

Stock Exchange Release
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DIVIDENDS UP 22% AND EARNINGS PER SHARE UP 13%

FINANCIAL HIGHLIGHTS – STRONG PERFORMANCE:

- **OPERATIONAL CASH GENERATION UP 14% TO £537M (H1 2012: £471M)
NET CASH GENERATION UP 23% TO £500M (H1 2012: £407M)**
- **OPERATING PROFIT UP 10% TO £571M (H1 2012: £518M)**
- **PROFIT BEFORE TAX UP 13% TO £592M (H1 2012: £523M)
PROFIT AFTER TAX UP 15% TO £464M (H1 2012: £405M)**
- **EARNINGS PER SHARE UP 13% TO 7.82P (H1 2012: 6.93P)**
- **RETURN ON EQUITY¹ 16.8% (H1 2012: 15.8%)**
- **INTERIM DIVIDEND UP 22% TO 2.40P PER SHARE (H1 2012: 1.96P PER SHARE)**

BUSINESS HIGHLIGHTS - ACCELERATING GROWTH:

- **LGIM GROSS FLOWS UP 66% TO £24.9BN; NET FLOWS UP 100% TO £8.0BN
LGIM AUM £433BN (FY 2012: £406BN)**
- **BULK ANNUITY SALES £670M (H1 2012: £67M)
INDIVIDUAL ANNUITY SALES UP 44% TO £754M (H1 2012: £522M)**
- **SAVINGS AUA AFTER ACQUISITION OF COFUNDS £111BN² (FY 2012: £70BN)**
- **UK PROTECTION GROSS PREMIUMS UP 3% TO £689M (H1 2012: £672M)
US PROTECTION GROSS PREMIUMS UP 10% TO \$503M (H1 2012: \$456M)
GENERAL INSURANCE PREMIUMS UP 10% TO £183M (H1 2012: £166M)**

Nigel Wilson, Group Chief Executive, said:

"Legal & General delivered another very strong performance in H1 2013, with double-digit growth in sales, cash, operating profits and profit after tax. International assets under management are up 21% to £52bn. Bulk annuities and related retirement solutions for corporates are up ten-fold. We have bought Cofunds, the UK's largest digital savings platform with £54bn assets under administration. The acquisition of Lucida, the UK annuity buy-out company, will add £1.4bn of annuity assets. We have now invested over £4bn in UK infrastructure and Direct Investments, including in the house builder, CALA Homes.

We are successfully evolving our strategy from a post-financial crisis focus on cash, to one based on cash plus growth plus selective acquisitions. It is based on five macro-trends: increasingly global asset markets, ageing populations, digital lifestyles, welfare reform and bank retrenchment. In each case, we have accelerated growth: by expanding international investment management, providing retirement solutions, growing our digital presence, increasing private protection, and direct investments.

I am excited about the future for Legal & General. In the last six months, earnings per share are up 13% and we have increased dividends per share by 22%. We remain determined to deliver value to shareholders. We are equally determined to deliver value to our millions of customers. With £433bn of assets under management in LGIM, £111bn assets under administration in Savings, and 8 million customers, we have the scale, strength and skill-sets to provide insurance, savings and investment solutions that work for individuals, families, companies and for 'UK plc'."

Financials Pence	H1 2013	H1 2012	Growth
IFRS earnings per share (basic)	7.82	6.93	13%
Interim dividend per share	2.40	1.96	22%
Return on equity ¹ (%)	16.8	15.8	1.0 %pts

1. Annualised return on equity is calculated by taking annualised profit after tax attributable to equity holders of the Company (calculated as twice the half-year number) as a percentage of the average shareholders' capital employed, being an average of the opening and closing shareholders' equity during the period.
2. H1 2013 Savings assets under administration includes an additional £39bn of assets acquired as part of the purchase of Cofunds in May 2013.

FINANCIAL SUMMARY

Financial highlights £m	H1 2013	H1 2012	Growth (%)
Analysis of operating profit¹			
Annuities	151	139	9
Housing and Protection	168	150	12
Savings	62	72	(14)
Investment Management	135	119	13
US Protection	53	48	10
L&G Capital	86	81	6
Operating profit from divisions	655	609	8
Group debt costs	(64)	(63)	(2)
Investment projects and expenses	(20)	(28)	29
Operating profit	571	518	10
Investment and other variances (incl. minority interests)	21	5	320
Profit before tax	592	523	13
Operational cash generation	537	471	14
New business strain	(37)	(64)	42
Net cash generation¹	500	407	23
Flows £bn	H1 2013	H1 2012	Growth (%)
LGIM gross flows	24.9	15.0	66
LGIM net flows	8.0	4.0	100
Savings net flows	0.1	(0.1)	n/a
Gross premiums	H1 2013	H1 2012	Growth (%)
UK Protection (£m)	689	672	3
General Insurance (£m)	183	166	10
US Protection (\$m)	503	456	10
Sales £m	H1 2013	H1 2012	Growth (%)
Total APE	1,085	889	22
Individual annuity single premiums	754	522	44
Bulk purchase annuity single premiums ²	670	67	900
UK Protection annual premiums	105	109	(4)
US Protection annual premiums (\$m)	70	66	6
Savings APE	734	620	18
Assets £bn	H1 2013	FY 2012	Growth (%)
LGIM ³	433	406	7
Savings ⁴	111	70	59
Annuities	32	32	-

1. Operating profit and net cash generation are defined on pages 27 and 65 of the interim management report.
2. H1 2013 Bulk purchase premiums exclude £175m of premiums from the £3.2bn longevity insurance transaction with BAE Systems.
3. LGIM assets include £32bn of assets managed on behalf of Annuities and £50bn managed on behalf of Savings.
4. H1 2013 Savings assets under administration includes £39bn of additional assets acquired as part of the purchase of Cofunds in May 2013.

FINANCIAL HIGHLIGHTS – STRONG PERFORMANCE

Legal & General delivered excellent growth in operational and net cash generation, operating profit and earnings per share. The drivers of profit have been actively managed and all of our businesses delivered strong growth with Annuity sales up 142% to £1.4bn (H1 2012: £0.6bn), LGIM net inflows up 100% to £8.0bn (H1 2012: £4.0bn), growth in scale of Savings assets under administration to £111bn and further growth in US and UK Protection gross premiums.

Operational cash generation increased by 14%, £66m to £537m (H1 2012: £471m). Each of our business divisions delivered increased cash generation. UK Housing and Protection increased cash by £34m, including a strong performance from General Insurance, which achieved a combined operating ratio of 81% (H1 2012: 99%). Annuities and Savings increased cash generation by £9m and £7m respectively, reflecting our substantial stock. LGIM's cash generation increased by £9m, as higher scale drove fee revenue growth and its low cost to income ratio of 45% was maintained.

Net cash generation increased by 23% to £500m (H1 2012: £407m), driven by the strong operational cash generation, improved positive new business surplus for annuities, and a permanent improvement to new business strain as a result of the change in the life tax regime for retail protection.

Operating profit increased by 10% to £571m (H1 2012: £518m), reflecting the growth in cash generation. The strong operating profit and net cash generation growth has enabled us to deliver **earnings per share up 13% to 7.82 pence (H1 2012: 6.93 pence)** and a higher **return on equity of 16.8% (H1 2012: 15.8%).**

BUSINESS HIGHLIGHTS – ACCELERATING GROWTH

Legal & General continues to deliver across its five growth areas: LGIM international expansion, Retirement Solutions, Digital Solutions, Protection and Direct Investments, through strong organic growth and selective acquisitions.

LGIM gross inflows were up 66% to £24.9bn and net flows were up 100% to £8.0bn. International expansion continues with net inflows from international clients of £7.5bn (H1 2012: £2.4bn) and international assets under management are now £52bn, up 21% on FY 2012. In July, LGIM Hong Kong gained regulatory approval to market across the region.

In annuities we **wrote the largest longevity insurance contract in the UK to date** at £3.2bn of associated liabilities, completed our first international annuity transaction with New Ireland Assurance, and wrote £0.7bn (H1 2012: £0.1bn) of bulk annuity premiums in H1 2013. Strong growth continued in individual annuities with premiums up 44% to £0.7bn (H1 2012: £0.5bn), benefiting from the 116% growth in enhanced annuity premiums.

Protection premiums continued to grow, with gross premiums up 3% in UK Protection, and 10% in General Insurance and US Protection. Pricing and underwriting discipline and benign weather conditions supported an improved combined operating ratio of 81% (H1 2012: 99%) in General Insurance. Group Protection benefited from synergies with our Workplace Savings auto-enrolment proposition with Group life sales increasing by 44%.

Savings completed the acquisition of Cofunds, the largest UK investment platform, and now has assets under administration of £111bn. We have already delivered annualised cost savings of over £3m in Cofunds, and remain on track to deliver our target cost savings of £11m pa by 2015. Our growth businesses (Platforms, unit trusts, workplace pensions and SIPPS) delivered net inflows of £2.3bn (H1 2012: £1.3bn).

In 2013 **we acquired a 46.5% stake in the house builder CALA Group.** Together with our substantial land bank, CALA will give us the capability to develop assets with attractive returns for shareholders. We also increased the level of direct investments in our annuity fund by more than 80%, to a total of £1.7bn.

INTERIM DIVIDEND INCREASED BY 22% TO 2.40 PENCE PER SHARE

The Board's confidence in the strength of Legal & General's financial performance underpins the decision to increase the interim dividend by 22% to 2.40p (H1 2012: 1.96p) per share at a cost of £142m (H1 2012: £116m).

STRATEGIC MOMENTUM

Growth in earnings will be delivered through continued strong organic growth, and a selective, disciplined approach to acquisitions across the framework of our five key growth themes.

The goal of the new organisational structure (effective from 1 July 2013) is to accelerate development across the five themes. The integrated protection and savings business, Legal & General Assurance Society (LGAS), will build on leading digital platforms capability (Cofunds, Workplace, Protection and General Insurance), increase cross-sales and deliver cost synergies. LGIM will manage the retail unit trust business with a clear goal of significantly increasing market share. The Annuities division and LGIM will work alongside each other to provide a comprehensive range of retirement solutions across Legal & General's c2,700 defined benefit clients.

There is clear momentum in LGIM's international expansion and rising yields will increase demand for retirement solutions. Legal & General's bulk annuities, longevity insurance and market-leading LDI solutions are well placed to benefit. We are actively pursuing a number of opportunities not only in the UK, but also in Europe and North America. In the Individual Annuity market, we expect growth of at least 8% each year until 2020 and will continue to expand our share of the enhanced annuities market.

Auto-enrolment has been a success with over 90% of joiners staying enrolled, indicating the start of a shift to a more self-reliant culture. Welfare reform in the UK is proceeding quickly and this increases the need for employers and individuals to consider greater use of protection cover, particularly for those with limited savings funds.

Infrastructure is moving up the policy agenda and our substantial sources of long term funding enable us to increase our direct investment and to play a major role in supporting economic and social development.

OUTLOOK

We expect key trends in H1 of growth in LGIM's internationalisation and higher demand for LGIM's and Annuities' retirement solutions to remain strong drivers of near term growth in scale and operating profit. This will be supported by a strong focus on operational efficiency and an effective investment strategy.

LGIM – We have a healthy pipeline of international new business and plans to expand our distribution capabilities in Europe, US and now Asia. In the UK our de-risking proposition presents significant revenue opportunities from our maturing defined benefit pension book, as we look to maximise asset retention by offering clients innovative solutions. While there may be some equity outflows, we anticipate offset from higher inflows into LDI and annuity assets.

We expect the impact of transparent charging from the implementation of the Retail Distribution Review (RDR) to continue to drive demand for our low cost retail passive funds and aim to become a major player in this segment.

Individual Annuities – The pipeline for standard and enhanced individual annuities remains strong. We believe the new ABI Code of Conduct for Retirement Choices, launched in March 2013, and the FCA's thematic review into annuities will encourage customers to use open market options. We expect to continue to source the majority of flows from the open market, having gained 79% of new premiums in H1 from external pension providers.

Bulk Annuities – The quote pipeline for longevity and bulk annuities remains strong, although the timing of volumes is inherently uneven. We are developing interest for Legal & General's annuity solutions outside the UK, notably in the Netherlands, Ireland, Canada and the US. The momentum from H1 has continued, with over £0.5bn of bulk and individual annuity premiums written in July. The acquisition of Lucida will add a further £1.4bn of annuity premiums.

Retail Protection – Application premiums are now running above the level of a year earlier. Our mortgage network and leading presence with banks and building societies positions us well to benefit from growing levels of mortgage activity.

Group Protection – We have delivered an online quote tool which will support continuing growth in group life alongside further stages of auto enrolment. High levels of quote activity in H1 have provided a strong pipeline for H2.

Savings – Cofunds, as an early mover to clean "nil rebate" share classes, is well placed ahead of the implementation of PS13/1 which bans rebates from fund managers on new business after 1 April 2014. We are on track to deliver further synergies in 2013 as a result of the Cofunds acquisition. Workplace business will continue to grow as schemes already secured are transferred to the platform. We transferred £0.5bn of assets from existing schemes to the platform in H1 2013 and expect a further £0.1bn in H2 2013, along with a potential 297,000 employees to auto enrol.

Following the implementation of the Retail Distribution Review, the market remains in a transition phase. However, adviser activity is increasing as processes become embedded and we expect a gradual recovery across our building society partners in H2 2013 and beyond.

US Protection – Application levels are up on this time last year and we remain on track to deliver the next phase of our US capital efficiency programme by the end of the year. This will release the excess capital on 2013 new business that arises from the US XXX/XXX reserving regime.

INVESTMENT MANAGEMENT.

Financial highlights £m	H1 2013	H1 2012
Total revenue	246	219
Total costs	(111)	(100)
Operating profit	135	119
Net cash generation	106	97
Cost:income ratio (%)	45	46
Gross inflows (£bn)	24.9	15.0
International net inflows (£bn)	7.5	2.4
UK net inflows (£bn)	0.5	1.6
Total net inflows (£bn)	8.0	4.0
	H1 2013	FY 2012
Closing assets under management (£bn)	433	406
of which International	52	43

BENEFITING FROM DIVERSIFICATION

Operating profit of £135m increased 13% (H1 2012: £119m). This reflects growth in revenue as a result of higher assets under management (AUM) and a continuing low cost to income ratio of 45%. Total revenue was up 12% to £246m (H1 2012: £219m), while total costs increased at the marginally lower level of 11% to £111m (H1 2012: £100m). Total costs include investment in infrastructure and resources to enable further geographic and product expansion.

LGIM achieved net inflows of £8.0bn, double H1 2012, and gross inflows up 66% to £24.9bn (H1 2012: £15.0bn). Record net inflows of £7.5bn were received from international clients and **in the UK LGIM achieved net inflows of £0.5bn.**

As the UK defined benefit market matures, LGIM continues to support pension schemes looking to de-risk. LGIM has benefited from clients transitioning towards buyout and gained strong gross inflows of £9bn into active fixed income and liability driven investment (LDI) solutions. LGIM is now the largest manager of LDI in the UK.

UK defined contribution (DC) pension AUM increased 13% to £28.7bn (FY 2012: £25.4bn). LGIM continues to invest in its DC proposition to ensure it is further established as a market leader in delivering innovative DC solutions. LGIM continues to develop closer synergies with the Workplace Savings business, to provide the capabilities required to increase share of the DC market. Further product launches are planned for H2 2013 to extend the range of pooled funds available to members of DC pension schemes.

International AUM grew by 21% to £52bn (FY 2012: £43bn) with inflows from clients domiciled in each of the key targeted regions. In July, LGIM launched its business in the Asia Pacific region. The business, headquartered in Hong Kong, will provide index and fixed income solutions to large institutional clients across the region.

In the US, AUM has increased to £22bn (FY 2012: £20bn) with LGIM's active fixed income and LDI proposition continuing to attract interest from clients and consultants. During H1 2013, LGIM America (LGIMA) added a further eight external new clients and now has 47 clients (FY 2012: 39 clients).

LGIM continues to expand its footprint in the Gulf and Europe, adding new clients whilst also continuing to leverage existing relationships by offering an innovative range of passive capabilities as well as active capabilities such as fixed income and property. In Europe, LGIM gained gross inflows of £4.7bn, evidencing the success of a strategy that is targeting the largest investment pools in the region.

INDEX AND ACTIVE CAPABILITIES

Asset movements £bn	Index	LDI	Active Fixed interest	Active Equities	Property & other	Total
AUM (at 1 January 2013)	243.2	64.0	82.2	7.7	8.9	406.0
Gross inflows	16.0	5.7	3.1	-	0.1	24.9
Gross outflows	(13.8)	(1.7)	(1.1)	(0.3)	-	(16.9)
Net flows	2.2	4.0	2.0	(0.3)	0.1	8.0
Market and other movements	16.7	2.9	(1.3)	0.3	0.4	19.0
AUM (at 30 June 2013)	262.1	70.9	82.9	7.7	9.4	433.0

Index assets under management increased 8%, taking AUM to £262.1bn. Index tracking remains the primary constituent of total assets, accounting for over 60% at the end of June 2013. Index strategies remain integral to LGIM's international diversification strategy, building presence in Europe, the Gulf and now Asia. In the UK, index funds are key components of LGIM's growing range of multi-asset funds. LGIM continues to expand its range of products and services in both the UK and overseas.

LGIM's market-leading LDI capability continues to grow with AUM increasing 11% to £70.9bn, reflecting record gross inflows of £5.7bn, up 73% (H1 2012: £3.3bn). LGIM's expertise and scale means it is well positioned to benefit from rising bond yields which have made market conditions more conducive to de-risking, as clients look to lock in at preferential rates, compared to the historically low rates of recent years.

Active Fixed Income AUM increased to £82.9bn (FY 2012: £82.2bn). LGIM's track record of strong performance across its range of funds continues, with 84% of funds outperforming their benchmarks over one year and 76% over three and five years.

LGIM has commenced implementing strategic changes to the Active Equity proposition. Whilst retaining and re-enforcing areas of strong capability and historical performance, LGIM is re-directing other resources towards funds designed for the DC and other target markets.

Legal & General Property (LGP) remains the third largest institutional real estate manager in the UK with £9.2bn assets under management. In H1, LGP was selected by the National Employment Savings Trust (NEST) to run two real estate mandates, representing its first direct investment into commercial property. As a result, LGP is well placed to add value through property asset investment to UK retirement solutions and our annuity business.

ANNUITIES.

Financial highlights £m	H1 2013	H1 2012
Operational cash generation	130	121
New business surplus	17	1
Net cash generation	147	122
Experience variances, assumption changes, tax and other variances	4	17
Operating profit	151	139
Individual annuity single premiums (£bn)	0.7	0.5
Bulk annuity single premiums (£bn)	0.7	0.1
Total annuity single premiums (£bn)	1.4	0.6
Annuities new business EEV margin (%)	8.4	8.5
	H1 2013	FY 2012
Annuities assets under management (£bn)	32	32

STRONG DEMAND FOR LEGAL & GENERAL'S EXPERT RETIREMENT SOLUTIONS

Operational cash generation grew by 7% to £130m (H1 2012: £121m), reflecting the growth in the scale of the business. The Annuities division gained £1.4bn of new annuity premiums and now provides income to 725,000 pensioners (H1 2012: 675,000). Net cash generation of £147m (H1 2012: £122m) includes a higher new business surplus of £17m (H1 2012: £1m), reflecting our ability to source attractively priced assets to back our new business. L&G Capital and LGIM work together to provide market leading asset portfolio strategies and effective execution to achieve the long term objectives of liability matching and credit risk management. Strategies are continually refined as market conditions evolve.

In the Bulk Annuity market, we wrote 45 policies worth £0.7bn (H1 2012: 28 policies worth £0.1bn), including our first international transaction with New Ireland Assurance covering €136m of annuity liabilities. We continue to pursue opportunities to leverage our bulk annuity expertise in appropriate non-UK markets. In February **we completed the largest longevity insurance contract in the UK to date**, covering 31,000 existing pensioners and £3.2bn of associated liabilities within the BAE Systems 2000 Pension Plan. We reinsured 70% of the liabilities to Hannover Re.

Individual Annuities achieved record H1 sales, up 44% to £0.7bn (H1 2012: £0.5bn). We have seen a growth in the number of annuitants choosing our standard and enhanced annuity products and a 30% increase in average pension pot sizes. Our focus on enhanced annuities as a growth area continues with premiums more than doubling to £123m (H1 2012: £57m).

In July, after the period end, we completed over £0.5bn of annuity premiums. The acquisition of Lucida, a closed UK annuity buy-out company, will add a further £1.4bn of annuity premiums and further strengthen our Annuity business. The Lucida transaction exceeds our target return on economic capital and represents 54% of the embedded value of Lucida, after allowing for capital and reserve releases.

Customers are increasingly looking to shop around for the best available annuity and we are ideally placed for this shift, offering customers competitive pricing of standard and enhanced annuities through our diversified IFA, direct and tied partnership distribution channels. Sales of external business increased to 79% of total premiums (H1 2012: 73%).

We continue to maintain our pricing discipline, writing business with the primary aim of achieving at least our target return on economic capital. On the EEV basis, the margin was broadly in line with the prior year at 8.4% (H1 2012: 8.5%).

Assets under management of £32bn were in line with FY 2012, reflecting growing sales, but offset by lower market values on fixed income bonds due to higher interest rates. Annuity assets and liabilities are well matched and therefore the impact of rising interest rates has little impact on the profitability of annuities, as assets move in line with the liabilities.

HOUSING AND PROTECTION.

Financial highlights £m	H1 2013	H1 2012
Operational cash generation	149	115
New business strain	(23)	(33)
Net cash generation	126	82
Experience variances, assumption changes, tax and other variances	42	68
Operating profit	168	150
UK Protection new business annual premiums	105	109
UK Protection new business EEV margin (%)	6.7	10.8
Protection gross premiums	689	672
General Insurance gross premiums	183	166
Total gross premiums	872	838

MARKET LEADING SCALE AND CONTINUING PROFIT GROWTH

Operational cash generation increased by 30% to £149m (H1 2012: £115m). Gross premiums continued to grow, up 4% on H1 2012, and General Insurance benefited from continued pricing and underwriting discipline and more benign weather conditions, delivering a combined operating ratio of 81% (H1 2012: 99%).

New business strain reduced to £23m (H1 2012: £33m), reflecting a change in tax rules for retail protection, partially offset by pricing activity. As a result, net cash generation increased 54% to £126m (H1 2012: £82m). **Operating profit increased by 12% to £168m** (H1 2012: £150m) reflecting the excellent performance in the General Insurance business.

Group Protection's high quality proposition achieved sales growth of 8% to £40m (H1 2012: £37m). Group life sales have grown 44% benefiting from large schemes offering death in service benefits to employees when they auto enrol in company pension schemes.

Retail Protection sales were down 10% to £65m (H1 2012: £72m) as policies were brought forward by customers into Q4 2012 to secure better rates ahead of gender neutral pricing. As a result sales in Q1 2013 were 25% below Q1 2012. **In Q2 2013 sales were up 6% on Q2 2012** as the market returned to more normal levels. Throughout, we have continued to be the leading provider in the total market and to Independent Financial Advisers (IFAs). We also benefit from being the sole provider of Retail Protection to building society partners covering 87% of the sector, and to the appointed representatives of the Legal & General Network. **The Legal & General Network facilitates 1 in 7 of all UK mortgages**, with a 27% share of the intermediated mortgage market (FY 2012: 25%). The Network facilitated lending of £11bn in H1 2013 up from £9bn in H1 2012.

The UK Protection new business EEV margin of 6.7% primarily reflects lower Q1 sales in Retail Protection and a degree of pricing volatility until the market adjusted. In Q2, our Retail Protection sales have returned to more normal levels, and we expect the margin in H2 to improve back to long term average levels, although below the exceptional levels of 2012.

General Insurance gross premiums increased by 10% to £183m (H1 2012: £166m) benefiting from continued growth from our broker accounts and from direct sales, where we are now the number one home insurer in direct online sales.

Sales from Legal & General Netherlands (LGN) and Legal & General France (LGF) were £51m (H1 2012: £49m) and operating profit was £20m (H1 2012: £17m). Although the Netherlands has a challenging regulatory regime, we have attained a market share of around 15% in Protection. We are now leveraging our existing Group Protection relationships with major UK employee benefit consultants who also operate in France. Operational cash generation, the dividends paid from LGN and LGF to the Group, was £1m (H1 2012: £1m), as dividends are primarily paid in Q4.

SAVINGS.

Financial highlights £m	H1 2013	H1 2012
Operational cash	95	88
New business strain	(31)	(32)
Net cash generation	64	56
Experience variances, assumption changes, tax and other variances	(2)	16
Operating profit	62	72
Growth business net flows (£bn)	2.3	1.3
Mature business net flows (£bn)	(2.2)	(1.4)
Net inflows (£bn)	0.1	(0.1)
New business APE	734	620
New business strain % PVNBP ¹	1.8	2.4
	H1 2013	FY 2012
Assets under administration (£bn) ²	111	70

1. Present Value of New Business Premiums for UK Insured Savings business.

2. H1 2013 assets under administration include £39bn of additional assets as part of the acquisition of Cofunds in May 2013.

FURTHER PROGRESS ON ASSET GATHERING STRATEGY

Operational cash generation is up 8% to £95m, (H1 2012: £88m). New business was again written more efficiently, as our digitally enabled Workplace Savings platform helped deliver lower unit costs, resulting in new business strain of £31m (H1 2012: £32m) and net cash generation up 14% to £64m (H1 2012: £56m).

Operating profit was £62m (H1 2012: £72m). The H1 2013 operating profit benefited from the increase in net cash generation, offset by a reduction in tax synergies on the Insured Savings business.

Savings increased assets under administration (AUA) to £111bn, reflecting positive market movements and the acquisition of Cofunds in May, which contributed £39bn to this total. Savings is executing against the asset gathering strategy outlined at the Savings investor presentation on 23 May. In the Growth business, net inflows were £2.3bn (H1 2012: £1.3bn), exceeding net outflows on the Mature business of £2.2bn (H1 2012: £1.4bn), which reflect maturities from with-profit endowment policies sold in the 1980s, insured pensions, insured bonds and structured products.

Asset movements £bn	Platforms ¹	Workplace	Suffolk Life	Unit Trusts	Total Growth	Mature
AUA (at 1 Jan 2013)	7.2	6.0	5.1	11.2	29.5	40.6
Gross inflows	0.6	1.0	0.5	1.7	3.8	0.8
Gross outflows	(0.4)	(0.3)	(0.2)	(1.5)	(2.4)	(3.0)
Cofunds net flows	0.9	-	-	-	0.9	-
Net flows	1.1	0.7	0.3	0.2	2.3	(2.2)
Acquisition of Cofunds	39.1	-	-	-	39.1	-
Market movements	(1.4)	0.6	0.3	0.5	-	1.5
AUA (at 30 Jun 2013)	46.0	7.3	5.7	11.9	70.9	39.9

1. Platforms include Legal & General's Investor Portfolio Services (IPS) platform and the Cofunds platform. Platforms exclude £8bn of Suffolk Life, Unit Trust and Mature assets held on the Cofunds platform.

PLATFORMS – DIGITAL SCALE WITH THE NO 1 UK PLATFORM BY ASSETS

The investment platform market is predicted to double in size from 2012 to 2017. The acquisition of Cofunds, the UK's largest investment platform, provides Legal & General with a business that will be a major beneficiary of this projected market growth. The integration of Cofunds into Legal & General has begun and annualised cost synergies of over £3m have already been achieved. We remain on track to deliver cost synergies of £11m pa from 2015 at a cost of £17m.

Cofunds achieved net inflows of £3.5bn (net inflows of £0.9bn since the acquisition on 23 May 2013), and as a result Cofunds AUA increased to £53.7bn (FY 2012: £47.6bn).

Our partnerships with Nationwide, Yorkshire, Leeds, Principality and a number of other building societies gives us sole tie distribution for our Savings products with 82% of building society customers in the UK. As guided in the FY 2012 results announcement, a planned transition phase with our building society partners following the implementation of the Retail Distribution Review (RDR) has had an effect on activity. Our IPS platform, used by our building society partners, had net inflows of £0.2bn (H1 2012: £0.7bn) and AUA of £9.0bn (FY 2012: £8.6bn) of combined mutual funds and insured assets.

UNIT TRUSTS – STRONG GROWTH IN PASSIVE FUNDS

Sales of our low cost passive funds increased by 65% to £1.2bn. As stated previously, we expect growth in retail passive funds of between 10% and 20% per annum over the next five years, due to greater transparency of charging following implementation of the RDR. Total gross sales of unit trusts, including our active funds, grew to £1.7bn (H1 2012: £1.2bn), contributing to growth in AUA to £11.9bn (FY 2012: £11.2bn). Following the changes to our organisational structure effective from 1 July, management of business, including Unit trusts and structured products, has moved to LGIM. This will enable our retail investment customers to benefit fully from LGIM's scale and low cost manufacturing.

PENSIONS PLATFORMS – WORKPLACE AND SUFFOLK LIFE

Workplace Savings delivered **sales up 94% to £329m (H1 2012: £170m)** and **net inflows of £0.7bn (H1 2012: £0.7bn)**. Transfers of assets from larger schemes occurred during 2012. The workplace platform now has AUA of £7.3bn (FY 2012: £6.0bn) and over 605,000 customers (FY 2012: 381,000) with a further 38,000 existing scheme members to transfer and 297,000 employees to auto enrol from schemes already won. Current opt out rates of less than 10% are well below our pricing assumptions. Following the implementation of auto enrolment for the large employers in 2012 and H1 2013, we expect new business levels will return to more normal levels. However, we continue to attract new employers to our scalable and highly efficient workplace platform, with 72 new schemes won in H1 2013, with an additional 37,000 existing members and a potential 90,000 auto-enrolees.

Our SIPP business, Suffolk Life, delivered net inflows of £0.3bn (H1 2012: £0.2bn) and sales up 25% to £50m APE. The business continues to grow organically through demand for its bespoke SIPP proposition and from backbook acquisitions as we start to see consolidation in the SIPP market. As a result the **AUA of Suffolk Life increased by 11%** compared to FY 2012.

US PROTECTION.

Financial highlights \$m	H1 2013	H1 2012
Operating profit	81	76
Operational cash generation	66	60
Gross premium income	503	456
New business APE	70	66
New business EEV margin (%)	10.0	10.9

FURTHER GROWTH IN PREMIUMS AND PROFITS

Legal & General America (LGA) has delivered operating profit, gross premium and new business sales growth in each of the last four years. In this time the business has moved to being a top five provider of ordinary life insurance from outside the top ten. LGA now has the third largest market share in the US as measured by ordinary life insurance issued, and is the largest for the key distribution channel of broker general agents, by face amount.

In H1 2013 the LGA business continued to grow. **Sales increased by 6% to \$70m** (H1 2012: \$66m), as LGA delivered on the strategy of extending distribution reach through key brokerage agents in the US market. The rate of LGA's sales growth in H1 is double that reported for the US Term Assurance market (as reported in Q1 2013).

Higher sales resulted in **an increase in gross premiums by 10% to \$503m** (H1 2012: \$456m) and a growth in number of policies to over 1 million (H1 2012: 930,000). **Operating profit increased to \$81m (H1 2012: \$76m)** reflecting the increase in gross premiums and continuing cost reductions, where new business submitted unit costs have reduced by 4% as premiums have increased and LGA has continued to make operational efficiencies in underwriting processes. In the two years from 2010 to 2012, LGA unit costs reduced by 30% (CPI adjusted). A recent benchmarking study of 15 life companies indicated that LGA was ranked the lowest cost provider.

Operational cash generation has increased by 10% to \$66m (H1 2012: \$60m). This represents the dividends paid to the Group. New business margin reduced marginally to 10.0% (H1 2012: 10.9%) reflecting a higher risk discount rate as interest rates increased in the US.

Legal & General Assurance Society has been granted certified reinsurer status by the New York Department of Financial Services, the regulator for New York State. LGA provided temporary excess capital of \$0.1bn on H1 2013 new business that arises from the US XXX/AXXX reserving regime which we expect to release in H2 as part of our rolling programme of capital releases.

L&G CAPITAL.

L&G Capital as a division provides four key functions: Direct Investments; implementing the investment strategy across the balance sheet; and managing the Group's Shareholder Funds investments, alongside managing the Group's debt and liquidity.

DIRECT INVESTMENTS GROWING RAPIDLY

As banks retrench, a wide range of attractive direct investment opportunities have arisen for Legal & General, from both a returns and synergy perspective. Direct Investments, where bilateral contracts are written, avoid exchange trading and associated frictional costs and are a natural fit for Legal & General, given our sources of long term funding and desire to invest to meet social purpose. 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. Our Direct Investment portfolio has grown as we have built capability and expertise, including structuring capability. In H1 2013 we increased our direct investments in LGPL, the main subsidiary for the UK's annuity business, by more than 80% to a total of £1.7bn. In the shareholder funds we have £0.5bn of direct investment and expect to increase exposures in this fund as well as in the US and French asset portfolios.

Transactions in H1 2013 included the acquisition of a 46.5% shareholding in the house builder CALA Group. Together with our substantial land bank, CALA will give us the capability to develop assets with attractive returns for shareholders. We have a £1.2bn property and commercial lending portfolio in our annuity fund, all with investment grade tenants and long leases which provide well matched cash flow with the security of high quality properties. These include a new Tesco distribution centre and a prime office block in the City of London. Our commercial lending capability has executed its first social housing lending deal and our direct investment into UK infrastructure has increased with investment into the University of Hertfordshire and our first alternative energy investment, providing debt financing to a solar farm in the South East of England. Within our bond portfolio we hold £1.9bn relating to infrastructure and social housing, meaning we now hold over £4bn in infrastructure and direct investments.

'ONE FIRM' STRATEGY AND IMPLEMENTATION

We aim to ensure our portfolio of assets is well matched to the liabilities, and derivatives are used where this is not possible. We actively manage the portfolios as market conditions change, as evidenced by the significant reductions in subordinated bank debt in LGPL since 2008 and the minimal peripheral sovereign debt exposure. We operate the strategy within a strong group control framework, with a core responsibility for assessing economic outlook and risks of unexpected losses, alongside ensuring that the regulatory requirements are met.

In LGPL, we maintain a provision of £1.7bn (FY 2012: £1.7bn) to provide for the risk of credit default. The provisioning for default in LGPL is driven by the credit quality of the assets. In H1 2013, the UK Government was downgraded to Aa1/AA+ by Moody's/Fitch, as a result of which we created an explicit provision against UK Gilts.

Asset portfolio £bn	H1 2013		FY 2012	
	LGPL ¹	Total	LGPL ¹	Total
Bonds:	28.6	34.6	29.2	34.9
Sovereigns	4.3	6.6	4.5	6.3
Banks	2.2	3.0	2.3	3.2
Other bonds	22.1	25.0	22.4	25.4
Property	0.9	1.1	0.7	0.8
Equities	-	1.5	-	1.4
Derivatives	2.1	2.3	2.9	3.1
Cash and cash equivalents	0.6	2.2	0.5	2.7
Total Asset Portfolio	32.2	41.7	33.3	42.9

1. LGPL is the main operating subsidiary for the UK's annuity business.

Investment variance across the Group was £42m (H1 2012: £5m) as a result of strong equity returns in Shareholder Funds and a positive impact from the increase in exposure to direct investments in LGPL. This was partially offset by a small negative impact from increasing interest rates.

SHAREHOLDER FUND INVESTMENTS

Financial highlights £m	H1 2013	H1 2012
Operating profit	86	81
Operational cash generation	68	62
	H1 2013	FY 2012
L&G Capital assets (£bn)	4.7	4.7

L&G Capital manage £4.7bn of the Group's shareholder funds. The investment strategy for these funds will increasingly focus on ensuring that, whilst meeting the solvency and liquidity requirements of the Group, there is a pipeline of assets that can be used to meet the business objectives of the Group including direct investments and seed capital for LGIM.

During H1 2013 we utilised £131m of L&G Capital assets to acquire Cofunds, the UK's largest investment platform and paid the 2012 final dividend of £337m. This was offset by the strong cash generation in the year, resulting in assets of £4.7bn (FY 2012: £4.7bn).

The smoothed investment return on the investment portfolio is calculated asset class by asset class and equates to an annualised average smoothed investment return of 3.9% (H1 2012: 3.8%) on the average balance of invested assets of £4.6bn (H1 2012: £4.4bn).

SOLID DEBT AND LIQUIDITY MANAGEMENT

Financial highlights £m	H1 2013	H1 2012
Group debt costs	(64)	(63)
Operational cash generation	(49)	(47)
	H1 2013	FY 2012
Closing outstanding core borrowings (£bn)	2.4	2.4
Closing outstanding short term operational borrowings (£bn)	0.4	0.3
Total outstanding borrowings	2.8	2.7

Legal & General has a strong liquidity position. The principal balance sheet contains in excess of £5bn in Gilts and cash versus £2.8bn of Group borrowings, including £2.4bn of long term financing and £0.4bn of short term borrowings. The earliest bond call or maturity date is 2015. The rating agencies continue to have a favourable view of Legal & General and S&P, after their methodology change, reaffirmed our AA- rating; in particular the Group's 'very strong' capital adequacy and 'exceptional' liquidity position. We are maintaining a strong liquidity position ahead of the expected implementation of central clearing regulation which will affect the Annuity portfolio; however given the level of liquidity is comfortably above expected requirements, we have the ability to use our liquidity position to take advantage of favourable direct investment and other market opportunities.

Group debt costs of £64m (H1 2012: £63m) reflect the average cost of debt of 4.7% per annum (H1 2012: 4.8%) on average nominal value of debt balances of £2.7bn (H1 2012: £2.6bn).

CASH GENERATION.

The sources of our cash generation are transparent and the table below highlights the cash generation by segment. Operational cash generation increased by 14%, reflecting increased cash generation across each of our business divisions. This includes the full year dividend of \$66m from LGA which was received in Q1 2013.

£m	H1 2013			H1 2012		
	Op cash	Strain	Net cash	Op cash	Strain	Net cash
Annuities	130	17	147	121	1	122
UK Protection	126	(23)	103	107	(33)	74
Insured Savings	55	(31)	24	53	(32)	21
Sub total	311	(37)	274	281	(64)	217
With-profits	29		29	26		26
US Protection	43		43	38		38
European dividends	1		1	1		1
Sub total	384	(37)	347	346	(64)	309
Savings Investments	11		11	9		9
GI and Other risk	22		22	7		7
Investment Mgt	106		106	97		97
L&G Capital	68		68	62		62
Group debt and other costs	(54)		(54)	(50)		(50)
Total cash generation	537	(37)	500	471	(64)	407

The increase in annuity new business surplus to £17m (H1 2012: £1m) reflects our capability to source attractively priced assets to match our new business liabilities.

A change of tax rules for new retail protection business at the end of 2012 has accelerated the emergence of cash and so reduced new business strain. This is a permanent effect to new business strain and in isolation we expect the annualised impact to be c£50m (c£25m for H1 2013). Under the previous tax regime acquisition expense tax relief emerged evenly over the first seven years of each contract. Since this will no longer be the case there will be a reduction in operational cash generation by an incremental c£9m in each of the next six years, starting in 2014, from this change.

CLEAR VISIBILITY BETWEEN CASH GENERATION AND EARNINGS

The table below highlights the linkage between the operational and net cash generation of the business, and the profit of the Group.

£m	Op cash	Strain	Net cash	Variances and other	Profit after tax	Tax	Profit before tax
Annuities	130	17	147	(31)	116	35	151
Housing and Protection	149	(23)	126	3	129	39	168
Investment Mgt	106	-	106	-	106	29	135
Savings	95	(31)	64	(17)	47	15	62
US Protection	43	-	43	(8)	35	18	53
L&G Capital	68	-	68	-	68	18	86
	591	(37)	554	(53)	501	154	655
Group debt and other costs	(54)	-	(54)	(10)	(64)	(20)	(84)
Operating profit	537	(37)	500	(63)	437	134	571
Investment and other variances	-	-	-	27	27	(6)	21
Total	537	(37)	500	(36)	464	128	592
Per share	9.14		8.51		7.82		
Dividend per share			2.40		2.40		

BALANCE SHEET.

CAPITAL RESOURCES – STRONG BALANCE SHEET

As at 30 June 2013 the Insurance Group's Directive (IGD) surplus was £4.1bn (FY 2012: £4.1bn).

The Group's capital resources totalled £7.4bn, covering the capital resources requirement of £3.3bn by 2.26 times. This capital buffer is in addition to the £1.7bn of LGPL credit default provision and is after allowing for the accrual of the 2013 interim dividend of £142m.

Capital £bn	H1 2013	FY 2012
Group capital resources	7.4	7.2
Group capital resources requirement	3.3	3.1
IGD surplus	4.1	4.1
Coverage ratio %	226	234

The Group capital resources requirement is analysed in the table below.

Pillar 1 capital requirement £bn	H1 2013	FY 2012
Annuities	1.2	1.2
Protection	0.7	0.7
Savings	0.1	0.1
With-profits	0.5	0.6
Other subsidiaries	0.5	0.4
Operational group capital resources requirement	3.0	3.0
With-profits insurance capital component (WPICC) ¹	0.3	0.1
Group capital resources requirement	3.3	3.1

1. The With-profits Insurance Capital Component (WPICC) is an additional capital requirement calculated if the surplus in the with-profits fund on a realistic Peak 2 basis is lower than on a regulatory Peak 1 basis and represents the difference in the surplus between the two bases. It is calculated on the most onerous risk capital margin stress.

TAXATION.

GROUP TAX RATES – EFFECTIVE TAX RATE OF 21.6%

Equity holders' effective tax rate %	H1 2013	H1 2012
Total Effective Tax Rate	21.6	22.5
Annualised rate of UK corporation tax	23.25	24.5

In 2013, the Group's effective tax rate remained slightly below the UK corporation tax rate due to a number of differences between the measurement of accounting profit and taxable profits.

DEFERRED TAX ASSET UTILISATION

In the UK, the Group has a deferred tax asset of £138m (FY 2012: £316m), including £97m in respect of trading losses (FY 2012: £127m). The utilisation of trading losses is partly reflected within the Protection and Annuities business, where it has contributed £38m in 2013 (H1 2012: £30m; FY 2012: £72m) to net cash generation.

SUPPLEMENTARY EEV DISCLOSURE.

EEV highlights	H1 2013	FY 2012
Equity per share including LGIM (pence)	182	173
Equity per share (pence)	158	151

Analysis of EEV results £m	H1 2013	H1 2012
Contribution from new business	257	167
Expected return from in-force business	211	223
Experience variances and assumption changes	29	(38)
Development costs	(18)	(9)
Contribution from shareholder net worth	71	72
EEV operating profit on covered business	550	415
Business reported on an IFRS basis	90	41
EEV operating profit	640	456
Economic variances	264	(140)
Gains attributable to non-controlling interests	5	1
EEV profit before tax	909	317
Tax and other	(126)	(2)
EEV profit after tax	783	315

EEV PER SHARE

The Group delivered £783m of EEV profit after tax, which after payment of the 2012 final dividend of £337m and foreign exchange, pension deficit and other adjustments of £(17)m, increased EEV shareholders' equity to £9,329m (FY 2012: £8,900m), equivalent to 158 pence per share (FY 2012: 151 pence per share). Including LGIM's external funds in the calculation increases the EEV per share to 182 pence (FY 2012: 173 pence).

NEW BUSINESS CONTRIBUTION

Contribution from new business increased to £257m (H1 2012: £167m). The increase reflects the strong increase in the contribution from our Annuities and Longevity Insurance businesses, where sales increased on a PVNBP basis to £2.1bn (H1 2012: £0.6bn).

Worldwide EEV new business margin increased to 4.4% (H1 2012: 4.2%) primarily due to the higher mix of annuity business.

EEV OPERATING PROFIT

EEV operating profit increased by 40% to £640m (H1 2012: £456m), as the Group benefited from its growth strategy and higher sales. Experience variances and assumption changes were positive, £29m in H1 2013, and higher than the £(38)m in H1 2012 with positive claims and persistency experience in Retail Protection partially offset by higher than expected lapses in US Protection. The operating profit also benefited from strong results in Investment Management and General Insurance which are largely reported on an IFRS basis within the EEV operating profit.

ECONOMIC VARIANCES

Positive economic variances of £264m (H1 2012: £(140)m) arose from a number of factors including higher equity market returns, continued favourable default experience, actions to improve the yield on annuity assets, and a lower risk margin. This is offset by a higher risk free rate that increased the risk discount rate.

VALUE IN-FORCE

The table below illustrates how the discounted and undiscounted VIF have increased throughout the year.

Reconciliation of UK long term business VIF £bn	Discounted	Undiscounted ¹
Opening VIF at 1 January 2013	4.4	8.8
Contribution from new business	0.2	0.4
Unwind of discount rate	0.1	n/a
Expected release from non profit and with-profits businesses ²	(0.3)	(0.3)
Experience variances / assumption changes	-	0.1
Investment variance / economic assumption changes	0.1	0.5
Other	0.1	0.1
Closing VIF at 30 June 2013	4.6	9.6

1. Management estimates.

2. Comprises the expected release from non profit business of £311m and with-profits transfer of £29m.

The discounted and undiscounted VIF of the UK long term business has grown substantially since 2009. The discounted VIF has increased by 24% from £3.7bn in 2009 to £4.6bn at H1 2013 and the undiscounted VIF has increased by 22% from £7.9bn in 2009 to £9.6bn in H1 2013.

ADDITIONAL VALUE OF LGIM

Within the calculation of Group embedded value, LGIM profits on internally sourced business are included on a look through basis at £0.3bn (H1 2012: £0.2bn), equivalent to 5p per share (H1 2012: 4p per share).

The external assets component of LGIM is included at the IFRS net asset value of £0.5bn (H1 2012: £0.4bn), equivalent to 8p per share (H1 2012: 7p per share).

Including the external assets component of LGIM on an embedded value basis would increase the contribution of LGIM to the Group embedded value from £0.8bn (13p per share) to £2.2bn (37p per share). In line with the rest of the Group, the embedded value for LGIM excludes any value for future new business.

Estimated LGIM discounted cash flow valuation	H1 2013 p per share	H1 2013 £bn
Look through value of profits on covered business	5	0.3
Net asset value	8	0.5
Current value of LGIM in Group embedded value	13	0.8
LGIM VIF	24	1.4
Alternative discounted value of LGIM future cash flows	37	2.2

Including LGIM, this scenario equates to an indicative valuation per share of 182 pence.

Indicative valuation including LGIM	H1 2013 p per share	H1 2013 £bn
EEV as reported	158	9.3
LGIM VIF	24	1.4
Total including LGIM	182	10.7

PRINCIPAL RISKS AND UNCERTAINTIES.

Legal & General runs a portfolio of risk taking businesses; we accept risk in the normal course of business and aim to deliver sustainable returns on risk based capital to our investors in excess of our cost of capital. We manage the portfolio of risk that we accept to build a sustainable franchise for the interests of all our stakeholders; we do not aim to eliminate that risk. We have an appetite for risks that we understand deeply and are rewarded for, and which are consistent with delivery of our strategic objectives. Risk management is embedded within the business. The Group is exposed to a number of key risk categories

REGULATORY AND LEGISLATION

PRINCIPAL UNCERTAINTY AND POTENTIAL IMPACT

Changes in regulation or legislation may have a detrimental effect on our strategy or profitability.

Legislation and government fiscal policy can influence our product design, our required reserves for future liabilities and the period of retention of products. 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.

MITIGATION, TREND AND OUTLOOK

The regulatory environment in which the Group operates continues to evolve. In the UK the FSA has transitioned to the Prudential Regulatory Authority and Financial Conduct Authority, with the inherent risk of unintended consequences for the insurance sector as each body develops their regulatory approach. A more aggressive supervision and enforcement regime may also lead to increased capital requirements and increased compliance costs. There also remains uncertainty both to the implementation timescales of Solvency II and the final calibrations that will be used for long term business. Other areas of regulatory change that may impact our business include further regulation of the UK mortgage market and the EU Packaged Retail Investment Products directive.

FINANCIAL MARKET AND ECONOMIC CONDITIONS

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 can impact the value of the investment assets we hold to meet the obligations arising from insurance business as well as the value of the obligations themselves, resulting in mismatches in the profile of cash flows of our assets and liabilities. In addition, significant falls in investment values can also impact the fee income of our investment management business. Broader economic conditions can impact the timing of the purchase and the period of retention of retail financial services products.

Investment markets in the first half of 2013 have continued to show a strong recovery. Recent economic indicators also reflect an improving outlook for UK growth. There remains, however, potential for shocks to global financial markets emanating from the Euro zone and very low growth in Europe may act as a drag on the UK's economic recovery. There remains potential for future economic shock from a sudden unwinding of the current macro economic policy of low interest rates and quantitative easing. Extreme market shocks may impact our ability to execute hedging strategies that ensure the profile of our asset and liability cash flows is appropriately matched, whilst economic shocks may impact consumer attitudes in the markets in which we operate.

INDUSTRY CHANGE

The Group may not maximise opportunities from structural and other changes facing the broader financial services sector.

The broader financial services sector continues to go through a period of change. 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 implications for our businesses, or the incorrect execution of change may impact the achievement of our strategic objectives.

Macro trends facing the sector include an ageing population, the retrenchment of banks, welfare reform and changes in the way consumers purchase financial services products. We have clear strategies to respond to these trends. We continue the expansion of our Retirement Solutions business; property lending and sales and leaseback investments, as well as direct investments such as in the CALA Group, enable us to diversify our investment risks in high quality asset classes previously the domain of banks; we continue to provide market leadership with our suite of protection products and our auto enrolment proposition; and our Retail Distribution Review (RDR) proposition alongside our acquisition of Cofunds enables us to engage across the changing distribution landscape.

COUNTERPARTY AND THIRD PARTY RISKS

In dealing with issuers of debt and other types of counterparty the Group is exposed to the risk of default.

A default event within the banking sector, or a major Sovereign debt event, could result in dislocation of bond markets, significantly widening credit spreads, and in extreme conditions may result in default of strongly rated issuers of debt, requiring us to increase our default provisions. We also have exposures to banking, money market and reinsurance counterparties, and the providers of settlement, custody and other bespoke business services to the Group, whose failure could expose us either to financial loss or short-term operational disruption of our business processes.

Credit spreads have continued to normalise over the first half of 2013, reflecting increased market confidence in the issuers of investment grade bonds. At L&G we continue to experience a very low level of actual defaults. The potential for a major bank default or Sovereign event is still assessed as being a more extreme outcome. Nevertheless, the risk and associated uncertainties remain and we retain provisions to accommodate extreme outcomes from such events. Whilst we carefully select and monitor the financial strength of all our counterparties, an economic shock or significant deterioration in the economic outlook may increase potential for a supplier of business services being unable to meet their obligations to us.

UK FINANCIAL SERVICES SECTOR CONTAGION RISKS

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 inherently exposed to the risk of a downturn in new business volumes and changes in policy persistency as a consequence of consumer sentiment. We are also exposed to the risk of increased costs of regulatory compliance through regulatory and legislative responses to events in the banking sector being read across to insurers without reference to differences in their respective business models. To mitigate the risk we actively manage our brand and seek to differentiate our business model from that of our competitors. We also seek to engage with our regulators to support understanding of the risk drivers in the markets that we operate.

MORTALITY, CATASTROPHE AND OTHER ASSUMPTION UNCERTAINTIES

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 necessarily requires the setting of assumptions for long-term trends in factors such as mortality, persistency, valuation interest rates, expenses and credit defaults. The frequency of extreme events may result in the need to recalibrate these assumptions. Forced changes in reserves can also be required because of regulatory or legislative intervention in the way that products are priced.

We regularly appraise the assumptions underpinning the business that we write using both external and our own mortality data. Extreme events, however, such as a rapid advance in medical science leading to significantly enhanced annuitant longevity or an event causing widespread mortality/morbidity, remain inherent risks to our business. As illustrated by the implementation of the EU gender neutral pricing legislation, there is potential for legislative intervention in the pricing of insurance products irrespective of risk factors such as age or health.

BUSINESS PROCESS RISKS

A material failure in our business processes may result in unanticipated loss or reputation damage.

We have constructed our framework of internal controls to minimise the risk of unanticipated 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.

We continue to invest in our systems 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 risk of loss or reputational damage from operational risk events.

ENQUIRIES.

INVESTORS:

Kate Vennell	Head of Investor Relations	020 3124 2150
Ian Baker	Investor Relations Manager	020 3124 2047

MEDIA:

John Godfrey	Group Communications Director	020 3124 2090
Richard King	Head of Media Relations	020 3124 2095
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Katharine Wynne	Tulchan Communications	020 7353 4200

NOTES

A copy of this announcement can be found in “Results”, under the “Financial information” section of our shareholder website at <http://www.legalandgeneralgroup.com/investors/results.cfm>.

A presentation to analysts and fund managers will take place at 9.30 BST today at One Coleman Street, London, EC2R 5AA. There will be a live webcast of the presentation which can be accessed at <http://investor.legalandgeneral.com/results.cfm>. A replay will be available on this website later today.

There will be a live listen only teleconference link to the presentation. Details below:

PARTICIPANT DIAL-IN NUMBERS

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UNITED KINGDOM	0800 368 0649
ALL OTHER LOCATIONS	+ 44 20 3059 8125



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Financial Calendar	Date
Ex dividend date	28 August 2013
Record date	30 August 2013
Payment date of 2013 interim dividend	30 September 2013
Q3 Interim Management Statement 2013	5 November 2013
Preliminary Results 2013	5 March 2014

FORWARD-LOOKING STATEMENTS

This announcement may contain certain forward-looking statements relating to Legal & General, its plans and its current goals and expectations relating to future financial condition, performance and results. By their nature, forward-looking statements involve uncertainty because they relate to future events and circumstances which are beyond Legal & General's control, including, among others, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory and Governmental authorities, the impact of competition, the timing impact of these events and other uncertainties of future acquisition or combinations within relevant industries. As a result, Legal & General's actual future condition, performance and results may differ materially from the plans, goals and expectations set out in these forward-looking statements and persons reading this announcement should not place reliance on forward-looking statements. These forward-looking statements are made only as at the date on which such statements are made and Legal & General Group Plc does not undertake to update forward-looking statements contained in this announcement or any other forward-looking statement it may make.

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 this Interim Management Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Results. Principal risks are detailed on pages 18 to 20. In addition, the financial statements include, amongst other things, notes on the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

While the economy has shown signs of improvement in 2013, the general climate still remains 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.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge that:

- i. The condensed set of interim financial statements has been prepared in accordance with IAS 34 as adopted by the European Union;
- ii. The interim management report includes a fair review of the information required by DTR 4.2.7, namely an indication of important events that have occurred during the first six months of the financial period and their impact on the condensed set of financial statements, as well as a description of the principal risks and uncertainties faced by the company and the undertakings included in the consolidation taken as a whole for the remaining six months of the financial year;
- iii. The interim management report includes, as required by DTR 4.2.8, a fair review of material related party transactions that have taken place in the first six months of the financial period and any material changes in the related party transactions described in the last Annual Report;
- iv. The European Embedded Value basis Group embedded value and associated notes have been prepared on the European Embedded Value basis as set out in Note 5.08; and

The directors of Legal & General Group Plc are listed in the Legal & General Group Plc Annual Report for 31 December 2012, with the exception of Lindsay Tomlinson who joined the company as non-executive director on 1 May 2013, Dame Clara Furse who retired as non-executive director of the company on 1 May 2013, Henry Staunton who retired as non-executive director of the company on 22 May 2013 and Nick Prettejohn who retired as non-executive director of the company on 6 June 2013. A list of current directors is maintained on the Legal & General Group Plc website: legalandgeneralgroup.com.

By order of the Board

N. D. Wilson

Group Chief Executive

5 August 2013

M. J. Gregory

Group Chief Financial Officer

5 August 2013

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Supplementary operating profit information

For the six months ended 30 June 2013

	Notes	30.06.13 £m	30.06.12 ¹ £m	Full year 31.12.12 ¹ £m
From continuing operations				
Annuities	2.01(a)	151	139	281
Housing and Protection	2.01(a)	168	150	359
Savings	2.02(a)	62	72	133
Investment management	2.03	135	119	243
US Protection		53	48	99
L&G Capital	2.04	86	81	163
Operating profit from divisions		655	609	1,278
Group debt costs ²		(64)	(63)	(127)
Group Investment projects and expenses ³		(20)	(28)	(64)
Operating profit		571	518	1,087
Investment and other variances	2.05	16	4	(42)
Gains/(losses) attributable to non-controlling interests		5	1	(12)
Profit before tax		592	523	1,033
Tax expense attributable to equity holders of the Company	2.06	(128)	(118)	(235)
Profit for the period		464	405	798
Profit attributable to equity holders of the Company		459	404	810
		p	p¹	p¹
Earnings per share				
Based on profit attributable to equity holders of the Company		7.82	6.93	13.84
Diluted earnings per share				
Based on profit attributable to equity holders of the Company		7.72	6.82	13.61

1. Investment and other variances has been adjusted to reflect the adoption by the Group of amendments to IAS 19, 'Employee Benefits'. Further details are contained in Note 2.07. The impact is to reduce profit for the period by £2m at H1 12 and £3m at FY 12 offset by a corresponding change in the Consolidated Statement of Comprehensive Income.

2. Group debt costs excludes interest on non recourse financing.

3. Investment projects of £14m (H1 12: £23m; FY 12: £50m) predominantly relate to the Economic Capital programme and other strategic investments. Group expenses of £6m (H1 12: £5m; FY 12: £14m) includes the operating profit/(loss) attributable to our joint venture operations in Egypt and the Gulf.

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. Income and expenses arising outside the normal course of business, such as merger and acquisition and restructuring costs, are excluded from operating profit.

During 2012, the Group changed the reportable segments to reflect the development of our international strategy. In addition, during 2013, the Group has changed the presentation of operating profit in order to separately highlight the operating profit from divisions from Group operating costs and expenses. The prior period segmental information has been represented to reflect these changes.

Operating profit for the annuities business represents the profit from individual and bulk purchase annuities and longevity insurance. Operating profit from the housing and protection business includes general insurance, and UK individual and group protection business. It also includes Legal & General France (LGF) and Legal & General Netherlands (LGN). Operating profit reflects the longer term investment return that the business expects to make on the financial investments that back this business and on shareholder funds retained within our general insurance business. LGN operating profit reflects a longer term expected return on shareholders' funds and index linked policies.

Operating profit for the Savings segment represents the profit from the insured savings businesses (non profit investment bonds and non profit pensions (including SIPPs)), the with-profits transfer, the profit of our savings investments business, and our joint venture operation in India. Operating profit for the insured savings business reflects the longer term investment return that the business expects to make on the financial investments that back this business.

Operating profit for the Investment management segment includes a longer term expected investment return on the shareholders' funds within the segment, and operating profit for the US Protection segment comprises the profit before tax from Legal & General America (LGA).

Operating profit for the L&G Capital segment represents the longer 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. Profits or losses arising from actuarial movements on annuities held by the Group's defined benefit pension schemes are excluded from operating profit. Profits or losses arising on the elimination of own debt holdings are also excluded from operating profit.

International Financial Reporting Standards

Supplementary operating profit information

2.01 Protection and Annuities

(a) Protection and Annuities operating profit

	Note	30.06.13 £m	30.06.12 £m	Full year 31.12.12 £m
Annuities		151	139	281
Protection		119	124	289
General insurance and other		29	9	27
Total UK Housing and Protection operating profit		148	133	316
Total UK Protection and Annuities operating profit	2.01(b)	299	272	597
Netherlands		17	9	28
France		3	8	15
Total Protection and Annuities operating profit		319	289	640

(b) Analysis of UK Protection and Annuities operating profit

	Notes	Annui- ties 30.06.13 £m	Housing and Protec- tion 30.06.13 £m	Total 30.06.13 £m	Annui- ties 30.06.12 £m	Housing and Protec- tion 30.06.12 £m	Total 30.06.12 £m
UK Protection and Annuities business segment operating profit comprises:							
Operational cash generation		130	148	278	121	114	235
New business surplus/(strain)		17	(23)	(6)	1	(33)	(32)
Net cash generation		147	125	272	122	81	203
Experience variances	2.01(c)			(2)			6
Changes to valuation assumptions	2.01(d)			14			18
Movements in non-cash items	2.01(e)			(55)			(22)
Other				-			-
				229			205
Tax gross up				70			67
Total UK Protection and Annuities operating profit				299			272

International Financial Reporting Standards

Supplementary operating profit information

2.01 Protection and Annuities (continued)

(b) Analysis of UK Protection and Annuities operating profit (continued)

	Notes	Annui- ties Full year 31.12.12 £m	Housing and Protec- tion Full year 31.12.12 £m	Total Full year 31.12.12 £m
UK Protection and Annuities business segment operating profit comprises:				
Operational cash generation		243	265	508
New business surplus/(strain)		14	(45)	(31)
Net cash generation		257	220	477
Experience variances	2.01(c)			14
Changes to valuation assumptions	2.01(d)			(2)
Movements in non-cash items	2.01(e)			(41)
Other				2
				450
Tax gross up				147
Total UK Protection and Annuities operating profit				597

During the period, Netherlands and France paid £1m (H1 12: £1m; FY 12: £14m) of sustainable dividends to the Group, which has been included in net cash generation for the Protection and Annuities segment.

The UK protection and annuities (non profit business) operational cash generation represents the expected surplus to be generated in the period from the in-force non profit business which is broadly equivalent to the expected release of profit from the non profit UK protection and annuities business using best estimate assumptions. The experience variances are calculated with reference to embedded value assumptions, including the apportionment of investment return and tax in the EEV model.

Both new business strain and operational cash generation exclude required solvency margin from the liability calculation.

An analysis of the experience variances, valuation assumption changes and non-cash items, all net of tax, is provided below:

(c) Experience variances

	30.06.13 £m	30.06.12 £m	Full year 31.12.12 £m
Persistency	-	(1)	(4)
Mortality/morbidity	2	(10)	3
Expenses	1	-	2
Bulk purchase annuity data loading	2	16	37
Project and development costs	(8)	(3)	(10)
Tax	(6)	(6)	(14)
Other	7	10	-
	(2)	6	14

International Financial Reporting Standards

Supplementary operating profit information

2.01 Protection and Annuities (continued)

(d) Changes to valuation assumptions

	30.06.13 £m	30.06.12 £m	Full year 31.12.12 £m
Persistency	-	-	(8)
Mortality/morbidity ¹	11	-	(14)
Expenses	6	-	(2)
Other ²	(3)	18	22
	14	18	(2)

1. The 2013 positive mortality/morbidity change relates to an update of the assumptions in retail protection, while in 2012 the negative assumption change primarily related to the update of assumptions in the annuities business.

2. Other valuation assumption changes in 2012 primarily relate to a reduction to the retail protection reserve for reinsurance default and a reduction in reserves applying PS06/14 to a retail protection product.

(e) Movements in non-cash items

	30.06.13 £m	30.06.12 £m	Full year 31.12.12 £m
Utilisation of brought forward trading losses	(38)	(30)	(72)
Retail protection acquisition expense tax relief	(25)	2	14
Other	8	6	17
	(55)	(22)	(41)

Net cash generation recognises the utilisation of previous trading losses and the relief of prior year acquisition expenses, spread evenly over seven years under Income-Expenses ('I-E') tax legislation, in the period the cash flows actually occur. In contrast, IFRS profit typically recognises the value of these future cash flows in the same period as the underlying loss or expense as deferred tax amounts. The non-cash reconciliation 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 at the end of 2012, no 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 an increase to net cash in this period and the following 6 years.

(f) General insurance combined operating ratio¹

	30.06.13 %	30.06.12 %	Full year 31.12.12 %
General insurance combined operating ratio²	81	99	95

1. The calculation of the general insurance combined operating ratio incorporates commission and expenses as a percentage of earned premiums.

2. This reflects effective underwriting and the general benign weather experienced during the first six months of 2013.

2.02 Savings

(a) Savings operating profit

	Note	30.06.13 £m	30.06.12 £m	Full year 31.12.12 £m
Savings investments ¹		11	9	16
Insured savings ²		14	28	48
With-profits ³		37	35	69
Total Savings operating profit	2.02(b)	62	72	133

1. Savings investments operating profit includes collective investments, Cofunds platform business, Suffolk Life SIPP's and structured products.

2. Insured savings includes non profit investment bonds and pensions (including workplace savings and SIPP's), Nationwide Life savings business, International (Ireland) and our joint venture operation in India.

3. With-profits business operating profit is the shareholders' share of total with-profits bonuses.

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Supplementary operating profit information

2.02 Savings (continued)

(b) Analysis of Savings operating profit

	Notes	Savings invest- ments 30.06.13 £m	Insured savings 30.06.13 £m	With- profits 30.06.13 £m	Total 30.06.13 £m
Savings business segment operating profit comprises:					
Operational cash generation		11	55	29	95
New business strain		-	(31)	-	(31)
Net cash generation		11	24	29	64
Insured savings					
Experience variances	2.02(c)				(5)
Changes to valuation assumptions	2.02(d)				11
Movements in non-cash items and other	2.02(e)				(19)
Savings investments					
Movements in non-cash items and other					(4)
					47
Tax gross up					15
Total Savings operating profit					62

	Notes	Savings invest- ments 30.06.12 £m	Insured savings 30.06.12 £m	With- profits 30.06.12 £m	Total 30.06.12 £m
Savings business segment operating profit comprises:					
Operational cash generation		9	53	26	88
New business strain		-	(32)	-	(32)
Net cash generation		9	21	26	56
Insured savings					
Experience variances	2.02(c)				(15)
Changes to valuation assumptions	2.02(d)				2
Movements in non-cash items and other	2.02(e)				14
Savings investments					
Movements in non-cash items and other					(3)
					54
Tax gross up					18
Total Savings operating profit					72

International Financial Reporting Standards

Supplementary operating profit information

2.02 Savings (continued)

(b) Analysis of Savings operating profit (continued)

	Notes	Savings invest- ments Full year 31.12.12 £m	Insured savings Full year 31.12.12 £m	With- profits Full year 31.12.12 £m	Total Full year 31.12.12 £m
Savings business segment operating profit comprises:					
Operational cash generation		19	108	52	179
New business strain		-	(62)	-	(62)
Net cash generation		19	46	52	117
Insured savings					
Experience variances	2.02(c)				(39)
Changes to valuation assumptions	2.02(d)				20
Movements in non-cash items and other	2.02(e)				11
Savings investments					
Movements in non-cash items and other					(9)
					100
Tax gross up					33
Total Savings operating profit					133

The insured savings operational cash generation represents the expected surplus generated in the period from the in-force investment bonds and pensions business (non profit savings) which is broadly equivalent to the expected release of profit from non profit savings business using best estimate assumptions and the IFRS profit after tax of the Nationwide Life savings business and International (Ireland). The experience variances are calculated with reference to embedded value assumptions, including the apportionment of investment return and tax in the EEV model.

Both new business strain and operational cash generation exclude required solvency margin from the liability calculation.

An analysis of the experience variances, valuation assumption changes and non-cash items, all net of tax, is provided below:

(c) Experience variances

	30.06.13 £m	30.06.12 £m	Full year 31.12.12 £m
Persistency	-	-	(3)
Expenses	(1)	(1)	(1)
Project and development costs ¹	(9)	(10)	(33)
Tax	-	1	1
Other	5	(5)	(3)
	(5)	(15)	(39)

1. The project and development costs mainly relate to expenditure on Retail Distribution Review.

International Financial Reporting Standards

Supplementary operating profit information

2.02 Savings (continued)

(d) Changes to valuation assumptions

	30.06.13 £m	30.06.12 £m	Full year 31.12.12 £m
Persistency	-	-	-
Expenses ¹	(1)	-	17
Other ²	12	2	3
	11	2	20

1. In 2012 the expense valuation assumptions related to efficiency improvements in workplace pensions.

2. The 2013 favourable variance is driven by a reduction in regulatory pension reserves. An equal and opposite movement in investment contract reserves is noted in the movements in non-cash items and other line.

(e) Movements in non-cash items and other

	30.06.13 £m	30.06.12 £m	Full year 31.12.12 £m
Deferred tax	(1)	6	(6)
Deferred acquisition costs (DAC) ¹	(28)	(5)	(9)
Deferred income liabilities (DIL) ²	24	7	14
Other ³	(14)	6	12
	(19)	14	11

1. The £28m movement in DAC comprised of a £34m charge offset by new acquisitions costs deferred in the period of £6m (H1 12: £31m; FY 12: £42m). 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.

2. DIL amortisation 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.

3. Other mainly includes elimination of a reduction in regulatory pension reserves in line with IFRS methodology. An equal and opposite movement in investment contract reserves is noted in the changes to valuation assumptions.

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Supplementary operating profit information

2.03 Investment management

	30.06.13 £m	30.06.12 £m	Full year 31.12.12 £m
Pension funds (managed and segregated)	102	89	181
Other non-pension ¹	12	11	22
Investment management services for internal funds	21	19	40
Total Investment management operating profit	135	119	243

1. Other non-pension includes institutional segregated mandates, private equity and property (both in the UK and overseas). Interest income on shareholder funds of £4m (H1 12: £3m; FY 12: £6m) on an average asset balance of £0.5bn (H1 12: £0.4bn; FY 12: £0.4bn) has been included within other non-pension operating profit.

2.04 L&G Capital

	30.06.13 £m	30.06.12 £m	Full year 31.12.12 £m
Investment return	89	84	168
Investment expenses	(3)	(3)	(5)
Total L&G Capital operating profit	86	81	163

2.05 Investment and other variances

	30.06.13 £m	30.06.12 £m	Full year 31.12.12 £m
Investment variance ¹	42	5	(23)
M&A related ²	(11)	-	-
Other ³	(15)	(1)	(19)
Total	16	4	(42)

1. Investment variance is positive due to strong equity returns in shareholder funds and a positive impact from the increase in exposure to Direct Investments in LGPL. This has been partly offset by the defined pension benefit scheme variance of £(24)m (H1 12: £10m; FY 12: £40m), that comprises the actuarial gains and losses and valuation difference arising on annuity assets held by defined 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 Consolidated Statement of Comprehensive Income.

2. M&A related includes gains and costs related to the acquisitions and amortisation of intangibles in the first half of 2013.

3. Other includes new business start up costs, restructuring costs, and other non-investment related variance items.

International Financial Reporting Standards

Supplementary operating profit information 2.06 Analysis of tax attributable to equity holders

	Profit/ (loss) before tax	Tax (exp- ense)/ credit	Profit/ (loss) before tax	Tax (exp- ense)/ credit	Profit/ (loss) before tax	Tax (exp- ense)/ credit
	30.06.13 £m	30.06.13 £m	30.06.12 ¹ £m	30.06.12 £m	Full year 31.12.12 ¹ £m	Full year 31.12.12 £m
Annuities	151	(35)	139	(34)	281	(69)
Protection	168	(39)	150	(38)	359	(90)
Savings	62	(15)	72	(18)	133	(33)
Investment management	135	(29)	119	(22)	243	(46)
US Protection	53	(18)	48	(19)	99	(37)
L&G Capital	86	(18)	81	(19)	163	(40)
Operating profit from divisions/Tax expense on divisions	655	(154)	609	(150)	1,278	(315)
Group debt costs	(64)	15	(63)	16	(127)	31
Group Investment projects and expenses	(20)	5	(28)	7	(64)	16
Operating profit/Tax expense	571	(134)	518	(127)	1,087	(268)
Investment variances	16	5	4	12	(42)	40
Impact of change in UK tax rates	-	1	-	(3)	-	(7)
Losses attributable to non-controlling interests	5	-	1	-	(12)	-
Profit for the period/Tax expense for the period	592	(128)	523	(118)	1,033	(235)

1. Operating profit has been restated to reflect the adoption by the Group of amendments to IAS 19, 'Employee Benefits'. Further details are contained in Note 2.07. The impact is to reduce profit for the period by £2m at H1 12 and £3m at FY 12.

The equity holders' effective tax rate for the period is 21.6% (H1 12: 22.4%; FY 12: 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.

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Consolidated Income Statement

For the six months ended 30 June 2013

	Notes	30.06.13 £m	30.06.12 ¹ £m	Full year 31.12.12 ¹ £m
Revenue				
Gross written premiums	2.09	3,136	2,321	5,668
Outward reinsurance premiums		(388)	(352)	(718)
Net change in provision for unearned premiums		(19)	(16)	(25)
Net premiums earned		2,729	1,953	4,925
Fees from fund management and investment contracts		480	433	875
Investment return		15,515	9,464	28,828
Operational income		348	135	342
Total revenue		19,072	11,985	34,970
Expenses				
Claims and change in insurance liabilities		2,168	3,310	8,588
Reinsurance recoveries		(500)	(482)	(779)
Net claims and change in insurance liabilities		1,668	2,828	7,809
Change in provisions for investment contract liabilities		15,286	7,597	23,656
Acquisition costs		399	405	784
Finance costs		85	75	165
Other expenses		853	507	1,194
Transfers to/(from) unallocated divisible surplus		4	(25)	155
Total expenses		18,295	11,387	33,763
Profit before tax		777	598	1,207
Tax expense attributable to policyholder returns		(185)	(75)	(174)
Profit before tax attributable to equity holders of the Company		592	523	1,033
Total tax expense		(313)	(193)	(409)
Tax expense attributable to policyholder returns		185	75	174
Tax expense attributable to equity holders	2.06	(128)	(118)	(235)
Profit for the period		464	405	798
Attributable to:				
Non-controlling interests		5	1	(12)
Equity holders of the Company		459	404	810
Dividend distributions to equity holders of the Company during the period	2.15	337	278	394
Dividend distributions to equity holders of the Company proposed after the period end	2.15	142	116	336
		p	p ¹	p ¹
Earnings per share				
Based on profit attributable to equity holders of the Company	2.10	7.82	6.93	13.84
Diluted earnings per share				
Based on profit attributable to equity holders of the Company	2.10	7.72	6.82	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 2.07. The impact is to reduce profit for the period by £2m at H1 12 and £3m at FY 12.

International Financial Reporting Standards

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013

	30.06.13 £m	30.06.12 ¹ £m	Full year 31.12.12 ¹ £m
Profit for the period	464	405	798
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses on defined benefit pension schemes	(7)	(67)	(101)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	3	27	38
Total items that will not be reclassified to profit or loss subsequently	(4)	(40)	(63)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations	12	(9)	(13)
Net change in financial investments designated as available-for-sale	(43)	15	32
Total items that may be reclassified to profit or loss subsequently	(31)	6	19
Other comprehensive income after tax	(35)	(34)	(44)
Total comprehensive income for the period	429	371	754
Total comprehensive income attributable to:			
Non-controlling interests	5	1	(12)
Equity holders of the Company	424	370	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 2.07. The impact is to reduce profit for the period by £2m at H1 12 and £3m at FY 12, offset by a corresponding change in the Consolidated Statement of Comprehensive Income.

International Financial Reporting Standards

Consolidated Balance Sheet

As at 30 June 2013

	Notes	30.06.13 £m	30.06.12 £m	31.12.12 £m
Assets				
Goodwill	2.12	65	-	-
Purchased interest in long term businesses and other intangible assets		291	150	211
Deferred acquisition costs		1,979	1,864	1,904
Investment in associates		121	60	87
Property, plant and equipment		138	77	92
Investment property	2.13	5,377	5,087	5,143
Financial investments	2.13	326,079	303,272	316,748
Reinsurers' share of contract liabilities		2,745	2,474	2,499
Deferred tax asset		138	478	316
Current tax recoverable		205	80	194
Other assets		3,506	2,565	1,564
Assets of operations classified as held for sale ¹		-	-	891
Cash and cash equivalents		16,759	16,757	16,652
Total assets		357,403	332,864	346,301
Equity				
Share capital		148	148	148
Share premium		958	953	956
Employee scheme treasury shares		(38)	(44)	(43)
Capital redemption and other reserves		84	130	153
Retained earnings		4,353	3,970	4,227
Shareholders' equity		5,505	5,157	5,441
Non-controlling interests	2.19	58	67	39
Total equity		5,563	5,224	5,480
Liabilities				
Participating insurance contracts		7,479	8,506	8,116
Participating investment contracts		7,523	7,229	7,403
Unallocated divisible surplus		1,163	966	1,153
Value of in-force non-participating contracts		(235)	(206)	(242)
Participating contract liabilities		15,930	16,495	16,430
Non-participating insurance contracts		38,021	34,786	37,728
Non-participating investment contracts		273,545	254,768	264,958
Non-participating contract liabilities		311,566	289,554	302,686
Core borrowings	2.17	2,457	2,436	2,445
Operational borrowings	2.18	958	826	920
Provisions		968	968	983
Deferred tax liabilities		400	359	382
Current tax liabilities		5	1	68
Payables and other financial liabilities	2.14	8,160	8,335	8,083
Other liabilities		901	857	959
Net asset value attributable to unit holders		10,495	7,809	7,702
Liabilities of operations classified as held for sale ¹		-	-	163
Total liabilities		351,840	327,640	340,821
Total equity and liabilities		357,403	332,864	346,301

1. Assets and liabilities of operations classified as held for sale relate to seed capital the Group has 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.

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Condensed Consolidated Statement of Changes in Equity

	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
For the six months ended 30 June 2013								
As at 1 January 2013	148	956	(43)	153	4,227	5,441	39	5,480
Total comprehensive (expense)/income for the period	-	-	-	(31)	455	424	5	429
Options exercised under share option schemes:	-	2	-	-	-	2	-	2
Net movement in employee scheme treasury shares	-	-	5	(5)	(25)	(25)	-	(25)
Dividends	-	-	-	-	(337)	(337)	-	(337)
Movement in third party interests	-	-	-	-	-	-	14	14
Currency translation differences	-	-	-	(33)	33	-	-	-
As at 30 June 2013	148	958	(38)	84	4,353	5,505	58	5,563
For the six months ended 30 June 2012								
As at 1 January 2012	147	941	(48)	117	3,899	5,056	66	5,122
Total comprehensive income for the period	-	-	-	6	364	370	1	371
Options exercised under share option schemes	1	12	-	-	-	13	-	13
Net movement in employee scheme treasury shares	-	-	4	(3)	(5)	(4)	-	(4)
Dividends	-	-	-	-	(278)	(278)	-	(278)
Movement in third party interests	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	10	(10)	-	-	-
As at 30 June 2012	148	953	(44)	130	3,970	5,157	67	5,224
For the year ended 31 December 2012								
As at 1 January 2012	147	941	(48)	117	3,899	5,056	66	5,122
Total comprehensive income/(expense) for the year	-	-	-	19	747	766	(12)	754
Options exercised under share option schemes:	1	15	-	-	-	16	-	16
Net movement in employee scheme treasury shares	-	-	5	(2)	(6)	(3)	-	(3)
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

International Financial Reporting Standards

Consolidated Cash Flow Statement

For the six months ended 30 June 2013

	30.06.13 £m	30.06.12 £m	Full year 31.12.12 £m
Cash flows from operating activities			
Profit for the period	464	405	798
Adjustments for non cash movements in net profit for the period			
Realised and unrealised gains on financial investments and investment properties	(10,863)	(3,904)	(18,429)
Investment income	(5,116)	(5,135)	(9,470)
Interest expense	85	75	165
Tax expense	313	193	409
Other adjustments	47	30	67
Net (increase)/decrease in operational assets			
Investments held for trading or designated as fair value through profit or loss	(2,087)	(882)	(1,118)
Investments designated as available-for-sale	(5)	(28)	30
Other assets	(2,097)	108	(3,008)
Net increase/(decrease) in operational liabilities			
Insurance contracts	(351)	623	3,221
Transfer from unallocated divisible surplus	10	(69)	118
Investment contracts	8,584	3,450	13,795
Value of in-force non-participating contracts	7	36	-
Other liabilities	7,000	3,127	7,026
Cash used in operations			
	(4,009)	(1,971)	(6,396)
Interest paid	(75)	(74)	(164)
Interest received	2,482	2,529	5,013
Tax paid ¹	(199)	(115)	(193)
Dividends received	2,399	2,477	4,539
Net cash flows from operating activities			
	598	2,846	2,799
Cash flows from investing activities			
Net acquisition of plant, equipment and intangibles	(43)	(4)	(59)
Acquisitions (net of cash acquired) ²	(109)	-	(27)
Acquisition of joint ventures	(58)	-	-
Net cash flows from investing activities			
	(210)	(4)	(86)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the Company during the period	(337)	(278)	(394)
Proceeds from issue of ordinary share capital	2	13	16
Purchase of employee scheme shares	(5)	(4)	(3)
Proceeds from borrowings	747	639	1,318
Repayment of borrowings	(687)	(560)	(1,105)
Net cash flows from financing activities			
	(280)	(190)	(168)
Net increase in cash and cash equivalents			
	108	2,652	2,545
Exchange (losses)/gains on cash and cash equivalents	(1)	(8)	(6)
Cash and cash equivalents at 1 January	16,652	14,113	14,113
Cash and cash equivalents at 30 June / 31 December			
	16,759	16,757	16,652

1. Tax comprises UK corporation tax paid of £101m (H1 12: £24m; FY 12: £60m), overseas corporate taxes of £2m (H1 12: £nil; FY 12: £8m) and overseas withholding tax of £96m (H1 12: £91m; FY 12: £125m).

2. Net cash flows from acquisitions includes cash paid of £131m (H1 12: £nil; FY 12: £33m) less cash and cash equivalents acquired of £22m (H1 12: £nil; FY 12: £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.

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Notes to the Financial Statements

2.07 Basis of preparation

The Group's financial information for the period ended 30 June 2013 has been prepared in accordance with the Listing Rules of the Financial Conduct Authority. The 2013 Half-year report has also been prepared in accordance with IAS 34, 'Interim Financial Reporting'. The Group's financial information has been prepared in accordance with the accounting policies and methods of computation which the Group expects to adopt for the 2013 year end. These policies are consistent with the principal accounting policies which were set out in the Group's 2012 consolidated financial statements which were consistent with IFRSs issued by the International Accounting Standards Board as adopted by the European Commission for use in the European Union, except in relation to IAS 19 changes, as explained below.

The preparation of the Half-year report 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. The economic and non-economic actuarial assumptions used to establish the liabilities in relation to insurance and investment contracts are significant. For half-year financial reporting, economic assumptions have been updated to reflect market conditions. Non-economic assumptions are consistent with those used in the 31 December 2012 financial statements except for the changes outlined in sections 2.01(d) and 2.02(d).

There has been no impact from the adoption of other IFRSs and interpretations that have come into force during the period, other than those outlined below.

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 period by £2m, following the allocation of the with profit element to the unallocated divisible surplus, with an equivalent increase in Other Comprehensive Income. Total Comprehensive Income therefore remains unchanged.

The impact of this change upon the 2012 interim and annual income statement, statement of comprehensive income, and 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.

As the change has no balance sheet impact, an additional balance sheet for 31 December 2011 and related notes have not been presented.

	30.06.12 £m	31.12.12 £m
Profit for the period as previously reported	407	801
Investment return		
IAS 19 'Employee Benefits' amendment	(4)	(6)
Expenses		
Transfers to unallocated divisible surplus	2	3
Revised profit for the period (after tax)	405	798
Actuarial gain on defined benefit pension schemes	4	6
Actuarial gain on defined benefit pension schemes transferred to unallocated divisible surplus	(2)	(3)
Other items in other comprehensive income	(36)	(47)
Total Comprehensive Income for the period	371	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 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. For interim reporting Note 2.13 has been expanded to reflect the new requirements.

Key technical terms and definitions

The Half-year report refers to various key performance indicators, accounting standards and other technical terms. A comprehensive list of these definitions is contained within the glossary of the Group's 2012 Annual Report and Accounts.

International Financial Reporting Standards

Notes to the Financial Statements

2.08 Segmental analysis

Reportable segments

The Group has five reporting segments comprising Protection and Annuities, Savings, Investment management, US Protection, and L&G Capital and group expenses as at 30 June 2013.

The Protection and Annuities segment comprises individual and group protection, individual and bulk purchase annuities, longevity and general insurance, together with estate agencies and the housing related business conducted through our regulated mortgage network. It also includes Legal & General France (LGF) and Legal & General Netherlands (LGN).

The Savings segment comprises non profit investment bonds, non profit pensions (including SIPPs), ISAs, retail unit trusts, retail platform businesses, all with-profits products, as well as our joint venture operation in India.

The Investment management segment comprises institutional fund management and LGIM America (LGIMA).

The US Protection segment comprises individual protection and universal life contracts written by Legal & General America (LGA).

Shareholders' equity supporting the non profit Protection and Annuities and Savings businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within L&G Capital. This also includes capital and borrowings 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.

Transactions between reportable segments are on normal commercial terms, and are included within the reported segments.

The Group assesses performance and allocates resources on the basis of supplementary operating profit before tax. Segmental supplementary operating profit before tax is reconciled to the consolidated profit from continuing operations before tax attributable to equity holders and consolidated profit from ordinary activities after income tax. For further detail on operating profit by segment, refer to the Supplementary Operating Profit Statement at the front of this section.

We announced changes in our organisational structure effective from 1 July 2013. This creates an integrated Protection and Savings business. Our segmental analysis for 2013 year end will reflect this change. The current presentation in Supplementary Operating Profit Statement shows Annuities separately from Protection to assist with the transition.

(i) Revenue

	Protection and Annuities £m	Savings £m	Invest- ment manage- ment £m	US Protection £m	L&G Capital and group expenses £m	Total £m
For the six months ended 30 June 2013						
Internal revenue	106	-	73	(74)	(105)	-
External revenue	1,763	2,558	13,807	598	346	19,072
Total revenue	1,869	2,558	13,880	524	241	19,072
For the six months ended 30 June 2012						
Internal revenue	37	-	75	(20)	(92)	-
External revenue	2,219	2,190	6,695	770	111	11,985
Total revenue	2,256	2,190	6,770	750	19	11,985
For the year ended 31 December 2012						
Internal revenue	69	-	149	(54)	(164)	-
External revenue	6,790	5,457	20,804	1,461	458	34,970
Total revenue	6,859	5,457	20,953	1,407	294	34,970

Total revenue includes investment return of £15,515m (H1 12: £9,464m; FY 12: £28,828m).

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Notes to the Financial Statements 2.08 Segmental analysis (continued) (ii) Consolidated balance sheet

As at 30 June 2013	Protection and Annuities £m	Savings £m	Investment management £m	US Protection £m	L&G Capital and group expenses ¹ £m	Total £m
Assets						
Investments	37,823	46,082	245,325	2,221	16,885	348,336
Other assets	4,407	6,322	2,137	2,499	(6,298)	9,067
Total assets	42,230	52,404	247,462	4,720	10,587	357,403
Shareholders' equity						
Non-controlling interests	-	-	-	-	58	58
Total equity	602	203	459	935	3,364	5,563
Liabilities						
Core borrowings	-	-	-	-	2,457	2,457
Operational borrowings ²	-	244	10	293	411	958
Participating contract liabilities	2,833	13,104	-	-	(7)	15,930
Non-participating contract liabilities	33,757	36,680	240,091	1,828	(790)	311,566
Other liabilities	5,038	2,173	6,902	1,664	5,152	20,929
Total liabilities	41,628	52,201	247,003	3,785	7,223	351,840
Total equity and liabilities	42,230	52,404	247,462	4,720	10,587	357,403

1. L&G Capital and group expenses includes inter-segmental eliminations.
2. Includes non recourse financing.

As at 30 June 2012	Protection and Annuities £m	Savings £m	Investment management £m	US Protection £m	L&G Capital and group expenses ¹ £m	Total £m
Assets						
Investments	35,720	45,943	229,134	2,298	12,081	325,176
Other assets	3,923	3,869	1,428	2,197	(3,729)	7,688
Total assets	39,643	49,812	230,562	4,495	8,352	332,864
Shareholders' equity						
Non-controlling interests	-	-	-	-	67	67
Total equity	425	192	439	977	3,191	5,224
Liabilities						
Core borrowings	-	-	-	-	2,436	2,436
Operational borrowings ²	-	218	5	283	320	826
Participating contract liabilities	2,463	14,032	-	-	-	16,495
Non-participating contract liabilities	30,560	33,264	224,813	1,690	(773)	289,554
Other liabilities	6,195	2,106	5,305	1,545	3,178	18,329
Total liabilities	39,218	49,620	230,123	3,518	5,161	327,640
Total equity and liabilities	39,643	49,812	230,562	4,495	8,352	332,864

1. L&G Capital and group expenses includes inter-segmental eliminations.
2. Includes non recourse financing.

International Financial Reporting Standards

Notes to the Financial Statements

2.08 Segmental analysis (continued)

(ii) Consolidated balance sheet (continued)

As at 31 December 2012	Protection and Annuities £m	Savings £m	Investment management £m	US Protection £m	L&G Capital and group expenses ¹ £m	Total £m
Assets						
Investments	38,591	46,503	238,514	2,151	12,871	338,630
Other assets	3,937	4,891	1,386	2,280	(4,823)	7,671
Total assets	42,528	51,394	239,900	4,431	8,048	346,301
Shareholders' equity						
Shareholders' equity	550	190	360	919	3,422	5,441
Non-controlling interests	-	-	-	-	39	39
Total equity	550	190	360	919	3,461	5,480
Liabilities						
Core borrowings	-	-	-	-	2,445	2,445
Operational borrowings ²	3	250	2	272	393	920
Participating contract liabilities	2,686	13,744	-	-	-	16,430
Non-participating contract liabilities	33,483	35,320	233,069	1,644	(830)	302,686
Other liabilities	5,806	1,890	6,469	1,596	2,579	18,340
Total liabilities	41,978	51,204	239,540	3,512	4,587	340,821
Total equity and liabilities	42,528	51,394	239,900	4,431	8,048	346,301

1. L&G Capital and group expenses includes inter-segmental eliminations.

2. Includes non recourse financing.

International Financial Reporting Standards

Notes to the Financial Statements

2.09 Gross written premiums

	30.06.13 £m	30.06.12 £m	Full year 31.12.12 £m
From continuing operations			
Protection and Annuities			
Non-participating UK business	2,221	1,344	3,782
Netherlands (LGN)	111	95	172
France (LGF)	212	202	406
General insurance			
- Household	172	156	327
- Other business	11	10	22
Total Protection and Annuities	2,727	1,807	4,709
Savings			
Non-participating Savings business	19	21	39
Participating business	64	205	336
Total Savings	83	226	375
US Protection	326	288	584
Total gross written premiums	3,136	2,321	5,668

2.10 Earnings per share

(a) Earnings per share

	Profit before tax 30.06.13 £m	Tax expense 30.06.13 £m	Profit after tax 30.06.13 £m	Earnings per share 30.06.13 p	Profit before tax 30.06.12 ¹ £m	Tax expense 30.06.12 £m	Profit after tax 30.06.12 ¹ £m	Earnings per share 30.06.12 p
Operating profit	571	(134)	437	7.44	518	(127)	391	6.70
Investment and other variances	16	5	21	0.36	4	12	16	0.28
Impact of change in UK tax rates	-	1	1	0.02	-	(3)	(3)	(0.05)
Earnings per share based on profit attributable to equity holders	587	(128)	459	7.82	522	(118)	404	6.93

	Profit before tax Full year 31.12.12 ¹ £m	Tax expense Full year 31.12.12 £m	Profit after tax Full year 31.12.12 ¹ £m	Earnings per share Full year 31.12.12 p
Operating profit	1,087	(268)	819	14.00
Investment and other variances	(42)	40	(2)	(0.04)
Impact of change in UK tax rates	-	(7)	(7)	(0.12)
Earnings per share based on profit attributable to equity holders	1,045	(235)	810	13.84

1. Operating profit has been restated to reflect the adoption by the Group of amendments to IAS 19, 'Employee Benefits'. Further details are contained in Note 2.07. The impact is to reduce profit for the period by £2m at H1 12 and £3m at FY 12.

International Financial Reporting Standards

Notes to the Financial Statements

2.10 Earnings per share (continued)

(b) Diluted earnings per share

(i) Based on profit attributable to equity holders

	Profit after tax 30.06.13 £m	Number of shares ¹ 30.06.13 m	Earnings per share 30.06.13 p	Profit after tax 30.06.12 ² £m	Number of shares ¹ 30.06.12 m	Earnings per share 30.06.12 p
Profit attributable to equity holders of the Company	459	5,875	7.82	404	5,832	6.93
Net shares under options allocable for no further consideration	-	70	(0.10)	-	96	(0.11)
Diluted earnings per share	459	5,945	7.72	404	5,928	6.82

	Profit after tax Full year 31.12.12 ² £m	Number of shares ¹ Full year 31.12.12 m	Earnings per share Full year 31.12.12 p
Profit attributable to equity holders of the Company	810	5,851	13.84
Net shares under options allocable for no further consideration	-	99	(0.23)
Diluted earnings per share	810	5,950	13.61

1. Weighted average number of shares.

2. Profit has been restated to reflect the adoption by the Group of amendments to IAS 19, 'Employee Benefits'. Further details are contained in Note 2.07. The impact is to reduce profit for the period by £2m at H1 12 and £3m at FY 12.

International Financial Reporting Standards

Notes to the Financial Statements

2.11 Disclosure of tax effects relating to each component of other comprehensive income

	Before tax 30.06.13 £m	Tax credited/ (charg- ed) 30.06.13 £m	After tax 30.06.13 £m	Before tax 30.06.12 £m	Tax credited/ (charg- ed) 30.06.12 £m	After tax 30.06.12 £m
Items that will not be reclassified subsequently to profit or loss						
Actuarial (losses)/gains on defined benefit pension schemes	(9)	2	(7)	(83)	16	(67)
Actuarial losses/(gains) on defined benefit pension schemes transferred to unallocated divisible surplus	4	(1)	3	33	(6)	27
Total items that will not be reclassified to profit or loss subsequently	(5)	1	(4)	(50)	10	(40)
Items that may be reclassified subsequently to profit or loss						
Exchange differences on translation of overseas operations	12	-	12	(9)	-	(9)
Net change in financial investments designated as available-for-sale	(66)	23	(43)	22	(7)	15
Total items that may be reclassified to profit or loss subsequently	(54)	23	(31)	13	(7)	6
Other comprehensive (expense)/income	(59)	24	(35)	(37)	3	(34)

	Before tax Full year 31.12.12 £m	Tax credited/ (charg- ed) Full year 31.12.12 £m	After tax Full year 31.12.12 £m
Items that will not be reclassified subsequently to profit or loss			
Actuarial (losses)/gains on defined benefit pension schemes	(114)	13	(101)
Actuarial losses/(gains) on defined benefit pension schemes transferred to unallocated divisible surplus	43	(5)	38
Total items that will not be reclassified to profit or loss subsequently	(71)	8	(63)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations	(13)	-	(13)
Net change in financial investments designated as available-for-sale	58	(26)	32
Total items that may be reclassified to profit or loss subsequently	45	(26)	19
Other comprehensive expense	(26)	(18)	(44)

International Financial Reporting Standards

Notes to the Financial Statements

2.12 Acquisitions

(a) 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.

In the period since acquisition of 100% of the ordinary share capital of Cofunds (Holdings) Limited, the pre-tax profit was £nil before deduction of restructuring expenses. Cofunds (Holdings) Limited would have contributed £3m to Group consolidated pre-tax profits before restructuring expenses if the acquisition had occurred on 1 January 2013.

	30.06.13
	£m
Consideration at date of acquisition	
Cash payment for 75% holding	131
Acquisition date fair value of the 25% holding immediately prior to the acquisition	44
Total consideration for 100% holding	175
Recognised amounts of identifiable assets transferred and liabilities assumed at fair value	
Purchased interest in long term business and other intangible assets	88
Other assets	44
Cash and cash equivalents	22
Other liabilities	(44)
Net assets attributable to equity holders of the Company	110
Goodwill arising on acquisition	65

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 in Cofunds (Holdings) Limited to acquisition date fair value has resulted in the recognition of a gain of £21m reported within operational income in the Consolidated Income Statement.

(b) CALA Group Limited

On 18 March 2013, the Group paid £58m with an additional £7m deferred consideration for a 46.5% equity stake in CALA Group Ltd. This investment has been accounted for as a joint venture applying the equity method.

(c) Lucida Ltd - Post balance sheet event

On 26th June 2013, the Group announced the agreement to acquire the entire share capital of Lucida Ltd, the closed UK annuity buy-out company, for an estimated consideration of £151m. This acquisition forms part of the Group's strategy of accelerating organic growth with selective acquisitions.

The initial accounting for the business combination will be incorporated into the year end financial reporting once the acquired insurance liabilities have been valued in accordance with the Group's accounting policies. Accordingly, the acquisition date assets and liabilities and profit relating to the current financial year have not been disclosed in these financial statements.

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Notes to the Financial Statements

2.13 Financial investments and Investment property

	30.06.13 £m	30.06.12 £m	Full Year 31.12.12 £m
Equities	160,298	138,443	148,488
Unit trusts	7,767	6,876	7,238
Debt securities ¹	151,310	149,544	152,526
Accrued interest	1,575	1,595	1,669
Derivative assets ²	4,768	6,475	6,445
Loans and receivables	361	339	382
Financial investments	326,079	303,272	316,748
Investment property	5,377	5,087	5,143
Total financial investments and investment property	331,456	308,359	321,891

1. Detailed analysis of debt securities which shareholders are directly exposed to are disclosed in Note 4.02.

2. Derivative exposures arise from efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps, foreign exchange forward contracts for asset and liability management. Derivative assets are shown gross of derivative liabilities and include £2,427m (H1 12: £3,128m; FY 12: £3,296m) held on behalf of unit linked policyholders.

International Financial Reporting Standards

Notes to the Financial Statements

2.13 Financial investments and Investment property (continued)

(a) 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 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 prudently classified them as level 2.

These CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the internal valuation. Accordingly, these assets have also been classified in level 2.

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

	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
For the six months ended 30 June 2013					
Shareholder					
Equity securities	1,387	1,165	70	152	-
Debt securities	5,959	2,388	3,571	-	-
Accrued interest	53	25	28	-	-
Derivative assets	237	35	202	-	-
Loans and receivables	80	-	-	-	80
Investment property	136	-	-	136	-
Non profit non-unit linked					
Debt securities	28,089	3,736	24,328	25	-
Accrued interest	370	29	341	-	-
Derivative assets	2,077	18	2,059	-	-
Loans and receivables	-	-	-	-	-
Investment property	924	-	-	924	-
With-profits					
Equity securities	4,482	3,933	8	541	-
Debt securities	11,039	4,524	6,510	5	-
Accrued interest	159	59	100	-	-
Derivative assets	27	17	10	-	-
Loans and receivables	26	-	-	-	26
Investment property	1,010	-	-	1,010	-
Unit linked					
Equity securities	162,196	159,794	2,078	324	-
Debt securities	106,223	67,093	39,129	1	-
Accrued interest	993	333	660	-	-
Derivative assets	2,427	168	2,259	-	-
Loans and receivables	255	-	-	-	255
Investment property	3,307	-	-	3,307	-
Total financial investments and investment property	331,456	243,317	81,353	6,425	361

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Notes to the Financial Statements

2.13 Financial investments and Investment property (continued)

(a) Fair value hierarchy (continued)

For the six months ended 30 June 2012	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Shareholder					
Equity securities	919	607	192	120	-
Debt securities	5,994	2,044	3,945	5	-
Accrued interest	63	27	36	-	-
Derivative assets	179	28	151	-	-
Loans and receivables	75	-	-	-	75
Investment property	116	-	-	116	-
Non profit non-unit linked					
Debt securities	26,559	3,382	23,177	-	-
Accrued interest	361	22	339	-	-
Derivative assets	3,004	56	2,923	25	-
Loans and receivables	-	-	-	-	-
Investment property	568	-	-	568	-
With-profits					
Equity securities	4,256	3,638	16	602	-
Debt securities	12,110	4,119	7,964	27	-
Accrued interest	196	57	139	-	-
Derivative assets	164	11	148	5	-
Loans and receivables	1	-	-	-	1
Investment property	1,200	-	-	1,200	-
Unit linked					
Equity securities	140,144	138,121	1,700	323	-
Debt securities	104,881	66,615	38,262	4	-
Accrued interest	975	313	662	-	-
Derivative assets	3,128	314	2,814	-	-
Loans and receivables	263	-	-	-	263
Investment property	3,203	-	-	3,203	-
Total financial investments and investment property	308,359	219,354	82,468	6,198	339

International Financial Reporting Standards

Notes to the Financial Statements

2.13 Financial investments and Investment property (continued)

(a) Fair value hierarchy (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

International Financial Reporting Standards

Notes to the Financial Statements

2.13 Financial investments and Investment property (continued)

(b) 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.

Significant transfers between levels

There have been no significant transfers between levels 1, 2 and 3 for the period ended 30 June 2013 (2012: No significant transfers between levels 1, 2 and 3).

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Notes to the Financial Statements

2.13 Financial investments and Investment property (continued)

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

	Equity securities 30.06.13 £m	Other financial invest-ments ¹ 30.06.13 £m	Investment property 30.06.13 £m	Total 30.06.13 £m	Equity securities 30.06.12 £m	Other financial invest-ments ¹ 30.06.12 £m	Investment property 30.06.12 £m	Total 30.06.12 £m
As at 1 January	965	99	5,143	6,207	1,138	46	4,894	6,078
Total (losses) or gains for the period				-				
recognised in profit	(15)	(1)	51	35	(5)	-	(53)	(58)
Purchases	258	-	494	752	14	2	326	342
Sales	(212)	-	(311)	(523)	(107)	(2)	(80)	(189)
Transfers into level 3	21	1	-	22	8	16	-	24
Transfers out of level 3	-	(67)	-	(67)	(6)	-	-	(6)
Other	-	(1)	-	(1)	3	4	-	7
As at 30 June	1,017	31	5,377	6,425	1,045	66	5,087	6,198

1. Other financial investments comprise debt securities and derivative assets.

	Equity securities 31.12.12 £m	Other financial invest-ments ¹ 31.12.12 £m	Investment property 31.12.12 £m	Total 31.12.12 £m
As at 1 January	1,138	46	4,894	6,078
Total losses for the period recognised in profit	(50)	-	(107)	(157)
Purchases	14	87	712	813
Sales	(137)	(6)	(356)	(499)
Transfers into level 3	2	1	-	3
Transfers out of level 3	-	(35)	-	(35)
Other	(2)	6	-	4
As at 31 December	965	99	5,143	6,207

1. Other financial investments comprise debt securities and derivative assets.

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Notes to the Financial Statements

2.13 Financial investments and Investment property (continued)

(c) 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.

	Main assumptions	Reasonably possible alternative assumptions		
		Current fair value £m	Increase in fair value £m	Decrease in fair value £m
For the six months ended 30 June 2013				
Financial instruments				
Assets				
Shareholder				
- Private equity investment vehicles ¹	Price earnings multiple	15	1	(1)
- Unquoted investments in property vehicles ²	Property yield; occupancy	137	8	(8)
- Investment property ²	Property yield; occupancy	136	7	(7)
Non profit non-linked				
- Unquoted investments in property vehicles ²	Property yield; occupancy	25	1	(1)
- Investment property ²	Property yield; occupancy	924	46	(46)
With-profits				
- Private equity investment vehicles ¹	Price earnings multiple	211	14	(14)
- Unquoted investments in property vehicles ²	Property yield; occupancy	335	17	(17)
- Investment property ²	Property yield; occupancy	1,010	50	(50)
Unit linked				
- Unquoted investments in property vehicles ²	Property yield; occupancy	288	14	(14)
- Suspended securities	Estimated recoverable amount	16	6	(6)
- Asset backed securities	Cash flows; expected defaults	21	7	(7)
- Investment property ²	Property yield; occupancy	3,307	165	(165)
Total		6,425	336	(336)

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. Reasonably possible alternative valuations have been determined using alternative yield and occupancy assumptions.

International Financial Reporting Standards

Notes to the Financial Statements

2.13 Financial investments and Investment property (continued)

(c) Effect on changes in significant unobservable inputs to reasonably possible alternative assumptions on level 3 assets (continued)

For the six months ended 30 June 2012	Main assumptions	Reasonably possible alternative assumptions		
		Current fair value £m	Increase in fair value £m	Decrease in fair value £m
Financial instruments				
Assets				
Shareholder				
- Private equity investment vehicles ¹	Price earnings multiple	15	1	(1)
- Unquoted investments in property vehicles ²	Property yield; occupancy	103	6	(6)
- Suspended securities	Estimated recoverable amount	2	2	(2)
- Asset backed securities	Cash flows; expected defaults	5	-	-
- Investment property ²	Property yield; occupancy	116	6	(6)
Non profit non-linked				
- Unquoted investments in property vehicles ²	Property yield; occupancy	25	-	-
- Investment property ²	Property yield; occupancy	568	28	(28)
With-profits				
- Private equity investment vehicles ¹	Price earnings multiple	156	10	(10)
- Unquoted investments in property vehicles ²	Property yield; occupancy	478	24	(24)
- Investment property ²	Property yield; occupancy	1,200	60	(60)
Unit linked				
- Unquoted investments in property vehicles ²	Property yield; occupancy	294	3	(3)
- Suspended securities	Estimated recoverable amount	11	6	(6)
- Asset backed securities	Cash flows; expected defaults	22	6	(6)
- Investment property ²	Property yield; occupancy	3,203	196	(196)
Total		6,198	348	(348)

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. Reasonably possible alternative valuations have been determined using alternative yield and occupancy assumptions.

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Notes to the Financial Statements

2.13 Financial investments and Investment property (continued)

(c) Effect on changes in significant unobservable inputs to reasonably possible alternative assumptions on level 3 assets (continued)

For the year ended 31 December 2012	Main assumptions	Reasonably possible alternative assumptions		
		Current fair value £m	Increase in fair value £m	Decrease in fair value £m
Financial instruments				
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)
- Asset backed 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)
- Asset backed 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. Reasonably possible alternative valuations have been determined using alternative yield and occupancy assumptions.

International Financial Reporting Standards

Notes to the Financial Statements

2.14 Payables and other financial liabilities

	30.06.13 £m	30.06.12 £m	Full year 31.12.12 £m
Derivative liabilities	4,148	6,353	5,729
Collateral received from banks	-	105	21
Other	4,012	1,877	2,333
Payables and other financial liabilities	8,160	8,335	8,083

Other includes future commission payments which have contingent settlement provisions of £183m (H1 12: £181m; FY 12: £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.

Fair value hierarchy

As at 30 June 2013	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	4,148	394	3,754	-	-
Collateral received from banks	-	-	-	-	-
Other	4,012	174	129	183	3,526
Payables and other financial liabilities	8,160	568	3,883	183	3,526

As at 30 June 2012	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities ¹	6,353	259	5,898	196	-
Collateral received from banks	105	105	-	-	-
Other	1,877	130	8	181	1,558
Payables and other financial liabilities	8,335	494	5,906	377	1,558

1. Derivative liabilities of £196m classified as level 3 comprised non profit non-linked interest rate contracts, which were transferred into level 3 in 2011 due to the use of measurement inputs that were not based on observable market data. The pricing of these derivatives was dependant on interest rate assumptions. Using reasonably alternative assumptions would have resulted in an increase or decrease in fair value of £10m.

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 (H1 12: £5m; FY 12: £6m).

Significant transfers between levels

There have been no significant transfers between levels 1, 2 and 3 for the period ended 30 June 2013 (2012: No significant transfers between levels 1, 2 and 3).

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Notes to the Financial Statements

2.15 Dividends

	Per share	Total	Per share	Total	Per share	Total
	30.06.13 p	30.06.13 £m	30.06.12 p	30.06.12 £m	Full year 31.12.12 p	Full year 31.12.12 £m
Ordinary share dividends paid in the period						
- Prior year final dividend	5.69	337	4.74	278	4.74	278
- Current year interim dividend	-	-	-	-	1.96	116
	5.69	337	4.74	278	6.70	394
Ordinary share dividend proposed ¹	2.40	142	1.96	116	5.69	336

1. The dividend proposed has not been included as a liability in the balance sheet.

2.16 Ordinary shares

	Number of shares	Number of shares	Number of shares
	30.06.13	30.06.12	Full year 31.12.12
As at 1 January	5,912,782,826	5,872,166,893	5,872,166,893
Options exercised under share option schemes			
- Executive share option scheme	1,261,956	1,077,517	1,626,478
- Savings related share option scheme	1,400,587	32,460,582	38,989,455
As at 30 June / 31 December	5,915,445,369	5,905,704,992	5,912,782,826

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.

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Notes to the Financial Statements

2.17 Core Borrowings

	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	30.06.13 £m	30.06.13 £m	30.06.12 £m	30.06.12 £m	Full year 31.12.12 £m	Full year 31.12.12 £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities (Tier 1)	690	620	711	486	700	636
5.875% Sterling undated subordinated notes (Tier 2)	418	425	420	326	419	425
4.0% Euro subordinated notes 2025 (Tier 2)	498	523	462	446	479	502
10% Sterling subordinated notes 2041 (Tier 2)	309	411	309	375	309	425
Client fund holdings of Group borrowings ¹	(11)	(11)	(16)	(16)	(17)	(17)
Total subordinated borrowings	1,904	1,968	1,886	1,617	1,890	1,971
Senior borrowings						
Sterling medium term notes 2031-2041	602	712	602	668	608	767
Client fund holdings of Group debt ¹	(49)	(49)	(52)	(52)	(53)	(53)
Total senior borrowings	553	663	550	616	555	714
Total core borrowings	2,457	2,631	2,436	2,233	2,445	2,685

1. £60m (H1 12: £68m; FY 12: £70m) of the Group's subordinated and senior borrowings are currently held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total core borrowings in the table above.

All of the Group's core borrowings are measured using quoted prices in active markets and have been classified as level 1.

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. These securities have been classified as liabilities as the interest payments become mandatory in certain circumstances.

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 upper tier 2 capital for regulatory purposes. These securities have been classified as liabilities as the interest payments become mandatory in certain circumstances.

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 lower 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 lower tier 2 capital for regulatory purposes.

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Notes to the Financial Statements

2.18 Operational Borrowings

	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	30.06.13 £m	30.06.13 £m	30.06.12 £m	30.06.12 £m	Full year 31.12.12 £m	Full year 31.12.12 £m
Short term operational borrowings						
Euro Commercial paper	346	346	320	320	333	333
Bank loans/other	25	25	13	13	6	6
Total short term operational borrowings	371	371	333	333	339	339
Non recourse borrowings						
US Dollar Triple X securitisation 2037	293	293	283	283	272	272
Suffolk Life unit linked borrowings	109	109	123	123	123	123
LGV 6/LGV 7 Private Equity Fund Limited Partnership	127	127	87	87	128	128
Consolidated Property Limited Partnerships	58	58	-	-	58	58
Total non recourse borrowings	587	587	493	493	581	581
Total operational borrowings	958	958	826	826	920	920

All of the Group's operational borrowings are measured using observable market information and have been classified as level 2.

Short term operational borrowings

Short term assets available at the holding company level exceeded the amount of short term operational borrowings of £371m (H1 12: £333m; FY 12: £339m). They comprise Euro Commercial paper and bank loans and overdrafts.

Non recourse borrowings

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.

Suffolk Life unit linked borrowings

All of these non recourse borrowings are in relation to commercial properties held within SIPP plans and the borrowings solely relate to client investments.

LGV6/LGV7 Private Equity Fund Limited Partnerships

These borrowings are non recourse bank borrowings.

Consolidated Property Limited Partnerships

These borrowings are non recourse bank borrowings.

Syndicated credit facility

As at 30 June 2013, the Group had in place a £1.00bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in October 2017. No drawings were made under this facility during 2013.

2.19 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.

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Notes to the Financial Statements

2.20 Foreign exchange rates

Principal rates of exchange used for translation are:

Period end exchange rates	At 30.06.13	At 30.06.12	At 31.12.12
United States Dollar	1.52	1.57	1.63
Euro	1.17	1.24	1.23

Average exchange rates	01.01.13 - 30.06.13	01.01.12 - 30.06.12	01.01.12 - 31.12.12
United States Dollar	1.54	1.58	1.58
Euro	1.18	1.22	1.23

2.21 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 £53m (H1 12: £30m; FY 12: £61m), for all employees.

At 30 June 2013, 30 June 2012 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:

	30.06.13 £m	30.06.12 £m	Full year 31.12.12 £m
Salaries	3	3	7
Social security costs	2	1	1
Post-employment benefits	1	-	3
Share-based incentive awards	2	2	4
Key management personnel compensation	8	6	15
Number of key management personnel	23	18	17

The Group UK defined benefit pension schemes have purchased annuity contracts issued by Society for consideration of £27m (H1 12: £19m; FY 12: £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 £771m during the period (H1 12: £578m; FY 12: £690m). The Group has outstanding loans to these associates of £1m (H1 12: £1m; FY 12: £1m) and received investment management fees of £11m during the period (H1 12: £13m; FY 12: £26m). Distributions from these investment vehicles to the Group totalled £24m (H1 12: £28m; FY 12: £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 (H1 12: £8m; FY 12: £12m). Creditors outstanding at 22 May 2013 were £3m (H1 12: £3m; FY 12: £1m).

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Notes to the Financial Statements

2.22 Pension cost

The Legal & General Group UK Pension and Assurance Fund and the Legal & General Group UK Senior Pension Scheme are defined benefit pension arrangements and account for all UK and the majority of worldwide assets of, and contributions to, such arrangements. At 30 June 2013, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Society) has been estimated at £269m (H1 12: £258m; FY 12: £255m). These amounts have been recognised in the financial statements with £160m charged against shareholder equity (H1 12: £153m; FY 12: £152m) and £109m against the unallocated divisible surplus (H1 12: £105m; FY 12: £103m).

2.23 Contingent liabilities, guarantees and indemnities

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

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.

International Financial Reporting Standards

Notes to the Financial Statements

Independent review report to Legal & General Group Plc - IFRS

Introduction

We have been engaged by the company to review the consolidated interim financial statements in the half-year report for the six months ended 30 June 2013, which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Condensed Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, Supplementary Operating Profit Information, and related notes. We have read the other information contained in the half-year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-year report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-year report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in Note 2.07, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-year report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-year report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in producing this report, 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.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-year report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
London
5 August 2013

Notes:

(a) The interim financial statements is published on the website of Legal & General Group Plc, legalandgeneralgroup.com. The maintenance and integrity of the Legal & General Group Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Net Cash and Capital

3.01 Operational cash generation

The table below provides an analysis of the operational cash generated by each of the Group's business segments, together with a reconciliation to profit after tax.

For the six months ended 30 June 2013	Operational cash generation £m	New business strain £m	Net cash £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	Investment gains and losses, international and other £m	Profit/(loss) after tax £m	Tax expense/(credit) £m	Profit/(loss) before tax £m
Annuities	130	17	147	4	-	(35)	-	116	35	151
UK Housing and Protection	148	(23)	125	(6)	14	(20)	-	113	35	148
Netherlands and France	1	-	1	-	-	-	15	16	4	20
Total Protection and Annuities	279	(6)	273	(2)	14	(55)	15	245	74	319
Total Savings	95	(31)	64	(5)	11	(23)	-	47	15	62
Investment management	106	-	106	-	-	-	-	106	29	135
US Protection	43	-	43	-	-	-	(8)	35	18	53
L&G Capital	68	-	68	-	-	-	-	68	18	86
Operating profit from divisions	591	(37)	554	(7)	25	(78)	7	501	154	655
Group debt costs	(49)	-	(49)	-	-	-	-	(49)	(15)	(64)
Group Investment projects and expenses	(5)	-	(5)	-	-	-	(10)	(15)	(5)	(20)
Operating profit	537	(37)	500	(7)	25	(78)	(3)	437	134	571
Investment and other variances	-	-	-	-	-	-	21	21	(5)	16
Impact of change in UK tax rates	-	-	-	-	-	-	1	1	(1)	-
Gains/(losses) attributable to non-controlling interests	-	-	-	-	-	-	5	5	-	5
IFRS profit	537	(37)	500	(7)	25	(78)	24	464	128	592

Operational cash generation represents the expected surplus from in-force business for the UK non profit Protection and Annuities and Savings businesses, the shareholders' share of bonuses on with-profits businesses, including an expected investment return on L&G Capital invested assets, and dividends remitted from our international businesses from sustainable cash generation.

Net cash generation is defined as operational cash generation less new business strain for the UK non profit Protection and Annuities and Savings businesses.

Net Cash and Capital

3.01 Operational cash generation (continued)

For the six months ended 30 June 2012	Opera- tional cash gene- ration £m	New busi- ness strain £m	Net cash £m	Exper- ience var- iances £m	Changes in valuation assump- tions £m	Non- cash items and other £m	Investment gains and losses, inter- national and other £m	Profit/ (loss) after tax £m	Tax exp- ense/ (credit) £m	Profit/ (loss) before tax £m
Annuities	121	1	122	16	-	(33)	-	105	34	139
UK Housing and Protection	114	(33)	81	(10)	18	11	-	100	33	133
Netherlands and France	1	-	1	-	-	-	11	12	5	17
Total Protection and Annuities	236	(32)	204	6	18	(22)	11	217	72	289
Total Savings	88	(32)	56	(15)	2	11	-	54	18	72
Investment management	97	-	97	-	-	-	-	97	22	119
US Protection	38	-	38	-	-	-	(9)	29	19	48
L&G Capital	62	-	62	-	-	-	-	62	19	81
Operating profit from divisions	521	(64)	457	(9)	20	(11)	2	459	150	609
Group debt costs	(47)	-	(47)	-	-	-	-	(47)	(16)	(63)
Group Investment projects and expenses	(3)	-	(3)	-	-	-	(18)	(21)	(7)	(28)
Operating profit	471	(64)	407	(9)	20	(11)	(16)	391	127	518
Investment and other variances	-	-	-	-	-	-	16	16	(12)	4
Impact of change in UK tax rates	-	-	-	-	-	-	(3)	(3)	3	-
Gains/(losses) attributable to non-controlling interests	-	-	-	-	-	-	1	1	-	1
IFRS profit	471	(64)	407	(9)	20	(11)	(2)	405	118	523

Net Cash and Capital

3.01 Operational cash generation (continued)

For the year ended 31 December 2012	Operational cash generation £m	New business strain £m	Net cash £m	Exper- ience var- iances £m	Changes in valuation assump- tions £m	Non- cash items and other £m	Investment gains and losses, inter- national and other £m	Profit/ (loss) after tax £m	Tax exp- ense/ (credit) £m	Profit/ (loss) before tax £m
Annuities	243	14	257	43	(24)	(71)	7	212	69	281
UK Housing and Protection	265	(45)	220	(29)	22	30	(5)	238	78	316
Netherlands and France	14	-	14	-	-	-	17	31	12	43
Total Protection and Annuities	522	(31)	491	14	(2)	(41)	19	481	159	640
Total Savings	179	(62)	117	(39)	20	2	-	100	33	133
Investment management	197	-	197	-	-	-	-	197	46	243
US Protection	40	-	40	-	-	-	22	62	37	99
L&G Capital	123	-	123	-	-	-	-	123	40	163
Operating profit from divisions	1,061	(93)	968	(25)	18	(39)	41	963	315	1,278
Group debt costs	(96)	-	(96)	-	-	-	-	(96)	(31)	(127)
Group Investment projects and expenses	(7)	-	(7)	-	-	-	(41)	(48)	(16)	(64)
Operating profit	958	(93)	865	(25)	18	(39)	-	819	268	1,087
Investment and other variances	-	-	-	-	-	-	(2)	(2)	(40)	(42)
Impact of change in UK tax rates	-	-	-	-	-	-	(7)	(7)	7	-
Gains/(losses) attributable to non-controlling interests	-	-	-	-	-	-	(12)	(12)	-	(12)
IFRS profit	958	(93)	865	(25)	18	(39)	(21)	798	235	1,033

Net Cash and Capital

3.02 Regulatory capital resources

(a) Insurance Group's Directive (IGD)

The Group is required to measure and monitor its capital resources on a regulatory basis and to comply with the minimum capital requirements of regulators in each territory in which it operates. At Group level, Legal & General must comply with the requirements of the IGD. The table below shows the estimated total Group capital resources, Group capital resources requirement and the Group surplus.

	At 30.06.13 £bn	At 30.06.12 £bn	At 31.12.12 £bn
Core tier 1	6.6	5.9	6.2
Innovative tier 1	0.6	0.6	0.6
Upper tier 2	0.4	0.4	0.4
Lower tier 2	0.8	0.8	0.8
Deductions ¹	(1.0)	(0.8)	(0.8)
Group capital resources	7.4	6.9	7.2
Group capital resources requirement²	3.3	3.1	3.1
IGD surplus	4.1	3.8	4.1
Coverage ratio (Group capital resources / Group capital resources requirement)³	2.26 times	2.24 times	2.34 times

1. The increase in deductions in H1 13 is driven by intangibles related to the Cofunds acquisition.

2. The Group capital resources requirement includes a With-profits Insurance Capital Component (WPICC) of £0.3bn (FY 12: £0.1bn).

3. Coverage ratio is calculated on unrounded values.

A further analysis is given below.

	At 30.06.13 £bn	At 30.06.12 £bn	At 31.12.12 £bn
Society long term fund ¹	2.8	2.6	2.7
Society shareholder capital ¹	2.7	2.7	2.3
General insurance	0.2	0.1	0.2
France (LGF)	0.3	0.3	0.3
Netherlands (LGN)	0.2	0.1	0.2
USA (LGA)	0.2	0.1	0.3
Investment management	0.5	0.4	0.4
Other ²	1.5	1.5	1.7
Innovative tier 1	0.6	0.6	0.6
Tier 2	1.2	1.2	1.2
Debt	(2.8)	(2.7)	(2.7)
Group capital resources	7.4	6.9	7.2
Society long term fund ³	2.8	2.7	2.7
Other	0.5	0.4	0.4
Group capital resources requirement	3.3	3.1	3.1

1. Legal & General Assurance Society Ltd which is the principal insurance regulated entity in the Group.

2. Other includes corporate assets held within the Group's treasury function.

3. The Society LTF capital requirement of £2.8bn (H1 12: £2.7bn; FY 12: £2.7bn) is met by £2.8bn (H1 12: £2.6bn; FY 12: £2.7bn) of capital resources in the LTF and £nil (H1 12: £0.1bn; FY 12: £nil) of capital outside the LTF.

Net Cash and Capital

3.02 Regulatory capital resources (continued)

(a) Insurance Group's Directive (IGD) (continued)

A reconciliation of the Group capital resources on an IGD basis to the capital and reserves attributable to the equity holders of the Company on an IFRS basis is given below.

	At 30.06.13 £bn	At 30.06.12 £bn	At 31.12.12 £bn
Capital and reserves attributable to equity holders on an IFRS basis	5.5	5.2	5.4
Innovative tier 1	0.6	0.6	0.6
Tier 2	1.2	1.2	1.2
Proposed dividends	(0.1)	(0.1)	(0.3)
Additional capital available from Society	0.9	0.6	0.9
Adjustment to reflect regulatory value of the LGA operation	(0.6)	(0.5)	(0.6)
Other regulatory adjustments	(0.1)	(0.1)	-
Group capital resources	7.4	6.9	7.2

(b) With-profits realistic balance sheet

The table below summarises the realistic position of the with-profits part of Legal & General Assurance Society's LTF:

	At 30.06.13 £bn	At 30.06.12 £bn	At 31.12.12 £bn
With-profits surplus	0.7	0.7	0.7
Risk capital margin	0.1	0.1	0.1
Surplus	0.6	0.6	0.6

Legal & General Assurance Society is required to maintain a surplus in the with-profits part of the fund on a realistic basis (Peak 2). The risk capital margin is calculated based on the most onerous capital requirement calculated after performing five stresses specified by the PRA. The surplus includes the present value of future shareholder transfers of £0.3bn (H1 12: £0.2bn; FY 12: £0.3bn) as a liability in the calculation.

(c) Legal & General Assurance Society capital surplus

Legal & General Assurance Society is required to measure and monitor its capital resources on a regulatory basis.

	At 30.06.13 Long term business £bn	At 30.06.13 General insu- rance £bn	At 30.06.12 Long term business £bn	At 30.06.12 General insu- rance £bn	At 31.12.12 Long term business £bn	At 31.12.12 General insu- rance £bn
Available capital resources - Tier 1	6.0	0.2	5.7	0.1	5.5	0.2
Insurance capital requirement	2.5	0.1	2.4	0.1	2.6	0.1
Capital requirements of regulated related undertakings	0.2	-	0.2	-	0.2	-
With-profits Insurance Capital Component	0.3	-	0.3	-	0.1	-
Capital resources requirement	3.0	0.1	2.9	0.1	2.9	0.1
Regulatory capital surplus	3.0	0.1	2.8	-	2.6	0.1

Net Cash and Capital

3.02 Regulatory capital resources (continued)

(c) Legal & General Assurance Society capital surplus (continued)

Movement in Legal & General Assurance Society long term insurance capital requirement

	At 30.06.13 £bn	At 30.06.12 £bn	At 31.12.12 £bn
Pillar 1 capital requirement			
Protection	0.7	0.7	0.7
Annuities	1.2	1.0	1.2
Non profit pensions and unit linked bonds	0.1	0.1	0.1
Non profit	2.0	1.8	2.0
With-profits	0.5	0.6	0.6
Long term insurance capital requirement	2.5	2.4	2.6

On a regulatory basis (Peak 1), Society long term business regulatory capital surplus of £3bn (H1 12: £2.8bn; FY 12: £2.6bn) comprises capital resources within the long term fund of £2.8bn (H1 12: £2.6bn; FY 12: £2.7bn) and capital resources outside the long term fund of £3.2bn (H1 12: £3.1bn; FY 12: £2.8bn) less the capital resources requirement of £3bn (H1 12: £2.9bn; FY 12: £2.9bn).

The With-profits Insurance Capital Component (WPICC) is an additional capital requirement calculated if the surplus in the with-profits fund on a Peak 2 basis is lower than on a Peak 1 basis and represents the difference in the surplus between the two bases. It is calculated based on the most onerous risk capital margin stress referred to in 3.02 (b).

Asset Disclosures

4.01 Investment portfolio

	Market value At 30.06.13 £m	Market value At 30.06.12 £m	Market value At 31.12.12 £m
Worldwide assets under management	440,152	388,412	413,152
Client and policyholder assets	(380,599)	(329,536)	(351,663)
Non-unit linked with-profits assets ¹	(17,895)	(18,749)	(18,605)
Assets to which shareholders are directly exposed	41,658	40,127	42,884

Comprising:

Assets held to back the UK non-linked non profit business:

Legal & General Pensions Limited (LGPL) ²	32,226	30,670	33,289
Other UK non profit insurance business ³	-	237	76
	32,226	30,907	33,365
Assets held to back other insurance businesses (including Triple-X reserves)	3,200	3,182	2,993
L&G Capital	4,684	4,529	4,741
Other shareholder assets	1,548	1,509	1,785
	41,658	40,127	42,884

1. Includes assets backing participating business in LGF of £2,434m (H1 12: £2,297m; FY 12: £2,304m).

2. LGPL is the main operating subsidiary for the UK's annuity business.

3. This represents the completed run off of the acquired Nationwide Guaranteed Equity Bond portfolio.

Analysed by asset class:

	Note	LGPL At 30.06.13 £m	Other insurance business At 30.06.13 £m	L&G Capital At 30.06.13 £m	Other shareholder assets At 30.06.13 £m	Total At 30.06.13 £m	Total At 30.06.12 £m	Total At 31.12.12 £m
Equities ¹		-	-	1,447	8	1,455	919	1,432
Bonds	4.02	28,635	3,007	1,887	1,118	34,647	32,958	34,923
Derivative assets ²		2,077	31	206	-	2,314	3,183	3,103
Property		924	-	122	14	1,060	684	773
Cash (including cash equivalents)		590	162	1,022	408	2,182	2,383	2,653
		32,226	3,200	4,684	1,548	41,658	40,127	42,884

1. Includes £68m equity investment in CALA Group Limited.

2. Derivative assets are shown gross of derivative liabilities. Exposures arise from the use of derivatives for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management.

Asset Disclosures

4.02 Bond portfolio summary

(a) Analysed by sector

	Notes	LGPL At 30.06.13 £m	LGPL At 30.06.13 %	Total At 30.06.13 £m	Total At 30.06.13 %
Sovereigns, Supras and Sub-Sovereigns	4.02(b)	4,292	15	6,573	19
Banks:					
- Tier 1 ¹	4.04	180	1	189	1
- Tier 2 and other subordinated	4.04	482	2	549	2
- Senior		1,508	5	2,304	7
Utilities		3,902	14	4,155	12
Consumer Services and Goods		2,387	8	2,813	8
Financial Services		966	3	1,208	3
Technology and Telecoms		1,961	7	2,301	6
Insurance		1,173	4	1,281	4
Industrials		1,453	5	1,732	5
Oil and Gas		1,707	6	1,927	6
Health Care		790	3	861	2
Property		636	2	703	2
Traditional and secured asset backed securities	4.03	6,079	21	6,932	20
CDO	4.02(d)	1,119	4	1,119	3
Total		28,635	100	34,647	100

	Notes	LGPL At 30.06.12 £m	LGPL At 30.06.12 %	Total At 30.06.12 £m	Total At 30.06.12 %
Sovereigns, Supras and Sub-Sovereigns	4.02(b)	4,011	15	6,045	18
Banks:					
- Tier 1 ¹	4.04	223	1	240	1
- Tier 2 and other subordinated	4.04	911	3	1,039	3
- Senior		1,434	5	2,367	7
Utilities		3,718	14	3,961	12
Consumer Services and Goods		2,436	9	2,845	8
Financial Services		970	4	1,208	4
Technology and Telecoms		1,869	7	2,174	6
Insurance		1,076	4	1,215	4
Industrials		1,363	5	1,661	5
Oil and Gas		1,635	6	1,847	6
Health Care		772	3	836	3
Property		572	2	643	2
Traditional and secured asset backed securities	4.03	4,915	18	5,881	18
CDO	4.02(d)	996	4	996	3
Total		26,901	100	32,958	100

Asset Disclosures

4.02 Bond portfolio summary (continued)

(a) Analysed by sector (continued)

	Notes	LGPL At 31.12.12 £m	LGPL At 31.12.12 %	Total At 31.12.12 £m	Total At 31.12.12 %
Sovereigns, Supras and Sub-Sovereigns	4.02(b)	4,543	16	6,328	18
Banks:					
- Tier 1 ¹	4.04	212	1	223	1
- Tier 2 and other subordinated	4.04	707	2	776	2
- Senior		1,399	5	2,243	6
Utilities		3,928	13	4,177	12
Consumer Services and Goods		2,624	9	3,040	9
Financial Services		980	3	1,198	3
Technology and Telecoms		2,010	7	2,337	7
Insurance		1,225	4	1,362	4
Industrials		1,512	5	1,816	5
Oil and Gas		1,782	6	2,009	6
Health Care		860	3	926	3
Property		628	2	698	2
Traditional and secured asset backed securities	4.03	5,747	20	6,693	19
CDO	4.02(d)	1,097	4	1,097	3
Total		29,254	100	34,923	100

1. Tier 1 holdings include £51m (H1 12: £56m; FY 12: £56m) of preference shares.

Asset Disclosures

4.02 Bond portfolio summary (continued) (b) Analysed by domicile

The tables below are based on the legal domicile of the security.

	Note	LGPL At 30.06.13 £m	Total At 30.06.13 £m	LGPL At 30.06.12 £m	Total At 30.06.12 £m	LGPL At 31.12.12 £m	Total At 31.12.12 £m
Market value by region							
United Kingdom		11,696	12,708	10,422	11,696	11,569	12,578
USA		7,834	10,555	8,268	10,926	8,394	10,856
Netherlands		1,671	2,289	1,303	1,975	1,661	2,267
France		1,190	1,581	1,100	1,485	1,313	1,742
Italy		644	792	507	612	636	744
Germany		337	650	428	687	316	651
Ireland ¹		249	287	215	227	271	289
Spain		195	290	164	208	192	260
Belgium		29	77	31	81	27	84
Portugal		15	28	10	10	13	16
Greece		-	3	-	-	-	-
Europe - Other		1,146	1,506	1,109	1,508	1,164	1,552
Rest of World		2,510	2,762	2,348	2,547	2,601	2,787
CDO	4.02(d)	1,119	1,119	996	996	1,097	1,097
Total		28,635	34,647	26,901	32,958	29,254	34,923

1. Within LGPL, out of the £249m of bonds domiciled in Ireland, £183m relate to financing vehicles where the underlying exposure lies outside Ireland.

Additional analysis of sovereign debt exposures

	Sovereigns, Supras and Sub-Sovereigns					
	LGPL At 30.06.13 £m	Total At 30.06.13 £m	LGPL At 30.06.12 £m	Total At 30.06.12 £m	LGPL At 31.12.12 £m	Total At 31.12.12 £m
Market value by region						
United Kingdom	2,884	3,279	2,675	3,160	3,158	3,552
USA	325	889	359	748	323	470
Netherlands	1	387	-	432	1	423
France	89	312	77	284	80	299
Italy	253	368	198	279	240	312
Germany	189	382	143	330	165	380
Ireland	-	14	-	5	-	6
Spain	1	58	-	29	-	47
Belgium	-	37	-	40	-	38
Portugal	-	12	-	-	-	4
Greece	-	3	-	-	-	-
Europe - Other	453	654	445	624	459	631
Rest of World	97	178	114	114	117	166
Total	4,292	6,573	4,011	6,045	4,543	6,328

Asset Disclosures

4.02 Bond portfolio summary (continued)

(c) Analysed by credit rating

	LGPL At 30.06.13 £m	LGPL At 30.06.13 %	Total At 30.06.13 £m	Total At 30.06.13 %
AAA ¹	1,235	4	3,502	10
AA	6,263	22	7,373	21
A	10,080	35	11,507	33
BBB	8,321	29	9,422	27
BB or below	448	2	528	2
Unrated: Bespoke CDOs	991	3	991	3
Other ²	1,297	5	1,324	4
	28,635	100	34,647	100

	LGPL At 30.06.12 £m	LGPL At 30.06.12 %	Total At 30.06.12 £m	Total At 30.06.12 %
AAA	4,471	16	7,033	21
AA	3,012	11	3,889	12
A	9,597	36	11,324	34
BBB	7,423	28	8,239	25
BB or below	474	2	525	2
Unrated: Bespoke CDOs	874	3	874	3
Other ²	1,050	4	1,074	3
	26,901	100	32,958	100

	LGPL At 31.12.12 £m	LGPL At 31.12.12 %	Total At 31.12.12 £m	Total At 31.12.12 %
AAA	4,899	17	6,892	20
AA	3,240	11	4,087	12
A	9,810	34	11,466	33
BBB	8,625	29	9,595	27
BB or below	467	2	521	1
Unrated: Bespoke CDOs	975	3	975	3
Other ²	1,238	4	1,387	4
	29,254	100	34,923	100

1. In the first six months of 2013, UK government was downgraded from AAA to AA+.

2. Other unrated bonds have been assessed and rated internally and are all assessed as investment grade (BBB and above).

Asset Disclosures

4.02 Bond portfolio summary (continued)

(d) CDOs

The Group holds collateralised debt obligations (CDOs) with a market value of £1,119m at 30 June 2013 (H1 12: £996m; FY 12: £1,097m).

These holdings include £962m (H1 12: £848m; FY 12: £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 although no substitutions were made in 2012 or 2013. A breakdown of the underlying CDO reference portfolio by sector is provided below:

Sector	30.06.13 %	At 30.06.12 %	At 31.12.12 %
Banks	14	14	14
Utilities	10	10	10
Consumer Services & Goods	25	25	25
Financial Services	6	6	6
Technology & Telecoms	9	9	9
Insurance	6	6	6
Industrials	20	20	20
Oil & Gas	6	6	6
Health Care	4	4	4
	100	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 diversified global investment grade 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 dependant 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 the period ended 30 June 2013 (2012: £nil). During the period, the Group received £nil (2012: £nil) of previously posted collateral.

These CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the internal valuation.

For the purposes of valuing the non profit annuity regulatory and IFRS liabilities the yield on the CDOs is included within the calculation of the yield used to calculate the valuation discount rate for the annuity liabilities. An allowance for the risks, including default, is also made. For EEV purposes, the yield on the CDOs, reduced by the realistic default assumption, is similarly included in assumed future investment returns.

The balance of £157m (H1 12: £148m; FY 12: £149m) of CDO holdings includes a £29m (H1 12: £26m; FY 12: £27m) exposure to an equity tranche of a bespoke CDO.

Asset Disclosures

4.03 Traditional and secured asset backed securities summary

(a) By security

	LGPL At 30.06.13 £m	LGPL At 30.06.13 %	Total At 30.06.13 £m	Total At 30.06.13 %
Traditional asset backed securities:				
Residential Mortgage-Backed Securities - Prime ¹	483	8	714	10
Residential Mortgage-Backed Securities - Sub-prime ²	-	-	3	-
Commercial Mortgage-Backed Securities	217	4	426	6
Credit Card	5	-	118	2
Auto	4	-	106	2
Consumer Loans	25	-	25	-
Student Loans	20	-	59	1
	754	12	1,451	21
Securitisations and debentures:				
Secured Bond	2,197	36	2,275	33
Commercial Property Backed Bonds	552	9	552	8
Infrastructure / Private Finance Initiative / Social housing	1,913	32	1,920	27
Whole Business Securitisation	467	8	478	7
Other secured holdings ³	196	3	256	4
	5,325	88	5,481	79
Total traditional and secured asset backed securities	6,079	100	6,932	100

The two categories above are based on the following definitions: Traditional asset backed securities are securities, often with variable expected redemption profiles issued by Special Purpose Vehicles and typically backed by pools of receivables from loans or personal credit. Debentures are securities with fixed redemption profiles issues by firms typically secured on property and Securitisations are securities with fixed redemption profiles that are issued by Special Purpose Vehicles and secured on revenues from specific assets or operating companies.

	LGPL At 30.06.12 £m	LGPL At 30.06.12 %	Total At 30.06.12 £m	Total At 30.06.12 %
Traditional asset backed securities:				
Residential Mortgage-Backed Securities- Prime ¹	335	7	560	9
Residential Mortgage-Backed Securities- Sub-prime ²	-	-	20	-
Commercial Mortgage-Backed Securities	218	4	468	8
Credit Card	1	-	163	3
Auto	4	-	114	2
Consumer Loans	36	1	39	1
Student Loans	17	-	63	1
	611	12	1,427	24
Securitisations and debentures:				
Secured Bond	2,108	43	2,178	37
Commercial Property Backed Bonds	382	8	382	6
Infrastructure / Private Finance Initiative / Social housing	1,317	27	1,321	23
Whole Business Securitisation	342	7	346	6
Other secured holdings ³	155	3	227	4
	4,304	88	4,454	76
Total traditional and secured asset backed securities	4,915	100	5,881	100

Asset Disclosures

4.03 Traditional and secured asset backed securities summary (continued)

(a) By security (continued)

	LGPL At 31.12.12 £m	LGPL At 31.12.12 %	Total At 31.12.12 £m	Total At 31.12.12 %
Traditional asset backed securities:				
Residential Mortgage-Backed Securities - Prime ¹	469	8	674	10
Residential Mortgage-Backed Securities - Sub-prime ²	-	-	17	-
Commercial Mortgage-Backed Securities	213	4	457	7
Credit Card	11	-	162	2
Auto	2	-	113	2
Consumer Loans	30	1	30	-
Student Loans	17	-	59	1
	742	13	1,512	22
Securitisations and debentures:				
Secured Bond	2,230	39	2,294	34
Commercial Property Backed Bonds	573	10	575	9
Infrastructure / Private Finance Initiative / Social housing	1,559	27	1,570	24
Whole Business Securitisation	425	7	431	6
Other secured holdings ³	218	4	311	5
	5,005	87	5,181	78
Total traditional and secured asset backed securities	5,747	100	6,693	100

1. 55% (H1 12: 53%; FY 12: 54%) of Prime RMBS holdings relate to UK mortgages.

2. 47% (H1 12: 54%; FY 12: 60%) of Sub-prime RMBS holdings have a credit rating of AAA and 61% (H1 12: 76%; FY 12: 94%) relate to the UK.

3. Other secured holdings in LGPL include covered bonds of £194m (H1 12: £143m; FY 12: £207m).

Of the £697m (H1 12: £816m; FY 12: £770m) of traditional ABS holdings held outside of LGPL, 73% are rated AAA (H1 12: 70%; FY 12: 72%).

Asset Disclosures

4.03 Traditional and secured asset backed securities summary (continued)

(b) By credit rating

	LGPL At 30.06.13 £m	LGPL At 30.06.13 %	Total At 30.06.13 £m	Total At 30.06.13 %
AAA ¹	413	7	1,040	15
AA ¹	1,321	22	1,429	21
A	2,550	42	2,617	37
BBB	1,052	17	1,096	16
BB or below	143	2	149	2
Unrated ²	600	10	601	9
Total	6,079	100	6,932	100

	LGPL At 30.06.12 £m	LGPL At 30.06.12 %	Total At 30.06.12 £m	Total At 30.06.12 %
AAA	830	17	1,507	26
AA	1,215	25	1,358	23
A	1,568	32	1,635	28
BBB	847	17	895	15
BB or below	122	2	152	3
Unrated	333	7	334	5
Total	4,915	100	5,881	100

	LGPL At 31.12.12 £m	LGPL At 31.12.12 %	Total At 31.12.12 £m	Total At 31.12.12 %
AAA	908	16	1,587	24
AA	1,327	23	1,456	22
A	1,851	32	1,927	29
BBB	998	17	1,039	16
BB or below	144	3	150	2
Unrated ²	519	9	534	7
Total	5,747	100	6,693	100

1. Downgrade of asset backed securities ('ABS') from AAA to AA is largely driven by ABS guaranteed by the UK Government. The majority of the ABS downgrades from AA to A are due to a downgrade of the UK Housing Association sector, due to perceived weakening of UK Government support.

2. The rise in unrated asset backed securities predominantly relates to an increase in commercial backed property and social housing assets.

The credit ratings of monoline wrapped bonds are based on the rating of the underlying securities.

Asset Disclosures

4.04 Group subordinated bank exposures

	Total At 30.06.13 £m	Total At 30.06.13 %	Total At 30.06.12 £m	Total At 30.06.12 %	Total At 31.12.12 £m	Total At 31.12.12 %
Tier 1						
United Kingdom ¹	136	19	139	11	161	16
USA	11	1	29	2	10	1
Europe	40	6	60	5	52	5
Others	2	-	12	1	-	-
Total tier 1	189	26	240	19	223	22
Lower tier 2						
United Kingdom	225	30	423	33	235	24
USA	116	16	333	26	312	31
Europe	80	11	113	9	100	10
Others	27	4	67	5	26	3
Upper tier 2						
United Kingdom	67	9	58	5	66	7
USA	2	-	2	-	2	-
Europe	3	-	-	-	-	-
Other subordinated						
United Kingdom	1	-	1	-	1	-
USA	26	4	39	3	32	3
Europe	2	-	3	-	2	-
Others	-	-	-	-	-	-
Total tier 2 and other subordinated	549	74	1,039	81	776	78
Total	738	100	1,279	100	999	100

1. The exposure to UK tier 1 debt includes issuances from the UK subsidiaries of European banks where there is no explicit parental guarantee.

4.05 Value of policyholder assets held in Society and LGPL

	At 30.06.13 £m	At 30.06.12 £m	At 31.12.12 £m
With-profits business	24,027	24,652	24,656
Non profit business	47,150	43,437	46,869
	71,177	68,089	71,525

Asset Disclosures

4.06 With-profits non-linked business invested asset mix and investment return

As at 30 June 2013	Fund level investment return %	UK with-profits asset share %	UK with-profits non par %	UK with-profits other %
Equities	8	44	4	(46)
Bonds	(2)	34	84	138
Property	2	11	-	(2)
Cash	-	11	12	10
		100	100	100
Investment return (% pa)	1	3	(1)	(9)

Invested assets (£bn):

Net of derivative liabilities	11.5	2.4	1.6
Gross of derivative liabilities	11.5	2.4	1.6

As at 30 June 2012

Equities	4	40	2	(46)
Bonds	4	44	83	136
Property	1	13	-	-
Cash	-	3	15	10
		100	100	100
Investment return (% pa)	4	4	5	2

Invested assets (£bn):

Net of derivative liabilities	12.0	2.5	1.9
Gross of derivative liabilities	12.1	2.5	1.9

As at 31 December 2012

Equities	11	41	3	(53)
Bonds	10	37	82	143
Property	2	13	-	-
Cash	1	9	15	10
		100	100	100
Investment return (% pa)	9	10	12	-

Invested assets (£bn):

Net of derivative liabilities	12.0	2.6	1.8
Gross of derivative liabilities	12.0	2.6	1.8

Investment return percentages reflect the actual investment return by asset class over the average assets held in that asset class over the period. Each sub fund may however have different underlying assets, and hence returns from the fund average.

Asset Disclosures

European Embedded Value

Group embedded value - summary

	Covered business				Total £m
	UK business £m	P&A overseas business £m	US Protection £m	Non- covered business £m	
For the six months ended 30 June 2013					
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	-	23	72	(74)	21
Operating profit after tax for the period	392	4	35	73	504
Non-operating profit/(loss) for the period	282	34	(31)	(6)	279
Profit for the period	674	38	4	67	783
Intra-group distributions ²	10	(1)	(43)	34	-
Dividends to equity holders of the Company	-	-	-	(337)	(337)
Transfer to non-covered business ³	(12)	-	-	12	-
Other reserve movements including pension deficit ⁴	(44)	-	-	6	(38)
Embedded value at 30 June 2013	8,208	502	1,007	(388)	9,329
Value of in-force business	4,570	178	890	-	5,638
Shareholder net worth	3,638	324	117	(388)	3,691
Embedded value per share (p)⁵					158

	Covered business				Total £m
	UK business £m	P&A overseas business £m	US Protection £m	Non- covered business £m	
For the six months ended 30 June 2012¹					
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
Embedded value at 1 January 2012	7,465	469	1,062	(388)	8,608
Exchange rate movements	-	(15)	(14)	8	(21)
Operating profit after tax for the period	274	8	33	40	355
Non-operating loss for the period	(6)	(14)	(19)	(1)	(40)
Profit/(loss) for the period	268	(6)	14	39	315
Intra-group distributions ²	30	(1)	(38)	9	-
Dividends to equity holders of the Company	-	-	-	(278)	(278)
Transfer to non-covered business ³	(10)	-	-	10	-
Other reserve movements including pension deficit ⁴	(40)	-	-	(3)	(43)
Embedded value at 30 June 2012	7,713	447	1,024	(603)	8,581
Value of in-force business	4,184	180	955	-	5,319
Shareholder net worth	3,529	267	69	(603)	3,262
Embedded value per share (p)⁵					145

1. The Group embedded value - summary has been restated to reflect an amendment to IAS 19 'Employee Benefits'. Details of this restatement are outlined in Note 5.08.

2. UK intra-group distributions reflect dividends of £10m (H1 12: £30m; FY 12: £40m) paid to Society from subsidiaries (primarily Nationwide Life). Dividends of \$66m (H1 12: \$60m; FY 12: \$63m) from LGA, €nil (H1 12: €nil; FY 12: €15m) from LGN and €1m (H1 12: €2m; FY 12: €3m) from LGF were also paid to the 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 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.

5. The number of shares in issue at 30 June 2013 was 5,915,445,369 (30 June 2012: 5,905,704,992; 31 December 2012: 5,912,782,826).

Further analysis of the Protection and Annuities, Savings and L&G Capital and group expenses UK covered business can be found in Note 5.01.

European Embedded Value

Group embedded value - summary (continued)

	Covered business			Non-covered business	Total
	UK business	P&A overseas business	US Protection		
For the year ended 31 December 2012 ¹	£m	£m	£m	£m	£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. The Group embedded value - summary has been restated to reflect an amendment to IAS 19 'Employee Benefits'. Details of this restatement are outlined in Note 5.09.

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 \$63m from LGA, €15m from LGN and €3m from LGF were also paid to the 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 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.

5. The number of shares in issue at 31 December 2012 was 5,912,782,826.

Further analysis of the Protection and Annuities, Savings and L&G Capital and group expenses UK covered business can be found in Note 5.01.

European Embedded Value

5.01 UK embedded value reconciliation

	Shareholder net worth			Value of in-force £m	Total embedded value £m
	Free surplus £m	Required capital £m	Total £m		
For the six months ended 30 June 2013					
At 1 January 2013	1,210	1,968	3,178	4,402	7,580
Operating profit/(loss) for the period:					
- New business contribution ¹	(132)	95	(37)	205	168
- Expected return on VIF	-	-	-	132	132
- Expected transfer from non profit VIF to SNW ²	400	(89)	311	(311)	-
- With-profits transfer	29	-	29	(29)	-
- Expected return on SNW	22	36	58	-	58
Generation of embedded value	319	42	361	(3)	358
- Experience variances	(2)	3	1	35	36
- Operating assumption changes	21	-	21	(9)	12
- Development costs	(14)	-	(14)	-	(14)
Variances	5	3	8	26	34
Operating profit after tax for the period	324	45	369	23	392
Non-operating profit/(loss) for the period:					
- Economic variances	166	(34)	132	109	241
- Effect of tax rate changes and other taxation impacts ³	-	-	-	41	41
Non-operating profit/(loss) for the period	166	(34)	132	150	282
Profit for the period	490	11	501	173	674
Intra-group distributions ⁴	10	-	10	-	10
Transfer to non-covered business ⁵	(12)	-	(12)	-	(12)
Other reserve movements including pension deficit ⁶	(39)	-	(39)	(5)	(44)
Embedded value at 30 June 2013	1,659	1,979	3,638	4,570	8,208

1. The free surplus reduction of £132m to finance new business includes £37m new business strain and £95m additional required capital.

2. The increase in free surplus of £400m from the expected transfer from the in-force non profit business includes £311m of operational cash generation and a £89m reduction in required capital.

3. Reflects the implementation of the UK planned future reductions in corporation tax to 20% on 1 April 2015.

4. UK intra-group dividends reflect dividends of £10m paid to Society from subsidiaries (primarily Nationwide Life).

5. 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.

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 UK value of in-force business of £4,570m is comprised of £4,152m of non profit business and £418m of with-profits business.

European Embedded Value

5.01 UK embedded value reconciliation (continued)

For the six months ended 30 June 2012	Shareholder net worth			Value of in-force £m	Total embedded value £m
	Free surplus £m	Required capital £m	Total £m		
At 1 January 2012	1,461	1,757	3,218	4,247	7,465
Operating profit/(loss) for the period:					
- New business contribution ¹	(117)	54	(63)	158	95
- Expected return on VIF	-	-	-	132	132
- Expected transfer from Non profit VIF to SNW ²	364	(83)	281	(281)	-
- With-profits transfer	26	-	26	(26)	-
- Expected return on SNW	26	32	58	-	58
Generation of embedded value	299	3	302	(17)	285
- Experience variances	(6)	4	(2)	4	2
- Operating assumption changes	29	-	29	(35)	(6)
- Development costs	(7)	-	(7)	-	(7)
Variances	16	4	20	(31)	(11)
Operating profit/(loss) after tax for the period	315	7	322	(48)	274
Non-operating profit/(loss) for the period:					
- Economic variances	(17)	18	1	(55)	(54)
- Effect of tax rate changes and other taxation impacts ³	-	-	-	48	48
Non-operating (loss)/profit for the period:	(17)	18	1	(7)	(6)
Profit/(loss) for the period	298	25	323	(55)	268
Intra-group distributions ⁴	30	-	30	-	30
Transfer to non-covered business ⁵	(10)	-	(10)	-	(10)
Other reserve movements including pension deficit ⁶	(32)	-	(32)	(8)	(40)
Embedded value at 30 June 2012	1,747	1,782	3,529	4,184	7,713

1. The free surplus reduction of £117m to finance new business includes £64m new business strain and £54m additional required capital. Other items have a net negative impact of £1m.

2. The increase in free surplus of £364m from the expected transfer from the in-force non profit business includes £281m of operational cash generation and a £83m reduction in required capital.

3. Reflects the implementation of the UK planned future reductions in corporation tax to 22% on 1 April 2014.

4. UK intra-group dividends reflect dividends of £30m paid to Society from subsidiaries (primarily Nationwide Life).

5. 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.

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 UK value of in-force business of £4,184m is comprised of £3,773m of non profit business and £411m of with-profits business.

European Embedded Value

5.01 UK embedded value reconciliation (continued)

For the year ended 31 December 2012	Shareholder net worth			Value of in-force £m	Total embedded value £m
	Free surplus £m	Required capital £m	Total £m		
At 1 January 2012	1,461	1,757	3,218	4,247	7,465
Operating profit/(loss) for the year:					
- 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 for the year	550	93	643	10	653
Non-operating profit/(loss) for the year:					
- Economic variances	(182)	107	(75)	(37)	(112)
- Effect of tax rate changes and other taxation impacts ³	-	-	-	89	89
Non-operating (loss)/profit for the year:	(182)	107	(75)	52	(23)
Profit for the year	368	200	568	62	630
Intra-group distributions ⁴	(473)	-	(473)	-	(473)
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	1,210	1,968	3,178	4,402	7,580

1. The free surplus reduction of £275m to finance new business includes £93m new business strain and £182m additional required capital.

2. The increase in 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 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.

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 UK value of in-force business of £4,402m is comprised of £4,008m of non profit business and £394m of with-profits business.

European Embedded Value

5.02 Analysis of shareholders' equity

As at 30 June 2013	P&A and Savings £m	Invest- ment manage- ment £m	US Protection £m	L&G Capital and group expenses £m	Total £m
Analysed as:					
IFRS basis shareholders' equity ¹	805	459	935	3,306	5,505
Additional retained profit/(loss) on an EEV basis	4,672	-	72	(920)	3,824
Shareholders' equity on an EEV basis	5,477	459	1,007	2,386	9,329
Comprising:					
Business reported on an IFRS basis	405	459	-	(1,252)	(388)
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus ²	71		64	1,659	1,794
- Required capital to cover solvency margin	253		53	1,979	2,285
Value of in-force					
- Value of in-force business ³	5,228		903		6,131
- Cost of capital	(480)		(13)		(493)

As at 30 June 2012	P&A and Savings £m	Invest- ment manage- ment £m	US Protection £m	L&G Capital and group expenses £m	Total £m
Analysed as:					
IFRS basis shareholders' equity ¹	617	439	977	3,124	5,157
Additional retained profit/(loss) on an EEV basis	4,383	-	47	(1,006)	3,424
Shareholders' equity on an EEV basis	5,000	439	1,024	2,118	8,581
Comprising:					
Business reported on an IFRS basis	369	439	-	(1,411)	(603)
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus ²	48		24	1,747	1,819
- Required capital to cover solvency margin	219		45	1,782	2,046
Value of in-force					
- Value of in-force business ³	4,828		964		5,792
- Cost of capital	(464)		(9)		(473)

1. Shareholders' equity supporting the UK non profit Protection and Annuities and Savings businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within the L&G Capital 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 £27m (H1 12: £29m; FY 12: £30m), of which £nil relates to US Protection (H1 12: £nil; FY 12: £nil). Of the remaining deduction, £18m (H1 12: £19m; FY 12: £18m) relates to UK with-profits business, and £5m (H1 12: £5m; FY 12: £5m) to UK non profit business.

Further analysis of shareholders' equity is included in Note 5.03.

European Embedded Value

5.02 Analysis of shareholders' equity (continued)

As at 31 December 2012	P&A and Savings £m	Investment management £m	US Protection £m	L&G Capital and group expenses £m	Total £m
Analysed as:					
IFRS basis shareholders' equity ¹	740	360	919	3,422	5,441
Additional retained profit/(loss) on an EEV basis	4,484	-	55	(1,080)	3,459
Shareholders' equity on an EEV basis	5,224	360	974	2,342	8,900
Comprising:					
Business reported on an IFRS basis	380	360	-	(836)	(96)
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus ²	57		206	1,210	1,473
- Required capital to cover solvency margin	239		33	1,968	2,240
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 Protection and Annuities and Savings businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within the L&G Capital 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, of which £nil relates to US Protection. Of the remaining deduction, £18m relates to UK with-profits business, and £5m to UK non profit business.

Further analysis of shareholders' equity is included in Note 5.03.

European Embedded Value

5.03 Segmental analysis of shareholders' equity

	Covered business EEV basis 30.06.13 £m	Other business IFRS basis 30.06.13 £m	Total 30.06.13 £m	Covered business EEV basis 30.06.12 £m	Other business IFRS basis 30.06.12 £m	Total 30.06.12 £m
Protection and Annuities						
- P&A reported on an EEV basis	3,301	-	3,301	2,947	-	2,947
- General insurance	-	204	204	-	156	156
- Netherlands (LGN)	284	-	284	248	-	248
- France (LGF)	218	-	218	199	-	199
- Other	-	4	4	-	12	12
Total Protection and Annuities	3,803	208	4,011	3,394	168	3,562
Savings						
- Savings reported on an EEV basis	1,269	-	1,269	1,237	-	1,237
- Savings investments	-	140	140	-	137	137
- Other	-	57	57	-	64	64
Total Savings	1,269	197	1,466	1,237	201	1,438
Investment management	-	459	459	-	439	439
US Protection	1,007	-	1,007	1,024	-	1,024
L&G Capital and group expenses	3,638	(1,252)	2,386	3,529	(1,411)	2,118
	9,717	(388)	9,329	9,184	(603)	8,581

European Embedded Value

5.03 Segmental analysis of shareholders' equity (continued)

	Covered business EEV basis 31.12.12 £m	Other business IFRS basis 31.12.12 £m	Total 31.12.12 £m
Protection and Annuities			
- P&A reported on an EEV basis	3,131	-	3,131
- General insurance	-	180	180
- Netherlands (LGN)	248	-	248
- France (LGF)	194	-	194
- Other	-	10	10
Total Protection and Annuities	3,573	190	3,763
Savings			
- Savings reported on an EEV basis	1,271	-	1,271
- Savings investments	-	138	138
- Other	-	52	52
Total Savings	1,271	190	1,461
Investment management	-	360	360
US Protection	974	-	974
L&G Capital and group expenses	3,178	(836)	2,342
	8,996	(96)	8,900

5.04 Reconciliation of shareholder net worth

	UK covered business 30.06.13 £m	Total 30.06.13 £m	UK covered business 30.06.12 £m	Total 30.06.12 £m	UK covered business 31.12.12 £m	Total 31.12.12 £m
SNW of long term operations (IFRS basis)	4,603	5,893	4,548	5,760	4,294	5,537
Other liabilities (IFRS basis)	-	(388)	-	(603)	-	(96)
Shareholders' equity on the IFRS basis	4,603	5,505	4,548	5,157	4,294	5,441
Purchased interest in long term business	(58)	(60)	(69)	(70)	(63)	(64)
Deferred acquisition costs/deferred income liabilities	(267)	(1,213)	(205)	(1,028)	(235)	(1,093)
Deferred tax ¹	(165)	195	(200)	119	(253)	74
Other ²	(475)	(736)	(545)	(916)	(565)	(741)
Shareholder net worth on the EEV basis	3,638	3,691	3,529	3,262	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

5.05 Profit/(loss) for the period

	Note	P&A and Savings £m	Investment management £m	US Protection £m	L&G Capital and group expenses £m	Total £m
For the six months ended 30 June 2013						
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.06	213		44		257
Contribution from in-force business:						
- expected return ¹		178		33		211
- experience variances ²		42		(27)		15
- operating assumption changes ³		14		-		14
Development costs		(18)		-		(18)
Contribution from shareholder net worth		2		4	65	71
Operating profit on covered business		431	-	54	65	550
Business reported on an IFRS basis ^{4,5,6,7,8}		35	120	-	(65)	90
Total operating profit		466	120	54	-	640
Economic variances ⁹		302	(2)	(47)	11	264
Gains attributable to non-controlling interests		-	-	-	5	5
Profit before tax		768	118	7	16	909
Tax (expense)/credit on profit from ordinary activities		(156)	(24)	(3)	16	(167)
Effect of tax rate changes and other taxation impacts ¹⁰		41	-	-	-	41
Profit for the period		653	94	4	32	783
Operating profit attributable to:						
Protection and Annuities		424				
Savings		42				

p

Earnings per share

Based on profit attributable to equity holders of the Company **13.24**

Diluted earnings per share

Based on profit attributable to equity holders of the Company **13.09**

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 Protection and Annuities and Savings business was £4,402m in H1 13 (H1 12: £4,247m; FY 12: £4,247m). This is adjusted for the effects of opening model changes of £50m (H1 12: £45m; FY 12: £86m) to give an adjusted opening base VIF of £4,452m (H1 12: £4,292m; FY 12: £4,333m). This is then multiplied by the opening risk discount rate of 6.0% (H1 12: 6.2%; FY 12: 6.2%) and the result grossed up at the notional attributed tax rate of 20% (H1 12: 22%; FY 12: 21%) to give a return of £165m (H1 12: £169m; FY 12: £340m). The same approach has been applied for the overseas Protection and Annuities businesses.

2. P&A and Savings primarily reflects UK cost of capital unwind, bulk purchase annuity data loading and model changes. US Protection reflects higher than anticipated lapses in the period.

3. P&A and Savings primarily reflects mortality assumption changes in retail protection.

4. Protection and Annuities non-covered business primarily reflects GI and other operating profit of £29m (H1 12: £9m; FY 12: £27m).

5. Savings non-covered business mainly comprises Savings investments on an IFRS basis, adjusted for Suffolk Life, International (Ireland), Nationwide and our joint venture operation in India.

6. Investment management operating profit excludes £15m (H1 12: £13m; FY 12: £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 Protection and Annuities, Savings and L&G Capital and group expenses covered business on an EEV basis.

7. US Protection non-covered business includes business unit costs of £nil (H1 12: £2m; FY 12: £4m) allocated to the US Protection segment.

8. L&G Capital and group expenses non-covered business primarily reflects the shareholder interest expense and Investment projects (predominantly Economic Capital Programme and other strategic investments).

9. The P&A and Savings 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 US Protection.

10. Primarily reflects the implementation of the UK planned future reductions in corporation tax to 20% on 1 April 2015.

European Embedded Value

5.05 Profit/(loss) for the period (continued)

For the six months ended 30 June 2012 ¹	Note	P&A and Savings £m	Investment management £m	US Protection £m	L&G Capital and group expenses £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.06	125		42		167
Contribution from in-force business:						
- expected return ²		184		39		223
- experience variances ³		4		(33)		(29)
- operating assumption changes ⁴		(9)		-		(9)
Development costs		(9)		-		(9)
Contribution from shareholder net worth		3		2	67	72
Operating profit on covered business		298	-	50	67	415
Business reported on an IFRS basis ^{5,6,7,8,9}		17	106	(3)	(79)	41
Total operating profit/(loss)		315	106	47	(12)	456
Economic variances ¹⁰		(93)	(2)	(29)	(16)	(140)
Gain attributable to non-controlling interests		-	-	-	1	1
Profit/(loss) before tax		222	104	18	(27)	317
Tax (expense)/credit on profit from ordinary activities		(50)	(19)	(6)	25	(50)
Effect of tax rate changes and other taxation impacts ¹¹		48	-	-	-	48
Profit/(loss) for the period		220	85	12	(2)	315
Operating profit attributable to:						
Protection and Annuities		275				
Savings		40				

p¹

Earnings per share

Based on profit attributable to equity holders of the Company 5.38

Diluted earnings per share

Based on profit attributable to equity holders of the Company 5.30

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 5.08.
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 Protection and Annuities and Savings business was £4,247m. This is adjusted for the effects of opening model changes of £45m to give an adjusted opening base VIF of £4,292m. 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 22% to give a return of £169m.
3. P&A and Savings reflects UK cost of capital unwind and bulk purchase annuity data loading, partially offset by model changes, adverse mortality experience in group protection and higher lapses on existing term business in the Netherlands. US Protection reflects a higher number of term assurance claims and higher lapses in existing term business in the period.
4. P&A and Savings reflect higher investment expenses during the period driven by a change in the investment mix in the underlying funds.
5. Protection and Annuities non-covered business primarily reflects GI and other operating profit of £9m.
6. Savings non-covered business mainly comprises Savings investments on an IFRS basis, adjusted for Suffolk Life, International (Ireland) and Nationwide.
7. Investment management operating profit excludes £13m 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 Protection and Annuities, Savings and L&G Capital and group expenses covered business on an EEV basis.
8. US Protection non-covered business includes business unit costs of £2m allocated to the US Protection segment.
9. L&G Capital and group expenses non-covered business primarily reflects the shareholder interest expense and Investment projects (predominantly Economic Capital Programme and other strategic investments).
10. P&A and Savings primarily reflects the impact of changes in LIBOR on reinvestment and disinvestment rates and lower future expected investment returns which are partially offset by a lower risk discount rate.
11. Primarily reflects the implementation of the UK planned future reductions in corporation tax to 22% on 1 April 2014.

European Embedded Value

5.05 Profit/(loss) for the period (continued)

For the year ended 31 December 2012 ¹	Note	P&A and Savings £m	Investment management £m	US Protection £m	L&G Capital and group expenses £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.06	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		5	134	145
Operating profit on covered business		719	-	102	134	955
Business reported on an IFRS basis ^{5,6,7,8,9}		38	216	(4)	(164)	86
Total operating profit/(loss)		757	216	98	(30)	1,041
Economic variances ¹⁰		(157)	(5)	8	(41)	(195)
Losses attributable to non-controlling interests		-	-	-	(12)	(12)
Profit/(loss) before tax		600	211	106	(83)	834
Tax (expense)/credit on profit from ordinary activities		(128)	(39)	(28)	27	(168)
Effect of tax rate changes and other taxation impacts ¹¹		89	-	(22)	-	67
Profit/(loss) for the year		561	172	56	(56)	733

Operating profit attributable to:

Protection and Annuities	668
Savings	89

p¹

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 12.54

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 5.08.

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 Protection and Annuities and Savings 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 overseas Protection and Annuities businesses.

3. P&A and Savings 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. US Protection modelling and other experience variances mostly relate to additional reserving associated with the introduction of AG38 regulatory requirements.

4. Operating assumption changes in P&A and Savings 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. US Protection operating assumption changes mostly relate to higher mortality assumptions on unit linked secondary guarantee business.

5. Protection and Annuities non-covered business primarily reflects GI and other operating profit of £29m.

6. Savings non-covered business mainly comprises Savings investments on an IFRS basis, adjusted for Suffolk Life, International (Ireland), Nationwide and our joint venture operation in India.

7. Investment management 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 Protection and Annuities, Savings and L&G Capital and group expenses covered business on an EEV basis.

8. US Protection non-covered business includes business unit costs of £4m allocated to the US Protection segment.

9. L&G Capital and group expenses non-covered business primarily reflects the shareholder interest expense and Investment projects (predominantly Economic Capital Programme and other strategic investments).

10. P&A and Savings 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.

11. Primarily reflects the implementation of the UK planned future reductions in corporation tax to 21% on 1 April 2014.

European Embedded Value

5.06 New business by product¹

For the six months ended 30 June 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 %
Protection	105	528	5.0	-	528	35	6.7
Annuities ⁴	n/a	692	n/a	1,424	2,116	177	8.4
P&A overseas business	30	230	7.7	183	413	3	0.8
Total Protection and Annuities	135	1,450	10.7	1,607	3,057	215	7.0
Total Savings	314	1,162	3.7	1,203	2,365	(2)	(0.1)
US Protection	45	440	9.7	-	440	44	10.0
Total new business	494	3,052	6.2	2,810	5,862	257	4.4
Cost of capital						30	
Contribution from new business before cost of capital						287	

For the six months ended 30 June 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 %
Protection	109	546	5.0	-	546	59	10.8
Annuities ⁴	n/a	-	n/a	589	589	50	8.5
P&A overseas business	32	242	8	168	410	4	1.0
Total Protection and Annuities	141	788	5.6	757	1,545	113	7.3
Total Savings	174	622	3.6	1,460	2,082	12	0.6
US Protection	42	384	9.2	-	384	42	10.9
Total new business	357	1,794	5.0	2,217	4,011	167	4.2
Cost of capital						25	
Contribution from new business before cost of capital						192	

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 %
Protection	221	1,176	5.3	-	1,176	139	11.8
Annuities ⁴	n/a	-	n/a	2,339	2,339	206	8.8
P&A overseas business	51	409	8	315	724	5	0.7
Total Protection and Annuities	272	1,585	5.8	2,654	4,239	350	8.3
Total Savings	577	2,117	3.7	3,002	5,119	27	0.5
US Protection	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. Annuities 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 £175m. The annuities PVNBPs, contribution from new business and margin are also inclusive of longevity insurance.

European Embedded Value

5.07 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 Legal & General Pensions Limited (LGPL), but after allowance for long term default risk, are shown below.

For LGPL annuities, 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 30 June 2012 ; 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 26bps at 30 June 2013 (26bps at 30 June 2012; 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 2009 as per CMIB's mortality improvement model (CMI 2011) 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 24.2 years (30 June 2012: 24.2 years; 31 December 2012: 24.1 years). The expectation of life on the regulatory reserving basis is 25.7 years (30 June 2012: 25.9 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 L&G Capital 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

5.07 Assumptions (continued)

Economic assumptions

	As at 30.06.13 % p.a.	As at 30.06.12 % p.a.	As at 31.12.12 % p.a.	As at 31.12.11 % p.a.
Risk margin	3.5	3.8	3.7	3.7
Risk free rate ¹				
- UK	3.0	2.3	2.3	2.5
- Europe	2.1	2.2	1.7	2.6
- US	2.6	1.7	1.8	1.9
Risk discount rate (net of tax)				
- UK	6.5	6.1	6.0	6.2
- Europe	5.6	6.0	5.4	6.3
- US	6.1	5.5	5.5	5.6
Reinvestment rate (US)	5.1	4.0	4.3	4.2
Other UK business assumptions				
Equity risk premium	3.3	3.3	3.3	3.3
Property risk premium	2.0	2.0	2.0	2.0
Investment return (excluding annuities in LGPL)				
- Gilts:				
- Fixed interest	2.5 – 3.0	1.6 – 2.3	1.9 – 2.3	1.8 – 2.5
- RPI linked	3.1	2.5	2.7	2.6
- Non gilts:				
- Fixed interest	1.9 – 3.3	3.0 – 4.1	1.9 – 2.9	3.0 – 4.6
- Equities	6.3	5.6	5.6	5.8
- Property	5.0	4.3	4.3	4.5
Long-term rate of return on non profit annuities in LGPL	4.7	4.8	4.3	5.0
Inflation				
- Expenses/earnings	3.8	3.3	3.4	3.5
- Indexation	3.3	2.8	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% (30 June 2012: 22%; 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% (30 June 2012: 35%; 31 December 2012: 35%), France is 34.3% (30 June 2012: 34.3%; 31 December 2012: 34.3%) and Netherlands is 25% (30 June 2012: 25%; 31 December 2012: 25%).

European Embedded Value

5.07 Assumptions (continued)

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

5.08 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 actuaries; Towers Watson in the UK and 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 periods beginning on or after 1 January 2013. The impact of the amendment is to reduce profit for the period by £1m. 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 interim and annual profit for the period 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.

	30.06.12 £m	31.12.12 £m
Profit for the period as previously reported	316	734
Economic variances		
IAS 19 'Employee Benefits' amendment	(1)	(1)
Revised profit for the period (after tax)	315	733
Actuarial gain on defined benefit pension schemes	3	4
Actuarial gain on defined benefit pension schemes transferred to unallocated divisible surplus	(2)	(3)
Previously reported income	(34)	(40)
Total comprehensive income for the period	282	694
Earnings per share	p	p
Based on profit attributable to equity holders of the Company as previously reported	5.40	12.75
IAS 19 'Employee Benefits' amendment	(0.02)	-
Revised earnings per share based on profit attributable to equity holders of the Company	5.38	12.75
Diluted earnings per share		
Based on profit attributable to equity holders of the Company as previously reported	5.31	12.54
IAS 19 'Employee Benefits' amendment	(0.01)	-
Revised diluted earnings per share based on profit attributable to equity holders of the Company	5.30	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

5.08 Methodology (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 Protection and Annuities and Savings 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 Protection and Annuities and Savings segments. However, the historical profits which have emerged continue to be reported in the shareholders' equity of the Investment management 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.

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.

European Embedded Value

5.08 Methodology (continued)

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 US Protection, 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.

Required capital and free surplus

Regulatory capital for the UK Protection and Annuities and Savings 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 US Protection, 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 338% of the EU minimum solvency margin has been used. 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

5.08 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.

US Protection FOGs relate to guaranteed minimum crediting rates and surrender values on a range of contracts. 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%.

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.

European Embedded Value

5.08 Methodology (continued)

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.

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

Independent review report to Legal & General Group Plc – EEV

Introduction

We have been engaged by the company to review the supplementary interim financial information in the half-year report for the six months ended 30 June 2013, which comprises the Group Embedded Value – Summary as at 30 June 2013 and related notes prepared on the European Embedded Value (“EEV”) basis. We have read the other information contained in the half-year report and considered whether it contains any apparent misstatements or material inconsistencies with the supplementary interim financial information.

Directors’ responsibilities

The half-year report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the supplementary interim financial information in accordance with the EEV basis set out in Note 5.08.

Our responsibility

Our responsibility is to express to the company a conclusion on the supplementary interim financial information in the half-year report based on our review. This report, including the conclusion, has been prepared for and only for the company and for no other purpose. We do not, in producing this report, 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.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ‘Review of Interim Financial Information Performed by the Independent Auditor of the Entity’ issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the supplementary interim financial information in the half-year report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with the EEV basis set out in Note 5.08.

PricewaterhouseCoopers LLP
Chartered Accountants
London
5 August 2013

Notes:

(a) The interim financial information is published on the website of Legal & General Group Plc, legalandgeneralgroup.com. The maintenance and integrity of the Legal & General Group Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

New Business

6.01 Investment management new business

	30.06.13 £m	30.06.12 £m	Full year 31.12.12 £m
Index funds	15,927	8,165	22,400
Liability driven investments	5,684	3,300	5,678
Active			
- Active fixed income	3,118	3,456	6,043
- Property	136	45	125
Total LGIM new funds	24,865	14,966	34,246
Institutional unit trust	91	111	424
Total new funds¹	24,956	15,077	34,670
Attributable to:			
LGIM UK customers	15,530	11,906	25,096
LGIM International customers	9,335	3,060	9,150
Legal & General Retail Investments	91	111	424
LGIM net flows	7,975	3,963	7,144
Attributable to:			
- UK	537	1,629	(692)
- International	7,438	2,334	7,836

1. New monies from Legal & General Investment Management (LGIM) exclude £4.9bn (H1 12: £1.6bn; FY 12: £4.8bn) received during the year on a temporary basis, generally as part of portfolio reconstructions.

New Business

6.02 Investment management new business quarterly progression

	3 months to 30.06.13 £m	3 months to 31.03.13 £m	3 months to 31.12.12 £m	3 months to 30.09.12 £m	3 months to 30.06.12 £m	3 months to 31.03.12 £m
Index funds	5,397	10,530	7,762	6,473	3,979	4,186
Liability driven investments	4,628	1,056	1,946	432	1,620	1,680
Active						
- Active fixed income	1,117	2,001	1,288	1,299	1,839	1,617
- Property	83	53	69	11	11	34
Total LGIM new funds	11,225	13,640	11,065	8,215	7,449	7,517
Institutional unit trust	67	24	47	266	48	63
Total new funds	11,292	13,664	11,112	8,481	7,497	7,580
Attributable to:						
LGIM UK customers	8,974	6,556	8,562	4,628	5,859	6,047
LGIM International customers	2,251	7,084	2,503	3,587	1,590	1,470
Legal & General Retail Investments	67	24	47	266	48	63
LGIM net flows	2,474	5,501	2,563	618	1,376	2,587

6.03 Legal & General Investment Management new business by investment approach

	30.06.13 %	30.06.12 %	31.12.12 %
Indexed equities	34	36	40
Indexed bonds (including index linked funds and cash)	30	19	26
Active bonds (including index linked funds and cash)	12	23	18
Liability driven investments	23	22	16
Property	1	-	-
Total	100	100	100

New Business

6.04 Assets under management

	At 30.06.13 £bn	At 30.06.12 £bn	At 31.12.12 £bn
Legal & General Investment Management assets under management	433	381	406
Other assets under management ¹	7	7	7
Worldwide assets under management	440	388	413

1. Other assets under management comprises retail investments and additional funds managed overseas.

Legal & General Investment Management's assets under management are analysed below:

Represented by

Index tracking funds:

- UK equities	67	62	64
- Overseas equities	112	88	99
- Fixed interest	48	39	44
- Index linked	35	37	35
- Cash/deposits	-	1	1
Total index tracking funds	262	227	243
Actively managed funds	100	93	99
Liability driven investments	71	61	64
	433	381	406

By investment approach

Index equities	178	151	163
Index bonds (including index linked funds and cash)	84	76	80
Active bonds (including index linked funds and cash)	83	77	82
Liability driven investments	71	61	64
Active equities	8	7	8
Property	9	9	9
	433	381	406

By source of business

Institutional assets under management¹

- Managed pension funds pooled	226	208	217
- Liability driven investments	70	61	64
- Other	37	21	27
- Managed pension funds segregated	9	5	8
Total institutional assets under management	342	295	316
UK businesses (life and general insurance funds)	75	71	75
UK businesses (unit trusts - excluding life fund investment)	16	15	15
	433	381	406

1. Excludes institutional investments in unit trust funds.

New Business

6.05 Savings net flows

	30.06.13	30.06.12	31.12.12
	£m	£m	£m
Investments ¹	283	555	916
Insured ²	181	154	601
With-profits	(1,268)	(829)	(2,163)
Cofunds ³	899		
Total Savings net flows	95	(120)	(646)

1. Savings investments products include collective investments, Suffolk Life SIPPs and structured products.

2. Insured savings products include bonds, retail and workplace non profit pensions and insured SIPPs.

3. Includes retail and institutional flows, excludes Investor Portfolio Services (IPS) and other Group sales through the Cofunds platform.

6.06 Savings net flows quarterly progression

	3 months to 30.06.13 £m	3 months to 31.03.13 £m	3 months to 31.12.12 £m	3 months to 30.09.12 £m	3 months to 30.06.12 £m	3 months to 31.03.12 £m
Investments ¹	363	(80)	257	104	571	(16)
Insured ²	135	46	287	160	56	98
With-profits	(729)	(539)	(690)	(644)	(358)	(471)
Cofunds ³	899					
Total Savings net flows	668	(573)	(146)	(380)	269	(389)

1. Savings investments products include collective investments, Suffolk Life SIPPs and structured products.

2. Insured savings products include bonds, retail and workplace non profit pensions and insured SIPPs.

3. Includes retail and institutional flows, excludes Investor Portfolio Services (IPS) and other Group sales through the Cofunds platform.

New Business

6.07 Worldwide new business

	Annual premiums 30.06.13 £m	Single premiums 30.06.13 £m	APE 30.06.13 £m	Annual premiums 30.06.12 £m	Single premiums 30.06.12 £m	APE 30.06.12 £m	APE 31.12.12 £m
Protection							
- Retail ¹	65	-	65	72	-	72	151
- Group	40	-	40	37	-	37	70
Total Protection	105	-	105	109	-	109	221
Annuities							
- Individual (non profit)	-	752	75	-	514	51	131
- Individual (with-profits)	-	2	-	-	8	1	1
- Bulk purchase	-	670	67	-	67	7	102
Total Annuities	-	1,424	142	-	589	59	234
Netherlands (LGN)	5	62	11	6	45	11	21
France (LGF)	25	121	37	26	123	38	61
France (LGF) retail investment business	-	27	3	-	3	-	11
Total Protection and Annuities²	135	1,634	298	141	760	217	548
Investments ³	16	2,708	287	38	2,756	314	598
Insured business	288	853	373	139	1,034	242	757
With-profits	26	49	31	35	227	58	92
India (26% share)	4	28	7	4	17	6	9
Cofunds ⁴	4	317	36				
Total Savings	338	3,955	734	216	4,034	620	1,456
US Protection	45	-	45	42	-	42	90
Egypt (55% share)	7	-	7	8	-	8	14
Gulf (50% share)	1	2	1	2	2	2	5
Total Other worldwide new business	8	2	8	10	2	10	19
Total worldwide new business	526	5,591	1,085	409	4,796	889	2,113

1. In previous periods, Retail Protection was named Individual Protection. This is purely a change in name rather than any change to classification.

2. Total Protection and Annuities new business excludes £175m (H1 2012: £nil; FY 2012: £nil) of APE in relation to longevity insurance transactions. It is not included in the table due to the unpredictable deal flow from this type of business.

3. Investments excludes institutional investments in unit trust funds which are disclosed as part of institutional fund management new business (see Note 6.01).

4. Excludes Cofunds institutional business.

New Business

6.08 Worldwide new business APE quarterly progression

	3 months to 30.06.13 £m	3 months to 31.03.13 £m	3 months to 31.12.12 £m	3 months to 30.09.12 £m	3 months to 30.06.12 £m	3 months to 31.03.12 £m
Protection						
- Retail	38	27	43	36	36	36
- Group	20	20	13	20	25	12
Total Protection	58	47	56	56	61	48
Annuities						
- Individual (non profit)	35	40	45	35	25	26
- Individual (with-profits)	-	-	-	-	1	-
- Bulk purchase	31	36	54	41	3	4
Total Annuities	66	76	99	76	29	30
Netherlands (LGN)	4	7	5	5	5	6
France (LGF)	6	31	19	4	18	20
France (LGF) retail investment business	2	1	11	-	-	-
Total Protection and Annuities	136	162	190	141	113	104
Investments ¹	167	120	137	147	174	140
Insured business	150	223	318	197	110	132
With-profits	14	17	16	18	30	28
India (26% share)	1	6	2	1	1	5
Cofunds ²	36					
Total Savings	368	366	473	363	315	305
US Protection	23	22	24	24	22	20
Egypt (55% share)	3	4	3	3	4	4
Gulf (50% share)	-	1	1	2	1	1
Total Other worldwide new business	3	5	4	5	5	5
Total worldwide new business	530	555	691	533	455	434

1. Investments excludes institutional investments in unit trust funds which are disclosed as part of institutional fund management new business (see Note 6.01).

2. Excludes Cofunds institutional business.

New Business

6.09 Worldwide new business annual premium quarterly progression

	3 months to 30.06.13 £m	3 months to 31.03.13 £m	3 months to 31.12.12 £m	3 months to 30.09.12 £m	3 months to 30.06.12 £m	3 months to 31.03.12 £m
Protection						
- Retail	38	27	43	36	36	36
- Group	20	20	13	20	25	12
Total Protection	58	47	56	56	61	48
Annuities						
- Individual (non profit)	-	-	-	-	-	-
- Individual (with-profits)	-	-	-	-	-	-
- Bulk purchase	-	-	-	-	-	-
Total Annuities	-	-	-	-	-	-
Netherlands (LGN)	2	3	4	3	3	3
France (LGF)	-	25	12	-	11	15
France (LGF) retail investment business	-	-	-	-	-	-
Total Protection and Annuities	60	75	72	59	75	66
Investments ¹	8	8	13	18	25	13
Insured business	109	179	248	132	64	75
With-profits	12	14	12	11	17	18
India (26% share)	-	4	2	1	1	3
Cofunds ²	4					
Total Savings	133	205	275	162	107	109
US Protection	23	22	24	24	22	20
Egypt (55% share)	3	4	3	3	4	4
Gulf (50% share)	-	1	1	1	1	1
Total Other worldwide new business	3	5	4	4	5	5
Total worldwide new business	219	307	375	249	209	200

1. Investments excludes institutional investments in unit trust funds which are disclosed as part of institutional fund management new business (see Note 6.01).

2. Excludes Cofunds institutional business.

New Business

6.10 Worldwide new business single premium quarterly progression

	3 months to 30.06.13 £m	3 months to 31.03.13 £m	3 months to 31.12.12 £m	3 months to 30.09.12 £m	3 months to 30.06.12 £m	3 months to 31.03.12 £m
Protection						
- Retail	-	-	-	-	-	-
- Group	-	-	-	-	-	-
Total Protection	-	-	-	-	-	-
Annuities						
- Individual (non profit)	347	405	446	348	250	264
- Individual (with-profits)	1	1	2	2	4	4
- Bulk purchase	313	357	544	408	31	36
Total Annuities	661	763	992	758	285	304
Netherlands (LGN)	27	35	15	22	16	29
France (LGF)	60	61	69	41	71	52
France (LGF) retail investment business	16	11	102	-	2	1
Total Protection and Annuities	764	870	1,178	821	374	386
Investments ¹	1,586	1,122	1,235	1,294	1,487	1,269
Insured business	411	442	699	650	461	573
With-profits	22	27	42	73	129	98
India (26% share)	7	21	5	2	2	15
Cofunds ²	317					
Total Savings	2,343	1,612	1,981	2,019	2,079	1,955
US Protection	-	-	-	-	-	-
Egypt (55% share)	-	-	-	-	-	-
Gulf (50% share)	1	1	-	4	1	1
Total Other worldwide new business	1	1	-	4	1	1
Total worldwide new business	3,108	2,483	3,159	2,844	2,454	2,342

1. Investments excludes institutional investments in unit trust funds which are disclosed as part of institutional fund management new business (see Note 6.01).

2. Excludes Cofunds institutional business.

New Business

6.11 Overseas new business in local currency

	Annual premiums 30.06.13	Single premiums 30.06.13	APE 30.06.13	Annual premiums 30.06.12	Single premiums 30.06.12	APE 30.06.12	APE 31.12.12
US Protection (\$m)	70	-	70	66	-	66	142
Netherlands (LGN) (€m)	6	74	13	8	54	13	27
France (LGF) (€m)	30	142	44	32	150	47	75
France (LGF) retail investment business (€m)	-	32	3	-	3	-	13
India (Rs m) - Group's 26% interest	374	2,348	609	353	1,381	491	790
Egypt (Pounds m) - Group's 55% interest	78	-	78	73	1	73	134
Gulf (US\$m) - Group's 50% interest	2	3	2	3	7	4	7

6.12 Worldwide APE by channel

	Annual premiums £m	Single premiums £m	APE £m	% of total
For the six months ended 30 June 2013				
Retail IFA	98	3,434	441	41
Employee benefit consultants	370	1,171	487	44
Tied agents	11	30	14	1
Bancassurance	35	691	104	10
Direct	12	265	39	4
Total	526	5,591	1,085	100

	Annual premiums £m	Single premiums £m	APE £m	% of total
For the six months ended 30 June 2012				
Retail IFA	94	2,507	345	39
Employee benefit consultants	222	547	277	31
Tied agents	14	54	19	2
Bancassurance	68	1,455	214	24
Direct	11	233	34	4
Total	409	4,796	889	100

	Annual premiums £m	Single premiums £m	APE £m	% of total
For the year ended 31 December 2012				
Retail IFA	198	5,010	699	33
Employee benefit consultants	662	2,242	886	42
Tied agents	27	109	38	2
Bancassurance	126	2,895	416	20
Direct	20	543	74	3
Total	1,033	10,799	2,113	100

New Business

6.13 Worldwide APE by channel quarterly progression

	3 months to 30.06.13 £m	3 months to 31.03.13 £m	3 months to 31.12.12 £m	3 months to 30.09.12 £m	3 months to 30.06.12 £m	3 months to 31.03.12 £m
Retail IFA	259	182	188	166	176	169
Employee benefit consultants	191	296	377	232	131	146
Tied agents	7	7	9	10	11	8
Bancassurance	52	52	94	108	119	95
Direct	21	18	23	17	18	16
Total	530	555	691	533	455	434