Stock Exchange Release
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NET CASH UP 16% TO £1BN. DIVIDEND UP 22%. NET CASH DIVIDEND COVER TOWARDS 1.5 IN TWO YEARS.

FINANCIAL HIGHLIGHTS – CONTINUED STRONG PERFORMANCE:

- **NET CASH GENERATION UP 16% TO £1,002M (2012: £865M)**
- **OPERATIONAL CASH GENERATION UP 9% TO £1,042M (2012: £958M)**
- **OPERATING PROFIT UP 7% TO £1,158M (2012: £1,087M)**
- **PROFIT BEFORE TAX UP 10% TO £1,134M (2012: £1,033M)**
- **PROFIT AFTER TAX UP 12% TO £896M (2012: £798M)**
- **EARNINGS PER SHARE UP 10% TO 15.20P (2012: 13.84P)**
- **RETURN ON EQUITY 16.1% (2012: 15.4%)**
- **FULL YEAR DIVIDEND UP 22% TO 9.30P PER SHARE (2012: 7.65P PER SHARE)**
- **NET CASH DIVIDEND COVER TOWARDS 1.5 IN TWO YEARS**

Nigel Wilson, Group Chief Executive, said:

"Disciplined investment in growth, effective management and rigorous cost control has enabled us to more than triple net cash since the financial crisis: it has grown from £320m in 2008 to £1,002m in 2013. We have grown dividends again by over 20% and due to the strength of the business intend to move dividend cover from 1.8 towards 1.5 times over the next two years.

Legal & General moved up another gear in 2013, delivering record financial results and accelerating growth across all areas. Net inflows were £17bn including £9bn in LGIM and £8bn into Cofunds. LGIM now has £450bn of AUM, and Cofunds, with £64bn of assets is the UK's largest Savings platform. Annuity premiums grew by 78% to over £4bn, protection gross premiums were over £1.3bn, and we intermediated £28bn of mortgages. We successfully completed four acquisitions in 2013 and have announced a further acquisition in 2014.

We have delivered significant outperformance during lean economic times and are building momentum as the economy recovers. We now have over 10 million customers who we provide with good quality, good value products and excellent service, including through the recent floods.

Our business has continued to perform strongly in the first two months of 2014 but external risks to the broader economy and markets remain. There is inherent uncertainty as the 'monetary methadone' of QE is withdrawn, and the possibility of further 'butterfly-wing' effects for emerging markets and the Eurozone. The single largest risk to economic progress remains the persistent backdrop of political and regulatory uncertainty, which could undermine the confidence of businesses to invest for long-term growth in the UK. As the largest institutional investor in the UK we are front and centre in delivering the steady, stable investment in debt, equity and physical infrastructure required for recovery."

FINANCIAL SUMMARY

Financial highlights £m	2013	2012	Growth %
Analysis of operating profit[1]			
Legal & General Retirement	**310**	281	**10**
Legal & General Investment Management	**304**	272	**12**
Legal & General Assurance Society	**444**	462	**(4)**
Legal & General Capital	**179**	163	**10**
Legal & General America	**92**	99	**(7)**
Operating profit from divisions	**1,329**	1,277	**4**
Group debt costs	**(127)**	(127)	**-**
Investment projects and expenses	**(44)**	(63)	**30**
Operating profit	**1,158**	1,087	**7**
Investment and other variances (incl. minority interests)	**(24)**	(54)	**56**
Profit before tax	**1,134**	**1,033**	**10**
Operational cash generation	**1,042**	958	**9**
New business strain	**(40)**	(93)	**57**
Net cash generation[1]	**1,002**	865	**16**

LEGAL & GENERAL RETIREMENT (LGR)

£bn	2013	2012	Growth %
Annuity assets	**34.4**	32.2	**7**
Longevity insurance premiums (£m)	**212**	70	**203**
Annuity premiums[2]	**4.1**	2.3	**78**
Annuity net inflows	**2.1**	0.6	**250**

LEGAL & GENERAL INVESTMENT MANAGEMENT (LGIM)

£bn	2013	2012	Growth %
Assets under management[3]	**450**	406	**11**
Gross external inflows	**52.0**	37.1	**40**
Net external inflows	**9.3**	5.3	**75**

LEGAL & GENERAL ASSURANCE SOCIETY (LGAS)

£m	2013	2012	Growth %
UK Protection gross premiums	**1,326**	1,268	**5**
General Insurance gross premiums	**375**	349	**7**
UK Protection new business annual premiums	**218**	221	**(1)**
Savings assets (£bn)[4]	**109**	55	**98**
Savings net flows (£bn)	**6.8**	0.1	**n/a**

LEGAL & GENERAL CAPITAL (LGC)

£bn	2013	2012	Growth %
Assets under management	**4.7**	4.7	**-**

LEGAL & GENERAL AMERICA (LGA)

$m	2013	2012	Growth %
Gross premiums	**1,024**	922	**11**
New business sales	**155**	142	**9**

1. Operating profit and net cash generation are defined on pages 27 and 28 of this announcement.
2. 2013 Annuity premiums exclude £270m of new business annual premium equivalent from longevity insurance.
3. LGIM assets under management include £34bn (2012: £32bn) managed on behalf of LGR and £38bn (2012: £38bn) managed on behalf of LGAS Savings.
4. 2013 Savings assets include £40bn of additional assets acquired as part of the purchase of Cofunds in May 2013.

STRATEGIC EXECUTION DRIVING STRONG PERFORMANCE

In 2013 the Group continued to execute on its clear and focused strategy based on five key macro trends: ageing populations; globalisation of asset markets; welfare reform; digital lifestyles and retrenching banks. In response to these trends we have five strategic responses: Retirement Solutions; LGIM international expansion; Protection; Digital Solutions and Direct Investments. Delivering on this strategy through strong organic growth, in addition to a selective, disciplined approach to acquisitions, will drive growth in our cash and earnings.

As a result of delivering on the Group's strategy **net cash generation increased by 16% to £1,002m** (2012: £865m) through increased operational cash generation, up 9% to £1,042m (2012: £958m) and an improved new business strain of £(40)m (2012: £(93)m). This cash generation is predictable and high quality with 88% (2012: 87%) of net cash generated paid as dividends to the Group.

Operating profit increased by 7% to £1,158m (2012: £1,087m), reflecting the growth in net cash generation, enabling us to deliver **earnings per share up 10% to 15.20 pence** (2012: 13.84 pence) and a **return on equity of 16.1% (2012: 15.4%)**.

General outlook:

Our view is that UK and US real GDP will grow by around 3% and that the Bank of England is unlikely to raise the Bank Rate in 2014. However, structural issues in the economy remain, for example low productivity levels, low real wage growth and sizeable government deficits, together with regulatory uncertainty. Macro economic policy responses since the 2008 crisis have contributed to a significant rise in equity markets, bond values and house prices. Since 2008 we have demonstrated resilience to macro economic impacts and believe the comparative strength of our balance sheet and risk management capabilities position us well.

We expect the growth in our business which has been driven by the five key macro trends to continue in 2014 and beyond. This will be complemented by a continued focus on operational efficiency to ensure we maintain attractive returns and allow our growth businesses to invest in these opportunities.

RETIREMENT SOLUTIONS

In Retirement Solutions, despite a competitive market, we continued to see strong demand for our Defined Benefit (DB) pension de-risking solutions, defined contribution proposition and individual annuity products. **LGR completed £2.8bn of bulk annuity premiums, up 180% on 2012**, across a broad range of solutions, and three longevity insurance contracts covering a total of £5.0bn of liabilities. External **net inflows into LGIM's Liability Driven Investment (LDI) and Active Fixed Income capabilities were up 154% to £9.4bn**. Individual annuity premiums were £1.3bn (2012: £1.3bn), an excellent performance in the context of an overall decline in the market of 15%. In LGAS, assets on our Workplace platform increased 45% to £8.7bn.

Outlook:

We expect growth in 2014 to be driven by our bulk annuity and longevity insurance pension scheme de-risking solutions. The combination of higher equity markets and rising interest rates are helpful for schemes to de-risk and we have a strong quote pipeline of bulk purchase annuity deals. We expect the Individual Annuity market to remain subdued for at least the first half of 2014 and expect continued regulatory focus on this market. We will continue to exercise pricing discipline across all areas of our annuity and longevity insurance propositions.

Our Workplace Savings proposition will continue to grow as employers with 59 to 499 eligible employees auto enrol during the year. We continue to invest in the business to secure further scheme auto enrolees and deliver the necessary cost efficiencies to convert our increasing scale into profitability over the next few years.

LGIM INTERNATIONAL EXPANSION

LGIM's International expansion accelerated as net inflows more than doubled to £15.7bn (2012: £7.8bn), helped by strong demand for LGIM America's LDI and Active Fixed Income capabilities, where net inflows were $7.8bn (2012: $5.2bn). **LGIM's international assets under management were up 37% to £59bn** (2012: £43bn). In total LGIM AUM increased by 11% to £450bn (2012: £406bn).

Outlook:

LGIM's International expansion has started the year well and we expect the strong demand for our Index, Liability Driven Investment and Active Fixed Income capabilities experienced in 2013 to continue in 2014. To build on LGIM's international capability, in February 2014 we acquired Global Index Advisors (GIA), subject to Fund shareholder approval. GIA is an Atlanta-based investment adviser to $15.6bn of assets focused on index target date funds. We expect LGIM's international net inflows to accelerate, and over time for maturing UK DB net outflows to be offset by growth in retail and DC.

PROTECTION

In Protection, each of our businesses continued to grow. **UK protection gross premiums were up 5% to £1.3bn** as our market leading business continued to grow market share. General Insurance premiums were up 7% to £375m and underwriting discipline, improved claims handling processes and more benign weather despite the December floods supported an improved combined operating ratio of 84% (2012: 95%). In LGA, continued growth in our distribution reach increased premiums by 11% to $1,024m.

Outlook:

The strong momentum with which Retail Protection finished the year has continued into 2014. Our mortgage network and market leading presence with banks and building societies positions us well to benefit from the projected growth in the housing market. We continue to see a strong pipeline for our Group Protection products which will benefit from our auto enrolment proposition.

We have been working with our customers affected by the floods in the UK during January and February 2014 to ensure fast payment of claims and to get help to them as quickly as possible. As a result of the floods we anticipate that claims will be around £12m higher in the first two months of 2014, compared to the equivalent period in 2013.

In our US Protection business we will continue to refine our new business pricing as we prioritise long term value creation.

DIGITAL SOLUTIONS

In May 2013 we acquired Cofunds, the UK's largest investment platform, to enhance the Group's digital capabilities. **Cofunds assets increased to £64bn with net inflows of £7.9bn.** Our Retail Protection digital platform now operates with in excess of 80% of applications automatically underwritten at point of sale and the ability to re-price within 24 hours, to respond to competitor activity. In December we launched our online enhanced annuity capability to provide customers with an automatic and fully underwritten annuity quote.

Outlook:

We are investing in the Cofunds platform to enhance its capabilities and ensure we take advantage of the significant growth we expect in this market over the coming years. In parallel we will deliver operational efficiencies to enhance platform profitability into 2015. The market is increasingly moving to digital tools to engage and attract customers and Cofunds will play an important role in offering the Group this capability, in Savings and other products.

DIRECT INVESTMENTS

During 2013 we **increased the Direct Investment portfolio to £2.9bn (2012: £1.4bn)** on investments across our annuity and shareholder funds. Within the shareholder funds LGC completed the acquisition of a 46.5% shareholding in the house builder CALA Homes in March 2013 and a further £8m of equity later in the year to continue to accelerate CALA's growth and develop its landbank.

Outlook:

In Direct Investments we see a strong pipeline of transactions. We have completed £0.3bn of investment in the first two months of 2014, including in both Affordable Housing and Student Accommodation. In 2014 we are developing potential initiatives in the Private Rented Sectors and expect to develop our private placement lending business to SMEs.

CAPITAL MANAGEMENT AND DIVIDEND

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

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

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

Consistent with this revised dividend guidance the Board recommends a final 2013 dividend of 6.90p (2012: 5.69p) giving a full year dividend of 9.30p (2012: 7.65p), 22% higher than 2012. This represents a net cash dividend coverage of 1.82 times, reduced from 1.91 times in 2012.

LEGAL & GENERAL RETIREMENT.

Financial highlights £m	2013	2012
Operational cash generation	**260**	243
New business surplus	**33**	14
Net cash generation	**293**	257
Experience variances, assumption changes, tax and non-cash movements	**17**	24
Operating profit	**310**	281
Individual annuity single premiums (£bn)	**1.3**	1.3
Bulk annuity single premiums (£bn)	**2.8**	1.0
Total annuity single premiums (£bn)	**4.1**	2.3
Annuities net inflows (£bn)	**2.1**	0.6
Annuities assets (£bn)	**34.4**	32.2
Longevity insurance gross premiums (£m)	**212**	70
New business EEV margin (%)	**8.7**	8.8

CONTINUED DEMAND FOR OUR BROAD RANGE OF RETIREMENT SOLUTIONS

Net cash generation increased by 14% to £293m (2012: £257m) as the scale of the business continued to grow, leading to a 7% increase in operational cash generation to £260m (2012: £243m). The new business surplus of £33m (2012: £14m) reflects a good mix of business sold, our innovative asset strategy and the acquisition of Lucida. As a result operating profit increased 10% to £310m (2012: £281m).

Legal & General Retirement (LGR) offers a broad range of retirement solutions to both Corporate and Retail customers, through our bulk purchase annuity, longevity insurance and individual annuity products. In 2013 the business has delivered significant growth with **annuity premiums up 78% to £4.1bn** (2012: £2.3bn) and net inflows (premiums received less annuity payments) of £2.1bn (2012: £0.6bn). Total assets for LGR increased to £34.4bn (2012: £32.2bn), of which £21.1bn (2012: £19.4bn) represents bulk purchase annuity business.

LGR provides income to 770,000 pensioners (2012: 705,000). In total we insure one million customers, including deferred pensioners who rely on us for their future pension arrangements and the pensioners whose financial security we support by protecting their pension schemes against longevity risk.

We continue to benefit from operating through a wide range of distribution channels and being a key player in all the main markets for retirement solutions and pension scheme de-risking. We are able to target our sales appetite to the areas where we expect to optimise our risk-adjusted return on capital.

RECORD BPA AND LONGEVITY INSURANCE PREMIUMS

In the Bulk Annuity market, we completed 94 policies with premiums up 180% to £2.8bn (2012: 90 policies worth £1.0bn). We offer a broad spectrum of solutions to a range of corporate clients. In 2013 we continued our growth in the large scheme bulk annuity market in addition to our traditional strength in small schemes; conducted our first non-UK transaction with New Ireland Assurance; and completed our first back-book acquisition with the purchase of Lucida, the closed annuity buy-out company.

During the year we have seen rising equity markets, increasing the level of scheme assets, and rising interest rates, reducing defined benefit scheme liabilities. Together this has made conditions more favourable for pension trustees and their corporate sponsors to transact.

In 2013 LGR completed three longevity insurance transactions covering £5.0bn of associated liabilities and 48,000 existing pensioners. In a year that saw a record level of risk transfer in the longevity market, we completed over 50% of the business, including the largest longevity insurance contract in the UK to date. We retained 28% of the liabilities with the remainder being reinsured.

INDIVIDUAL ANNUITY PREMIUMS KEEP PACE WITH RECORD LEVELS OF 2012

Individual Annuities achieved sales of £1.3bn, broadly in-line with the record sales achieved in 2012 (2012: £1.3bn). This reflects an excellent performance in the context of an overall decline in the market of 15% in 2013, as pensioners defer retirement and the introduction of gender neutral pricing and the Retail Distribution Review impacted on overall volumes.

Over the years the annuity market has become more sophisticated by moving towards greater personalisation of solutions offered to individual customers. Technology is playing an increasingly important role, particularly for enhanced annuities where the process for gathering medical information and quoting can be cumbersome. We expect the market will ultimately move to a situation where all annuities are individually underwritten. In December we launched a new online enhanced annuity capability, delivered on-time and within budget, to provide customers with an automatic and fully underwritten annuity quote.

Annuities guarantee pensioners a lifelong income, and are the right product for the majority of savers in a defined contribution pension scheme. We believe it is important that consumers have confidence in the market and are able to access the most appropriate product. We have consistently supported the Open Market Option - we offer competitive rates and **in 2013 three quarters of our individual annuity sales came from external sources**. During 2013, we improved prices by 11% on average, partly as a result of the improved investment returns achieved through our direct investments programme, and expanded our presence in the enhanced annuity segment.

We welcome the FCA's thematic review and will work closely with regulators and the government to deliver changes to the market, improving transparency and enabling consumers to shop around. This will benefit customers as well as competitive, open market-focused providers, including Legal & General.

We constantly review the asset portfolio and longevity exposure within LGR. Annuity assets and liabilities are well matched and the impact of rising interest rates has little impact on profitability, as assets move in line with the liabilities. We also maintain a provision of £1.8bn against the risk of default on the £34bn of assets. In 2013 we experienced no defaults (2012: £0.2m).

In addition to reinsuring 72% of our longevity insurance new business we also reinsured a proportion of our individual enhanced annuity business and £1.0bn of our back-book liabilities. This allows us to grow our annuity business in a way that both optimises our risk and capital and reduces potential earnings volatility.

We continue to maintain our pricing discipline, writing business with the primary aim of achieving at least our target return on economic capital. On an EEV basis, the margin was broadly in line with the prior year at 8.7% (2012: 8.8%), and **new business contribution was up 112% to £436m** (2012: £206m) reflecting the higher annuity and longevity insurance new business.

LEGAL & GENERAL INVESTMENT MANAGEMENT.

Financial highlights £m	2013	2012[1]
Total revenue	**594**	533
Total costs	**(290)**	(261)
Operating profit	**304**	272
Net cash generation	**239**	219
Cost:income ratio (%)	**49**	49
External gross inflows (£bn)	**52.0**	37.1
External net inflows (£bn)	**9.3**	5.3
of which International	**15.7**	7.8
Closing assets under management (£bn)	**450**	406
of which International	**59**	43

1. Reclassified to include Legal & General Retail Investments, following the Group's reorganisation in July 2013.

ACCELERATING INTERNATIONAL EXPANSION

Operating profit of £304m increased 12% compared to the previous year (2012: £272m), reflecting strong revenue growth whilst maintaining an excellent cost:income ratio. **Total revenue of £594m was up 11% (2012: £533m)** as assets under management were lifted further by equity markets. Total costs of £290m increased by 11% in 2013 as Legal & General Investment Management (LGIM) continued to invest in its strategic areas for growth. We continue to target a cost:income ratio of 50% or below.

LGIM external net inflows of £9.3bn in 2013 increased by 75% compared to the previous year (2012: £5.3bn). Record net inflows of £15.7bn were received from international clients in 2013 as LGIM's international expansion continued to gain momentum. In the UK, net outflows of £6.4bn include pension payments from defined benefit funds as the market continues to mature.

International AUM grew by 37% to £59bn (2012: £43bn) with significant inflows from our key target regions, where LGIM continued to enhance its product offering. LGIM Asia received its regulatory licence in the second half of 2013 and is now actively marketing across the region.

In the US, LGIM's Active Fixed Income and LDI proposition continued to find favour among pension fund clients and consultants. In the second half of 2013, momentum accelerated with strong net inflows from new and existing investors. **During 2013 LGIM America (LGIMA) received net inflows of £5.0bn** into active products, an increase of 52% compared to the previous year (2012: £3.3bn). LGIMA now manages assets on behalf of four of the 10 largest corporate pension schemes in the US, and has a healthy pipeline going into 2014. To add to our US capabilities, in February 2014 we acquired Global Index Advisors (GIA), subject to Fund shareholder approval. GIA is an Atlanta-based investment adviser to $15.6bn of assets focused on index target date funds.

We continue to build on our presence in Europe and the Gulf with record sales in each region in 2013, driven by an innovative range of passive and Active Fixed Income strategies. We are also well positioned for further expansion in 2014, following the launch of our range of SICAV funds, as we target institutional investors and fund platforms across Europe.

LGIM continues to support UK defined benefit pension schemes looking to de-risk as the market matures. This market trend has resulted in an increasing number of scheme restructures as clients move out of equities and transition towards LDI and then on to the buyout stage. We have experienced some large UK DB outflows from passive equity funds in 2013, which includes assets used to make benefit payments to scheme members. However, we also benefited from strong flows into the Solutions business and fixed income products as these plans de-risk.

UK defined contribution (DC) pension AUM increased 22% to £31bn (2012: £25bn) in 2013. This included over £1bn of net inflows from Legal & General's Workplace Savings platform. We will continue to invest in our UK DC proposition to benefit from the expected growth in this market.

The integration of the Retail Investment business into LGIM is progressing well as we enhance its retail proposition and align it with LGIM's institutional capabilities. Our competitive retail passive fund offering has benefited from the introduction of the Retail Distribution Review, with gross inflows up 39%. This, coupled with the repositioning of our active equity and multi-asset products, leaves us well placed to grow our share of the UK retail market. The Retail Investment business, including structured products, has assets of £17.0bn (2012: £15.6bn) with operating profit of £37m (2012: £29m).

RECORD INFLOWS

Asset movements £bn	Index	Solutions	Active Fixed Income	Active Equities	Property & other	Total
AUM (at 1 January 2013)	**243.2**	**64.0**	**82.2**	**7.7**	**8.9**	**406.0**
Gross inflows	31.3	8.6	11.0	0.1	1.0	**52.0**
Gross outflows	(31.8)	(5.2)	(5.0)	(0.4)	(0.3)	**(42.7)**
External net flows	**(0.5)**	**3.4**	**6.0**	**(0.3)**	**0.7**	**9.3**
Internal net flows	0.7	0.8	(1.7)	(0.2)	0.2	**(0.2)**
Total net flows	**0.2**	**4.2**	**4.3**	**(0.5)**	**0.9**	**9.1**
Market and other movements	26.4	2.2	2.9	1.4	1.5	**34.4**
AUM (at 31 December 2013)	**269.8**	**70.4**	**89.4**	**8.6**	**11.3**	**449.5**

The AUM of LGIM's market-leading Solutions business increased to £70bn, a gain of 10% over the year, reflecting gross inflows of £8.6bn (2012: £5.9bn). We continue to help our clients de-risk their portfolios as rising equity markets and interest rates make market conditions increasingly conducive to de-risking.

Active Fixed Income AUM increased to over £89bn (2012: £82bn). LGIM's strong performance track record across its range of funds continued to attract strong gross flows in the UK from pension schemes looking to de-risk. Over five years, 84% of these funds outperformed their benchmarks. For LGIMA, every product composite outperformed its benchmark, over one, three and five years (gross of fees), supporting LGIM's growth in the region.

Legal & General Property (LGP) is the fourth largest institutional real estate manager in the UK with over £11bn in AUM. LGIM's property team plays an integral role in the group's initiative to increase Direct Investments. Over the year we completed transactions totalling in excess of £1bn on behalf of L&G Retirement. Earlier in the period, LGP was selected by the National Employment Savings Trust (NEST) to run two real estate mandates, representing NEST's first direct investment into commercial property.

Our index capabilities have both scale and efficiency. These capabilities have driven much of our success in Europe and the Gulf as well as providing the basis for growth in the retail and DC businesses. Index AUM increased to £270bn (2012: £243bn).

LEGAL & GENERAL ASSURANCE SOCIETY.

Financial highlights £m	2013	2012
Operational cash generation	**474**	436
New business strain	**(73)**	(107)
Net cash generation	**401**	329
Experience variances, assumption changes, tax and non-cash movements	**43**	133
Operating profit	**444**	462

TRANSITIONING FROM LEGACY TO DIGITAL

Operational cash generation increased by 9% to £474m (2012: £436m) as our Protection and Savings businesses continued to grow their stocks of premiums and assets respectively. New business strain improved by £34m to £(73)m in the year, benefiting from changes to the tax legislation on Retail protection. These tax changes have an offsetting impact of c£50m in non-cash movements.

The LGAS operating profit reduced to £444m (2012: £462m). The operating profit of Protection was £355m (2012: £359m) benefiting from significantly improved profitability in General Insurance of £69m (2012: £30m). This was offset by lower Retail Protection new business margins following the introduction of gender neutral pricing and changes to tax legislation. Savings operating profit was £89m (2012: £103m) with Workplace savings losses increasing to £(29)m (2012: £(14)m) as the costs and continued investment associated with securing 0.5 million new auto enrolees outweighed the low early years' revenue.

The Legal & General Assurance Society (LGAS) business unit was created in July 2013, bringing together the Protection and Savings businesses into a clear customer focused business. During 2013 we took a number of actions to integrate these businesses. This included removing the duplication of functions created by merging the businesses, which will generate annualised cost savings of £34m at a cost of £14m. We continuously review the cost base to ensure LGAS can deliver attractive returns from both our mature and growth businesses while investing in the opportunities our businesses have.

PROTECTION

Financial highlights £m	2013	2012
UK Protection new business annual premiums	**218**	221
UK Protection new business EEV margin (%)	**8.9**	11.8
UK Protection gross premiums	**1,326**	1,268
General Insurance gross premiums	**375**	349
Total UK gross premiums	**1,701**	1,617

Retail Protection continued its strong growth with gross premiums up 5% to £990m (2012: £947m). Our digital platform operates with in excess of 80% of applications automatically underwritten at point of sale and the ability to re-price within 24 hours, to respond to competitor activity. This efficiency and our market leading scale enable us to offer competitive pricing, driving continuing growth in our market share.

The business has strong distribution covering IFAs, where we lead the market; building societies, where we are the sole provider to societies covering around 85% of customers; and the Legal & General Network, which facilitated £28bn, or approximately 1 in 6 of all UK mortgages. Around half of retail protection sales are typically sold alongside a mortgage, and therefore we expect the strength of our distribution, alongside the growing housing market to benefit the business.

Sales in the second half of 2013 were up 5% on the same period in 2012. This is an excellent performance, especially given the impact of gender neutral pricing in December 2012, which meant some customers brought forward purchases into Q4 2012. Over the full year, sales were down marginally to £148m (2012: £151m), reflecting the impact of the gender neutral legislation.

Group Protection delivered a 5% increase in gross premiums to £336m (2012: £321m) with new business sales in-line with last year's sharply higher volumes of £70m (2012: £70m). Our innovative employee rehabilitation program, which helped return three in four employees to work within six months, continues to drive demand for our group income protection products. We also benefited from auto enrolment, as schemes reviewed their wider employee benefits along with their pension scheme.

The UK Protection new business EEV margin of 8.9% (2012: 11.8%) is strong compared to long term average levels, although below the exceptional levels experienced in 2012.

General Insurance gross premiums increased by 7% to £375m (2012: £349m) as we became the fastest growing home insurer in direct sales. Profitability in the year benefited from strong underwriting discipline, improved claims handling and, despite the December floods, more benign weather over the year. This improved our combined operating ratio to 84% (2012: 95%).

SAVINGS

Asset movements £bn	Platforms[1]	Workplace	Suffolk Life	Mature Savings	Consol. Adj	Total
Assets (at 1 January 2013)	**8.6**	**6.0**	**5.1**	**36.2**	**(1.4)**	**54.5**
Gross inflows	11.0	2.1	1.3	1.4	(0.3)	15.5
Gross outflows	(3.1)	(0.6)	(0.4)	(5.1)	0.5	(8.7)
Net flows	**7.9**	**1.5**	**0.9**	**(3.7)**	**0.2**	**6.8**
Acquisition of Cofunds	45.7	-	-	-	(5.4)	40.3
Market movements	1.9	1.2	0.6	3.8	(0.2)	7.3
Assets (at 31 December 2013)	**64.1**	**8.7**	**6.6**	**36.3**	**(6.8)**	**108.9**

1. Platforms include Cofunds and Investor Portfolio Services (IPS).

Growth in LGAS' savings business is based on developing highly scalable and efficient platforms, to offer our straight-forward, low-cost investment products.

To enhance our digital growth strategy, in May 2013 we acquired Cofunds, the UK's largest investment platform. **Our Platform business now has assets of £64bn with net inflows in 2013 of £7.9bn**. We continue to integrate our own Investor Portfolio Services (IPS) business with Cofunds. We are on track to deliver £11m pa of cost savings by 2015, at an initial cost of £17m, as a result of this integration.

The retail investment platform market is forecast to more than double over the next five years. To ensure we take advantage of this opportunity we are investing in Cofunds' technology, both to enhance the functionality of the platform and to improve the efficiency of back office processing. This investment will continue beyond 2014.

In Workplace, assets are up 45% to £8.7bn (2012: £6.0bn) with 903k employees now on the platform (2012: 381k employees) as opt out rates remained low at under 10% in aggregate. Regular contributions to the platform increased 57% to £1.2bn in 2013. Net inflows were £1.5bn (2012: £1.6bn) reflecting the higher regular contributions; offset by a lower number of one-off scheme transfers than 2012. Workplace contributions will continue to grow as more schemes reach their auto enrolment staging dates and the legislative minimum contribution rate increases from the current 2% to 8% by 2018. The Defined Contribution market is a significant long term opportunity for LGAS and the wider Group.

Our SIPP business, Suffolk Life, delivered net inflows of £0.9bn (2012: £0.5bn). The business continues to grow through demand for its bespoke SIPP proposition and from back-book transactions as we continue to see consolidation in the SIPP market. As a result the **assets of Suffolk Life increased by 29% in the year to £6.6bn** (2012: £5.1bn).

In Mature Savings assets were £36.3bn (2012: £36.2bn). Net outflows of £3.7bn (2012: £3.2bn) were in-line with our expectations and offset by positive market movements of £3.8bn (2012: £3.0bn).

LEGAL & GENERAL CAPITAL.

Financial highlights £m	2013	2012
Operating profit	**179**	**163**
Operational cash generation	**137**	123
Group Investment Variance	**29**	**(23)**

INCREASING PRINCIPAL RETURNS

Legal & General Capital (LGC) contributed £179m to the Group's operating profit. It is a new division with a core purpose of increasing the risk adjusted returns on the Group's £43.4bn (2012: £42.9bn) principal balance sheet, which excludes assets where our customers have the total market risk and reward.

Assets under direct management were in-line with the prior year at £4.7bn (2012: £4.7bn). The Group's strong cash generation offset the payment of £0.5bn of external dividends and deployment of £280m in selective acquisitions. During 2013 £131m of funds were utilised to acquire Cofunds, the UK's largest investment platform and £149m to acquire Lucida, the closed UK annuity company.

In addition to Direct Investments, LGC assets are also utilised in providing £1.0bn of seed capital into LGIM funds to support the development of LGIM's capabilities.

The LGC **operating profit of £179m (2012: £163m)** includes the smoothed investment return on the LGC assets. The return is calculated asset class by asset class and equates to an annualised average smoothed investment return of 4.1% (2012: 3.9%) on the average balance of invested assets of £4.5bn (2012: £4.3bn). The actual return on these assets in 2013 was 4.4%.

HOLISTIC MANAGEMENT OF INVESTMENT RISK

LGC advises and implements the Group investment strategies for the £43.4bn (2012: £42.9bn) principal balance sheet and £17.4bn (2012: £18.6bn) of with-profits assets of the Group. We operate the strategy within a group control framework, with a core responsibility for assessing the long term economic outlook and risks of unexpected losses, alongside ensuring that the regulatory requirements are met.

Asset portfolio £bn	2013			
	LGR[1]	LGC	Other	Total
Bonds:	**30.0**	**1.8**	**3.9**	**35.7**
Sovereigns	***4.8***	***0.4***	***1.3***	***6.5***
Banks	***2.1***	***0.5***	***0.4***	***3.0***
Other bonds	***23.1***	***0.9***	***2.2***	***26.2***
Property	**1.3**	**0.1**	**-**	**1.4**
Equities	**0.1**	**1.5**	**-**	**1.6**
Derivatives	**2.1**	**0.2**	**-**	**2.3**
Cash and cash equivalents	**0.7**	**1.1**	**0.6**	**2.4**
Total Asset Portfolio	**34.2**	**4.7**	**4.5**	**43.4**

1. LGR assets represent those used to back the Group's non profit annuity business.

The **investment variance across the Group was £29m (2012: £(23)m**) primarily as a result of strong equity returns in the Shareholder Funds and a positive impact from the increase in exposure to direct investments in LGR. This was partly offset by variances related to our defined benefit pension schemes and LGAS.

In LGPL, the Group's main annuity company, **we maintain a provision of £1.8bn (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 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.

Legal & General continues to have a strong liquidity position reflecting its requirements for working capital and derivative collateral. In addition the Group's outstanding borrowings total £2.6bn (2012: £2.7bn), including £2.4bn (2012: £2.4bn) of long term financing and £0.2bn (2012: £0.3bn) of short term borrowings.

Group debt costs of £127m are in-line with the prior year (2012: £127m) and reflect an average cost of debt of 4.8% per annum (2012: 4.9%) on average nominal value of debt balances of £2.7bn (2012: £2.6bn).

DIRECT INVESTMENTS GROWING STRONGLY

£bn	2013			
	LGR	LGC	LGA	Total
Direct Investments	**2.5**	**0.3**	**0.1**	**2.9**

Our Direct Investment strategy of acquiring a portfolio of real assets on our principal balance sheet continues to expand successfully. Direct Investments are chosen if they have higher risk adjusted returns and provide a natural fit for Legal & General. In our annuity fund, direct investments help us to offer competitive annuity pricing to our customers and invest in UK infrastructure. The UK insurance industry has agreed in principle to invest £25bn in UK infrastructure and Housing and we are actively seeking opportunities to invest our share of this amount.

During 2013 we **increased the Direct Investment portfolio to £2.9bn (2012: £1.4bn)** in our annuity and shareholder funds. We have invested in Social Housing and Student Accommodation; in the Healthcare Sector, including investment to build the new Royal Liverpool University Hospital; provided finance to large corporates through sale and leaseback agreements; and provided loans and commercial finance to UK businesses.

In 2013 we commenced a program to increase the level of Direct Investments within Legal & General America's asset portfolio. This will see $900m of assets, currently in traded bonds, being invested in US commercial mortgages and private placements.

We are increasingly utilising operational management and development to increase our supply of direct investments. Within the shareholder funds LGC completed the acquisition of a 46.5% shareholding in the house builder CALA Homes in March 2013, with a further £8m of equity later in the year to continue to accelerate CALA's growth and develop its landbank. We are developing our existing landbank including a 1,000-unit site at Crowthorne and a 2,000-unit site in Winchester, via our investment in CALA and our English Cities Fund; a public-private joint venture to deliver inner city regeneration in five UK locations. In 2013 we increased our principal capability with the transfer of LGV Capital from LGIM into LGC.

LEGAL & GENERAL AMERICA.

Financial highlights $m	2013	2012
Operating profit	**145**	156
Operational cash generation	**69**	63
Gross premium income	**1,024**	922
New business APE	**155**	142

CONTINUED GROWTH IN PREMIUMS AND SALES

In 2013 Legal & General America's (LGA) **sales were up 9% to $155m** (2012: $142m), representing a further improvement in market share. LGA has now delivered double digit sales growth, in its core term product, in each of the last three years. This has been achieved through a strategy of developing better relationships with its brokerage general agents (BGAs), who distribute term assurance in the US market. The growth in sales resulted in an **increase in gross premiums by 11% to $1,024m** (2012: $922m).

During the year an ongoing cost efficiency program, coupled with the benefits from higher sales, reduced new business unit costs by 5% in 2013. In a recent benchmarking study of 15 US life companies LGA was ranked the lowest for new business costs.

LGA operating profit in 2013 was $145m (2012: $156m). During the second half of the year we experienced higher mortality claims than expected on our smaller universal life portfolio. The operating profit also reflects the lower investment returns achieved during the year. This was partially offset by continued cost reductions. In order to improve the yield on the $3.3bn of assets held by LGA, $0.9bn of these funds have been earmarked for direct investments. These investments will be made over the following eighteen months.

Operational cash generation increased by 10% to $69m (2012: $63m). This represents the ordinary and preference dividends paid to the Group during 2013. In February 2014 LGA paid a further ordinary dividend to the Group of $73m (2013: $66m). This dividend will be recognised in operational cash generation in the Q1 2014 results.

CASH GENERATION.

STRONG CORRELATION 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
LGR	260	33	293	(52)	241	69	310
LGIM	239	-	239	-	239	65	304
LGAS	474	(73)	401	(62)	339	105	444
LGC	137	-	137	-	137	42	179
LGA	44	-	44	14	58	34	92
Operating profit from divisions	**1,154**	**(40)**	**1,114**	**(100)**	**1,014**	**315**	**1,329**
Group debt and other costs	(112)	-	(112)	(19)	(131)	(40)	(171)
Operating profit	**1,042**	**(40)**	**1,002**	**(119)**	**883**	**275**	**1,158**
Investment and other variances	-	-	-	13	13	(37)	(24)
Total	**1,042**	**(40)**	**1,002**	**(106)**	**896**	**238**	**1,134**
Dividend			**550**		**550**		
Dividend coverage			**1.82**		**1.63**		

CASH GENERATION BACKED BY DIVIDENDS TO GROUP

In 2013, 88% of the net cash generation was distributed to the Group (2012: 87%). This demonstrates the high quality, liquid nature of the cash generation.

£m	2013			2012		
	Net cash £m	Dividend £m	Dividend % of cash	Net cash £m	Dividend £m	Dividend % of cash
LGR	**293**	**627**	**90**	257	539	92
LGAS	**401**			329		
LGIM	**239**	**213**	**89**	219	175	80
LGA	**44**	**44**	**100**	40	40	100
Sub-total	**977**	**884**	**90**	845	754	89
LGC	**137**			123		
Group debt and other costs	**(112)**			(103)		
Total	**1,002**	**884**	**88**	865	754	87

OPERATIONAL CASH GENERATION GUIDANCE

£m	2014 Guidance	2013
LGR	c. 290	260
LGAS excluding General Insurance	c. 430	421
LGA	c.45	44
Sub-total	**c. 765**	725
LGIM		239
LGC		137
LGAS General Insurance		53
Operational cash generation from divisions		1,154
Group debt and other costs		(112)
Total operational cash generation		1,042
New business strain		(40)
Net cash generation		1,002

For LGR, LGA and LGAS, excluding the General Insurance business, we estimate operational cash generation will increase in 2014 by 6% to £765m.

CAPITAL RESOURCES – STRONG BALANCE SHEET

As at 31 December 2013 the Solvency I Insurance Group's Directive (IGD) surplus was £4.0bn (2012: £4.1bn).

The Group's capital resources totalled £7.3bn, covering the capital resources requirement of £3.3bn by 2.22 times. This is after allowing for the accrual of the 2013 final dividend of £408m.

Capital £bn	2013	2012
Group capital resources	**7.3**	7.2
Group capital resources requirement	**3.3**	3.1
IGD surplus	**4.0**	4.1
Coverage ratio %	**222**	234

TAXATION.

GROUP TAX RATES – EFFECTIVE TAX RATE OF 21.0%

Equity holders' effective tax rate %	2013	2012
Total Effective Tax Rate	**21.0**	22.7
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.

The UK has a deferred tax asset of £93m in respect of trading losses (2012: £127m). The movement in the year includes a £70m (2012: £72m) contribution to net cash generation in LGR and LGAS Protection from the utilisation of tax losses. This has been partially offset by other tax deductions, non-taxable income and losses acquired within Lucida and Cofunds. It is expected that trading losses will be available to LGR throughout 2014.

SUPPLEMENTARY EEV DISCLOSURE.

EEV highlights Pence	2013	2012
Equity per share including LGIM	190	173
Equity per share	162	151

Analysis of EEV results £m	2013	2012
Contribution from new business	651	475
Expected return from in-force business	426	448
Experience variances and assumption changes	(32)	(76)
Development costs	(40)	(37)
Contribution from shareholder net worth	125	145
EEV operating profit on covered business	**1,130**	955
Business reported on an IFRS basis	211	86
EEV operating profit	**1,341**	1,041
Economic variances	215	(195)
Losses attributable to non-controlling interests	3	(12)
EEV profit before tax	**1,559**	834
Tax and other	(270)	(101)
EEV profit after tax	**1,289**	733

EEV PER SHARE

The Group delivered £1,289m of EEV profit after tax, which after external dividend payments in the year of £479m and foreign exchange, pension deficit and other adjustments of £(124)m, increased EEV shareholders' equity to £9,586m (2012: £8,900m), equivalent to 162 pence per share (2012: 151 pence per share). Including LGIM's external funds in the calculation increases the EEV per share to 190 pence (2012: 173 pence).

NEW BUSINESS CONTRIBUTION

Contribution from new business increased to £651m (2012: £475m). The increase reflects the strong increase in the contribution from Legal & General Retirement, where sales increased to £4.1bn (2012: £2.3bn).

Worldwide EEV new business margin increased to 5.1% (2012: 4.7%) primarily due to the higher mix of annuity business.

EEV OPERATING PROFIT

EEV operating profit increased by 29% to £1,341m (2012: £1,041m), as the Group benefited from its growth strategy and higher sales. Experience variances and assumption changes were £(32)m (2012: £(76)m) with positive experience in LGAS and LGR offset by negative operating assumption changes in LGA. 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 £215m (2012: £(195)m) arose 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.

VALUE OF IN-FORCE

The table below illustrates how the discounted and undiscounted value of in-force (VIF) has increased throughout the year.

Reconciliation of LGAS and LGR VIF £bn	Discounted	Undiscounted[1]
Opening VIF at 1 January 2013	**4.5**	**9.1**
Contribution from new business	0.5	1.0
Unwind of discount rate	0.3	n/a
Expected release from non profit and with-profits businesses[2]	(0.7)	(0.7)
Experience variances / assumption changes	-	0.2
Investment variance / economic assumption changes	0.2	0.8
Other	0.1	0.1
Closing VIF at 31 December 2013	**4.9**	**10.5**

1. Management estimates.
2. Comprises the expected release from non profit business of £635m and with-profits transfer of £54m.

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 (2012: £0.2bn), equivalent to 5p per share (2012: 4p per share).

The external assets component of LGIM is included at the IFRS net asset value of £0.4bn (2012: £0.4bn), equivalent to 7p per share (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 £0.7bn (12p per share) to £2.3bn (40p 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	2013 p per share	2013 £bn
Look through value of profits on covered business	**5**	0.3
Net asset value	**7**	0.4
Current value of LGIM in Group embedded value	**12**	0.7
LGIM VIF	**28**	1.6
Alternative discounted value of LGIM future cash flows	**40**	2.3

Including LGIM, this scenario equates to an indicative valuation per share of 190 pence (2012: 173 pence).

Indicative valuation including LGIM	2013 p per share	2013 £bn
EEV as reported	**162**	9.6
LGIM VIF	**28**	1.6
Total including LGIM	**190**	11.2

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.

RISKS AND UNCERTAINTIES	TREND, OUTLOOK AND MITIGATION
Changes in regulation or legislation may have a detrimental effect on our strategy. Legislation and government fiscal policy influence our product design, the period of retention of products and our required reserves for future liabilities. Regulation defines the overall framework for the design, marketing and distribution of our products; and the prudential capital that we hold. The nature of long term business can result in some changes in regulation having a retrospective effect on our businesses. Significant changes in regulation may reduce our earnings and profitability or require us to hold more capital.	The implementation of the Retail Distribution (RDR) at the start of 2013 has resulted in dramatic shifts in the distribution landscape. The retrenchment by the banks and challenges to IFA distribution models in response to RDR and other regulatory initiatives, together with a slow transition of consumers to the RDR model has presented broader market uncertainty for products that rely on customers' access to advice. Solvency II is targeted for implementation in early 2016. Revised capital calibrations for long term business provide sufficient flexibility to address many of the adverse capital impacts for UK insurance firms. Challenges remain, however, in ensuring that final implementation is proportionate and cost effective for the insurance sector. We seek to actively participate with Government and regulatory bodies in the UK and Europe to assist in the evaluation of change so as to develop outcomes that meet the needs of all stakeholders. Internally, we evaluate the impact of all legislative and regulatory change as part of our formal risk identification and assessment processes, with material matters being considered at the Group Risk Committee and the Group Board. We maintain a flexible distribution model to respond to changing market trends.
Investment market performance or conditions in the broader economy may adversely impact our earnings and profitability. The performance and liquidity of investment markets, interest rate movements and inflation impact the value of investment assets we hold in shareholders' funds and those to meet the obligations arising from insurance business. Interest rate movement and inflation can also change the value of the obligations. We use a range of techniques to manage mismatches between assets and liabilities. However, financial loss can still arise from adverse investment markets. In addition, significant falls in investment values can reduce the fee income of our investment management business. Broader economic conditions impact the timing of the purchase and the period of retention of retail financial services products.	Global investment markets have returned to pre-financial crisis levels, responding both to the more positive economic outlook and the conditions created by the monetary policies being exercised by central banks. There is limited resilience, however, in the current environment for 'shocks' such as those from an abrupt change in monetary policy, with potential for significant falls in the value of certain asset classes should markets reassess returns. We model our business plans across a broad range of economic scenarios and take account of alternative economic outlooks within our overall business strategy. As part of our business plans we have sought to ensure focus upon those market segments that we expect to be resilient in projected conditions.

In dealing with issuers of debt and other types of counterparty the Group is exposed to the risk of financial loss.
A systemic default event within the corporate sector, or a major sovereign debt event, could result in dislocation of bond markets, significantly widening credit spreads, and may result in default of even strongly rated issuers of debt, exposing us to financial loss. We are also exposed to banking, money market and reinsurance counterparties, and settlement, custody and other bespoke business services, a failure of which could expose us to both financial loss and operational disruption of our business processes.

2013 saw a further narrowing of credit spreads reflecting market confidence in the issuers of investment grade bonds. We have continued to experience low levels of default on our corporate bond portfolio. There remains, however, a range of factors that could trigger write downs in our investment assets. These factors include a deterioration in the confidence in banks within the Euro zone or the currency area itself; a failure to definitively resolve the US government debt ceiling; and a financial crisis in emerging markets.

We actively manage our exposure to default risks, setting counterparty selection criteria and exposure limits and hold reserves against our assessment of counterparty debt defaults. We continue to diversify the asset classes backing our annuities business, to include the use of property lending, sale and leaseback and other forms of direct investment.

As a UK-based Group, our earnings are influenced by the performance and perception of the UK financial services sector as a whole.
The financial crisis, subsequent investment performance and low interest rate environment, together with consumers' perceptions of the robustness of financial institutions, may impact consumer attitudes to long-term savings. Regulatory actions may also adversely impact consumers' perception of the value of insurance products and result in changes to the regulatory and legislative environment in which we operate.

As a significant participant in the long-term savings markets, we are exposed to changes in consumer sentiment. We are also exposed to increased costs of regulatory compliance through regulatory and legislative responses to events in the financial services sector. Recent examples include the EU transaction tax and the central clearing of certain derivative instruments, which would increase the costs associated with pension savings products and annuities, respectively.

We actively manage our brand and seek to differentiate our business model from that of our competitors, focusing on our customers' needs through a diversified portfolio of risk, savings and investment businesses. We also actively engage with our regulators to support understanding of the risk drivers in the markets in which we operate, and highlight matters where we believe the industry need to change.

Reserves for long-term business may require revision as a result of changes in experience, regulation or legislation.
The writing of long-term insurance business requires the setting of assumptions for long-term trends in factors such as mortality, lapse rates and persistency, valuation interest rates, expenses and credit defaults. Actual experience may result in the need to recalibrate these assumptions reducing profitability. Forced changes in reserves can also be required because of regulatory or legislative intervention in the way that products are priced, reducing profitability and future earnings.

We regularly appraise the assumptions underpinning the business that we write. In our annuities business we are, however, exposed to factors such as improvements in medical science beyond those anticipated leading to unexpected changes in life expectancy. In protection business we remain inherently exposed to loss from events causing widespread mortality/morbidity or significant policy lapse rates. As illustrated by the implementation of the EU gender neutral pricing legislation, there is also potential for legislative intervention in the pricing of insurance products irrespective of risk factors, such as age or health

We undertake significant analysis of longevity and mortality risks to ensure an appropriate premium is charged for the risks we take on and that our reserves remain appropriate. We remain focused on developing a comprehensive understanding of annuitant mortality and we continue to evolve and develop our underwriting capabilities. We also continue to ensure that legislators recognise the benefits to consumers of pricing insurance products based on the risk factors that each policy presents.

The Group may not maximise opportunities from structural and other changes within the financial services sector, adversely impacting future earnings.
Significant changes in the markets in which we operate may require the review and realignment of elements of our business strategy. A failure to be sufficiently responsive to potential change and understand the implication to our businesses, or the incorrect execution of change may impact the achievement of our strategic objectives.

Macro trends in the markets in which we operate include an ageing population, the increasing use of digital technologies and significant reform in the provision of state welfare. Within the investment management business asset classes are increasingly homogeneous providing opportunities for businesses with scale such as us. The retrenchment of the banks also provides opportunity for insurance firms to participate in investment and lending activities. Responding to these macro trends potentially creates organisational challenges and management stretch across the range of initiatives.

We have clear strategies to respond to the macro trends. Risks arising from macro trends have been considered as part of the Group Risk Committee focused business and risk reviews. The Committee and the Group Board has also debated the risks of management stretch, with strategic projects being re-focused as appropriate. During 2013 we undertook a significant re-structure of our businesses to deliver our strategic responses to the changes in the markets in which we operate.

A material failure in our business processes may result in unanticipated financial loss or reputation damage.
We have constructed our framework of internal controls to minimise the risk of unanticipated financial loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage. Our plans for growth inherently will increase the profile of operational risks across our businesses.

As we grow we continue to invest in our system capabilities and business processes to ensure that we meet the expectations of our customers; comply with regulatory, legal and financial reporting requirements; and mitigate the risks of loss or reputational damage from operational risk events. The restructure of our business divisions seeks to support the positioning of appropriate resources to manage these risks.

Our risk governance model seeks to ensure that business management are actively engaged in ensuring an appropriate control environment is in place. The Group Risk team provides expert advice and guidance on the required control environment, together with objective challenge in the way risks are being managed. Our Internal Audit function provides independent assurance on the adequacy and effectiveness of our controls.

The financial services sector is increasingly becoming a target of 'cyber crime'.
As we and our business partners increasingly digitalise our businesses, we are inherently exposed to the risk that third parties may seek to disrupt our on-line business operations, steal customer data or perpetrate acts of fraud using digital media. A significant cyber event could result in reputation damage and financial loss.

The financial services sector has seen a significant rise in attempts by third parties to seek and exploit perceived vulnerabilities in IT systems. Potential threats include denial of service attacks, network intrusions to steal data for the furtherance of financial crime, and the electronic diversion of funds.

We're focused on maintaining a robust and secure IT environment that protects our customer and corporate data. Working with our business partners we deploy control techniques to evaluate the security of our systems and proactively address emerging threats. During 2013 the Group Risk Committee reviewed cyber risks and our control framework, with further review scheduled for 2014. We remain vigilant to the range of risks, however, the evolving nature of cyber threats means that residual risks will remain.

ENQUIRIES.

INVESTORS:

Bernie Hickman	Group Financial Controller and Investor Relations Director	020 3124 2043
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
Michelle Clarke	Tulchan Communications	020 7353 4200
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 10.00 GMT 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

LOCATION YOU ARE DIALLING IN FROM	NUMBER YOU SHOULD DIAL
UNITED KINGDOM	0800 368 0649
ALL OTHER LOCATIONS	+ 44 20 3059 8125
CONFERENCE ENTRY VIA QR CODE	TO GAIN ACCESS TO THE CONFERENCE USING THE QR CODE, PLEASE ENSURE YOU HAVE THE APPROPRIATE SOFTWARE ON YOUR MOBILE DEVICE AND SCAN THE IMAGE.

Financial Calendar	Date
Ex-dividend date	23 April 2014
Record date	25 April 2014
Annual general meeting	21 May 2014
Payment date of 2013 final dividend	4 June 2014
Q1 Interim Management Statement 2014	7 May 2014
Half-year results 2014	6 August 2014
Q3 Interim Management Statement 2014	4 November 2014

The Preliminary Results for the year ended 31 December 2013 do not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The Group's statutory accounts for 2012 and 2013 have been audited by PricewaterhouseCoopers LLP and their reports were unqualified and did not contain a statement under section 498(2) or (3) of the Companies Act 2006. The Group's 2012 statutory accounts have been filed with the Registrar of Companies.

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.

NOTES

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NOTES

Operating profit
For the year ended 31 December 2013

	Notes	2013 £m	2012 [1] £m
From continuing operations			
Legal & General Assurance Society (LGAS)	2.02	**444**	462
Legal & General Retirement (LGR)	2.02	**310**	281
Legal & General Investment Management (LGIM)	2.04	**304**	272
Legal & General Capital (LGC)	2.05	**179**	163
Legal & General America (LGA)		**92**	99
Operating profit from divisions		**1,329**	1,277
Group debt costs[2]		**(127)**	(127)
Group investment projects and expenses[3]		**(44)**	(63)
Operating profit		**1,158**	1,087
Investment and other variances	2.06	**(27)**	(42)
Gains/(losses) on non-controlling interests		**3**	(12)
Profit before tax		**1,134**	1,033
Tax expense attributable to equity holders of the Company		**(238)**	(235)
Profit for the year		**896**	798
Profit attributable to equity holders of the Company		**893**	810
		p	p
Earnings per share			
Based on profit attributable to equity holders of the Company		**15.20**	13.84
Diluted earnings per share			
Based on profit attributable to equity holders of the Company		**15.00**	13.61

1. Investment and other variances have been adjusted to reflect the adoption by the Group of amendments to IAS 19, 'Employee Benefits'. The impact is to reduce profit for the year by £3m for 2012, offset by a corresponding change in the Consolidated Statement of Comprehensive Income.
2. Group debt costs exclude interest on non recourse financing.
3. Group investment projects and expenses include investment project costs of £25m (2012: £50m) that predominantly relate to the Economic Capital programme and other strategic projects.

This supplementary operating profit information (one of the Group's key performance indicators) provides further analysis of the results reported under IFRS and we believe gives shareholders a better understanding of the underlying performance of the business.

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

During the year, the Group has made changes to the organisational structure, effective from 1 July 2013. The prior period segmental information has been represented to reflect these changes.

LGAS represents Protection business (retail protection, group protection and general insurance) and Savings business (platforms, workplace, SIPPs, mature savings and with-profits). The LGAS segment also includes Legal & General France (LGF), Legal & General Netherlands (LGN) and emerging markets.

LGR represents Annuities (both individual and bulk purchase) and longevity insurance.

The LGIM segment represents institutional and retail investment management businesses.

LGC represents the long term investment return (less investment expenses) on Group invested assets, using assumptions applied to the average balance of Group invested assets (including interest bearing intra-group balances) calculated on a monthly basis.

The LGA segment comprises protection business written in the USA.

2.01 Operational cash generation

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

For the year ended 31 December 2013	Operational cash generation[1] £m	New business strain £m	Net cash generation £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other[2] £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGAS	**474**	**(73)**	**401**	**(34)**	**31**	**(69)**	**10**	**339**	**105**	**444**
- Protection	310	(15)	295	(7)	20	(47)	10	271	84	355
- Savings	164	(58)	106	(27)	11	(22)	-	68	21	89
LGR	**260**	**33**	**293**	**9**	**(13)**	**(48)**	**-**	**241**	**69**	**310**
LGIM	**239**	**-**	**239**	**-**	**-**	**-**	**-**	**239**	**65**	**304**
LGC	**137**	**-**	**137**	**-**	**-**	**-**	**-**	**137**	**42**	**179**
LGA	**44**	**-**	**44**	**-**	**-**	**-**	**14**	**58**	**34**	**92**
Total from divisions	**1,154**	**(40)**	**1,114**	**(25)**	**18**	**(117)**	**24**	**1,014**	**315**	**1,329**
Group debt costs	**(97)**	**-**	**(97)**	**-**	**-**	**-**	**-**	**(97)**	**(30)**	**(127)**
Group investment projects and expenses	**(15)**	**-**	**(15)**	**-**	**-**	**-**	**(19)**	**(34)**	**(10)**	**(44)**
Total	**1,042**	**(40)**	**1,002**	**(25)**	**18**	**(117)**	**5**	**883**	**275**	**1,158**

1. Operational cash generation includes dividends remitted from LGF of £2m (2012: £2m), LGN of £14m (2012: £12m) and LGA of £44m (2012: £40m).
2. International and other includes the operating profits not remitted as dividends from LGF of £4m (2012: £8m), LGN of £6m (2012: £9m) within the Protection line and LGA of £14m (2012: £22m).

Operational cash generation for LGAS and LGR represents the expected surplus generated in the period from the UK in-force non profit Protection, Savings and Annuities businesses using best estimate assumptions. The LGAS operational cash generation also includes the shareholders' share of bonuses on with-profits business, dividends remitted from LGF and LGN and operating profit after tax from remaining Savings businesses.

New business strain for LGAS and LGR represents the cost of acquiring new business and setting up regulatory reserves in respect of the new business for UK non profit Protection, Savings and Annuities, net of tax. The new business strain and operational cash generation for both LGAS and LGR exclude required solvency margin from the liability calculation.

Net cash generation for LGAS and LGR is defined as operational cash generation less new business strain.

Operational cash generation and net cash for LGIM represents the operating profit (net of tax).

Operational cash generation for LGC represents the long term expected investment returns (net of tax) on Group invested assets.

The operational cash generation for LGA represents the dividends received.

See Note 2.02 for more detail on variances, assumption changes and non-cash items.

2.01 Operational cash generation (continued)

For the year ended 31 December 2012	Operational cash generation[1] £m	New business strain £m	Net cash generation £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other[2] £m	Operating profit/(loss) after tax £m	Tax expense/(credit) £m	Operating profit/(loss) before tax £m
LGAS	**436**	**(107)**	**329**	**(47)**	**45**	**4**	**15**	**346**	**116**	**462**
- Protection	279	(45)	234	(8)	25	1	17	269	90	359
- Savings	157	(62)	95	(39)	20	3	(2)	77	26	103
LGR	**243**	**14**	**257**	**43**	**(24)**	**(64)**	**-**	**212**	**69**	**281**
LGIM	**219**	**-**	**219**	**-**	**-**	**-**	**-**	**219**	**53**	**272**
LGC	**123**	**-**	**123**	**-**	**-**	**-**	**-**	**123**	**40**	**163**
LGA	**40**	**-**	**40**	**-**	**-**	**-**	**22**	**62**	**37**	**99**
Total from divisions	**1,061**	**(93)**	**968**	**(4)**	**21**	**(60)**	**37**	**962**	**315**	**1,277**
Group debt costs	**(96)**	**-**	**(96)**	**-**	**-**	**-**	**-**	**(96)**	**(31)**	**(127)**
Group investment projects and expenses	**(7)**	**-**	**(7)**	**-**	**-**	**-**	**(40)**	**(47)**	**(16)**	**(63)**
Total	**958**	**(93)**	**865**	**(4)**	**21**	**(60)**	**(3)**	**819**	**268**	**1,087**

1. Operational cash generation includes dividends remitted from LGF of £2m, LGN of £12m and LGA of £40m.
2. International and other includes the operating profits not remitted as dividends from LGF of £8m, LGN of £9m within the Protection line and LGA of £22m.

2.02 Analysis of LGAS and LGR operating profit

	LGAS 2013 £m	LGR 2013 £m	LGAS 2012 £m	LGR 2012 £m
Net cash generation	**401**	**293**	329	257
Experience variances				
Persistency	**5**	**1**	(3)	(2)
Mortality/Morbidity	**-**	**14**	(1)	5
Expenses	**(3)**	**-**	5	-
BPA Loading	**-**	**4**	-	37
Project and development costs[1]	**(23)**	**(11)**	(38)	(5)
Other	**(13)**	**1**	(10)	8
Total experience variances	**(34)**	**9**	(47)	43
Changes to valuation assumptions				
Persistency	**7**	**-**	(10)	-
Mortality/Morbidity[2]	**9**	**(13)**	9	(23)
Expenses	**8**	**-**	18	-
Other[3]	**7**	**-**	28	(1)
Total valuation assumption changes	**31**	**(13)**	45	(24)
Movement in non-cash items				
Deferred tax	**(4)**	**-**	(3)	(1)
Utilisation of brought forward trading losses	**(4)**	**(70)**	(2)	(70)
Acquisition expense tax relief [4]	**(51)**	**-**	14	-
Deferred Acquisition costs (DAC)[5]	**(54)**	**-**	(9)	-
Deferred Income Liabilities (DIL)[6]	**47**	**-**	14	-
Other[7]	**(3)**	**22**	(10)	7
Total non-cash movement items	**(69)**	**(48)**	4	(64)
Other[8]	**10**	**-**	15	-
Operating profit after tax	**339**	**241**	346	212
Tax gross up	**105**	**69**	116	69
Operating profit before tax	**444**	**310**	462	281

1. The project and development costs in LGAS primarily relate to expenditure on workplace savings and the Retail Distribution Review. For LGR, it is primarily related to expenditure on our enhanced annuity platform proposition.
2. LGR adverse Mortality/Morbidity assumption changes primarily relate to the strengthening of the prudence margin for base mortality.
3. Other valuation assumption changes for LGAS in 2012 primarily relate to a reduction in the best estimate reserves within retail protection for reinsurer default and applying PS06/14 to a retail protection product.
4. Net cash for LGAS Protection and insured savings recognises tax relief from prior year acquisition expenses, which are spread evenly over seven years under relevant 'I-E' tax legislation, in the period the cash flows actually occur. In contrast, operating profit typically recognises the value of these future cash flows in the same period as the underlying expense as deferred tax amounts. The reconciling amounts arising from these items are included in the table above. Following the removal of new retail protection business from the I-E tax regime, and the removal of commission from new insured savings business under the Retail Distribution Review at the end of 2012, no material amount of deferred tax assets arise on new acquisition expenses. From 2013, as the deferred tax asset on prior period acquisition expenses unwinds, no replacement asset is created resulting in a higher level of Net Cash in 2013, which will then reduce over the following 6 years.
5. The DAC in LGAS represents the amortisation charges offset by new acquisitions costs deferred in the year. The decrease in deferred costs reflects the removal of commission payable on savings and investment business following the implementation of the requirements of the Retail Distribution Review on 1 January 2013.
6. The DIL in LGAS reflects initial fees on insured savings business which relate to the future provision of services and are deferred and amortised over the anticipated period in which these services are provided. The significant movement in the year is driven by the implementation of the requirements of the Retail Distribution Review on 1 January 2013.
7. The £22m in other non-cash items in LGR primarily relates to movement in valuation differences between IFRS and regulatory bases.
8. Other in LGAS includes the operating profits not remitted back as dividends from LGF £4m (2012: £8m) and LGN £6m (2012: £9m).

2.03 General insurance combined operating ratio[1]

	2013 %	2012 %
General insurance combined operating ratio[2]	**84**	95

1. The calculation of the general insurance combined operating ratio incorporates commission and expenses as a percentage of earned premiums.
2. The reduced combined operating ratio reflects the continued pricing and underwriting discipline, improvements in the claims management processes during 2013 and benign weather experienced in the first 11 months of the year.

2.04 LGIM

	2013 £m	2012 £m
Revenues	**594**	533
Expenses	**(290)**	(261)
Total LGIM operating profit[1]	**304**	272

1. Total LGIM operating profit includes £37m (2012: £29m) from retail investment management.

2.05 LGC

	2013 £m	2012 £m
Investment return	**185**	168
Investment expenses	**(6)**	(5)
Total LGC operating profit	**179**	163

2.06 Investment and other variances

	2013 £m	2012 £m
Investment variance[1]	**29**	(23)
M&A related[2]	**(16)**	-
Other[3]	**(40)**	(19)
Total	**(27)**	(42)

1. Investment variance is positive due to strong equity returns from shareholder funds and a positive impact from the increase in exposure to Direct Investments. This has been partly offset by the defined pension benefit scheme variance of £(30)m (2012: £40m), that reflects the actuarial gains and losses and valuation difference arising on annuity assets held by defined benefit pension schemes that have been purchased from Legal & General Assurance Society Limited. All other actuarial gains and losses on the defined benefit scheme assets and liabilities are presented in the Other Comprehensive Income.
2. M&A related includes gains, expenses and intangible amortisation relating to acquisitions.
3. Other includes new business start up costs, restructuring costs, and other non-investment related variance items.

Consolidated Income Statement
For the year ended 31 December 2013

	Notes	2013 £m	2012[1] £m
Revenue			
Gross written premiums		**6,162**	5,668
Outward reinsurance premiums		**(874)**	(718)
Net change in provision for unearned premiums		**(18)**	(25)
Net premiums earned		**5,270**	4,925
Fees from fund management and investment contracts		**1,040**	875
Investment return		**32,221**	28,828
Operational income		**720**	342
Total revenue		**39,251**	34,970
Expenses			
Claims and change in insurance liabilities		**5,767**	8,588
Reinsurance recoveries		**(1,113)**	(779)
Net claims and change in insurance liabilities		**4,654**	7,809
Change in provisions for investment contract liabilities		**30,458**	23,656
Acquisition costs		**855**	784
Finance costs		**163**	165
Other expenses		**1,694**	1,194
Transfers to unallocated divisible surplus		**112**	155
Total expenses		**37,936**	33,763
Profit before tax		**1,315**	1,207
Tax expense attributable to policyholder returns		**(181)**	(174)
Profit before tax		**1,134**	1,033
Total tax expense		**(419)**	(409)
Tax expense attributable to policyholder returns		**181**	174
Tax expense attributable to equity holders		**(238)**	(235)
Profit for the year		**896**	798
Attributable to:			
Non-controlling interests		**3**	(12)
Equity holders of the Company		**893**	810
Dividend distributions to equity holders of the Company during the year	2.10	**479**	394
Dividend distributions to equity holders of the Company proposed after the year end	2.10	**408**	337

		p	p
Earnings per share			
Based on profit attributable to equity holders of the Company	2.07	**15.20**	13.84
Diluted earnings per share			
Based on profit attributable to equity holders of the Company	2.07	**15.00**	13.61

1. The Consolidated Income Statement has been restated to reflect the adoption by the Group of amendments to IAS 19, 'Employee Benefits'. Further details are contained in Note 2.21. The impact is to reduce profit for the year by £3m for 2012.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

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

1. The Consolidated Statement of Comprehensive Income has been restated to reflect the adoption by the Group of amendments to IAS 19, 'Employee Benefits'. Further details are contained in Note 2.21. The impact is to reduce profit for the year by £3m for 2012, offset by a corresponding change in the Other Comprehensive Income.

Consolidated Balance Sheet
As at 31 December 2013

	Notes	2013 £m	2012 £m
Assets			
Goodwill	2.08	**73**	-
Purchased interest in long term businesses and other intangible assets		**308**	211
Deferred acquisition costs		**1,880**	1,904
Investment in associates and joint ventures		**101**	87
Property, plant and equipment		**129**	92
Investment property	2.09	**6,060**	5,143
Financial investments	2.09	**331,802**	316,748
Reinsurers' share of contract liabilities		**2,897**	2,499
Deferred tax asset		**82**	316
Current tax recoverable		**310**	194
Other assets		**2,115**	1,564
Assets of operations classified as held for sale[1]		**-**	891
Cash and cash equivalents		**17,407**	16,652
Total assets		**363,164**	346,301
Equity			
Share capital	2.11	**148**	148
Share premium	2.11	**959**	956
Employee scheme treasury shares		**(39)**	(43)
Capital redemption and other reserves		**57**	153
Retained earnings		**4,517**	4,227
Shareholders' equity		**5,642**	5,441
Non-controlling interests		**58**	39
Total equity		**5,700**	5,480
Liabilities			
Participating insurance contracts	2.15	**6,972**	8,116
Participating investment contracts	2.16	**7,493**	7,403
Unallocated divisible surplus		**1,221**	1,153
Value of in-force non-participating contracts		**(248)**	(242)
Participating contract liabilities		**15,438**	16,430
Non-participating insurance contracts	2.15	**40,273**	37,728
Non-participating investment contracts	2.16	**278,754**	264,958
Non-participating contract liabilities		**319,027**	302,686
Core borrowings	2.13	**2,453**	2,445
Operational borrowings	2.14	**704**	920
Provisions	2.19	**1,128**	983
Deferred tax liabilities		**362**	382
Current tax liabilities		**14**	68
Payables and other financial liabilities		**8,931**	8,083
Other liabilities		**1,032**	959
Net asset value attributable to unit holders		**8,375**	7,702
Liabilities of operations classified as held for sale[1]		**-**	163
Total liabilities		**357,464**	340,821
Total equity and liabilities		**363,164**	346,301

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

Consolidated Statement of Changes in Equity

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

Consolidated Statement of Changes in Equity (continued)

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

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

Consolidated Cash Flow Statement

For the year ended 31 December 2013

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

1. The Consolidated Cash Flow Statement has been restated to reflect the adoption by the Group of amendments to IAS 19, 'Employee Benefits'. Further details are contained in Note 2.21. The impact is to reduce profit for the year by £3m for 2012, offset by corresponding changes to net cash flows from operating activities.
2. Tax comprises UK corporation tax paid of £133m (2012: £60m), overseas corporate taxes of £6m (2012: £8m) and overseas withholding tax of £148m (2012: £125m).
3. Net cash flows from acquisitions includes cash paid of £286m (2012: £33m) less cash and cash equivalents acquired of £190m (2012: £6m).

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

2.07 Earnings per share
(a) Earnings per share

	Profit after tax 2013 £m	**Earnings per share[1] 2013 p**	Profit after tax 2012 [2] £m	Earnings per share[1] 2012 p
Operating profit	**883**	**15.03**	819	14.00
Investment and other variances	**13**	**0.22**	(2)	(0.04)
Impact of change in UK tax rates	**(3)**	**(0.05)**	(7)	(0.12)
Earnings per share based on profit attributable to equity holders	**893**	**15.20**	810	13.84

(b) Diluted earnings per share

	Profit after tax 2013 £m	**Number of shares[3] 2013 m**	**Earnings per share 2013 p**	Profit after tax 2012 [2] £m	Number of shares[3] 2012 m	Earnings per share 2012 p
Profit attributable to equity holders of the Company	**893**	**5,875**	**15.20**	810	5,851	13.84
Net shares under options allocable for no further consideration	**-**	**79**	**(0.20)**	-	99	(0.23)
Diluted earnings per share	**893**	**5,954**	**15.00**	810	5,950	13.61

1. Earnings per share is calculated by dividing profit after tax derived from continuing operations by the weighted average number of ordinary shares in issue during the year, excluding employee scheme treasury shares.

2. Profit for the year has been restated to reflect the adoption by the Group of amendments to IAS 19, 'Employee Benefits'. Further details are contained in Note 2.21. The impact is to reduce profit for the year by £3m for 2012.

3. For diluted earnings per share, the weighted average number of ordinary shares in issue, excluding employee scheme treasury shares, is adjusted to assume conversion of all potential ordinary shares, such as share options granted to employees.

2.08 Goodwill

	Lucida 2013 £m	Cofunds 2013 £m	IDOL 2013 £m	Total 2013 £m
Consideration at date of acquisition				
Cash payment for 100% acquisition	**149**	**-**	**-**	**149**
Cash payment for 75% acquisition	**-**	**131**	**-**	**131**
Cash payment for 46% holding	**-**	**-**	**6**	**6**
Acquisition date fair value of the 25% holding immediately prior to the acquisition	**-**	**44**	**-**	**44**
Acquisition date fair value of the 49% holding immediately prior to the acquisition	**-**	**-**	**6**	**6**
Total consideration	**149**	**175**	**12**	**336**
Recognised amounts of identifiable assets transferred and liabilities assumed at fair value				
Purchased interest in long term business and other intangible assets	**-**	**88**	**4**	**92**
Other assets	**1,351**	**44**	**1**	**1,396**
Cash and cash equivalents	**168**	**22**	**-**	**190**
Non-participating contract liabilities	**(1,294)**	**-**	**-**	**(1,294)**
Other liabilities	**(62)**	**(44)**	**(1)**	**(107)**
Net assets attributable to equity holders of the Company	**163**	**110**	**4**	**277**
Goodwill arising on acquisition recognised in the Income statement	**(14)**	**-**	**-**	**(14)**
Goodwill arising on acquisition recognised in the Balance sheet	**-**	**65**	**8**	**73**

2.09 Financial investments and Investment property

	2013 £m	2012 £m
Equities	**163,227**	148,488
Unit trusts	**9,457**	7,238
Debt securities[1]	**152,409**	152,526
Accrued interest	**1,633**	1,669
Derivative assets[2]	**4,746**	6,445
Loans and receivables	**330**	382
Financial investments	**331,802**	316,748
Investment property	**6,060**	5,143
Total financial investments and investment property	**337,862**	321,891

1. Detailed analysis of debt securities which shareholders are directly exposed to are disclosed in Note 4.03.
2. Derivatives are used to ensure 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. Derivative assets are shown gross of derivative liabilities and include £2,391m (2012: £3,296m) held on behalf of unit linked policyholders.

2.10 Dividends

	Dividend 2013 £m	**Per share[1] 2013 p**	Dividend 2012 £m	Per share[1] 2012 p
Ordinary share dividends paid in the year				
- Prior year final dividend	**337**	**5.69**	278	4.74
- Current year interim dividend	**142**	**2.40**	116	1.96
	479	**8.09**	394	6.70
Ordinary share dividend proposed[2]	**408**	**6.90**	337	5.69

1. The dividend per share calculation is based on the number of equity shares registered on the ex-dividend date.
2. The dividend proposed is not included as a liability in the balance sheet.

2.11 Share capital and share premium

Authorised share capital	**2013 Number of shares**	**2013 £m**	2012 Number of shares	2012 £m
At 31 December: ordinary shares of 2.5p each	**9,200,000,000**	**230**	9,200,000,000	230

Issued share capital, fully paid	**Number of shares**	**Share capital £m**	**Share premium £m**
As at 1 January 2013	**5,912,782,826**	**148**	**956**
Options exercised under share option schemes			
- Executive share option scheme	**1,422,327**	**-**	**1**
- Savings related share option scheme	**2,861,483**	**-**	**2**
As at 31 December 2013	**5,917,066,636**	**148**	**959**

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2012	5,872,166,893	147	941
Options exercised under share option schemes			
- Executive share option scheme	1,626,478	-	1
- Savings related share option scheme	38,989,455	1	14
As at 31 December 2012	5,912,782,826	148	956

There is one class of ordinary shares of 2.5p each. All shares issued carry equal voting rights.

The holders of the Company’s ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at shareholder meetings of the Company.

2.12 Segmental analysis of shareholders' equity

	2013 £m	2012 £m
General insurance	**225**	180
Netherlands (LGN)	**163**	156
France (LGF)	**212**	204
Other	**183**	145
LGAS	**783**	685
LGR	**-**	-
LGIM	**421**	423
LGC and group expenses	**3,622**	3,414
LGA	**816**	919
Shareholders' equity	**5,642**	5,441

Overseas shareholder equity is presented on a legal entity basis, whereas UK shareholder equity is based on a management assessment of this business.

The Group has five reportable segments comprising LGAS, LGR, LGIM, LGC and group expenses and LGA.

LGAS represents Protection business (retail protection, group protection and general insurance) and Savings business (platforms, workplace, SIPPs, mature savings and with-profits). The LGAS segment also includes Legal & General France (LGF), Legal & General Netherlands (LGN) and emerging markets.

LGR represents Annuities (both individual and bulk purchase) and longevity insurance.

The LGIM segment represents institutional and retail investment management businesses.

Shareholders' equity supporting the non profit LGR and LGAS businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within LGC and group expenses. This also includes capital within the Group's treasury function, and unit trust funds and property partnerships, which are managed on behalf of clients but are required to be consolidated under IFRS, which do not constitute a separately reportable segment. The LGC and group expenses segment also includes inter-segmental elimination.

The LGA segment represents protection business written in the USA.

2.13 Core Borrowings

	Carrying amount 2013 £m	**Fair value 2013 £m**	Carrying amount 2012 £m	Fair value 2012 £m
Subordinated borrowings				
6.385% Sterling perpetual capital securities (Tier 1)	**680**	**650**	700	636
5.875% Sterling undated subordinated notes (Tier 2)	**418**	**438**	419	425
4.0% Euro subordinated notes 2025 (Tier 2)	**498**	**531**	479	502
10% Sterling subordinated notes 2041 (Tier 2)	**309**	**417**	309	425
Client fund holdings of Group debt[1]	**(13)**	**(13)**	(17)	(17)
Total subordinated borrowings	**1,892**	**2,023**	1,890	1,971
Senior borrowings				
Sterling medium term notes 2031-2041	**608**	**721**	608	767
Client fund holdings of Group debt[1]	**(47)**	**(55)**	(53)	(66)
Total senior borrowings	**561**	**666**	555	701
Total core borrowings	**2,453**	**2,689**	2,445	2,672

1. £60m (2012: £70m) of the Group's subordinated and senior 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 amortised cost. The presented fair values of the Group's core borrowings reflect quoted prices in active markets and they have been classified as level 1 in the fair value hierarchy.

Subordinated borrowings

6.385% Sterling perpetual capital securities
In 2007, Legal & General Group Plc issued £600m of 6.385% Sterling perpetual capital securities. Simultaneous with the issuance, the fixed coupon was swapped into six month LIBOR plus 0.94% pa. These securities are callable at par on 2 May 2017 and every three months thereafter. If not called, the coupon from 2 May 2017 will be reset to three month LIBOR plus 1.93% pa. For regulatory purposes these securities are treated as innovative tier 1 capital.

5.875% Sterling undated subordinated notes
In 2004, Legal & General Group Plc issued £400m of 5.875% Sterling undated subordinated notes. These notes are callable at par on 1 April 2019 and every five years thereafter. If not called, the coupon from 1 April 2019 will be reset to the prevailing five year benchmark gilt yield plus 2.33% pa. These notes are treated as tier 2 capital for regulatory purposes.

4.0% Euro subordinated notes 2025
In 2005, Legal & General Group Plc issued €600m of 4.0% Euro dated subordinated notes. The proceeds were swapped into sterling. The notes are callable at par on 8 June 2015 and each year thereafter. If not called, the coupon from 8 June 2015 will reset to a floating rate of interest based on prevailing three month Euribor plus 1.7% pa. These notes mature on 8 June 2025 and are treated as tier 2 capital for regulatory purposes.

10% Sterling subordinated notes 2041
On 16 July 2009, Legal & General Group Plc issued £300m of 10% dated subordinated notes. The notes are callable at par on 23 July 2021 and every five years thereafter. If not called, the coupon from 23 July 2021 will be reset to the prevailing five year benchmark gilt yield plus 9.325% pa. These notes mature on 23 July 2041 and are treated as tier 2 capital for regulatory purposes.

2.14 Operational Borrowings

	Carrying amount 2013 £m	**Fair value 2013 £m**	Carrying amount 2012 £m	Fair value 2012 £m
Short term operational borrowings				
Euro Commercial paper	**173**	**173**	333	333
Bank loans/other	**16**	**16**	6	6
Total short term operational borrowings	**189**	**189**	339	339
Non recourse borrowings				
US Dollar Triple X securitisation 2037	**268**	**230**	272	272
Suffolk Life unit linked borrowings	**116**	**116**	123	123
LGV 6/LGV 7 Private Equity Fund Limited Partnership	**131**	**131**	128	128
Consolidated Property Limited Partnerships	**58**	**58**	58	58
Total non recourse borrowings	**573**	**535**	581	581
Group holding of operational borrowings[1]	**(58)**	**(49)**	-	-
Total operational borrowings	**704**	**675**	920	920

1. The Group investments in operational borrowings have been eliminated from the Group consolidated balance sheet.

The presented fair values of the Group's operational borrowings reflect observable market information and have been classified as level 2 in the fair value hierarchy.

Short term operational borrowings

Short term assets available at the holding company level exceeded the amount of short term operational borrowings of £189m (2012: £339m). Short term operational borrowings comprise Euro Commercial paper, 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 31 December 2013, the Group had in place a £1.00bn syndicated committed revolving credit facility provided by a number of its key relationship banks, £0.04bn matures in October 2017 and £0.96bn matures in October 2018. A test drawing was made under this facility during 2013. No amounts were outstanding at 31 December 2013.

2.15 Insurance contract liabilities
(a) Analysis of insurance contract liabilities

	Notes	**Gross 2013 £m**	**Re-insurance 2013 £m**	Gross 2012 £m	Re-insurance 2012 £m
Participating insurance contracts	2.15(b)	**6,972**	**(1)**	8,116	(1)
Non-participating insurance contracts	2.15(c)	**39,975**	**(2,596)**	37,445	(2,277)
General insurance contracts	2.15(d)	**298**	**(5)**	283	(8)
Insurance contract liabilities		**47,245**	**(2,602)**	45,844	(2,286)

(b) Movement in participating insurance contract liabilities

	Gross 2013 £m	**Re-insurance 2013 £m**	Gross 2012 £m	Re-insurance 2012 £m
As at 1 January	**8,116**	**(1)**	8,750	(1)
New liabilities in the year	**75**	**-**	262	-
Liabilities discharged in the year	**(1,606)**	**-**	(1,413)	-
Unwinding of discount rates	**79**	**-**	78	-
Effect of change in non-economic assumptions	**4**	**-**	4	-
Effect of change in economic assumptions	**291**	**-**	329	-
Other	**13**	**-**	106	-
As at 31 December	**6,972**	**(1)**	8,116	(1)

2.15 Insurance contract liabilities (continued)
(c) Movement in non-participating insurance contract liabilities

	Gross 2013 £m	**Re-insurance 2013 £m**	Gross 2012 £m	Re-insurance 2012 £m
As at 1 January	**37,445**	**(2,277)**	33,761	(2,110)
New liabilities in the year[1]	**3,872**	**(334)**	2,667	(392)
Liabilities discharged in the year	**(2,307)**	**167**	(2,271)	213
Unwinding of discount rates	**1,308**	**(134)**	1,311	(118)
Effect of change in non-economic assumptions	**77**	**(25)**	(124)	132
Effect of change in economic assumptions	**(430)**	**-**	2,229	(17)
Foreign exchange adjustments	**10**	**7**	(128)	15
As at 31 December	**39,975**	**(2,596)**	37,445	(2,277)

1. New liabilities includes those acquired with Lucida Ltd of £1,294m (See Note 2.08).

(d) Analysis of General insurance contract liabilities

	Gross 2013 £m	**Re-insurance 2013 £m**	Gross 2012 £m	Re-insurance 2012 £m
Outstanding claims	**66**	**-**	74	-
Claims incurred but not reported	**37**	**-**	30	-
Unearned premiums	**195**	**(5)**	179	(8)
General insurance contract liabilities	**298**	**(5)**	283	(8)

(e) Movement in General insurance claim liabilities

	Gross 2013 £m	**Re-insurance 2013 £m**	Gross 2012 £m	Re-insurance 2012 £m
As at 1 January	**104**	**-**	93	(1)
Claims arising	**175**	**-**	181	-
Claims paid	**(156)**	**-**	(172)	1
Adjustments to prior year liabilities	**(20)**	**-**	2	-
As at 31 December	**103**	**-**	104	-

2.16 Investment contract liabilities
(a) Analysis of investment contract liabilities

	Gross 2013 £m	Re-insurance 2013 £m	Gross 2012 £m	Re-insurance 2012 £m
Participating investment contracts	**7,493**	**-**	7,403	(2)
Non-participating investment contracts	**278,754**	**(295)**	264,958	(211)
Investment contract liabilities	**286,247**	**(295)**	272,361	(213)

(b) Movement in investment contract liabilities

	Gross 2013 £m	Re-insurance 2013 £m	Gross 2012 £m	Re-insurance 2012 £m
As at 1 January	**272,361**	**(213)**	258,621	(172)
Reserves in respect of new business	**30,816**	**(237)**	28,347	(281)
Amounts paid on surrenders and maturities during the year	**(47,055)**	**66**	(37,662)	16
Investment return and related benefits	**30,369**	**89**	23,432	224
Management charges	**(295)**	**-**	(300)	-
Foreign exchange adjustments	**51**	**-**	(55)	-
Other	**-**	**-**	(22)	-
As at 31 December	**286,247**	**(295)**	272,361	(213)

Change in provisions for investment contract liabilities represents the total gross and reinsurance investment return and related benefits of £30,458m (2012: £23,656m).

Fair value movements of £30,095m (2012: £23,199m) are included within the income statement arising from movements in investment contract liabilities designated as fair value through profit and loss.

2.17 IFRS sensitivity analysis

	Impact on pre-tax Group profit net of re-insurance 2013 £m	**Impact on Group equity net of re-insurance 2013 £m**	Impact on pre-tax Group profit net of re-insurance 2012 £m	Impact on Group equity net of re-insurance 2012 £m
Economic sensitivity				
Long-term insurance				
1% increase in interest rates	**39**	**32**	8	7
1% decrease in interest rates	**(11)**	**(10)**	(46)	(35)
Credit spread widens by 100bps with no change in expected defaults	**(100)**	**(76)**	(123)	(93)
1% increase in inflation	**45**	**36**	(10)	(8)
10% decrease in listed equities	**(143)**	**(114)**	(124)	(95)
10% fall in property values	**(53)**	**(41)**	(31)	(24)
10bps increase in credit default assumption	**(284)**	**(218)**	(282)	(213)
10bps decrease in credit default assumption	**292**	**224**	280	212
Non-economic sensitivity				
Long-term insurance				
1% decrease in annuitant mortality	**(105)**	**(80)**	(96)	(73)
Default of largest reinsurer	**(666)**	**(512)**	(651)	(491)
General Insurance				
Single storm event with 1 in 200 year probability	**(73)**	**(56)**	(63)	(47)
Subsidence event – worst claims ratio in last 30 years	**(55)**	**(42)**	(50)	(37)
5% decrease in overall claims ratio	**7**	**5**	8	6
5% surplus over claims liabilities	**5**	**4**	5	4

The table above shows the impacts on Group pre-tax profit and equity, net of reinsurance, under each sensitivity scenario for the Group. The participating funds have been excluded in the above sensitivity analysis as the impact of the sensitivities on IFRS profit and equity is offset by the movement in the unallocated divisible surplus (UDS). The shareholders' share of with-profit bonus declared in the year is relatively insensitive to market movements due to the smoothing policies applied.

The above sensitivity analyses do not reflect management actions which could be taken to reduce the impacts. The Group seeks to actively manage its asset and liability position. A change in market conditions may lead to changes in the asset allocation or charging structure which may have a more, or less, significant impact on the value of the liabilities. The analyses also ignore any second order effects of the assumption change, including the potential impact on the Group asset and liability position and any second order tax effects. In calculating the alternative values, all other assumptions are left unchanged, though in practice, items of the Group's experience may be correlated. The sensitivity of the profit and equity to changes in assumptions may not be linear. These results should not be extrapolated to changes of a much larger order.

The interest rate sensitivity assumes a 100 basis point change in the gross redemption yield on fixed interest securities together with a 100 basis point change in the real yields on variable securities. For the UK long term funds, valuation interest rates are assumed to move in line with market yields adjusted to allow for the impact of PRA regulations. The interest rate sensitivities reflect the impact of the regulatory restrictions on the reinvestment rate used to value the liabilities of the long term business.

In the sensitivity for credit spreads, corporate bond yields have increased by 100bps, gilt and approved security yields are unchanged, and there has been no adjustment to the default assumptions.

The inflation stress adopted is a 1% pa increase in inflation resulting in a 1% pa reduction in real yield and no change to the nominal yield. In addition the expense inflation rate is increased by 1% pa.

The equity stress is a 10% fall in listed equity market values. The property stress adopted is a 10% fall in property market value. Rental income is assumed to be unchanged; however the vacant possession value is stressed down by 10% in line with the market value stress. Where property is being used to back liabilities, the valuation interest rate used to place a value on the liabilities moves with the implied change in property yields.

The annuitant mortality stress is a 1% reduction in the mortality rates for immediate and deferred annuitants with no change to the mortality improvement rates.

The credit default stress assumes a +/-10bps stress to the current credit default assumption for unapproved corporate bonds which will have an impact on the valuation interest rates used to discount liabilities. The credit default assumption is set based on the credit rating of the individual bonds in the asset portfolio and their outstanding term using Moody's global credit default rates.

For the sensitivity to the default of the Group's largest reinsurer, the reinsurer stress shown is equal to the technical provisions ceded to the reinsurer and represents the impact of the default of largest reinsurer at an entity level.

2.18 Foreign exchange rates

Principal rates of exchange used for translation are:

Year end exchange rates	**At 31.12.13**	At 31.12.12
United States Dollar	**1.66**	1.63
Euro	**1.20**	1.23

Average exchange rates	**01.01.13 - 31.12.13**	01.01.12 - 31.12.12
United States Dollar	**1.57**	1.58
Euro	**1.18**	1.23

2.19 Provisions
(a) Analysis of provisions

	Note	**2013 £m**	2012 £m
Retirement benefit obligations	2.19(b)	**1,113**	969
Other provisions		**15**	14
		1,128	983

(b) Retirement benefit obligations

	Fund and Scheme 2013 £m	**Overseas 2013 £m**	Fund and Scheme 2012 £m	Overseas 2012 £m
Gross pension obligations included in provisions	**(1,113)**	**-**	(967)	(2)
Annuity obligations insured by Society	**646**	**-**	636	-
Gross defined benefit pension deficit	**(467)**	**-**	(331)	(2)
Deferred tax on defined benefit pension deficit	**93**	**-**	76	-
Net defined benefit pension deficit	**(374)**	**-**	(255)	(2)

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 31 December 2013, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Society) has been estimated at £374m (2012: £255m). These amounts have been recognised in the financial statements with £236m charged against shareholder equity (2012: £152m) and £138m against the unallocated divisible surplus (2012: £103m).

The increase in gross defined benefit pension deficit is primarily due to the change in valuation assumption around inflation rates, partly offset by recovery plan payments and investment return in excess of the discount rate.

2.20 Contingent liabilities, guarantees and indemnities

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

Various Group companies receive claims and become involved in actual or threatened litigation and regulatory issues from time to time. The relevant members of the Group ensure that they make prudent provision as and when circumstances calling for such provision become clear, and that each has adequate capital and reserves to meet reasonably foreseeable eventualities. The provisions made are regularly reviewed. It is not possible to predict, with certainty, the extent and the timing of the financial impact of these claims, litigation or issues.

In 1975, Legal & General Assurance Society Limited (the Society) was required by the Institute of London Underwriters (ILU) to execute the ILU form of guarantee in respect of policies issued through the ILU's Policy Signing Office on behalf of NRG Victory Reinsurance Company Ltd (Victory), a company which was then a subsidiary of the Society. In 1990, Nederlandse Reassurantie Groep Holding NV (the assets and liabilities of which have since been assumed by Nederlandse Reassurantie Groep NV under a statutory merger in the Netherlands) acquired Victory and provided an indemnity to the Society against any liability the Society may have as a result of the ILU's requirement, and the ILU agreed that its requirement of the Society would not apply to policies written or renewed after the acquisition. Nederlandse Reassurantie Groep NV is now owned by Columbia Insurance Company, a subsidiary of Berkshire Hathaway Inc. Whether the Society has any liability as a result of the ILU's requirement and, if so, the amount of its potential liability is uncertain. The Society has made no payment or provision in respect of this matter.

Group companies have given indemnities and guarantees as a normal part of their business and operating activities or in relation to capital market transactions. Legal & General Group Plc has provided indemnities and guarantees in respect of the liabilities of Group companies in support of their business activities, including Pension Protection Fund compliant guarantees in respect of certain Group companies' liabilities under the Group pension fund and scheme.

2.21 Basis of preparation

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

The Group has selected accounting policies which state fairly its financial position, financial performance and cash flows for a reporting period. The accounting policies have been consistently applied to all years presented, unless otherwise stated.

The Group presents its balance sheet in order of liquidity. This is considered to be more relevant than a before and after 12 months presentation, given the long term nature of the Group's core business. However, for each asset and liability line item which combines amounts expected to be recovered or settled before and after 12 months from the balance sheet date, disclosure of the split is made by way of a note.

Financial assets and financial liabilities are disclosed gross in the balance sheet unless a legally enforceable right of offset exists and there is an intention to settle recognised amounts on a net basis. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretations by the IFRS Interpretations Committee.

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

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

Reportable segments
Under the requirements of IFRS 8, 'Operating segments', operating and reportable segments are presented in a manner consistent with the internal reporting provided to the chief operating decision maker, which has been identified as the Board of Legal & General Group Plc.

During the year, the Group has made changes to the organisational structure, effective from 1 July 2013. This has had the consequence of changing the reportable segments of the Group as outlined below. In accordance with the requirements of IFRS 8, 'Operating Segments', the prior period segmental information has been restated to reflect these changes.

The Group has five reportable segments comprising Legal & General Retirement (LGR), Legal & General Assurance Society (LGAS), Legal & General Investment Management (LGIM), Legal & General America (LGA), and Legal & General Capital (LGC and group expenses).

LGAS represents Protection business (retail protection, group protection and general insurance) and Savings business (platforms, workplace, SIPPs, mature savings and with-profits). The LGAS segment also includes Legal & General France (LGF), Legal & General Netherlands (LGN) and emerging markets.

LGR represents Annuities (both individual and bulk purchase) and longevity insurance.

The LGIM segment represents institutional and retail investment management businesses.

Shareholders' equity supporting the non profit LGR and LGAS businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within LGC and group expenses. This also includes capital within the Group's treasury function and unit trust funds and property partnerships, which are managed on behalf of clients but are required to be consolidated under IFRS, which do not constitute a separately reportable segment. The group expenses segment also includes inter-segmental elimination.

The LGA segment comprises protection business written in the USA.

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 IFRS supplementary operating profit before tax. Segmental IFRS 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.

2.21 Basis of preparation (continued)

Changes to accounting policy - IAS 19 'Employee Benefits'

During 2013 the Group has changed its accounting policy on the recognition and measurement of defined benefit pension expense and termination benefits following the publication by the IASB in June 2011 of an amendment to IAS 19 'Employee Benefits'. This is compulsory for periods beginning on or after 1 January 2013. The impact of the amendment is to reduce profit for the year by £4m, following the allocation of the with-profit element to the unallocated divisible surplus, with an equivalent increase in Other Comprehensive Income. Total Comprehensive Income therefore remains unchanged.

The impact of this change upon the 2012 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.

	31.12.12 £m
Profit for the period as previously reported	**801**
Investment return	
IAS 19 'Employee Benefits' amendment	(6)
Expenses	
Transfers to unallocated divisible surplus	3
Revised profit for the period (after tax)	**798**
Actuarial gain on defined benefit pension schemes	6
Actuarial gain on defined benefit pension schemes transferred to unallocated divisible surplus	(3)
Other items in other comprehensive income	(47)
Total Comprehensive Income for the period	**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 application impact on the Group for the full year lies in the expansion of the fair value disclosure requirements. The application of this standard can be found in the Annual Report and Accounts.

Key technical terms and definitions

The 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 2013 Annual Report and Accounts.

Asset and premium flows

3.01 Legal & General investment management assets under management

Year ended 31 December 2013	Index funds £bn	Active fixed interest £bn	Solu-tions[1] £bn	Property & other £bn	Active equities £bn	Total £bn
At 1 January 2013	**243.2**	**82.2**	**64.0**	**8.9**	**7.7**	**406.0**
External inflows[2,3]	31.3	11.0	8.6	1.0	0.1	52.0
External outflows[2]	(31.8)	(5.0)	(5.2)	(0.3)	(0.4)	(42.7)
External net flows	**(0.5)**	**6.0**	**3.4**	**0.7**	**(0.3)**	**9.3**
Internal net flows	0.7	(1.7)	0.8	0.2	(0.2)	(0.2)
Total net flows	**0.2**	**4.3**	**4.2**	**0.9**	**(0.5)**	**9.1**
Market and other movements	26.4	2.9	2.2	1.5	1.4	34.4
At 31 December 2013	**269.8**	**89.4**	**70.4**	**11.3**	**8.6**	**449.5**

Year ended 31 December 2012	Index funds £bn	Active fixed interest £bn	Solu-tions[1] £bn	Property & other £bn	Active equities £bn	Total £bn
At 1 January 2012	**224.2**	**72.4**	**58.4**	**9.0**	**7.2**	**371.2**
External inflows[2]	24.2	6.6	5.9	0.3	0.1	37.1
External outflows[2]	(22.5)	(5.1)	(3.7)	(0.1)	(0.4)	(31.8)
External net flows	**1.7**	**1.5**	**2.2**	**0.2**	**(0.3)**	**5.3**
Internal net flows	0.7	(1.8)	0.1	(0.1)	(0.2)	(1.3)
Total net flows	**2.4**	**(0.3)**	**2.3**	**0.1**	**(0.5)**	**4.0**
Market and other movements	16.6	10.1	3.3	(0.2)	1.0	30.8
At 31 December 2012	**243.2**	**82.2**	**64.0**	**8.9**	**7.7**	**406.0**

	12 months to 31.12.13 £bn	12 months to 31.12.12 £bn
LGIM total net flows	**9.1**	4.0
Attributable to:		
International[3]	**15.7**	7.8
UK Institutional	**(5.3)**	0.1
UK Retail	**0.4**	(1.9)
Annuities[4]	**1.4**	0.6
Mature Savings	**(3.1)**	(2.6)

1. Solutions includes liability driven investments and multi-asset funds.
2. Includes unit trust business, both retail and institutional, now part of LGIM, following the organisational changes effective from 1 July 2013.
3. Includes £2.9bn of Legal & General France assets.
4. Pension funds already managed by LGIM that switch into LGR annuities are excluded.

3.02 Legal & General investment management assets under management quarterly progression

Year ended 31 December 2013	Index funds £bn	Active fixed interest £bn	Solu-tions[1] £bn	Property & other £bn	Active equities £bn	Total £bn
At 1 January 2013	**243.2**	**82.2**	**64.0**	**8.9**	**7.7**	**406.0**
External inflows[2]	11.0	2.2	1.1	0.1	-	14.4
External outflows[2]	(7.1)	(0.9)	(1.1)	-	(0.1)	(9.2)
External net flows	**3.9**	**1.3**	**-**	**0.1**	**(0.1)**	**5.2**
Internal net flows	0.1	(0.7)	0.1	-	-	(0.5)
Total net flows	**4.0**	**0.6**	**0.1**	**0.1**	**(0.1)**	**4.7**
Market and other movements	20.1	2.0	7.3	0.3	0.8	30.5
At 31 March 2013	**267.3**	**84.8**	**71.4**	**9.3**	**8.4**	**441.2**
External inflows[2]	6.2	1.3	4.6	0.2	-	12.3
External outflows[2]	(7.9)	(0.5)	(0.7)	(0.1)	(0.3)	(9.5)
External net flows	**(1.7)**	**0.8**	**3.9**	**0.1**	**(0.3)**	**2.8**
Internal net flows	0.4	(0.8)	0.6	-	-	0.2
Total net flows	**(1.3)**	**-**	**4.5**	**0.1**	**(0.3)**	**3.0**
Market and other movements	(3.9)	(1.9)	(5.0)	-	(0.4)	(11.2)
At 30 June 2013	**262.1**	**82.9**	**70.9**	**9.4**	**7.7**	**433.0**
External inflows[2,3]	8.0	4.8	2.2	0.4	0.1	15.5
External outflows[2]	(8.3)	(2.0)	(1.7)	(0.1)	-	(12.1)
External net flows	**(0.3)**	**2.8**	**0.5**	**0.3**	**0.1**	**3.4**
Internal net flows	-	0.6	-	0.1	(0.1)	0.6
Total net flows	**(0.3)**	**3.4**	**0.5**	**0.4**	**-**	**4.0**
Market and other movements	3.2	1.4	0.1	0.6	0.3	5.6
At 30 September 2013	**265.0**	**87.7**	**71.5**	**10.4**	**8.0**	**442.6**
External inflows[2]	6.1	2.7	0.7	0.3	-	9.8
External outflows[2]	(8.5)	(1.6)	(1.7)	(0.1)	-	(11.9)
External net flows	**(2.4)**	**1.1**	**(1.0)**	**0.2**	**-**	**(2.1)**
Internal net flows	0.2	(0.8)	0.1	0.1	(0.1)	(0.5)
Total net flows	**(2.2)**	**0.3**	**(0.9)**	**0.3**	**(0.1)**	**(2.6)**
Market and other movements	7.0	1.4	(0.2)	0.6	0.7	9.5
At 31 December 2013	**269.8**	**89.4**	**70.4**	**11.3**	**8.6**	**449.5**

1. Solutions includes liability driven investments and multi-asset funds.
2. Includes unit trust business, both retail and institutional, now part of LGIM, following the organisational changes effective from 1 July 2013.
3. Includes £2.9bn of Legal & General France assets.

Asset and premium flows

3.02 Legal & General investment management assets under management quarterly progression (continued)

Year ended 31 December 2012	Index funds £bn	Active fixed interest £bn	Solu-tions[1] £bn	Property & other £bn	Active equities £bn	Total £bn
At 1 January 2012	**224.2**	**72.4**	**58.4**	**9.0**	**7.2**	**371.2**
External inflows[2]	4.6	1.8	1.7	0.1	-	8.2
External outflows[2]	(4.7)	(0.4)	(0.9)	-	(0.1)	(6.1)
External net flows	**(0.1)**	**1.4**	**0.8**	**0.1**	**(0.1)**	**2.1**
Internal net flows	0.4	(0.8)	-	(0.2)	(0.1)	(0.7)
Total net flows	**0.3**	**0.6**	**0.8**	**(0.1)**	**(0.2)**	**1.4**
Market and other movements	8.8	1.3	(0.2)	(0.1)	0.5	10.3
At 31 March 2012	**233.3**	**74.3**	**59.0**	**8.8**	**7.5**	**382.9**
External inflows[2]	4.4	2.0	1.7	0.1	-	8.2
External outflows[2]	(5.4)	(1.3)	(0.4)	(0.1)	-	(7.2)
External net flows	**(1.0)**	**0.7**	**1.3**	**-**	**-**	**1.0**
Internal net flows	-	(0.8)	-	0.1	-	(0.7)
Total net flows	**(1.0)**	**(0.1)**	**1.3**	**0.1**	**-**	**0.3**
Market and other movements	(5.3)	3.0	0.9	-	(0.5)	(1.9)
At 30 June 2012	**227.0**	**77.2**	**61.2**	**8.9**	**7.0**	**381.3**
External inflows[2]	7.1	1.4	0.5	-	-	9.0
External outflows[2]	(5.7)	(2.0)	(1.4)	0.1	(0.1)	(9.1)
External net flows	**1.4**	**(0.6)**	**(0.9)**	**0.1**	**(0.1)**	**(0.1)**
Internal net flows	0.3	(0.2)	-	-	-	0.1
Total net flows	**1.7**	**(0.8)**	**(0.9)**	**0.1**	**(0.1)**	**-**
Market and other movements	7.3	3.9	(2.2)	(0.1)	0.5	9.4
At 30 September 2012	**236.0**	**80.3**	**58.1**	**8.9**	**7.4**	**390.7**
External inflows[2]	8.1	1.4	2.0	0.1	0.1	11.7
External outflows[2]	(6.7)	(1.4)	(1.0)	(0.1)	(0.2)	(9.4)
External net flows	**1.4**	**-**	**1.0**	**-**	**(0.1)**	**2.3**
Internal net flows	-	-	0.1	-	(0.1)	-
Total net flows	**1.4**	**-**	**1.1**	**-**	**(0.2)**	**2.3**
Market and other movements	5.8	1.9	4.8	-	0.5	13.0
At 31 December 2012	**243.2**	**82.2**	**64.0**	**8.9**	**7.7**	**406.0**

1. Solutions includes liability driven investments and multi-asset funds.
2. Includes unit trust business, both retail and institutional, now part of LGIM, following the organisational changes effective from 1 July 2013.

3.02 Legal & General investment management assets under management quarterly progression (continued)

	3 months to 31.12.13 £bn	3 months to 30.09.13 £bn	3 months to 30.06.13 £bn	3 months to 31.03.13 £bn	3 months to 31.12.12 £bn	3 months to 30.09.12 £bn	3 months to 30.06.12 £bn	3 months to 31.03.12 £bn
LGIM total net flows	**(2.6)**	**4.0**	**3.0**	**4.7**	2.3	-	0.3	1.4
Attributable to:								
International[1]	**1.8**	**6.4**	**0.8**	**6.7**	2.3	3.2	1.2	1.1
UK Institutional	**(3.8)**	**(3.2)**	**2.7**	**(1.0)**	0.6	(2.2)	0.3	1.4
UK Retail	**0.1**	**0.3**	**0.3**	**(0.3)**	(0.4)	(0.7)	(0.4)	(0.4)
Annuities[2]	**(0.1)**	**1.4**	**0.1**	**-**	0.5	0.3	(0.1)	(0.1)
Mature Savings	**(0.6)**	**(0.9)**	**(0.9)**	**(0.7)**	(0.7)	(0.6)	(0.7)	(0.6)

1. Q3 2013 International net flows include £2.9bn of Legal & General France assets.
2. Pension funds already managed by LGIM that switch into LGR annuities are excluded.

Asset and premium flows

3.03 Assets under administration

Year ended 31 December 2013	Platforms[1] £bn	Mature Retail Savings[2] £bn	Work-place £bn	Suffolk Life £bn	Consol-idation adjust-ment[3] £bn	Total LGAS £bn	Retail Invest-ments[4] £bn	Annuities £bn
At 1 January 2013	**8.6**	**36.2**	**6.0**	**5.1**	**(1.4)**	**54.5**	**15.6**	**32.2**
Gross inflows[5]	11.0	1.4	2.1	1.3	(0.3)	15.5	3.2	4.0
Gross outflows	(3.1)	(5.1)	(0.6)	(0.4)	0.5	(8.7)	(3.3)	-
Payments to annuitants	-	-	-	-	-	-	-	(1.9)
Net flows	**7.9**	**(3.7)**	**1.5**	**0.9**	**0.2**	**6.8**	**(0.1)**	**2.1**
Cofunds acquisition	45.7	-	-	-	(5.4)	40.3	-	-
Market and other movements	1.9	3.8	1.2	0.6	(0.2)	7.3	1.5	0.1
At 31 December 2013	**64.1**	**36.3**	**8.7**	**6.6**	**(6.8)**	**108.9**	**17.0**	**34.4**

Year ended 31 December 2012	Platforms[1] £bn	Mature Retail Savings[2] £bn	Work-place £bn	Suffolk Life £bn	Consol-idation adjust-ment[3] £bn	Total LGAS £bn	Retail Invest-ments[4] £bn	Annuities £bn
At 1 January 2012	**6.7**	**36.4**	**3.8**	**4.3**	**(1.2)**	**50.0**	**14.9**	**28.4**
Gross inflows	2.9	2.3	2.2	0.8	(0.2)	8.0	2.4	2.4
Gross outflows	(1.6)	(5.5)	(0.6)	(0.3)	0.1	(7.9)	(3.0)	-
Payments to annuitants	-	-	-	-	-	-	-	(1.8)
Net flows	**1.3**	**(3.2)**	**1.6**	**0.5**	**(0.1)**	**0.1**	**(0.6)**	**0.6**
Market and other movements	0.6	3.0	0.6	0.3	(0.1)	4.4	1.3	3.2
At 31 December 2012	**8.6**	**36.2**	**6.0**	**5.1**	**(1.4)**	**54.5**	**15.6**	**32.2**

1. Platforms includes Investor Portfolio Services (IPS) and Cofunds since acquisition.
2. Mature retail savings products includes with-profit products, bonds and retail pensions.
3. Consolidation adjustment represents Suffolk Life and Mature Retail Savings assets included in the Platforms column.
4. Retail Investments includes unit trust products (both LGIM and externally managed) and structured products (deposits and investments). It also includes £1.2bn of Cofunds assets.
5. Platforms gross inflows include Cofunds institutional net flows.

Asset and premium flows

3.04 Assets under administration quarterly progression

Year ended 31 December 2013	Platforms[1] £bn	Mature Retail Savings[2] £bn	Work-place £bn	Suffolk Life £bn	Consol-idation adjust-ment[3] £bn	Total LGAS £bn	Retail Invest-ments[4] £bn	Annuities £bn
At 1 January 2013	**8.6**	**36.2**	**6.0**	**5.1**	**(1.4)**	**54.5**	**15.6**	**32.2**
Gross inflows	0.2	0.4	0.5	0.2	-	1.3	0.7	0.8
Gross outflows	(0.2)	(1.2)	(0.2)	(0.1)	0.1	(1.6)	(1.0)	-
Payments to annuitants	-	-	-	-	-	-	-	(0.4)
Net flows	**-**	**(0.8)**	**0.3**	**0.1**	**0.1**	**(0.3)**	**(0.3)**	**0.4**
Market and other movements	0.5	1.7	0.6	0.3	(0.1)	3.0	1.0	0.7
At 31 March 2013	**9.1**	**37.1**	**6.9**	**5.5**	**(1.4)**	**57.2**	**16.3**	**33.3**
Gross inflows[5]	1.7	0.4	0.5	0.3	-	2.9	1.0	0.6
Gross outflows	(0.7)	(1.4)	(0.1)	(0.1)	-	(2.3)	(0.9)	-
Payments to annuitants	-	-	-	-	-	-	-	(0.5)
Net flows	**1.0**	**(1.0)**	**0.4**	**0.2**	**-**	**0.6**	**0.1**	**0.1**
Cofunds acquisition	45.7	-	-	-	(5.4)	40.3	-	-
Market and other movements	(2.1)	(0.4)	-	-	0.3	(2.2)	(0.3)	(1.2)
At 30 June 2013	**53.7**	**35.7**	**7.3**	**5.7**	**(6.5)**	**95.9**	**16.1**	**32.2**
Gross inflows[5]	4.5	0.3	0.5	0.4	(0.1)	5.6	0.9	2.3
Gross outflows	(1.2)	(1.4)	(0.1)	(0.1)	0.2	(2.6)	(0.8)	-
Payments to annuitants	-	-	-	-	-	-	-	(0.5)
Net flows	**3.3**	**(1.1)**	**0.4**	**0.3**	**0.1**	**3.0**	**0.1**	**1.8**
Market and other movements	1.3	1.4	0.2	0.1	(0.2)	2.8	0.5	0.5
At 30 September 2013	**58.3**	**36.0**	**7.9**	**6.1**	**(6.6)**	**101.7**	**16.7**	**34.5**
Gross inflows[5]	4.6	0.3	0.6	0.4	(0.2)	5.7	0.6	0.3
Gross outflows	(1.0)	(1.1)	(0.2)	(0.1)	0.2	(2.2)	(0.6)	-
Payments to annuitants	-	-	-	-	-	-	-	(0.5)
Net flows	**3.6**	**(0.8)**	**0.4**	**0.3**	**-**	**3.5**	**-**	**(0.2)**
Market and other movements	2.2	1.1	0.4	0.2	(0.2)	3.7	0.3	0.1
At 31 December 2013	**64.1**	**36.3**	**8.7**	**6.6**	**(6.8)**	**108.9**	**17.0**	**34.4**

1. Platforms includes Investor Portfolio Services (IPS) and Cofunds since acquisition.
2. Mature retail savings products includes with-profit products, bonds and retail pensions.
3. Consolidation adjustment represents Suffolk Life and Mature Retail Savings assets included in the Platforms column.
4. Retail Investments includes unit trust products (both LGIM and externally managed) and structured products (deposits and investments). It also includes £1.2bn of Cofunds assets.
5. Platforms gross inflows include Cofunds institutional net flows.

3.04 Assets under administration quarterly progression (continued)

Year ended 31 December 2012	Platforms[1] £bn	Mature Retail Savings[2] £bn	Work-place £bn	Suffolk Life £bn	Consol-idation adjust-ment[3] £bn	Total LGAS £bn	Retail Invest-ments[4] £bn	Annuities £bn
At 1 January 2012	**6.7**	**36.4**	**3.8**	**4.3**	**(1.2)**	**50.0**	**14.9**	**28.4**
Gross inflows	0.5	0.6	0.4	0.2	-	1.7	0.7	0.3
Gross outflows	(0.2)	(1.3)	-	(0.1)	-	(1.6)	(1.1)	-
Payments to annuitants	-	-	-	-	-	-	-	(0.4)
Net flows	**0.3**	**(0.7)**	**0.4**	**0.1**	**-**	**0.1**	**(0.4)**	**(0.1)**
Market and other movements	0.4	1.8	0.3	0.2	(0.1)	2.6	0.7	0.1
At 31 March 2012	**7.4**	**37.5**	**4.5**	**4.6**	**(1.3)**	**52.7**	**15.2**	**28.4**
Gross inflows	0.8	0.5	0.4	0.2	-	1.9	0.7	0.3
Gross outflows	(0.4)	(1.2)	(0.1)	(0.1)	-	(1.8)	(0.6)	-
Payments to annuitants	-	-	-	-	-	-	-	(0.4)
Net flows	**0.4**	**(0.7)**	**0.3**	**0.1**	-	**0.1**	**0.1**	**(0.1)**
Market and other movements	(0.3)	(0.7)	(0.2)	(0.1)	-	(1.3)	(0.2)	0.6
At 30 June 2012	**7.5**	**36.1**	**4.6**	**4.6**	**(1.3)**	**51.5**	**15.1**	**28.9**
Gross inflows	0.9	0.6	0.7	0.2	(0.1)	2.3	0.5	0.8
Gross outflows	(0.7)	(1.5)	(0.3)	-	0.1	(2.4)	(0.7)	-
Payments to annuitants	-	-	-	-	-	-	-	(0.5)
Net flows	**0.2**	**(0.9)**	**0.4**	**0.2**	**-**	**(0.1)**	**(0.2)**	**0.3**
Market and other movements	0.4	0.9	0.3	0.1	-	1.7	0.5	1.3
At 30 September 2012	**8.1**	**36.1**	**5.3**	**4.9**	**(1.3)**	**53.1**	**15.4**	**30.5**
Gross inflows	0.7	0.6	0.7	0.2	(0.1)	2.1	0.5	1.0
Gross outflows	(0.3)	(1.5)	(0.2)	(0.1)	-	(2.1)	(0.6)	-
Payments to annuitants	-	-	-	-	-	-	-	(0.5)
Net flows	**0.4**	**(0.9)**	**0.5**	**0.1**	**(0.1)**	**-**	**(0.1)**	**0.5**
Market and other movements	0.1	1.0	0.2	0.1	-	1.4	0.3	1.2
At 31 December 2012	**8.6**	**36.2**	**6.0**	**5.1**	**(1.4)**	**54.5**	**15.6**	**32.2**

1. Platforms includes Investor Portfolio Services (IPS).
2. Mature retail savings products includes with-profit products, bonds and retail pensions.
3. Consolidation adjustment represents Suffolk Life and Mature Retail Savings assets included in the Platforms column.
4. Retail Investments includes unit trust products (both LGIM and externally managed) and structured products (deposits and investments).

Asset and premium flows

3.05 Annuities single premiums

	Single premiums 31.12.13 £m	Single premiums 31.12.12 £m
Individual annuities	**1,277**	1,320
Bulk purchase annuities	**2,812**	1,019
Total Annuities	**4,089**	2,339

3.06 Annuities single premiums quarterly progression

	3 months to 31.12.13 £m	**3 months to 30.09.13 £m**	**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
Individual annuities	**200**	**323**	**348**	**406**	448	350	254	268
Bulk purchase annuities	**199**	**1,943**	**313**	**357**	544	408	31	36
Total Annuities	**399**	**2,266**	**661**	**763**	992	758	285	304

3.07 Insurance new business

	Annual premiums 31.12.13 £m	Annual premiums 31.12.12 £m
Group Protection	**70**	70
Retail Protection	**148**	151
France (LGF) Protection	**21**	37
Netherlands (LGN) Protection	**7**	12
US Protection	**99**	90
Longevity insurance	**270**	-
Total insurance new business	**615**	360

3.08 Insurance new business annual premiums quarterly progression

	3 months to 31.12.13 £m	**3 months to 30.09.13 £m**	**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
Group Protection	**13**	**17**	**20**	**20**	13	20	25	12
Retail Protection	**43**	**40**	**38**	**27**	43	36	36	36
France (LGF) Protection	**-**	**-**	**-**	**21**	12	-	10	15
Netherlands (LGN) Protection	**2**	**1**	**2**	**2**	3	3	3	3
US Protection	**26**	**28**	**23**	**22**	24	24	22	20
Longevity insurance	**95**	**-**	**-**	**175**	-	-	-	-
Total insurance new business	**179**	**86**	**83**	**267**	95	83	96	86

Asset and premium flows

3.09 Gross written premiums on Insurance business

	12 months to 31.12.13 £m	12 months to 31.12.12 £m
Group protection	**336**	321
Retail protection	**990**	947
General Insurance	**375**	349
France (LGF)	**168**	159
Netherlands (LGN)	**54**	47
US Protection	**654**	584
Longevity insurance	**212**	70
Total	**2,789**	2,477

3.10 Gross written premiums on Insurance business quarterly progression

	3 months to 31.12.13 £m	**3 months to 30.09.13 £m**	**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
Group protection	**54**	**74**	**123**	**85**	56	62	129	74
Retail protection	**256**	**250**	**244**	**240**	244	240	233	230
General Insurance	**95**	**97**	**97**	**86**	97	87	82	83
France (LGF)	**41**	**41**	**43**	**43**	40	40	39	40
Netherlands (LGN)	**13**	**14**	**13**	**14**	12	12	11	12
US Protection	**172**	**156**	**172**	**154**	156	140	150	138
Longevity insurance	**60**	**60**	**60**	**32**	18	18	17	17
Total	**691**	**692**	**752**	**654**	623	599	661	594

3.11 Overseas new business in local currency

	Annual premiums 31.12.13	**Single premiums 31.12.13**	**APE 31.12.13**	Annual premiums 31.12.12	Single premiums 31.12.12	APE 31.12.12
US Protection ($m)	**155**	**-**	**155**	142	-	142
Netherlands (LGN) (€m)	**10**	**126**	**23**	17	101	27
France (LGF) (€m)	**26**	**312**	**57**	46	287	75
India (Rs m) - Group's 26% interest	**491**	**4,264**	**917**	564	2,264	790
Egypt (Pounds m) - Group's 55% interest	**136**	**-**	**136**	134	-	134
Gulf (US$m) - Group's 50% interest	**3**	**4**	**3**	6	10	7

Asset and premium flows

3.12 Worldwide new business

	Annual premiums 2013 £m	**Single premiums 2013 £m**	**APE 2013 £m**	Annual premiums 2012 £m	Single premiums 2012 £m	APE 2012 £m	Increase/ (decrease) %
Individual annuities	**-**	**1,277**	**128**	-	1,320	132	(3)
Bulk purchase annuities	**-**	**2,812**	**281**	-	1,019	102	175
Total LGR[1]	**-**	**4,089**	**409**	-	2,339	234	75
Group Protection	**70**	**-**	**70**	70	-	70	-
Retail Protection	**148**	**-**	**148**	151	-	151	(2)
France (LGF)	**22**	**264**	**48**	38	233	61	(21)
Netherlands (LGN)	**8**	**107**	**19**	13	82	21	(10)
Workplace Savings	**660**	**747**	**735**	502	1,115	614	20
Platforms (Cofunds & IPS)[2]	**43**	**2,452**	**288**	59	2,137	273	5
Suffolk Life	**-**	**1,330**	**133**	-	774	77	73
Mature Retail Savings[3]	**11**	**790**	**90**	17	1,331	150	(40)
With-profits	**53**	**80**	**61**	58	342	92	(34)
Total LGAS	**1,015**	**5,770**	**1,592**	908	6,014	1,509	6
Retail Investments[4]	**12**	**3,427**	**355**	10	2,311	241	47
US Protection	**99**	**-**	**99**	90	-	90	10
India (26% share)	**5**	**46**	**10**	7	24	9	11
Egypt (55% share)	**13**	**-**	**13**	14	-	14	(7)
Gulf (50% share)	**2**	**3**	**2**	4	6	5	(60)
Total emerging markets new business	**20**	**49**	**25**	25	30	28	(11)
Total worldwide new business	**1,146**	**13,335**	**2,480**	1,033	10,694	2,102	18

1. Total LGR new business excludes £270m (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.
2. Platforms APE includes retail business only.
3. Includes bonds and retail pensions.
4. Includes retail unit trusts and structured products only.

Asset and premium flows

3.13 Worldwide new business APE quarterly progression

	3 months to 31.12.13 £m	3 months to 30.09.13 £m	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
Individual annuities	**20**	**33**	**35**	**40**	45	35	26	26
Bulk purchase annuities	**20**	**194**	**31**	**36**	54	41	3	4
Total LGR[1]	**40**	**227**	**66**	**76**	99	76	29	30
Group Protection	**13**	**17**	**20**	**20**	13	20	25	12
Retail Protection	**43**	**40**	**38**	**27**	43	36	36	36
France (LGF)	**4**	**7**	**6**	**31**	19	4	18	20
Netherlands (LGN)	**4**	**4**	**4**	**7**	5	5	5	6
Workplace Savings	**240**	**166**	**127**	**202**	285	159	76	94
Platforms (Cofunds & IPS)[2]	**99**	**94**	**69**	**26**	62	78	83	50
Suffolk Life	**44**	**39**	**31**	**19**	18	19	19	21
Mature Retail Savings[3]	**25**	**21**	**22**	**22**	35	39	36	40
With-profits	**17**	**13**	**14**	**17**	16	18	30	28
Total LGAS	**489**	**401**	**331**	**371**	496	378	328	307
Retail Investments[4]	**83**	**94**	**104**	**74**	55	49	70	67
US Protection	**26**	**28**	**23**	**22**	24	24	22	20
India (26% share)	**1**	**2**	**1**	**6**	2	1	1	5
Egypt (55% share)	**3**	**3**	**3**	**4**	3	3	4	4
Gulf (50% share)	**-**	**1**	**-**	**1**	1	2	1	1
Total emerging markets new business	**4**	**6**	**4**	**11**	6	6	6	10
Total worldwide new business	**642**	**756**	**528**	**554**	680	533	455	434

1. Total LGR new business excludes £270m (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.
2. Platforms APE includes retail business only.
3. Includes bonds and retail pensions.
4. Includes retail unit trusts and structured products only.

Asset and premium flows

3.14 Worldwide APE by channel

For the year ended 31 December 2013	Annual premiums £m	Single premiums £m	APE £m	% of total
Employee benefit consultants[1]	**796**	**3,597**	**1,156**	**47**
Retail independent and restricted	**228**	**7,871**	**1,015**	**41**
Tied including bancassurance	**95**	**1,418**	**237**	**10**
Direct	**27**	**449**	**72**	**2**
Total	**1,146**	**13,335**	**2,480**	**100**

1. Includes Lucida business.

For the year ended 31 December 2012	Annual premiums £m	Single premiums £m	APE £m	% of total
Employee benefit consultants	662	2,242	886	42
Retail independent and restricted	198	5,010	699	33
Tied including bancassurance	153	3,008	454	22
Direct	20	434	63	3
Total	1,033	10,694	2,102	100

3.15 Worldwide APE by channel quarterly progression

	3 months to 31.12.13 £m	3 months to 30.09.13 £m	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
Employee benefit consultants[1]	**283**	**386**	**191**	**296**	377	232	131	146
Retail independent and restricted	**279**	**295**	**259**	**182**	188	166	176	169
Tied including bancassurance	**61**	**58**	**59**	**59**	103	118	130	103
Direct	**19**	**17**	**19**	**17**	12	17	18	16
Total	**642**	**756**	**528**	**554**	680	533	455	434

1. Includes Lucida business.

Capital and Investments

4.01 Group regulatory capital
(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 31.12.13 £bn	At 31.12.12 £bn
Core tier 1	**6.3**	6.2
Innovative tier 1	**0.6**	0.6
Tier 2	**1.2**	1.2
Deductions	**(0.8)**	(0.8)
Group capital resources	**7.3**	7.2
Group capital resources requirement[1]	**3.3**	3.1
IGD surplus	**4.0**	4.1
Coverage ratio (Group capital resources / Group capital resources requirement)[2]	**2.22 times**	2.34 times

1. The Group capital resources requirement includes a With-profits Insurance Capital Component (WPICC) of £0.2bn (2012: £0.1bn).
2. Coverage ratio is calculated on unrounded values.

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 31.12.13 £bn	At 31.12.12 £bn
Capital and reserves attributable to equity holders on an IFRS basis	**5.6**	5.4
Innovative tier 1	**0.6**	0.6
Tier 2	**1.2**	1.2
UK unallocated divisible surplus	**1.1**	1.0
Proposed dividends	**(0.4)**	(0.3)
Intangibles[1]	**(0.4)**	(0.2)
Other regulatory adjustments[2]	**(0.4)**	(0.5)
Group capital resources	**7.3**	7.2

1. Increase in intangibles related to the acquisition of remaining shareholdings of Cofunds and IDOL during 2013.
2. Other regulatory adjustments includes differences between accounting and regulatory basis.

The table below demonstrates how the Group's net cash generation flows to the IGD capital surplus position.[1]

	At 31.12.13 £bn
IGD surplus at 1 January	**4.1**
Net cash generation	**1.0**
Dividends	**(0.6)**
Capital impact of organic growth	**(0.1)**
Capital impact of acquisitions	**(0.3)**
Other variances and regulatory adjustments	**(0.1)**
IGD surplus at 31 December	**4.0**

1. All IGD amounts are estimated, unaudited and after accrual of the final dividend of £408m (2012: £337m)

4.01 Group regulatory capital (continued)
(b) Legal & General Assurance Society Ltd capital surplus

Legal & General Assurance Society Ltd is the principal insurance regulated entity in the Group. The society is required to measure and monitor its capital resources on a regulatory basis.

	At 31.12.13 Long term business £bn	**At 31.12.13 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	**5.8**	**0.2**	5.5	0.2
Insurance capital requirement	**2.6**	**0.1**	2.6	0.1
Capital requirements of regulated related undertakings	**0.3**	**-**	0.2	-
With-profits Insurance Capital Component	**0.2**	**-**	0.1	-
Capital resources requirement	**3.1**	**0.1**	2.9	0.1
Regulatory capital surplus	**2.7**	**0.1**	2.6	0.1

The table below shows the breakdown of Legal & General Assurance Society Ltd long term insurance capital requirement.

Pillar 1 capital requirement	**At 31.12.13 £bn**	At 31.12.12 £bn
Protection	**0.7**	0.7
LGR	**1.2**	1.2
Non profit pensions and unit linked bonds	**0.1**	0.1
Non profit	**2.0**	2.0
With-profits	**0.6**	0.6
Long term insurance capital requirement	**2.6**	2.6

On a regulatory basis (Peak 1), Society long term business regulatory capital surplus of £2.7bn (2012: £2.6bn) comprises capital resources within the long term fund of £3.0bn (2012: £2.7bn) and capital resources outside the long term fund of £2.8bn (2012: £2.8bn) less the capital resources requirement of £3.1bn (2012: £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 4.01 (c).

(c) With-profits realistic balance sheet

The table below summarises the realistic position of the with-profits part of Legal & General Assurance Society Ltd long term fund.

	At 31.12.13 £bn	At 31.12.12 £bn
With-profits surplus	**0.8**	0.7
Risk capital margin	**0.1**	0.1
Surplus	**0.7**	0.6

Legal & General Assurance Society Ltd 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 (2012: £0.3bn) as a liability in the calculation.

4.02 Investment portfolio

	Market value 2013 £m	Market value 2012 £m
Worldwide assets under management	**452,260**	413,152
Client and policyholder assets	**(391,521)**	(351,663)
Non-unit linked with-profits assets[1]	**(17,380)**	(18,605)
Investments to which shareholders are directly exposed	**43,359**	42,884

1. Includes assets backing participating business in LGF of £2,347m (2012: £2,304m).

Analysed by investment class:

	Note	LGR investments[1] 2013 £m	Other non profit insurance investments 2013 £m	LGC investments 2013 £m	Other shareholder investments 2013 £m	Total 2013 £m	Total 2012 £m
Equities[2]		**83**	**1**	**1,492**	**8**	**1,584**	1,432
Bonds	4.03	**30,018**	**2,628**	**1,783**	**1,268**	**35,697**	34,923
Derivative assets[3]		**2,100**	**26**	**180**	**1**	**2,307**	3,103
Property		**1,294**	**-**	**143**	**4**	**1,441**	773
Cash (including cash equivalents), loans & receivables		**689**	**145**	**1,057**	**439**	**2,330**	2,653
		34,184	**2,800**	**4,655**	**1,720**	**43,359**	42,884

1. LGR investments includes all business written in LGPL and excludes WP non-participating business.
2. Includes equity investment in CALA Group Limited.
3. 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.

Direct investments:[1]

	Direct[2] investments 2013 £m	Traded[3] securities 2013 £m	Total 2013 £m	Direct[2] investments 2012 £m	Traded[3] securities 2012 £m	Total 2012 £m
Equities	**208**	**1,376**	**1,584**	94	1,338	1,432
Bonds	**1,048**	**34,649**	**35,697**	419	34,504	34,923
Derivative assets	**-**	**2,307**	**2,307**	-	3,103	3,103
Property	**1,441**	**-**	**1,441**	773	-	773
Cash (including cash equivalents), loans & receivables	**6**	**2,324**	**2,330**	-	2,653	- 2,653
	2,703	**40,656**	**43,359**	1,286	41,598	42,884

1. The analysis of Direct Investments above excludes £176m (2012: £135m) of assets which do not meet the definition of financial investments.
2. Direct Investments constitute a bilateral agreement with another party and represents an exposure to untraded and often less liquid asset classes. Direct Investments include physical assets, bilateral loans, private equity, and exclude hedge funds.
3. Traded securities are defined by exclusion. If an instrument is not a direct investment, then it is classed as a traded security.

4.03 Bond portfolio summary
(a) Analysed by sector

	Note	LGR 2013 £m	LGR 2013 %	**Total 2013 £m**	**Total 2013 %**
Sovereigns, Supras and Sub-Sovereigns	4.03(b)	4,772	16	**6,502**	**18**
Banks:					
- Tier 1		100	-	**105**	**-**
- Tier 2 and other subordinated		637	2	**698**	**2**
- Senior		1,406	5	**2,169**	**6**
Financial Services					
- Tier 1		2	-	**5**	**-**
- Tier 2 and other subordinated		206	1	**251**	**1**
- Senior		800	3	**1,041**	**3**
Insurance					
- Tier 1		144	1	**152**	**-**
- Tier 2 and other subordinated		579	2	**625**	**2**
- Senior		481	2	**552**	**2**
Utilities		4,013	13	**4,329**	**12**
Consumer Services and Goods & Health Care		3,128	10	**3,716**	**10**
Technology and Telecoms		1,995	7	**2,333**	**7**
Industrials & Oil and Gas		3,074	10	**3,626**	**10**
Property		981	3	**1,053**	**3**
Asset backed securities:[1]					
- Traditional		763	3	**1,395**	**4**
- Securitisations and debentures		5,839	19	**6,047**	**17**
CDO[2]		1,098	3	**1,098**	**3**
Total		30,018	100	**35,697**	**100**

1. 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. Securitisations are securities with fixed redemption profiles that are issued by Special Purpose Vehicles and secured on revenues from specific assets or operating companies and Debentures are securities with fixed redemption profiles issued by firms typically secured on property.

2. The underlying reference portfolio has had no reference entity defaults in 2012 or 2013. The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the reference portfolio, 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. These CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the internal valuation.

4.03 Bond portfolio summary (continued)
(a) Analysed by sector (continued)

	Note	LGR 2012 £m	LGR 2012 %	Total 2012 £m	Total 2012 %
Sovereigns, Supras and Sub-Sovereigns	4.03(b)	4,543	16	6,328	18
Banks:					
- Tier 1		212	1	223	1
- Tier 2 and other subordinated		707	2	776	2
- Senior		1,399	5	2,243	6
Financial Services:					
- Tier 1		4	-	4	-
- Tier 2 and other subordinated		46	-	67	-
- Senior		930	3	1,127	3
Insurance:					
- Tier 1		134	-	142	-
- Tier 2 and other subordinated		546	2	575	2
- Senior		545	2	645	2
Utilities		3,928	13	4,177	12
Consumer Services and Goods & Health Care		3,484	12	3,966	12
Technology and Telecoms		2,010	7	2,337	7
Industrials & Oil and Gas		3,294	11	3,825	11
Property		628	2	698	2
Asset backed securities:[1]					
- Traditional		742	3	1,512	4
- Securitisations and debentures		5,005	17	5,181	15
CDO[2]		1,097	4	1,097	3
Total		29,254	100	34,923	100

1. 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. Securitisations are securities with fixed redemption profiles that are issued by Special Purpose Vehicles and secured on revenues from specific assets or operating companies and Debentures are securities with fixed redemption profiles issued by firms typically secured on property.

2. The underlying reference portfolio has had no reference entity defaults in 2012 or 2013. The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the reference portolio, 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. These CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the internal valuation.

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

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

	LGR 2013 £m	**Total 2013 £m**	LGR 2012 £m	Total 2012 £m
Market value by region				
United Kingdom	13,099	**14,178**	11,569	12,578
USA	7,237	**9,779**	8,394	10,856
Netherlands	1,736	**2,164**	1,661	2,267
France	1,382	**1,681**	1,313	1,742
Germany	411	**791**	316	651
GIIPS:				
- Greece	-	**-**	-	-
- Ireland[1]	234	**271**	271	289
- Italy	636	**786**	636	744
- Portugal	15	**31**	13	16
- Spain	178	**263**	192	260
Rest of Europe	1,299	**1,721**	1,191	1,636
Rest of World	2,693	**2,934**	2,601	2,787
CDO	1,098	**1,098**	1,097	1,097
Total	30,018	**35,697**	29,254	34,923

1. Within LGR, out of the £234m of bonds domiciled in Ireland, £218m relate to financing vehicles where the underlying exposure lies outside Ireland.

Additional analysis of sovereign debt exposures

	Sovereigns, Supras and Sub-Sovereigns			
	LGR 2013 £m	**Total 2013 £m**	LGR 2012 £m	Total 2012 £m
Market value by region				
United Kingdom	3,340	**3,725**	3,158	**3,552**
USA	282	**664**	323	**470**
Netherlands	10	**194**	1	**423**
France	90	**220**	80	**299**
Germany	212	**472**	165	**380**
GIIPS:				
- Greece	-	**-**	-	**-**
- Ireland	-	**7**	-	**6**
- Italy	236	**323**	240	**312**
- Portugal	-	**16**	-	**4**
- Spain	-	**14**	-	**47**
Rest of Europe	474	**661**	459	**669**
Rest of World	128	**206**	117	**166**
Total	4,772	**6,502**	4,543	6,328

4.03 Bond portfolio summary (continued)
(c) Analysed by credit rating

	LGR 2013 £m	LGR 2013 %	**Total 2013 £m**	**Total 2013 %**
AAA[1]	1,378	5	**3,144**	**9**
AA	6,743	22	**7,599**	**21**
A	10,236	34	**11,703**	**34**
BBB	8,326	28	**9,456**	**26**
BB or below	603	2	**874**	**2**
Unrated: Bespoke CDOs[2]	983	3	**983**	**3**
Other[3]	1,749	6	**1,938**	**5**
	30,018	100	**35,697**	**100**

	LGR 2012 £m	LGR 2012 %	Total 2012 £m	Total 2012 %
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[2]	975	3	975	3
Other[3]	1,238	4	1,387	4
	29,254	100	34,923	100

1. During 2013 the UK sovereign debt was downgraded from AAA to AA+.
2. The CDOs are termed as super senior since default losses have to exceed 27.5%, on average across the reference portfolio, before the CDOs incur any default losses. 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.
3. Other unrated bonds have been assessed and rated internally.

4.04 Value of policyholder assets held in Society and LGPL

	2013 £m	2012 £m
With-profits business	**23,959**	24,656
Non profit business	**49,949**	46,869
	73,908	71,525

European Embedded Value

Group embedded value - summary

For the year ended 31 December 2013	Covered business UK business £m	LGAS overseas business £m	LGA £m	Non-covered business £m	Total £m
At 1 January					
Value of in-force business (VIF)	**4,402**	**146**	**735**	**-**	**5,283**
Shareholder net worth (SNW)	**3,178**	**296**	**239**	**(96)**	**3,617**
Embedded value at 1 January 2013	**7,580**	**442**	**974**	**(96)**	**8,900**
Exchange rate movements	**-**	**9**	**(14)**	**(10)**	**(15)**
Operating profit after tax for the year	**804**	**16**	**70**	**168**	**1,058**
Non-operating profit/(loss) for the year	**222**	**60**	**(24)**	**(27)**	**231**
Profit for the year	**1,026**	**76**	**46**	**141**	**1,289**
Intra-group distributions[1]	**(602)**	**(15)**	**(44)**	**661**	**-**
Dividends to equity holders of the Company	**-**	**-**	**-**	**(479)**	**(479)**
Transfer to non-covered business[2]	**(27)**	**-**	**-**	**27**	**-**
Other reserve movements including pension deficit[3]	**(35)**	**-**	**(29)**	**(45)**	**(109)**
Embedded value at 31 December 2013	**7,942**	**512**	**933**	**199**	**9,586**
Value of in-force business	**4,693**	**197**	**699**	**-**	**5,589**
Shareholder net worth	**3,249**	**315**	**234**	**199**	**3,997**
Embedded value per share (p)[4]					**162**

1. UK intra-group distributions reflect a £625m dividend paid from Society to Group, and dividends of £10m (2012: £40m) paid to Society from subsidiaries (primarily Nationwide Life). Dividends of €16m (2012: €15m) from LGN are also paid to Society. Dividends of $69m (2012: $63m) from LGA and €2m (2012: €3m) from LGF were paid to the group.
2. The transfer to non-covered business represents the IFRS profits arising in the period from the provisions of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.
3. The other reserve movements reflect the pension deficit movement, the movement of investment project costs from covered to non-covered business and the effect of reinsurance arrangement transactions between UK and US covered business.
4. The number of shares in issue at 31 December 2013 was 5,917,066,636 (31 December 2012: 5,912,782,826).

Further analysis of the LGAS and LGR covered business can be found in Note 5.01.

Group embedded value - summary (continued)

For the year ended 31 December 2012 [1]	Covered business UK business £m	Covered business LGAS overseas business £m	Covered business LGA £m	Non-covered business £m	Total £m
At 1 January					
Value of in-force business (VIF)	4,247	217	913	-	5,377
Shareholder net worth (SNW)	3,218	252	149	(388)	3,231
At 1 January 2012	7,465	469	1,062	(388)	8,608
Exchange rate movements	-	(12)	(50)	40	(22)
Operating profit after tax for the year	653	19	77	71	820
Non-operating loss for the year	(23)	(20)	(18)	(26)	(87)
Profit/(loss) for the year	630	(1)	59	45	733
Intra-group distributions[2]	(473)	(14)	(40)	527	-
Dividends to equity holders of the Company	-	-	-	(394)	(394)
Transfer to non-covered business[3]	(22)	-	-	22	-
Other reserve movements including pension deficit[4]	(20)	-	(57)	52	(25)
Embedded value at 31 December 2012	7,580	442	974	(96)	8,900
Value of in-force business	4,402	146	735	-	5,283
Shareholder net worth	3,178	296	239	(96)	3,617
Embedded value per share (p)[5]					151

1. This note has been restated to reflect an amendment to IAS 19 'Employee Benefits'. Details of this restatement are outlined in Note 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 €15m from LGN are also paid to Society. Dividends of $63m from LGA and €3m from LGF were 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 reflect the pension deficit movement, the movement of investment project costs from covered to non-covered business and the effect of reinsurance arrangement transactions between UK and US covered business.
5. The number of shares in issue at 31 December 2012 was 5,912,782,826.

Further analysis of the LGAS and LGR covered business can be found in Note 5.01.

European Embedded Value

5.01 LGAS and LGR embedded value reconciliation

For the year ended 31 December 2013	Shareholder net worth Free surplus £m	Required capital £m	Total £m	Value of in-force £m	Total embedded value £m
At 1 January 2013[1]	1,259	2,215	3,474	4,548	8,022
Exchange movement	3	3	6	3	9
Operating profit/(loss) after tax - UK business:					
- New business contribution[2]	(324)	284	(40)	484	444
- Expected return on VIF	-	-	-	266	266
- Expected transfer from non profit VIF to SNW[3]	815	(181)	634	(634)	-
- With-profits transfer	54	-	54	(54)	-
- Expected return on SNW	40	76	116	-	116
Generation of embedded value	585	179	764	62	826
- Experience variances	5	(9)	(4)	14	10
- Operating assumption changes	(24)	2	(22)	21	(1)
- Development costs	(31)	-	(31)	-	(31)
Variances	(50)	(7)	(57)	35	(22)
Operating profit after tax - LGAS overseas	7	1	8	8	16
Operating profit after tax	542	173	715	105	820
Non-operating profit/(loss) after tax - UK business:					
- Economic variances	109	(8)	101	80	181
- Effect of tax rate changes and other taxation impacts[4]	-	-	-	41	41
Non-operating profit after tax - LGAS overseas	20	-	20	40	60
Non-operating profit/(loss) after tax for the year	129	(8)	121	161	282
Profit for the year	671	165	836	266	1,102
Intra-group distributions[5]	(617)	-	(617)	-	(617)
Transfer to non-covered business[6]	(27)	-	(27)	-	(27)
Other reserve movements including pension deficit[7]	(115)	7	(108)	73	(35)
Embedded value at 31 December 2013	**1,174**	**2,390**	**3,564**	**4,890**	**8,454**

1. Opening balances at 1 January 2013 include LGF and LGN.
2. The UK free surplus reduction of £324m to finance new business includes £40m new business strain and £284m additional required capital.
3. The increase in UK free surplus of £815m from the expected transfer from the in-force non profit business includes £634m of operational cash generation and a £181m reduction in required capital.
4. Reflects the implementation of the UK planned future reductions in corporation tax to 20% on 1 April 2015.
5. UK intra-group dividends reflect a £625m dividend paid from Society to Group and dividends of £10m paid to Society from subsidiaries (primarily Nationwide Life). Dividends of €16m from LGN are also paid to Society.
6. The transfer to non-covered business represents the IFRS profits arising in the period from the provisions of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.
7. The other reserve movements reflects the pension deficit movement, the movement of investment project costs from covered to non-covered business and the effect of reinsurance arrangement transactions between UK and US covered business.

The value of in-force business of £4,890m is comprised of £4,454m of non profit business and £436m of with-profits business.

5.01 LGAS and LGR embedded value reconciliation (continued)

For the year ended 31 December 2012	Shareholder net worth Free surplus £m	Required capital £m	Total £m	Value of in-force £m	Total embedded value £m
At 1 January 2012	1,492	1,978	3,470	4,464	7,934
Exchange movement	(3)	(3)	(6)	(6)	(12)
Operating profit/(loss) after tax - UK business:					
- New business contribution[1]	(275)	182	(93)	386	293
- Expected return on VIF	-	-	-	270	270
- Expected transfer from non profit VIF to SNW[2]	762	(171)	591	(591)	-
- With-profits transfer	52	-	52	(52)	-
- Expected return on SNW	53	63	116	-	116
Generation of embedded value	592	74	666	13	679
- Experience variances	(26)	18	(8)	20	12
- Operating assumption changes	13	1	14	(23)	(9)
- Development costs	(29)	-	(29)	-	(29)
Variances	(42)	19	(23)	(3)	(26)
Operating profit after tax - LGAS overseas	11	10	21	(2)	19
Operating profit after tax	561	103	664	8	672
Non-operating profit/(loss) after tax - UK business:					
- Economic variances	(182)	107	(75)	(37)	(112)
- Effect of tax rate changes and other taxation impacts[3]	-	-	-	89	89
Non-operating profit after tax - LGAS overseas	24	19	43	(63)	(20)
Non-operating (loss)/profit after tax	(158)	126	(32)	(11)	(43)
Profit for the year	403	229	632	(3)	629
Intra-group distributions[4]	(487)	-	(487)	-	(487)
Transfer to non-covered business[5]	(22)	-	(22)	-	(22)
Other reserve movements including pension deficit[6]	(124)	11	(113)	93	(20)
Embedded value at 31 December 2012	1,259	2,215	3,474	4,548	8,022

1. The UK free surplus reduction of £275m to finance new business includes £93m new business strain and £182m additional required capital.
2. The increase in UK free surplus of £762m from the expected transfer from the in-force non profit business includes £591m of operational cash generation and a £171m reduction in required capital.
3. Reflects the implementation of the UK planned future reductions in corporation tax to 21% on 1 April 2014.
4. UK intra-group dividends reflect a £525m dividend paid from Society to Group and dividends of £40m paid to Society from subsidiaries (primarily Nationwide Life). Dividends of €15m from LGN were also paid to Society.
5. The transfer to non-covered business represents the IFRS profits arising in the period from the provisions of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.
6. The other reserve movements reflects the pension deficit movement, the movement of investment project costs from covered to non-covered business and the effect of reinsurance arrangement transactions between UK and US covered business.

The value of in-force business of £4,548m is comprised of £4,154m of non profit business and £394m of with-profits business.

5.02 Analysis of shareholders' equity

As at 31 December 2013	**LGAS and LGR £m**	**LGIM £m**	**LGC and group expenses £m**	**LGA £m**	**Total £m**
Analysed as:					
IFRS basis shareholders' equity[1]	**783**	**421**	**3,622**	**816**	**5,642**
Additional retained profit/(loss) on an EEV basis	**4,830**	**-**	**(1,003)**	**117**	**3,944**
Shareholders' equity on an EEV basis	**5,613**	**421**	**2,619**	**933**	**9,586**
Comprising:					
Business reported on an IFRS basis	**408**	**421**	**(630)**	**-**	**199**
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus[2]	**67**		**1,107**	**192**	**1,366**
- Required capital to cover solvency margin	**248**		**2,142**	**42**	**2,432**
Value of in-force					
- Value of in-force business[3]	**5,398**			**711**	**6,109**
- Cost of capital	**(508)**			**(12)**	**(520)**

1. Shareholders' equity supporting the UK non profit LGAS and LGR businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within the LGC and group expenses segment.
2. Free surplus is the value of any capital and surplus allocated to, but not required to support, the in-force covered business at the valuation date.
3. Value of in-force business includes a deduction for the time value of options and guarantees of £23m (2012: £30m).

As at 31 December 2012	LGAS and LGR £m	LGIM £m	LGC and group expenses £m	LGA £m	Total £m
Analysed as:					
IFRS basis shareholders' equity[1]	685	423	3,414	919	5,441
Additional retained profit/(loss) on an EEV basis	4,484	-	(1,080)	55	3,459
Shareholders' equity on an EEV basis	5,169	423	2,334	974	8,900
Comprising:					
Business reported on an IFRS basis	325	423	(844)	-	(96)
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus[2]	57		1,202	206	1,465
- Required capital to cover solvency margin	239		1,976	33	2,248
Value of in-force					
- Value of in-force business[3]	5,054			745	5,799
- Cost of capital	(506)			(10)	(516)

1. Shareholders' equity supporting the UK non profit LGAS and LGR businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within the LGC and group expenses segment.
2. Free surplus is the value of any capital and surplus allocated to, but not required to support, the in-force covered business at the valuation date.
3. Value of in-force business includes a deduction for the time value of options and guarantees of £30m.

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

5.03 Segmental analysis of shareholders' equity

	Covered business EEV basis 2013 £m	**Other business IFRS basis 2013 £m**	**Total 2013 £m**	Covered business EEV basis 2012 £m	Other business IFRS basis 2012 £m	Total 2012 £m
LGAS						
- LGAS UK Protection and Savings	**2,331**	**-**	**2,331**	2,197	-	2,197
- LGAS overseas business	**512**	**-**	**512**	442	-	442
- General insurance and other	**-**	**408**	**408**	-	325	325
Total LGAS	**2,843**	**408**	**3,251**	2,639	325	2,964
LGR	**2,362**	**-**	**2,362**	2,205	-	2,205
LGIM	**-**	**421**	**421**	-	423	423
LGC and group expenses	**3,249**	**(630)**	**2,619**	3,178	(844)	2,334
LGA	**933**	**-**	**933**	974	-	974
Total	**9,387**	**199**	**9,586**	8,996	(96)	8,900

5.04 Reconciliation of shareholder net worth

	UK covered business 2013 £m	**Total 2013 £m**	UK covered business 2012 £m	Total 2012 £m
SNW of long term operations (IFRS basis)	**4,291**	**5,443**	4,294	5,537
Other assets/(liabilities) (IFRS basis)	**-**	**199**	-	(96)
Shareholders' equity on the IFRS basis	**4,291**	**5,642**	4,294	5,441
Purchased interest in long term business	**(52)**	**(59)**	(63)	(64)
Deferred acquisition costs/deferred income liabilities	**(223)**	**(1,129)**	(235)	(1,093)
Deferred tax[1]	**(162)**	**232**	(253)	74
Other[2]	**(605)**	**(689)**	(565)	(741)
Shareholder net worth on the EEV basis	**3,249**	**3,997**	3,178	3,617

1. Deferred tax represents all tax which is expected to be paid under current legislation.
2. Other primarily relates to the different treatment of annuities and LGA Triple X securitisation on an EEV and IFRS basis.

European Embedded Value

5.05 Profit/(loss) for the year

For the year ended 31 December 2013	Note	LGAS and LGR £m	LGIM £m	LGC and group expenses £m	LGA £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.06	**544**			**107**	**651**
Contribution from in-force business:						
- expected return[1]		**358**			**68**	**426**
- experience variances [2]		**52**			**(23)**	**29**
- operating assumption changes[3]		**(9)**			**(52)**	**(61)**
Development costs		**(40)**			**-**	**(40)**
Contribution from shareholder net worth		**5**		**113**	**7**	**125**
Operating profit on covered business		**910**	**-**	**113**	**107**	**1,130**
Business reported on an IFRS basis[4,5,6]		**47**	**270**	**(106)**	**-**	**211**
Total operating profit		**957**	**270**	**7**	**107**	**1,341**
Economic variances[7]		**250**	**(6)**	**8**	**(37)**	**215**
Gains on non-controlling interests		**-**	**-**	**3**	**-**	**3**
Profit before tax		**1,207**	**264**	**18**	**70**	**1,559**
Tax (expense)/credit on profit from ordinary activities		**(251)**	**(57)**	**21**	**(24)**	**(311)**
Effect of tax rate changes and other taxation impacts[8]		**41**	**-**	**-**	**-**	**41**
Profit for the year		**997**	**207**	**39**	**46**	**1,289**

Operating profit attributable to:	
LGAS	**360**
LGR	**597**

	p
Earnings per share	
Based on profit attributable to equity holders of the Company	**21.91**
Diluted earnings per share	
Based on profit attributable to equity holders of the Company	**21.61**

1. The expected return on in-force is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the UK LGAS and LGR business was £4,402m in 2013 (2012: £4,247m). This is adjusted for the effects of opening model changes of £27m (2012: £86m) to give an adjusted opening base VIF of £4,429m (2012: £4,333m). This is then multiplied by the opening risk discount rate of 6.0% (2012: 6.2%) and the result grossed up at the notional attributed tax rate of 20% (2012: 21%) to give a return of £331m (2012: £340m). The same approach has been applied for the LGAS overseas businesses.
2. LGAS and LGR variance primarily reflects UK cost of capital unwind, bulk purchase annuity data loading, fewer retail protection lapses and better longevity experience. LGA experience variance primarily relates to adverse persistency experience and mortality experience within term assurance and universal life products respectively.
3. LGAS and LGR assumption changes primarily reflects mortality assumption changes in LGR. LGA assumption changes primarily relate to improved modelling of term business in the period after the end of the guaranteed level premium period.
4. LGAS and LGR non-covered business primarily reflects GI operating profit and other of £47m (2012: £10m).
5. LGIM operating profit includes Retail Investments and excludes £34m (2012: £27m) of profits arising from the provision of investment management services at market referenced rates to the covered business on a look through basis and as a consequence are included in the LGAS and LGR covered business on an EEV basis.
6. LGC and group expenses non-covered business primarily reflects the shareholder interest expense and Investment projects (predominantly Economic Capital Programme and other strategic investments).
7. The LGAS and LGR positive variance has resulted from a number of factors including equity market outperformance, favourable default experience, actions to improve the yield on annuity assets and a lower risk margin offset by a higher risk free rate. The higher risk free rate has contributed to a negative variance in LGA.
8. Primarily reflects the implementation of the UK planned future reductions in corporation tax to 20% on 1 April 2015.

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

For the year ended 31 December 2012[1]	Note	LGAS and LGR £m	LGIM £m	LGC and group expenses £m	LGA £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	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		134	5	145
Operating profit on covered business		719	-	134	102	955
Business reported on an IFRS basis[5,6,7,8]		10	245	(165)	(4)	86
Total operating profit/(loss)		729	245	(31)	98	1,041
Economic variances[9]		(157)	(5)	(41)	8	(195)
Losses attributable to non-controlling interests		-	-	(12)	-	(12)
Profit/(loss) before tax		572	240	(84)	106	834
Tax (expense)/credit on profit from ordinary activities		(121)	(46)	27	(28)	(168)
Effect of tax rate changes and other taxation impacts[10]		89	-	-	(22)	67
Profit/(loss) for the year		540	194	(57)	56	733

Operating profit attributable to:	
LGAS	291
LGR	438

	p[1]
Earnings per share	
Based on profit attributable to equity holders of the Company	12.73
Diluted earnings per share	
Based on profit attributable to equity holders of the Company	12.52

1. The Profit for the period has been restated to reflect an amendment to IAS 19 'Employee Benefits'. Details of this restatement are outlined in Note 5.09.
2. The expected return on in-force is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the UK LGAS and LGR business was £4,247m. This is adjusted for the effects of opening model changes of £86m to give an adjusted opening base VIF of £4,333m. This is then multiplied by the opening risk discount rate of 6.2% and the result grossed up at the notional attributed tax rate of 21% to give a return of £340m. The same approach has been applied for the LGAS overseas businesses.
3. LGAS and LGR primarily reflects UK cost of capital unwind and bulk purchase annuity data loading, partially offset by model changes and negative persistency experience as a result of higher than expected lapses in unit linked bonds. LGA modelling and other experience variances mostly relate to additional reserving associated with the introduction of AG38 regulatory requirements.
4. Operating assumption changes in LGAS and LGR have been driven by negative mortality and demographic assumption changes in the annuity business and higher investment expense assumptions, largely offset by positive impacts reflecting changes in UK tax legislation. LGA operating assumption changes mostly relate to higher mortality assumptions on unit linked secondary guarantee business.
5. LGAS and LGR non-covered business primarily reflects GI operating profit and other of £10m.
6. LGIM operating profit excludes £27m of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis and as a consequence are included in the LGAS, LGR and L&G Capital and group expenses covered business on an EEV basis.
7. LGA non-covered business includes business unit costs of £4m allocated to the LGA segment.
8. LGC and group expenses non-covered business primarily reflects the shareholder interest expense and Investment projects (predominantly Economic Capital Programme and other strategic investments).
9. LGAS and LGR primarily reflect the impact of changes in reinvestment and disinvestment rates, higher costs of capital on increasing reserves mainly due to narrowing credit spreads, and other consequential impacts within lower yielding environments, partially offset by a lower risk discount rate.
10. Primarily reflects the implementation of the UK planned future reductions in corporation tax to 21% on 1 April 2014.

5.06 New business by product[1]

For the year ended 31 December 2013	Annual premiums £m	Present value of annual premiums £m	Capital-isation factor[2]	Single premiums £m	PVNBP £m	Contri-bution from new business[3] £m	Margin %
UK Protection	**218**	**1,141**	**5.2**	**-**	**1,141**	**101**	**8.9**
Overseas business	**30**	**229**	**7.6**	**371**	**600**	**5**	**0.8**
UK Savings	**724**	**2,516**	**3.5**	**2,495**	**5,011**	**2**	**-**
Total LGAS	**972**	**3,886**	**4.0**	**2,866**	**6,752**	**108**	**1.6**
LGR[4]	**n/a**	**939**	**n/a**	**4,089**	**5,028**	**436**	**8.7**
LGA	**99**	**926**	**9.4**	**-**	**926**	**107**	**11.6**
Total new business	**1,071**	**5,751**	**5.4**	**6,955**	**12,706**	**651**	**5.1**
Cost of capital						**72**	
Contribution from new business before cost of capital						**723**	

For the year ended 31 December 2012	Annual premiums £m	Present value of annual premiums £m	Capital-isation factor[2]	Single premiums £m	PVNBP £m	Contri-bution from new business[3] £m	Margin %
UK Protection	221	1,176	5.3	-	1,176	139	11.8
Overseas business	51	409	8.0	315	724	5	0.7
UK Savings	577	2,117	3.7	3,002	5,119	27	0.5
Total LGAS	849	3,702	4.4	3,317	7,019	171	2.4
LGR[4]	n/a	-	n/a	2,339	2,339	206	8.8
LGA	90	830	9.2	-	830	98	11.8
Total new business	939	4,532	4.8	5,656	10,188	475	4.7
Cost of capital						60	
Contribution from new business before cost of capital						535	

1. Covered business only.
2. The capitalisation factor is the present value of annual premiums divided by the amount of annual premiums.
3. The contribution from new business is defined as the present value at point of sale of assumed profits from new business written in the period and then rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.
4. LGR includes present value of annual premiums for longevity insurance on a net of reinsurance basis to enable a more representative margin figure. The gross of reinsurance longevity insurance annual premium is £270m (2012 : £nil). The LGR PVNBP contribution from new business and margin are also inclusive of longevity insurance.

5.07 Sensitivities

In accordance with the guidance issued by the European Insurance CFO Forum in October 2005 the table below shows the effect of alternative assumptions on the long term embedded value and new business contribution.

Effect on embedded value as at 31 December 2013

	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
LGAS and LGR[1]	**8,454**	**614**	**(525)**	**295**	**(241)**	**128**
LGA	**933**	**115**	**(96)**	**38**	**(37)**	**-**
Total covered business	**9,387**	**729**	**(621)**	**333**	**(278)**	**128**

	As published £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse rates £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
LGAS and LGR[1]	**8,454**	**(261)**	**115**	**85**	**(268)**	**73**
LGA	**933**	**-**	**12**	**4**	**n/a**	**129**
Total covered business	**9,387**	**(261)**	**127**	**89**	**(268)**	**202**

Effect on new business contribution for the year

	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
LGAS and LGR[1]	**544**	**76**	**(63)**	**-**	**(5)**	**15**
LGA	**107**	**14**	**(12)**	**1**	**(1)**	**-**
Total covered business	**651**	**90**	**(75)**	**1**	**(6)**	**15**

	As published £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse rates £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
LGAS and LGR[1]	**544**	**(5)**	**23**	**16**	**(23)**	**10**
LGA	**107**	**-**	**2**	**2**	**n/a**	**17**
Total covered business	**651**	**(5)**	**25**	**18**	**(23)**	**27**

1. Includes LGC.

Opposite sensitivities are broadly symmetrical.

Sensitivity to changes in assumptions may not be linear, and as such, they should not be extrapolated to changes of a much larger order. A 2% higher risk discount rate would result in a £913m negative impact on UK embedded value and a £108m negative impact on UK new business contribution for the year.

5.08 Assumptions

UK assumptions

The assumed future pre-tax returns on fixed interest and RPI linked securities are set by reference to the portfolio yield on the relevant backing assets held at market value at the end of the reporting period. The calculated return takes account of derivatives and other credit instruments in the investment portfolio. Indicative yields on the portfolio, excluding annuities within LGR, but after allowance for long term default risk, are shown below.

For LGR, separate returns are calculated for new and existing business. Indicative combined yields, after allowance for long term default risk and the following additional assumptions, are also shown below. These additional assumptions are:

i. Where cash balances and debt securities are held at the reporting date in excess of, or below strategic investment guidelines, then it is assumed that these cash balances or debt securities are immediately invested or disinvested at current yields.

ii. Where interest rate swaps are used to reduce risk, it is assumed that these swaps will be sold before expiry and the proceeds reinvested in corporate bonds with a redemption yield 0.70% p.a. (0.70% p.a. at 31 December 2012) greater than the swap rate at that time (i.e. the long term credit rate).

iii. Where reinvestment or disinvestment is necessary to rebalance the asset portfolio in line with projected outgo, this is also assumed to take place at the long term credit rate above the swap rate at that time.

The returns on fixed and index-linked securities are calculated net of an allowance for default risk which takes account of the credit rating, outstanding term of the securities, and increase in the expectation of credit defaults over the economic cycle. The allowance for corporate securities expressed as a level rate deduction from the expected returns for annuities was 27bps at 31 December 2013 (26bps at 31 December 2012).

UK covered business

i. Assets are valued at market value.

ii. Future bonus rates have been set at levels which would fully utilise the assets supporting the policyholders' portion of the with-profits business in accordance with established practice. The proportion of profits derived from with-profits business allocated to shareholders amounts to almost 10% throughout the projection.

iii. The value of in-force business reflects the cost, including administration expenses, of providing for benefit enhancement or compensation in relation to certain products.

iv. Other actuarial assumptions have been set at levels commensurate with recent operating experience, including those for mortality, morbidity, persistency and maintenance expenses (excluding the development costs referred to below). These are normally reviewed annually.

    An allowance is made for future mortality improvement, commencing 1 January 2010 as per CMIB’s mortality improvement model (CMI 2012) with the following parameters:
    Males: Long Term Rate of 1.5% p.a. for future experience and 2.0% p.a. for statutory reserving, up to age 85 tapering to 0% at 120;
    Females: Long Term Rate of 1.0% p.a. for future experience and 1.5% p.a. for statutory reserving, up to age 85 tapering to 0% at 120.
    Future improvements are generally assumed to converge to the long term rate in 2026.

    On this basis, the best estimate of the expectation of life for a new 65 year old Male CPA annuitant is 24.3 years (31 December 2012: 24.1 years). The expectation of life on the regulatory reserving basis is 25.8 years (31 December 2012: 25.7 years).

v. Development costs relate to investment in strategic systems and development capability that are charged to the covered business. Projects charged to the non-covered business are included within Group Investment projects in LGC and group expenses.

Overseas covered business

vi. Other actuarial assumptions have been set at levels commensurate with recent operating experience, including those for mortality, morbidity, persistency and maintenance expenses.

5.08 Assumptions (continued)

Economic assumptions

	As at 2013 % p.a.	As at 2012 % p.a.	As at 2011 % p.a.
Risk margin	**3.4**	3.7	3.7
Risk free rate[1]			
- UK	**3.4**	2.3	2.5
- Europe	**2.2**	1.7	2.6
- US	**3.1**	1.8	1.9
Risk discount rate (net of tax)			
- UK	**6.8**	6.0	6.2
- Europe	**5.6**	5.4	6.3
- US	**6.5**	5.5	5.6
Reinvestment rate (US)	**5.8**	4.3	4.2
Other UK business assumptions			
Equity risk premium	**3.3**	3.3	3.3
Property risk premium	**2.0**	2.0	2.0
Investment return (excluding annuities in LGPL)			
- Gilts:			
- Fixed interest	**2.7 – 3.0**	1.9 – 2.3	1.8 – 2.5
- RPI linked	**3.6**	2.7	2.6
- Non gilts:			
- Fixed interest	**2.2 – 3.3**	1.9 – 2.9	3.0 – 4.6
- Equities	**6.7**	5.6	5.8
- Property	**5.4**	4.3	4.5
Long-term rate of return on non profit annuities in LGPL	**4.6**	4.3	5.0
Inflation			
- Expenses/earnings	**4.1**	3.4	3.5
- Indexation	**3.6**	2.9	3.0

1. The risk free rate is the gross redemption yield on the 15 year gilt index. The Europe risk free rate is the 10 year ECB AAA-rated euro area central government bond par yield. The LGA risk free rate is the 10 year US Treasury effective yield.

Tax

vii. The profits on the covered business, except for the profits on the Society shareholder capital held outside the long term fund, are calculated on an after tax basis and are grossed up by the notional attributed tax rate for presentation in the income statement. For the UK, the after tax basis assumes the annualised current tax rate of 23.25% and the subsequent planned future reductions in corporation tax to 21% from 1 April 2014, and 20% from 1 April 2015. The tax rate used for grossing up is the long term corporate tax rate in the territory concerned, which for the UK is 20% (31 December 2012: 21%) taking into account the expected further rate reductions to 20% by 1 April 2015. The profits on the Society shareholder capital held outside the long term fund are calculated before tax and therefore tax is calculated on an actual basis.

US, Netherlands and France covered business profits are also grossed up using the long term corporate tax rates of the respective territories i.e. US is 35% (31 December 2012: 35%), France is 34.43% (31 December 2012: 34.3%) and Netherlands is 25% (31 December 2012: 25%).

5.08 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.

Sensitivity calculations

ix. A number of sensitivities have been produced on alternative assumption sets to reflect the sensitivity of the embedded value and the new business contribution to changes in key assumptions. Relevant details relating to each sensitivity are:

- 1% variation in discount rate – a one percentage point increase/decrease in the risk margin has been assumed in each case (for example a 1% increase in the risk margin would result in a 4.4% risk margin).
- 1% variation in interest rate environment – a one percentage point increased/decreased parallel shift in the risk free curve with consequential impacts on fixed asset market values, investment return assumptions, risk discount rate, including consequential changes to valuation bases.
- 1% higher equity/property yields – a one percentage point increase in the assumed equity/property investment returns, excluding any consequential changes, for example, to risk discount rates or valuation bases, has been assumed in each case (for example a 1% increase in equity returns would increase assumed total equity returns from 6.7% to 7.7%).
- 10% lower equity/property market values – an immediate 10% reduction in equity and property asset values.
- 10% lower maintenance expenses, excluding any consequential changes, for example, to valuation expense bases or potentially reviewable policy fees (for example a 10% decrease on a base assumption of £10 per annum would result in a £9 per annum expense assumption).
- 10% lower assumed persistency experience rates, excluding any consequential changes to valuation bases, incorporating a 10% decrease in lapse, surrender and premium cessation assumptions (for example a 10% decrease on a base assumption of 7% would result in a 6.3% lapse assumption).
- 5% lower mortality and morbidity rates, excluding any consequential changes to valuation bases but including assumed product repricing action where appropriate (for example if base experienced mortality is 90% of a standard mortality table then, for this sensitivity, the assumption is set to 85.5% of the standard table).

The sensitivities for covered business allow for any material changes to the cost of financial options and guarantees but do not allow for any changes to reserving bases or capital requirements within the sensitivity calculation, unless indicated otherwise above.

5.09 Methodology

Basis of preparation

The supplementary financial statements have been prepared in accordance with the European Embedded Value (EEV) Principles issued in May 2004 by the European Insurance CFO Forum.

The supplementary financial statements have been reviewed by PricewaterhouseCoopers LLP and prepared with assistance from our consulting actuary Milliman in the USA.

Changes to accounting policy - IAS 19 'Employee Benefits'

During 2013 the Group has changed its accounting policy on the recognition and measurement of defined benefit pension expense and termination benefits following the publication by the IASB in June 2011 of an amendment to IAS 19 'Employee Benefits'. This is compulsory for years beginning on or after 1 January 2013. The impact of the amendment is to reduce profit for the year by £2m. This reflects the non-covered business component, since the with profit element is transferred to the unallocated divisible surplus and the non profit element is included within covered business (Other reserve movements), with an equivalent increase in Other Comprehensive Income. Total Comprehensive Income therefore remains unchanged.

The impact of this change upon the 2012 annual profit for the year and group embedded value – summary are shown below. As the impact of the change is shown within investment variances there is no impact upon group operating profit.

	2012 £m
Profit for the year as previously reported	734
Economic variances	
IAS 19 'Employee Benefits' amendment	(1)
Revised profit for the year (after tax)	**733**
Actuarial gain on defined benefit pension schemes	4
Actuarial gain on defined benefit pension schemes transferred to unallocated divisible surplus	(3)
Previously reported income	(40)
Total comprehensive income for the year	**694**

Earnings per share	**p**
Based on profit attributable to equity holders of the Company as previously reported	12.75
IAS 19 'Employee Benefits' amendment	-
Revised earnings per share based on profit attributable to equity holders of the Company	**12.75**
Diluted earnings per share	
Based on profit attributable to equity holders of the Company as previously reported	12.54
IAS 19 'Employee Benefits' amendment	-
Revised diluted earnings per share based on profit attributable to equity holders of the Company	**12.54**

Covered business

The Group uses EEV methodology to value individual and group life assurance, pensions and annuity business written in the UK, Continental Europe and the US. The UK covered business also includes non-insured self invested personal pension (SIPP) business.

The managed pension funds business has been excluded from covered business and is reported on an IFRS basis.

All other businesses are accounted for on the IFRS basis adopted in the primary financial statements.

There is no distinction made between insurance and investment contracts in our covered business as there is under IFRS.

5.09 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 LGAS and LGR segments on an EEV basis.

The capitalised value of future profits emerging from internal investment management services are therefore included in the embedded value and new business contribution calculations for the LGAS and LGR segments. However, the historical profits which have emerged continue to be reported in the shareholders' equity of the LGIM segment on an IFRS basis. Since the look through into service companies includes only future profits and losses, current intra-group profits or losses must be eliminated from the closing embedded value and in order to reconcile the profits arising in the financial period within each segment with the net assets on the opening and closing balance sheet, a transfer of IFRS profits for the period from the UK SNW is deemed to occur.

New business

New business premiums reflect income arising from the sale of new contracts during the reporting period and any changes to existing contracts, which were not anticipated at the outset of the contract.

In-force business comprises previously written single premium, regular premium, recurrent single premium contracts and payments in relation to existing longevity insurance. Department of Work and Pensions rebates have not been treated as recurring and are included in single premium new business when received. Longevity insurance product comprises the exchange of a stream of fixed leg payments for a stream of floating payments, with the value of the income stream being the difference between the two legs. New business annual premiums have been excluded for longevity insurance due to the unpredictable deal flow from this type of business.

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.

5.09 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 LGA, where the investments of that subsidiary are substantially all fixed interest, projects the cash flows from the current portfolio of assets and assumes an investment return on reinvestment of surplus cash flows. The assumed discount and inflation rates are consistent with the investment return assumptions.

Detailed projection assumptions including mortality, morbidity, persistency and expenses reflect recent operating experience and are normally reviewed annually. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favourable changes in operating experience are not anticipated until the improvement in experience has been observed.

All costs relating to the covered business, whether incurred in the covered business or elsewhere in the Group, are allocated to that business. The expense assumptions used for the cash flow projections therefore include the full cost of servicing this business.

Tax

The projections take into account all tax which is expected to be paid, based on best estimate assumptions, applying current legislation and practice together with known future changes.

Allowance for risk

Aggregate risks within the covered business are allowed for through the following principal mechanisms:

i. setting required capital levels with reference to both the Group's internal risk based capital models, and an assessment of the strength of regulatory reserves in the covered business;

ii. allowing explicitly for the time value of financial options and guarantees within the Group's products; and

iii. setting risk discount rates by deriving a Group level risk margin to be applied consistently to local risk free rates.

Required capital and free surplus

Regulatory capital for the UK LGAS and LGR businesses is provided by assets backing the with-profits business or by the SNW. The SNW comprises all shareholders' capital within Society, including those funds retained within the long term fund and the excess assets in LGPL (collectively Society shareholder capital).

Society shareholder capital is either required to cover EU solvency margin or is free surplus as its distribution to shareholders is not restricted.

For UK with-profits business, the required capital is covered by the surplus within the with-profits part of the fund and no effect is attributed to shareholders except for the burn-through cost, which is described later. This treatment is consistent with the Principles and Practices of Financial Management for this part of the fund.

For UK non profit business, the required capital will be maintained at no less than the level of the EU minimum solvency requirement. This level, together with the margins for adverse deviation in the regulatory reserves, is, in aggregate, in excess of internal capital targets assessed in conjunction with the Individual Capital Assessment (ICA) and the with-profits support account.

The initial strains relating to new non profit business, together with the related EU solvency margin, are supported by releases from existing non profit business and the Society shareholder capital. As a consequence, the writing of new business defers the release of capital to free surplus. The cost of holding required capital is defined as the difference between the value of the required capital and the present value of future releases of that capital. For new business, the cost of capital is taken as the difference in the value of that capital assuming it was available for release immediately and the present value of the future releases of that capital. As the investment return, net of tax, on that capital is less than the risk discount rate, there is a resulting cost of capital which is reflected in the value of new business.

For LGA, the Company Action Level (CAL) of capital has been treated as required capital for modelling purposes. The CAL is the regulatory capital level at which the company would have to take prescribed action, such as submission of plans to the State insurance regulator, but would be able to continue operating on the existing basis. The CAL is currently twice the level of capital at which the regulator is permitted to take control of the business.

For LGN, required capital has been set at 100% of EU minimum solvency margin for all products without FOGs. For those products with FOGs, capital of between 100% and 350% of the EU minimum solvency margin has been used. At total level a check is made to ensure the total requirement meets the 160% Solvency I (both EEV and NBVA) from the capital policy.The level of capital has been determined using risk based capital techniques.

For LGF, 100% of EU minimum solvency margin has been used for EV modelling purposes for all products both with and without FOGs. The level of capital has been determined using risk based capital techniques.

The contribution from new business for our International businesses reflects an appropriate allowance for the cost of holding the required capital.

5.09 Methodology (continued)

Financial options and guarantees

Under the EEV Principles an allowance for time value of FOGs is required where a financial option exists which is exercisable at the discretion of the policyholder. These types of option principally arise within the with-profits part of the fund and their time value is recognised within the with-profits burn-through cost described below. Additional financial options for non profit business exist only for a small amount of deferred annuity business where guaranteed early retirement and cash commutation terms apply when the policyholders choose their actual retirement date.

Further financial guarantees exist for non profit business, in relation to index-linked annuities where capped or collared restrictions apply. Due to the nature of these restrictions and the manner in which they vary depending on the prevailing inflation conditions, they are also treated as FOGs and a time value cost recognised accordingly.

The time value of FOGs has been calculated stochastically using a large number of real world economic scenarios derived from assumptions consistent with the deterministic EEV assumptions and allowing for appropriate management actions where applicable. The management action primarily relates to the setting of bonus rates. Future regular and terminal bonuses on participating business within the projections are set in a manner consistent with expected future returns available on assets deemed to back the policies within the stochastic scenarios.

In recognising the residual value of any projected surplus assets within the with-profits part of the fund in the deterministic projection, it is assumed that terminal bonuses are increased to exhaust all of the assets in the part of the fund over the future lifetime of the in-force with-profits policies. However, under stochastic modelling, there may be some extreme economic scenarios when the total projected assets within the with-profits part of the fund are insufficient to pay all projected policyholder claims and associated costs. The average additional shareholder cost arising from this shortfall has been included in the time value cost of financial options and guarantees and is referred to as the with-profits burn-through cost.

Economic scenarios have been used to assess the time value of the financial guarantees for non profit business by using the inflation rate generated in each scenario. The inflation rate used to project index-linked annuities will be constrained in certain real world scenarios, for example, where negative inflation occurs but the annuity payments do not reduce below pre-existing levels. The time value cost of FOGs allows for the projected average cost of these constrained payments for the index-linked annuities. It also allows for the small additional cost of the guaranteed early retirement and cash commutation terms for the minority of deferred annuity business where such guarantees have been written.

LGA FOGs relate to guaranteed minimum crediting rates and surrender values on a range of contracts, as well as impacts on no-lapse guarantees (NLG). The guaranteed surrender value of the contract is based on the accumulated value of the contract including accrued interest. The crediting rates are discretionary but related to the accounting income for the amortising bond portfolio. The majority of the guaranteed minimum crediting rates are between 3% and 4%. The assets backing these contracts are invested in US Dollar denominated fixed interest securities.

LGN separately provides for two types of guarantees: interest rate guarantees and maturity guarantees. Certain contracts provide an interest rate guarantee where there is a minimum crediting rate based on the higher of 1-year Euribor and the policy guarantee rate. This guarantee applies on a monthly basis. Certain other linked contracts provide a guaranteed minimum value at maturity where the maturity amount is the higher of the fund value and a guarantee amount. The fund values for both these contracts are invested in Euro denominated fixed interest securities.

For LGF, FOGs which have been separately provided for relate to guaranteed minimum crediting rates and surrender values on a range of contracts. The guaranteed surrender value of the contract is the accumulated value of the contract including accrued bonuses. The bonuses are based on the accounting income for the amortising bond portfolios plus income and releases from realised gains on any equity type investments. Policy liabilities equal guaranteed surrender values. Local statutory accounting rules require the establishment of a specific liability when the accounting income for a company is less than 125% of the guaranteed minimum credited returns, although this has never been required. In general, the guaranteed annual bonus rates are between 0% and 4.5%.

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.

5.09 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.