notes are callable at par on 8 June 2015 and each year thereafter. If not called, the coupon from 8 June 2015 will reset to a floating rate of interest based on prevailing three month Euribor plus 1.7% pa. These notes mature on 8 June 2025 and are treated as tier 2 capital for regulatory purposes.

10% Sterling subordinated notes 2041

On 16 July 2009, Legal & General Group Plc issued £300m of 10% dated subordinated notes. The notes are callable at par on 23 July 2021 and every five years thereafter. If not called, the coupon from 23 July 2021 will be reset to the prevailing five year benchmark gilt yield plus 9.325% pa. These notes mature on 23 July 2041 and are treated as tier 2 capital for regulatory purposes.

COMPANY FINANCIAL STATEMENTS (CONTINUED)

13 CALLED UP SHARE CAPITAL

Issued share capital, fully paid	Number of shares	Called up share capital £m
As at 1 January 2013	**5,912,782,826**	**148**
Options exercised under share option schemes		
– Executive share option scheme	**1,422,327**	**–**
– Savings related share option scheme	**2,861,483**	**–**
As at 31 December 2013	**5,917,066,636**	**148**

Issued share capital, fully paid	Number of shares	Called up share capital £m
As at 1 January 2012	5,872,166,893	147
Options exercised under share option schemes		
– Executive share option scheme	1,626,478	–
– Savings related share option scheme	38,989,455	1
As at 31 December 2012	5,912,782,826	148

Options over the ordinary share capital of the Company are disclosed in Note 38 of the Group's consolidated financial statements.

COMPANY FINANCIAL STATEMENTS (CONTINUED)

14 MOVEMENTS IN RESERVES

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Share-based payment reserve £m	Re-valuation reserve £m	Profit and loss account £m	Total £m
As at 1 January 2013	**148**	**956**	**17**	**(1)**	**47**	**2,644**	**1,620**	**5,431**
Retained profit after tax and dividends	–	–	–	–	–	–	409	409
Decrease in the net assets of subsidiaries	–	–	–	–	–	(185)	–	(185)
Value of employee services	–	–	–	–	23	–	–	23
Shares vested and transferred from share-based payments reserve	–	–	–	–	(19)	–	(29)	(48)
Options exercised under share option schemes	–	3	–	–	–	–	–	3
As at 31 December 2013	**148**	**959**	**17**	**(1)**	**51**	**2,459**	**2,000**	**5,633**

COMPANY FINANCIAL STATEMENTS (CONTINUED)

	Called up share capital £m	Share premium account £m	Capital redemp-tion reserve £m	Hedging reserve £m	Share-based payment reserve £m	Re-valuation reserve £m	Profit and loss account £m	Total £m
As at 1 January 2012	147	941	17	(1)	46	2,614	1,427	5,191
Retained profit after tax and dividends	–	–	–	–	–	–	198	198
Increase in the net assets of subsidiaries	–	–	–	–	–	30	–	30
Value of employee services	–	–	–	–	22	–	–	22
Shares vested and transferred from share-based payments reserve	–	–	–	–	(21)	–	(5)	(26)
Options exercised under share option schemes	1	15	–	–	–	–	–	16
As at 31 December 2012	148	956	17	(1)	47	2,644	1,620	5,431

DIRECTORS' REPORT.

ARTICLES OF ASSOCIATION
The company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. The Articles of Association are available on the company's website.

CONFLICTS OF INTEREST
In accordance with the Companies Act 2006, the Board has adopted a policy and procedure for the disclosure and authorisation (if appropriate) of conflicts of interest, and these have been followed during 2013.

POWERS OF DIRECTORS
The directors may exercise all powers of the company subject to applicable legislation and regulation and the company's Articles of Association.

SHARE CAPITAL
As at 31 December 2013, the company's issued share capital comprised 5,917,066,636 ordinary shares each with a nominal value of 2.5p. Details of the ordinary share capital can be found in Note 38 to the Group Consolidated Financial Statements.

At the 2013 AGM, the company was granted authority by shareholders to purchase up to 591,358,534 ordinary shares, being 10% of the issued share capital of the company as at 27 March 2013. In the year to 31 December 2013, no shares were purchased by the company. This authority will expire at this year's AGM. As such, a special resolution is proposed in the Notice of AGM seeking shareholder approval to renew this authority.

At the 2013 AGM, the directors were given the power to allot shares up to an amount of £49,279,878, being 33% of the issued share capital of the company as at 27 March 2013. This authority will also expire at this year's AGM. As such, an ordinary resolution is proposed in the Notice of AGM seeking shareholder approval to renew this authority.

A further resolution is proposed, as set out in the Notice of AGM, that will, if approved by shareholders, authorise the directors to issue shares up to the equivalent of 5% of the company's issued share capital as at 28 March 2014 for cash without offering the shares first to existing shareholders in proportion to their holdings.

Detailed explanatory notes to these resolutions are set out in the Notice of AGM.

Other than the above, the directors have no current intention of issuing further share capital and no issue will be made which would effectively alter control of the company without prior approval of shareholders in a general meeting.

INTERESTS IN VOTING RIGHTS
As at 28 February 2014, the company had been advised of the following significant direct and indirect interests in the issued share capital of the company:

	Number of Ordinary shares of 2.5p	% of capital*	Total interest in issued share capital
Schroders Plc	295,651,535	5.0%	Indirect
Blackrock, Inc	300,077,786	5.1%	Indirect
AXA S.A. and its group of companies	252,247,724	4.3%	Direct and indirect
The Capital Group Companies, Inc	290,344,506	5.0%	Indirect

* Using the voting rights figure announced to the London Stock Exchange on 3 March 2014 of 5,917,353,605.

DIVIDEND
The company may, by ordinary resolution in a general meeting, declare dividends in accordance with the respective rights of the members, but no dividend can exceed the amount recommended by the Board. The directors propose a final dividend for the year ended 31 December 2013 of 6.90p per ordinary share which, together with the interim dividend of 2.40p per ordinary share paid to shareholders on 30 September 2013, will make a total dividend for the year of 9.30p (2012: 7.65p). Subject to shareholder approval at the AGM, the final dividend will be paid on 4 June 2014 to shareholders on the share register on 25 April 2014.

RELATED PARTY TRANSACTIONS
Details of related party transactions are set out in Note 41 to the Group Consolidated Financial Statements.

RIGHTS AND OBLIGATIONS ATTACHING TO SHARES
The rights and obligations relating to the company's ordinary shares are set out in the Articles of Association. A copy of the Articles of Association can be requested from the company secretary at the company's registered office.

Holders of ordinary shares are entitled to attend, speak and vote at general meetings. In a vote on a show of hands, every member present in person or every proxy present, who has been duly appointed by a member, will have one vote and on a poll every member present in person or by proxy shall have one vote for every ordinary share held. These rights are subject to any special terms as to voting upon which any shares may be issued or may at the relevant time be held and to any other provisions of the company's Articles of Association. Under the Companies Act 2006 and the Articles of Association, directors have the power to suspend voting rights and, in certain circumstances, the right to receive dividends in respect of shares where the holder of those shares fails to comply with a notice issued under section 793 of the Companies Act 2006.

The Board can decline to register a transfer of any share which is not a fully paid share. In addition, registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules and where the number of joint holders exceeds four. The Board may also refuse to register the transfer of a certificated share unless:

(a) the instrument of transfer is duly stamped and is left at the company's registered office or such other place as the Board may from time to time determine accompanied by the certificate for the share to which it relates and such evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
(b) the instrument of transfer is in respect of only one class of share; and
(c) the number of joint holders does not exceed four.

Subject to the provisions of the Companies Act 2006, all or any of the rights attaching to an existing class of shares may be varied from time to time either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class (excluding any treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares.

Shares acquired through the employee share schemes rank equally with all other ordinary shares in issue. Barclays Private Bank & Trust (Isle of Man) Limited, as trustee of the Legal & General Employees' Share Ownership Trust, holds 0.46% of the issued share capital of the company as at 28 February 2014 in trust for the benefit of the executive directors, senior executives and employees of the Group. This includes shares held as nominee on behalf of Legal & General Share Scheme Trustees Limited, as trustee of the Legal & General Employee Share Trust, which is in the process of being wound up. The voting rights in relation to these shares are exercised by the trustee. The trustee may vote or abstain from voting, or accept or reject any offer relating to shares, in any way it sees fit, without incurring any liability and without being required to give reasons for its decision.

Under the rules of the Legal & General Group Employee Share Plan (Plan), eligible employees are entitled to acquire shares in the company. Plan shares are held in trust for participants by Capita IRG Trustees Limited, which holds 0.43% of the issued share capital of the company as at 28 February 2014. Voting rights are exercised by the trustees on receipt of the participants' instructions. If a participant does not submit an instruction to the trustees, no vote is registered. In addition, the trustees do not vote on any unawarded shares held under the plan as surplus assets.

The company is not aware of any agreements between shareholders which may result in restrictions on the transfer of securities and/or voting rights.

CHANGE OF CONTROL

There are no agreements between the company and its directors or employees for compensation providing for loss of office or employment (whether through resignation, purported redundancy or otherwise) in the event of a takeover bid, except for those relating to normal notice periods. The rules of the company's share plans contain provisions under which options and awards to participants, including executive directors, may vest on a takeover or change of control of the company or transfer of undertakings.

The company has a committed £1 billion bank syndicated credit facility which is terminable if revised terms cannot be agreed with the syndicate of banks in a 30 day period following a change of control. As at 28 February 2014, the company has no borrowings under this facility.

There are no change of control conditions in the terms of any of the company's outstanding debt securities. The terms of the company's agreements with its banking counterparties, under which derivative transactions are undertaken, include the provision for termination of transactions upon takeover/merger if the resulting merged entity has a credit rating materially weaker than the company. There are no other committed banking arrangements either drawn or undrawn that incorporate any change of control conditions.

DIRECTORS' REPORT.

USE OF FINANCIAL INSTRUMENTS

Information on the Group's risk management process is set out on pages 42 to 47. More details on risk management and the financial instruments used are set out in Notes 8 to 18 and note 28 of the Financial Statements.

INDEMNITIES

The company has agreed to indemnify, to the extent permitted by law, each of the directors against any liability incurred by a director in respect of acts or omissions arising in the course of their office. Qualifying pension scheme indemnities (as defined in section 235 of the Companies Act 2006) have been granted, to the extent permitted by law, to certain trustees of the company's pension schemes. The indemnities were in force throughout 2013 and remain so. Copies of the deeds of indemnity are available for inspection at the company's registered office and will also be available at the AGM.

POLITICAL DONATIONS

No political donations were made during 2013.

FORWARD-LOOKING STATEMENTS

The Directors' report is prepared for the members of the company and should not be relied upon by any other party or for any other purpose. Where the Directors' report includes forward-looking statements, these are made by the directors in good faith based on the information available to them at the time of their approval of this report. Such statements should be treated with caution due to the inherent uncertainties underlying such forward-looking statements.

INSURANCE

The company has arranged appropriate directors' and officers' liability insurance for directors. This is reviewed annually.

GREENHOUSE GAS DISCLOSURES

Global GHG Emissions Data for the period of January – December 2013:

Emissions from	
Scope 1 and 2 (electricity and gas) (based on Legal & General's UK CRC Energy Efficiency Scheme disclosed emissions, Overseas property emissions)	12,979.11 tCO_2
Scope 2 (electricity sourced from a renewable tariff)	20,813.68 tCO_2
Scope 3 – Business travel (includes road, rail and air travel for LGAS, France, Netherlands and USA)	4,558.13 tCO_2
Total CO_2 (scope 1,2,3) (based on Legal & General's UK CRC Energy Efficiency Scheme disclosed emissions, Overseas property emissions and reported travel emissions)	38,350.92 tCO_2
Intensity ratio: Emissions per policy	3.78 $kgCO_2$
Fugitive Emissions	571.24

Please refer to our CSR report for further breakdown of emissions.

Methodology

We have reported on the emission sources required under the Companies Act 2006 Strategic Report and Directors' Report Regulations 2013.

We have used the GHG reporting protocol for calculating our GHG emissions for 2013 and applied the emission factors from UK Government's GHG Conversion Factors for Company Reporting 2013.

The scope of the emissions included are those disclosed under the UK CRC Energy Efficiency Scheme, UK travel emissions and overseas property and travel emissions. Emissions outside of our responsibility and under the control of a third party have been excluded.

INDEPENDENT AUDITORS

The company's auditors have expressed their willingness to continue in office and the Audit Committee has recommended their re-appointment to the Board. Resolutions to re-appoint PricewaterhouseCoopers LLP as auditors to the company and to authorise the directors to determine their remuneration are proposed for the forthcoming AGM.

DIRECTORS' INTERESTS

The Directors' Report on Remuneration on pages 70 to 103 provides details of the interests of each director, including details of current incentive schemes and long term incentive schemes, the interests of directors in the share capital of the company and details of their share interests, as at 28 February 2014.

GOING CONCERN STATEMENT

The group's business activities, together with the factors likely to affect its future development, performance and position in the current economic climate are set out in the Strategic report on pages 1 to 49. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group results on pages 34 to 41. Principal risks and uncertainties are detailed on pages 48 to 49. In addition, the financial statements include, amongst other things, notes on the Group's objectives, policies and processes for managing its capital Note 29; its financial risk management objectives Note 8 to 18; details of its financial instruments and hedging activities Notes 12 and 13; and its exposures to credit risk and liquidity risk Note 8.

Whilst the economy has improved over the past year, the general climate remains, to a degree, uncertain. However, based on the available information on the future, the directors consider that the Group has the plans and resources to manage its business risks successfully as it has a diverse range of businesses and remains financially strong. After making enquiries, the directors have a reasonable expectation that the company, and the Group, have adequate resources to continue their operations for the foreseeable future. For that reason, they continue to adopt the going concern basis in preparing the financial statements.

ANNUAL GENERAL MEETING

The company's annual general meeting will be held at 11.00am on Wednesday, 21 May 2014 at The Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' report and the annual report and accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively;
- 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 the Group and enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS regulation. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors 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.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Board of directors section confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and

- the strategic report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

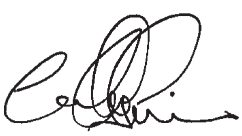
In accordance with section 418 of the Companies Act 2006, each of the directors who held office at the date this report was approved confirms that:

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

(b) he/she has taken all the steps that he/she 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.

The directors' report and strategic report were approved by the Board, and signed on their behalf.

By order of the Board



G J TIMMS
COMPANY SECRETARY
4 March 2014

SHAREHOLDER INFORMATION.

ANNUAL GENERAL MEETING

The 2014 annual general meeting (AGM) will be held on Wednesday, 21 May 2014 at 11.00am at The Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ. The AGM provides Legal & General with the opportunity to meet its shareholders. The Board regards the AGM as an important opportunity to communicate directly with private investors. The Notice of Meeting and all other details for the AGM are available at legalandgeneralgroup.com (the website).

DIVIDEND INFORMATION

Dividend per share

This year the directors are recommending the payment of a final dividend of 6.90p per share. If you add this to your interim dividend of 2.40p per share, the total dividend recommended for 2013 will be 9.30p per share (2012: 7.65p per share). The key dates for the payment of dividends are set out in the important dates section on the next page.

DIVIDEND PAYMENTS

Legal & General is keen to encourage all its shareholders to have their dividends paid directly into a bank or building society account. If you would like more details or a dividend mandate form, please contact our registrar.

Details of how to contact the registrar can be found on the opposite page and on our website.

DIVIDEND REINVESTMENT PLAN

The Legal & General dividend reinvestment plan (DRIP) enables shareholders to use their cash dividends to purchase Legal & General Group Plc shares. If you would like more details, please contact our registrar.

Alternatively, the DRIP booklet and mandate form can be found in the investors section of the website.

COMMUNICATIONS

Internet

Information about the company, including details of the current share price, is available on the website, legalandgeneralgroup.com.

Investor relations

Private investors should contact the registrar with any queries.

Institutional investors can contact the investor relations team by email: investor.relations@group.landg.com.

Share fraud warning

In recent years many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters which imply a connection to the company concerned. These are typically from overseas-based ‘brokers’ who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments.

They can be very persistent and extremely persuasive. 5,000 people contact the Financial Conduct Authority (FCA) about share fraud each year, with victims losing an average of £20,000. It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports into the company.

If you receive any unsolicited investment advice, make sure you get the correct name of the person and organisation and make a record of any other information they give you, e.g. telephone number, address, etc.

Check that they are properly authorised by the FCA before getting involved. You can check at fca.org.uk/register

The FCA also maintains on its website a list of unauthorised overseas firms who are targeting, or have targeted, UK investors and any approach from such organisations should be reported to the FCA so that this list can be kept up to date and any other appropriate action can be considered. If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme. Contact details for the FCA can be found on the FCAs website www.fca.org.uk/site-info/contact

Inform our registrar, Capita Asset Services, on 0871 402 3341. They are not able to investigate such incidents themselves but will record the details and pass them on to us and liaise with the FCA.

Details of any sharedealing facilities that the company endorses will be included in company mailings.

More detailed information on this or similar activity can be found on the FCA website www.fca.org.uk/consumers.

FINANCIAL REPORTS

The company's financial reports are available on the website. The annual report and accounts are sent to those shareholders who have elected to receive paper copies. Alternatively, shareholders may elect to receive notification by email by registering on www.landgshareportal.com. If you receive more than one copy of our communications, it could be because you have more than one record on the share register. To avoid duplicate mailings, please contact the registrar, who can arrange for your accounts to be amalgamated.

REGISTRAR

You can contact our registrar:

By post: Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

By telephone: 0871 402 3341*. If calling from outside the UK please dial + 44 800 1412959.

* Calls to this number cost 8p per minute plus network extras. Lines are open 8.30am to 5.30pm, Monday to Friday.

By email: landgshares@capita.co.uk

The registrar also provides the following services:

CORPORATE SPONSORED NOMINEE

The corporate sponsored nominee allows you to hold shares in Legal & General without the need for a share certificate and enables you to benefit from shorter market settlement periods. Individual shareholders hold their Legal & General shares in a nominee holding registered in the name of Capita IRG Trustees (Nominees) Limited. To join or obtain further information contact the registrar. They will send you a booklet, outlining the terms and conditions under which your shares will be held, together with the appropriate share transfer form. The booklet and the share transfer form are also available in the Investors section of the website.

SHARE PORTAL

Share portal allows you to view your Legal & General shareholding on the internet. Registering is easy; simply log on to www.landgshareportal.com and follow the instructions. You will need your Shareholder Investor Code, which can be found on your share certificate, dividend statement or proxy form. If you have any queries, please call the shareholder helpline.

SHARE DEALING SERVICE

A quick and easy share dealing service is provided by Capita Share Dealing Services to sell or buy shares in Legal & General and any other leading UK companies. Further information is available online at www.capitadeal.com.

GENERAL INFORMATION

Capital gains tax: For the purpose of calculating UK capital gains tax, the market value on 31 March 1982 of each share was 7.996p, after adjusting for the 1986 capitalisation issue and the 1996 and 1999 sub-divisions, but not reflecting any rights taken up under the 2002 rights issue.

Close company provisions: The company is not a close company within the terms of the Corporation Tax Act 2010.

Registered office: One Coleman Street, London EC2R 5AA. Registered in England and Wales, No. 01417162.

Shareholder offer line: For details of shareholder offers on Legal & General products call 0500 65 5555.

IMPORTANT DATES:	
23 April 2014	Ex-dividend date (final dividend)
15 May 2014	Last day for DRIP elections
21 May 2014	Annual General Meeting
4 June 2014	Payment of final dividend for 2013 (to members registered on 25 April 2014)
6 August 2014	Half year results 2014
27 August 2014	Ex-dividend date (interim dividend)
1 October 2014	Payment of interim dividend for 2014 (to members registered on 29 August 2014)

GLOSSARY.

ASSETS UNDER MANAGEMENT (AUM)
The total amount of money investors have trusted to our fund managers to invest across our investment products.

BULK PURCHASE ANNUITY (BPA)
Bulk annuities are bought by entities that run final salary pension schemes to reduce their responsibilities by closing the schemes to new members and passing the assets and obligations to insurance providers.

COMPANY
Legal & General Group Plc.

DIVIDEND COVER
Dividend cover measures how many times over the net cash generated in the year could have paid the full year dividend. For example, if the dividend cover is 3, this means that the net cash generation was three times the amount of dividend paid out.

EARNINGS PER SHARE (EPS)
EPS is a common financial metric which can be used to measure the profitability and strength of a company over time. It is the total shareholder profit after tax divided by the number of shares outstanding. EPS uses a weighted average number of shares outstanding during the year.

EMPLOYEE ENGAGEMENT INDEX
The Employee Engagement Index measures the extent to which employees are committed to the goals of Legal & General and are motivated to contribute to the overall success of the company, whilst at the same time working with their manager to enhance their own sense of development and well-being.

EUROPEAN EMBEDDED VALUE (EEV)
The Embedded Value (EV) of a life insurance company is the value to equity shareholders of the net assets and expected future profits of the company on existing business. The European Embedded Value (EEV) is a variation of EV which allows for a more formalised method of choosing the parameters and doing the calculations to enable greater transparency and accountability.

EUROPEAN EMBEDDED VALUE OPERATING PROFIT (EEV OPERATING PROFIT)*
Legal & General provides supplementary financial statements prepared on the European Embedded Value (EEV) basis for long-term insurance contracts. Operating profit on the EEV basis reports the change in embedded value in a period, but excludes fluctuations from assumed longer-term investment return.

EUROPEAN EMBEDDED VALUE PER SHARE (EEV PER SHARE)
EEV per share is used to measure value creation over time. It is the Group's EEV including LGIM, divided by the closing number of shares in issue.

FULL YEAR DIVIDEND
Full year dividend is the total dividend per share declared for the year (including interim dividend but excluding, where appropriate, any special dividend).

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)
These are a widely accepted collection of guidelines and principles, established by accounting standard setters and used by the accounting community to report financial information.

GROSS WRITTEN PREMIUMS (GWP)
GWP is an industry measure of the life insurance premiums due and the general insurance premiums underwritten in the reporting period, before any deductions for reinsurance.

GROUP
The company and its subsidiary undertakings.

INSURANCE GROUP DIRECTIVE (IGD) SURPLUS AND COVERAGE*
The IGD surplus is a regulatory measure which calculates surplus capital within the Group. IGD surplus is defined as Group regulatory capital less the Group regulatory capital requirement, after accrual for proposed dividends. Surplus capital held within Society's Long Term Fund cannot be included in the IGD definition of capital employed. IGD coverage is calculated as the Group regulatory capital divided by the Group regulatory capital requirement.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
These are accounting guidelines and rules that companies and organisations follow when completing financial statements. They are designed to enable comparable reporting between companies, and they are the standards that all publicly listed groups in the European Union (EU) are required to use.

IFRS PROFIT BEFORE TAX (PBT)
PBT measures profit attributable to shareholders incorporating actual investment returns experienced during the year.

Key performance indicators (KPIs) are denoted by the symbol throughout the glossary.

KEY PERFORMANCE INDICATORS (KPIS)
These are measures by which the development, performance or position of the business can be measured effectively. The Group Board reviews the KPIs annually and updates them where appropriate.

LGA
Legal & General America.

LGAS
Legal & General Assurance Society (division).

LGC
Legal & General Capital.

LGIM
Legal & General Investment Management.

LGR
Legal & General Retirement.

LIABILITY DRIVEN INVESTMENT (LDI)
A form of investing in which the main goal is to gain sufficient assets to meet all liabilities, both current and future. This form of investing is most prominent in final salary pension plans, whose liabilities can often reach into billions of pounds for the largest of plans.

NET CASH GENERATION*
Net cash generation is defined as operational cash generation less new business strain.

NEW BUSINESS STRAIN*
The impact of writing new business on the regulatory position, including the cost of acquiring new business and the setting up of regulatory reserves.

OPERATING PROFIT*
Operating profit information provides further analysis of the results reported under IFRS and we believe gives shareholders a better understanding of the underlying performance of the business. Operating profit measures the pre-tax result reflecting longer-term economic assumptions for our insurance businesses and shareholder funds, except for LGA which excludes unrealised investment returns to align with the liability measurement under US GAAP. Variances between actual and smoothed assumptions are reported below operating profit. Income and expenses arising outside of the normal course of business, such as merger and acquisition and restructuring costs, are excluded from operating profit, as are profits and losses arising on the elimination of our own debt holdings.

OPERATIONAL CASH GENERATION*
Operational cash generation is the expected release from in-force business for the UK non-profit LGAS and LGR businesses, the shareholder's share of bonuses on with-profits business, the post-tax operating profit on other UK businesses, including an expected investment return on LGC invested assets, and dividends remitted from our international businesses.

PRESENT VALUE OF NEW BUSINESS PREMIUMS (PVNBP)*
The industry measure used to determine the value of new business. It is calculated as 100% of single premiums plus the expected present value of new regular premiums.

PURCHASED INTEREST IN LONG TERM BUSINESS (PILTB)
An estimate of the future profits that will emerge over the remaining term of life and pensions policies that have been acquired via a business combination.

RETURN ON EQUITY (ROE)
ROE measures the return earned by shareholders on shareholder capital retained within the business. ROE is calculated as IFRS profit after tax divided by average IFRS shareholder's funds.

SINGLE PREMIUMS
Single premiums arise on the sale of new contracts where the terms of the policy do not anticipate more than one premium being paid over its lifetime, such as in individual and bulk annuity deals.

SOCIETY
Legal & General Assurance Society Limited (legal entity).

SOLVENCY II
A proposed EU-wide regulatory regime which intends to align solvency capital to an insurers risk profile. Solvency II is currently expected to be implemented on 1 January 2016.

TOTAL SHAREHOLDER RETURN (TSR)
TSR is a measure used to compare the performance of different companies' stocks and shares over time. It combines the share price appreciation and dividends paid to show the total return to the shareholder.

VALUE IN FORCE (VIF)
The value of in-force business is the present value of expected future shareholder profits less the present value cost of holding capital required to support the in-force business.

Key performance indicators (KPIs) are denoted by this symbol throughout the glossary.

* Non GAAP measures

Registered office:
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legalandgeneralgroup.com

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www.addison-group.net

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