Stock Exchange Release
04 March 2015

DIVIDENDS UP 21%, ROE UP TO 17%

FINANCIAL HIGHLIGHTS:

- **NET CASH GENERATION UP 10% TO £1,104M (2013: £1,002M)**
- **OPERATIONAL CASH GENERATION UP 6% TO £1,101M (2013: £1,042M)**
- **OPERATING PROFIT UP 10% TO £1,275M (2013: £1,158M)**
- **PROFIT AFTER TAX UP 9% TO £992M (2013: £906M)**
- **EARNINGS PER SHARE UP 10% TO 16.70P (2013: 15.20P)**
- **RETURN ON EQUITY 16.9% (2013: 16.1%)**
- **FULL YEAR DIVIDEND UP 21% TO 11.25P PER SHARE (2013: 9.30P)**

BUSINESS HIGHLIGHTS:

- **ANNUITY ASSETS UP 28% TO £44.2BN (2013: £34.4BN)**
- **LGIM TOTAL ASSETS UP 16% TO £708.5BN (2013: £611.6BN)**
- **UK PROTECTION PREMIUM UP 6% TO £1,407M (2013: £1,326M)**
- **SAVINGS ASSETS UP 10% TO £124.2BN (2013: £113.4BN)**
- **DIRECT INVESTMENTS UP TO £5.7BN (2013: £2.9BN)**

Nigel Wilson, Group Chief Executive, said:

"Legal & General delivers economically and socially useful products. Our market leading growth businesses coupled with continuous cost reductions have given us scale and efficiency in our chosen markets. The five global macro trends driving our strategy – ageing populations, globalisation of asset markets, welfare reform, digital connectivity and bank retrenchment – create long term growth opportunities, which we position our businesses to capture. The rapid growth of LGIM's international business to over £100bn, the £5bn of investment in physical assets in the UK, and our entrance into the lifetime mortgage market are all examples of the successful execution of our strategy.

Over the last five years we have increased dividend per share from 3.84p to 11.25p – a nearly threefold increase. In 2014 we produced another year of double digit growth across our key financial metrics enabling us to reward shareholders with a 21% rise in the dividend."

FINANCIAL SUMMARY

Financial highlights £m	2014	2013	Growth %
Analysis of operating profit			
Legal & General Retirement	**428**	310	**38**
Legal & General Investment Management	**336**	304	**11**
Legal & General Assurance Society	**460**	444	**4**
Legal & General Capital	**203**	179	**13**
Legal & General America	**56**	92	**(39)**
Operating profit from divisions	**1,483**	**1,329**	**12**
Group debt costs	**(142)**	(127)	**(12)**
Group investment projects and expenses	**(66)**	(44)	**(50)**
Operating profit	**1,275**	**1,158**	**10**
Investment and other variances (incl. minority interests)	**(37)**	(14)	**(164)**
Profit before tax	**1,238**	**1,144**	**8**
Operational cash generation	**1,101**	1,042	**6**
New business surplus / (strain)	**3**	(40)	**n/a**
Net cash generation	**1,104**	**1,002**	**10**

LEGAL & GENERAL RETIREMENT (LGR)

£bn	2014	2013	Growth %
Annuity sales	**6.6**	4.1	**61**
Internal transfer from with-profits	**1.9**	-	**n/a**
Total annuity transactions	**8.5**	4.1	**109**
Annuity net inflows	**4.4**	2.1	**110**
Annuity assets	**44.2**	34.4	**28**

LEGAL & GENERAL INVESTMENT MANAGEMENT (LGIM)

£bn	2014	2013	Growth %
Revenue (£m)	**645**	594	**9**
Total net flows	**7.6**	20.3	**(63)**
International net flows	**8.5**	15.8	**(46)**
LGIM total assets[1]	**708.5**	611.6	**16**

LEGAL & GENERAL ASSURANCE SOCIETY (LGAS)

£m	2014	2013	Growth %
UK Protection new business annual premiums	**230**	218	**6**
UK Protection gross premiums	**1,407**	1,326	**6**
General Insurance gross premiums	**377**	375	**1**
Savings net flows (£bn)	**5.6**	6.8	**(18)**
Savings AUA (£bn)	**124.2**	113.4	**10**

LEGAL & GENERAL CAPITAL (LGC)

£bn	2014	2013	Growth %
Group-wide direct investments	**5.7**	2.9	**98**
LGC assets	**5.1**	4.7	**10**

LEGAL & GENERAL AMERICA (LGA)

$m	2014	2013	Growth %
LGA new business annual premiums	**150**	155	**(3)**
LGA gross premiums	**1,117**	1,024	**9**

1. LGIM total assets includes £499bn (2013: £450bn) of AUM, and £209bn (2013: £162bn) of derivative overlay and GIA advisory assets.

2014 FINANCIAL HIGHLIGHTS

Legal & General delivered another year of strong growth in operational and net cash generation, operating profit and earnings per share. We continue to grow our business stock, which in turn drives our cash and earnings progression. Annuity assets increased 28% to £44.2bn (2013: £34.4bn), Insurance premiums increased 8% to £3.0bn (2013: £2.8bn) and Savings assets increased 10% to £124.2bn (2013: £113.4bn). LGIM further increased its total assets by 16% to £708.5bn (2013: £611.6bn) and revenue by 9% to £645m (2013: £594m).

Net cash generation increased by 10% to £1,104m (2013: £1,002m). Our new business surplus of £3m (2013: strain of £(40)m) is as a result of a £18m improvement in Annuities new business surplus, a £15m reduction in Savings new business strain and a £10m reduction in Insurance new business strain.

Operational cash generation increased by 6% to £1,101m (2013: £1,042m), driven by a 12% increase in LGR cash, up to £292m (2013: £260m), reflecting the increasing stock of annuity assets, and a 10% increase in LGIM cash, up to £262m (2013: £239m) reflecting its growing stock of assets. Operational cash generation included an additional £15m of debt costs following the issuance of £600m of long dated subordinated Tier 2 debt in June 2014, significantly extending the overall average maturity of the group's borrowings.

Operating profit increased by 10% to £1,275m (2013: £1,158m), reflecting the strong performance of our business. We have changed our approach to the classification of restructuring costs, reflecting the on-going nature of this type of expenditure. Operating profit in 2014 is stated after £31m of restructuring costs, included within Group investment projects and expenses. 2013 has not been restated and includes £17m in restructuring costs within investment and other variances, below operating profit.

Profit before tax increased 8% to £1,238m (2013: £1,144m) including investment and other variances of £(44)m (2013: £(27)m). We have delivered **earnings per share up 10% to 16.70 pence** (2013: 15.20 pence) and a higher **annualised return on equity of 16.9% (2013: 16.1%)**.

The Board has confidence in the strength and growth prospects for the business. This underpins the Board's recommendation of a final dividend of 8.35p (2013: 6.90p) giving a full year dividend of 11.25p (2013: 9.30p), 21% higher than 2013. This reflects a net cash cover of 1.65 times. We expect to reduce our net cash coverage of dividend towards 1.5 times in 2015 should our Solvency II surplus be no lower than Solvency I. We will provide updated dividend guidance when Solvency II clarity has fully emerged.

PROGRESSING THE STRATEGY – 2015 AND BEYOND

The Group continues 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, through both organic growth and selective bolt-on acquisitions.

Our responses to these trends and the diversification within our business model have enabled us to deliver sustained growth in our cash and earnings. We believe that aligning our strategy to the five macro trends creates a high degree of resilience in our business model, although we do recognise that many external uncertainties remain unresolved. Against this background, we remain selective in our risk appetite, with established capabilities in managing and minimising risk.

Effective and sustainable management of costs remains a key feature of our strategy. We are targetting a c£80m reduction in management expenses and operating costs in 2015 as we continue to drive greater efficiencies through our businesses, as well as responding to the reduced contribution from our mature savings products. We anticipate incurring restructuring costs of c£40m in 2015 to achieve this.

AGEING POPULATIONS

The world is getting older and people are living for longer. Individuals generally have not saved enough during their working lives, under-estimating their outgoings in retirement, life expectancy and the cost of care. Pensioners will need to rely increasingly on alternative sources of finance to fund this 'savings gap'. The over 60s in the UK are estimated to have some £1.3 trillion of housing equity and we expect increasing numbers of retirees to use this equity to supplement their retirement income.

Ageing populations at the same time expose corporate balance sheets to earnings volatility caused by predominantly legacy defined benefit pension schemes and the associated financial obligations placed on the sponsoring employer. Globally, the Defined Benefit pension market is in the very early stages of de-risking. It has been estimated that something of the order of $10 trillion worth of liabilities will be de-risked over the next couple of decades.

We have positioned our Investment Management (LGIM) and Retirement (LGR) businesses to respond to the growing demand. LGIM leads the market in liability driven investment (LDI) solutions in the UK, with an estimated market share of over 40% and is delivering good growth in this market in the US. LGR similarly is the market leader in bulk annuity solutions. The bulk annuity market requires a strong and sustained track record, a robust capital base and integrated asset and liability management bringing together different parts of our organisation. Legal & General has all these competitive advantages, built up over 27 years.

In 2014 **total LDI assets increased by 26% to £293.3bn (2013: £232.5bn), including net flows of £21.1bn. LGR increased bulk annuity sales to £5,987m (2013: £2,812m).** In addition we completed the internal transfer of £1,953m of annuities from with-profits to our shareholder fund in July, which together with individual annuity sales, brings the **total volume of annuity business that delivers value to our shareholders, to £8,531m (2013: £4,089m).**

<u>Outlook</u>

In LGIM, the clear intention of the majority of companies to de-risk their defined benefit pension schemes is expected to result in strong LDI new business volumes in the UK and US in 2015. This growth is expected, in part, to offset outflows in our UK passive funds which results from this de-risking trend and pension schemes using funds to pay annuitants.

In LGR, demand for de-risking strategies, including annuity transactions, remains high. Our research indicates that almost two thirds of large defined benefit pension schemes are looking to de-risk. Actual transaction flows of buy-out and buy-in annuity transactions are however dependent on their affordability, which will remain determined on underlying scheme funding levels and prevailing market conditions. Additionally our appetite for bulk annuity transactions and the risks we choose to retain is dependent on the application of Solvency II in the UK.

Our recently announced acquisition of Newlife Home Finance Limited (subject to regulatory approval), a provider of UK lifetime mortgages, gives us access to this potentially sizeable market. We expect to write over £100m of lifetime mortgages in 2015 and increasing amounts thereafter.

The changes introduced in the March Budget have introduced greater flexibility for individuals in retirement. We expect consumers to demand simple, tax efficient products that allow them to 'cash-out' their pensions and we have tailored our new products accordingly. We expect 2015 sales of Individual Annuities to be around 50% of 2014 new business volumes.

GLOBALISATION OF ASSET MARKETS

Increasingly global asset markets create attractive opportunities to grow and internationalise successful investment management capabilities. LGIM is a trusted, long-standing and increasingly international brand. Following the success of liability driven investment in the UK we are concentrating on expanding our presence in the US market. We recently launched our Index proposition in the US and will seek to capitalise on the efficiency that comes from managing £275bn of index assets globally.

International net inflows were £8.5bn (2013: £15.8bn) as LGIM continued to expand overseas, with sustained growth in LGIM America's LDI and Active Fixed Income products. **As a result, total international assets are £128.8bn (2013: £61.2bn)**, which includes the transfer of c$60.0bn of US business to LGIM's Chicago office and $23.3bn of advisory assets resulting from the acquisition of Global Index Advisors (GIA), both in 2014.

Outlook

Our international business continues to gather momentum, particularly in the US, where we are expanding our distribution capabilities and widening our product offering across LDI, active fixed income and, most recently, index products, with passive funds opening to third party investment in 2015. In the Gulf, we continue to broaden our client relationships and are working to expand our range of mandates. We are also making good progress in Asia, where we are winning mandates in the region and look set to capitalise on these early successes in 2015. Longer term we are creating a global operating model across our London, Chicago and Hong Kong manufacturing hubs to provide enhanced trading and operational capabilities to our increasingly international client base.

WELFARE REFORM

Pressure on public finances is moving the provision of welfare from the state to individuals and employers. This process is already well underway, for example with the introduction of auto-enrolment, which is expected to result in a tripling of DC savings in the UK over the next 10 years. Statutory minimum contribution rates will increase from 2% today to 5% in 2017 and up to 8% in 2018. Longer term, we expect defined contribution savings to be significantly greater than the existing DB assets that we manage. Coupled with this we expect that, as state funding shrinks, the private provision of protection products, both directly with consumers and potentially using the infrastructure of auto-enrolment to employers, will become increasingly important.

Our Workplace business is building the scale to capitalise on this trend, successfully winning c20% of all new members coming to market. The integration of Workplace into LGIM will further strengthen our already strong position, enabling us to continue delivering market-leading capabilities to all our clients.

Our Protection proposition is highly efficient, relying on our digital capabilities that underwrite over 80% of applications at point of sale. We continue to be the market leader of Retail Protection products to both Independent Financial Advisers (IFAs) and in the market in total.

Workplace savings assets increased 28% in the year to £11.1bn (2013: £8.7bn) including net flows of £2.2bn (2013: £1.5bn). **Retail Protection wrote over £1bn of premium**, driving growth in total UK Protection premiums, up 6% to £1,407m (2013: £1,326m). Group Protection premium increased 4% to £351m (2013: £336m). In the US, our protection business delivered a 9% increase in gross premium, up to $1,117m (2013: $1,024m).

Outlook

In Workplace Savings we anticipate further growth in scale resulting from increased contribution from existing members, new scheme wins as pension schemes reassess their auto-enrolment providers and resulting from our recently launched digital SME offering. Over one million SMEs will need to auto-enrol their employees by October 2018. In 2014 we halved the losses of £29m made in 2013 and the target is for our Workplace business to break-even by the end of 2015.

We expect our UK Retail Protection business to continue to leverage its market leading position although growth is anticipated to be moderate due to the mature nature of this market.

In the US we have introduced price changes which we expect to result in c15% lower new business volumes in 2015 than in 2014. We will take further management action in 2015 if the adverse mortality experience of 2014 is repeated. LGA remains focused on net cash generation.

DIGITAL LIFESTYLES

We are addressing the opportunities and challenges presented by changes in digital customer engagement, investing in digital innovation to deliver the very significant scale and high levels of efficiency required to be successful. We have achieved this with our market leading Retail Protection business, generating over £1bn of premium in 2014, with straight through processing rates at over 80%. We are now challenging ourselves to replicate this success elsewhere in our business, for example, we recently launched a Direct to Consumer (D2C) investment platform and digital proposition in Workplace for SMEs.

UK Protection delivered a £10m reduction in new business strain, reducing to £5m (2013: £15m) reflecting increased levels of efficiency and market leading retail protection premium of £1,056m (2013: £990m). Cofunds assets of £71.9bn (2013: £64.1bn) included retail assets of £37.1bn up 5% (2013: £35.3bn). Our direct general insurance channel has increased premiums by 29% to £88m (2013: £68m) this year, benefitting from enhanced digital capabilities.

Outlook

We are on a multi-year journey to fully position our businesses for these challenges. Progress has been made but further work is needed. In 2015, we need to operationally leverage Cofunds and increase fund flows to LGIM to generate a more meaningful profit contribution to the Group and offset the managed decline in the contribution from mature savings products. Our D2C investment platform is well placed to benefit from increased retail sales and Workplace's SME proposition is expected to generate further growth in defined contribution assets, using digital technology to continue to offer our default auto-enrolment funds at 50bps to smaller companies.

BANK RETRENCHMENT

Bank retrenchment is creating opportunities for annuity providers and other investors with long term investment horizons, such as pension providers and sovereign wealth funds, to invest in real assets. This provides opportunities for greater returns across our Capital (LGC), Retirement (LGR) and Investment Management (LGIM) divisions.

LGC is utilising the Group's capital base to add operational capabilities, such as the acquisition of Banner Homes within CALA (our house builder), and a 40% stake in Pemberton Asset Management (a provider of SME loans across Europe). In addition, we are developing strategic partnerships, including the £370m co-investment with PGGM, the major Dutch pension fund manager, to invest across the UK, managed by Legal & General Property (LGP).

Our approach is providing good access to direct investments and high quality long duration investments for LGR, supporting growth in LGIM and generating enhanced risk adjusted yields on our shareholder capital.

LGC's operating profit increased by 13% to £203m (2013: £179m) and its total assets were £5.1bn (2013: £4.7bn). Direct Investments across the Group increased to £5.7bn (2013: £2.9bn).

Outlook

Our strength in origination and continued development of new asset classes is allowing us to mitigate the downward pressure on returns created by the increased demand for 'packaged' direct investment. In 2015 so far we have consent to build 1,000 new homes on our landbank and a further £200m commitment with joint venture partner Schroders to regenerate Bracknell town centre.

We see increasing opportunities and growing pipeline through 2015 including a €250m investment into European SME loans through our investment in Pemberton Asset Management and building a further £375m portfolio with PGGM to invest in Central London Commercial Property, also to be managed by LGP. In addition, LGC has, in 2015, launched an initial development project in the Private Rented Sector to establish our presence in this growing asset class.

We have also committed £1.5bn to support a £25bn UK regeneration funding vehicle in conjunction with the UK Government's Regeneration Investment Organisation (RIO), which will provide LGIM with additional revenue sources as investment manager of the fund and further access to real assets for LGR.

LEGAL & GENERAL RETIREMENT.

Financial highlights £m	2014	2013
Operational cash generation	**292**	260
New business surplus	**51**	33
Net cash generation	**343**	293
Experience variances, assumption changes, tax and non-cash movements	**85**	17
Operating profit	**428**	310
Bulk annuity sales(£bn)	**6.0**	2.8
Individual annuity sales (£bn)	**0.6**	1.3
Internal transfer from with-profits (£bn)	**1.9**	-
Total annuity transactions (£bn)	**8.5**	4.1
Longevity insurance gross premiums	**333**	212
Annuity net inflows (£bn)	**4.4**	2.1
Bulk annuity assets (£bn)	**29.1**	21.1
Individual annuity assets (£bn)	**15.1**	13.3
Total annuity assets (£bn)	**44.2**	34.4

RECORD PREMIUMS AND INCREASED CASH

Operational cash generation increased 12% to £292m (2013: £260m) reflecting the growth in scale of the business. **Net cash generation increased by 17% to £343m** (2013: £293m), with new business surplus increasing to £51m (2013: £33m), reflecting our continued ability to source attractively priced assets and effective portfolio strategies to back our new business.

Operating profit increased 38% to £428m (2013: £310m) reflecting this growth, with the stock of **annuity assets increasing 28% to £44.2bn** (2013: £34.4bn). 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 continue to see strong demand for our de-risking solutions. Due to their inherent complexity and size of bulk annuity deals, the timing of deal flows will be unevenly distributed between quarterly reporting periods and are susceptible to external market forces.

NEW BUSINESS MARGINS REMAIN STRONG

We continue to see the annuity market as an attractive place to deploy capital and have delivered **a strong new business surplus, up 55% to £51m (2013: £33m).**

Our numerous competitive advantages built up over nearly three decades, including specialist expertise across longevity, investment management and asset transitioning, coupled with our ability to source new assets to back our annuity business, delivering enhanced risk adjusted returns, enable us to competitively price new business and deliver attractive returns to shareholders.

INCREASING DEMAND FOR DE-RISKING SOLUTIONS

Bulk annuity sales more than doubled to £5,987m from 54 policies, (2013: £2,812m, 94 policies). In addition we completed the internal transfer of £1,953m of annuities from with-profits to our shareholder fund in July, bringing the total volume of annuity business that delivers value to our shareholders, to £8,531m (2013: £4,089m).

2014 was a landmark year in the UK pension de-risking market. We completed the two largest bulk annuity transactions in the UK, the £3.0bn buy-in with the ICI Pension Fund and a £2.5bn buy-out with the TRW Pension Scheme. Both demonstrate the strength of our de-risking proposition, with the TRW specifically highlighting our strength in transitioning pension schemes from passive investment strategies to liability driven investments and ultimately to buyout.

We continue to explore opportunities to use our specialist experience and robust capital base in the global de-risking market, particularly in the US.

INDIVIDUAL RETIREMENT – FREEDOM AND CHOICE

Individual Annuity sales were down 54% to £591m (2013: £1,277m) following the 2014 Budget changes and in line with our expectations. We continue to expect the market to remain subdued in 2015, anticipating volumes to be down a further 50% in 2015. We are focussed on maintaining pricing discipline during this period of change.

We believe that Individual Annuities remain a good option for certain consumers, guaranteeing levels of income for life, and will continue to provide these going forward. We continue to innovate and have responded to anticipated changes in consumer demand with new retirement solutions suitable for the post Budget retirement landscape:

- **Lifetime mortgages** will be offered to the increasing numbers of customers seeking to use the equity in their homes to supplement their retirement income. In 2014, 21,000 customers across the industry, purchased equity release products, with a total lending value of £1.4bn. In total, an estimated £14bn of equity release transactions has been completed over the last two decades. Our recently announced acquisition (subject to regulatory approval) and funding of Newlife Home Finance Limited fulfils our stated intention to enter this market.

- Our **"Cash-Out Retirement Plan"** provides a simple mechanism by which consumers can access their retirement savings. Consumers can withdraw agreed fixed amounts over a period of their choosing to fund immediate spending requirements or minimise tax over a longer time horizon.

- Our **"Fixed Term Retirement Plan"** converts a portion of an individual's retirement savings into contractual payments over a period of their choosing, returning a pre-agreed lump sum amount to the customer at the end of the fixed term.

L&G already offers income drawdown solutions to higher net worth customers through our Suffolk Life subsidiary and will continue to provide these going forward.

LEGAL & GENERAL INVESTMENT MANAGEMENT.

Financial highlights £m	2014	2013
Total revenue	**645**	594
Total costs	**(309)**	(290)
Operating profit	**336**	304
Net cash generation	**262**	239
Cost:income ratio (%)	**48**	49
External net flows (£bn)	**5.9**	20.5
Internal net flows (£bn)	**1.7**	(0.2)
Total net flows (£bn)	**7.6**	20.3
of which International (£bn)	**8.5**	15.8
Assets under management (£bn)	**499.1**	**449.5**
Overlay assets[1] (£bn)	**194.6**	**162.1**
Advisory assets[2] (£bn)	**14.8**	**-**
Total assets (£bn)	**708.5**	**611.6**
International assets under management (£bn)	**110.5**	**59.2**
International overlay assets (£bn)	**3.5**	**2.0**
Advisory assets (£bn)	**14.8**	**-**
Total international assets (£bn)	**128.8**	**61.2**

1. Overlay assets, represent the notional value of derivative instruments on which LGIM earns fees. Fees are charged on notional values and as such are not subject to positive or negative market movements.
2. Advisory assets represent the assets on which Global Index Advisors (GIA) provide advisory services.

DIVERSIFIED GROWTH DRIVING CASH AND PROFITS

In a competitive market landscape, LGIM has continued to deliver strong results, with **operating profit increasing by 11% to £336m (2013: £304m).** With disciplined cost control, the cost to income ratio was 48% (2013: 49%). LGIM continues to invest in its client service proposition and systems infrastructure and is strengthening its distribution capabilities across its increasing client channels.

Total revenues increased 9% to £645m (2013: £594m) as total assets reached £708.5bn at the end of 2014 (2013: £611.6bn). This was driven by strong demand in LDI, Multi Asset, Active Fixed Income and Property asset classes, coupled with positive market returns.

Total net asset flows for the year were £7.6bn (2013: £20.3bn). Our Index net outflows for the year were £16.0bn (2013: net inflows of £0.2bn) largely resulting from the de-risking trend impacting DB passive funds. **International net inflows of £8.5bn (2013: £15.8bn)** were primarily driven by demand from clients in the US, which resulted in net flows of \$9.7bn (2013: \$8.4bn) during the year.

STRONG DEMAND FOR DE-RISKING SOLUTIONS

Asset movements £bn	Index	Solutions & Overlay assets	Active Fixed Income	Active Equities	Property	Advisory assets	Total assets
As at 1 January 2014	**269.8**	**232.5**	**89.4**	**8.6**	**11.3**	**-**	**611.6**
Gross inflows	22.8	7.6	5.5	0.1	1.4	-	**37.4**
Gross outflows	(39.1)	(6.6)	(3.8)	(0.1)	(0.5)	-	**(50.1)**
Overlay / Advisory net flows	-	18.8	-	-	-	(0.2)	**18.6**
External net flows	**(16.3)**	**19.8**	**1.7**	**-**	**0.9**	**(0.2)**	**5.9**
Internal net flows	0.3	1.3	(0.5)	(0.1)	0.7	-	**1.7**
Total net flows	**(16.0)**	**21.1**	**1.2**	**(0.1)**	**1.6**	(0.2)	**7.6**
Cash management movements	-	-	(1.6)	-	-	-	**(1.6)**
Acquisition of GIA assets	-	-	-	-	-	13.4	**13.4**
Market and other mvmts	21.0	39.7	14.8	(0.3)	0.7	1.6	**77.5**
As at 31 December 2014	**274.8**	**293.3**	**103.8**	**8.2**	**13.6**	**14.8**	**708.5**

During the year, clients continued to move out of passive equities and transition to LDI strategies, ahead of potential buy-out. LGIM has experienced strong inflows into its LDI and active funds. Total LDI assets, including derivative overlay assets used to help clients manage the risk of meeting their future liabilities, increased a further 26% to £293.3bn (2013: £232.5bn) and are now larger than our total index portfolio. LGIM is the market leader in LDI solutions, with an estimated 44% share of the UK market, and it is extremely well placed to capitalise on the continuing de-risking trend in defined benefit pension schemes.

Legal & General Property (LGP) increased its AUM by 20% to £13.6bn (2013: £11.3bn), driven by strong net inflows of £1.6bn (2013: £0.9bn). LGIM's Property Authorised Investment Fund (PAIF) launched in 2006 has grown to £1.8bn as it continues to see steady inflow of capital from both Retail and Institutional investors. With LGC, LGP has launched two major JVs with PGGM, to invest £745m across the UK. LGIM's property team plays an integral role in the Group's drive to increase Direct Investments on behalf of L&G Retirement and L&G Capital. As one of the most active UK investors in the real estate market, LGP completed over £4.1bn of property transactions in the UK market in 2014, investing approximately £3.4bn and disposing of circa £0.7bn.

GROWTH IN UK DEFINED CONTRIBUTION

UK defined contribution (DC) pension AUM increased 16% to £40.7bn (2013: £35.1bn). Total net inflows of £5.9bn included £2.1bn of net inflows from Legal & General's Workplace Savings platform. From 1st January 2015, Workplace has been transferred from LGAS to LGIM to create a fully integrated customer proposition for UK DC savings customers. The scale and efficiency of LGIM's passive management and asset allocation capabilities, together with the continuing growth in Workplace administered assets, enables us to provide a highly competitive savings proposition, well placed to benefit from longer term UK savings trends. In response to the pension reforms announced in the 2014 budget we have launched a number of new funds and we are continuing to expand and develop our range of multi-asset funds.

CONTINUED INTERNATIONAL EXPANSION

To complement our existing businesses, we have transferred our US index equity funds of c$60.0bn to LGIM's Chicago office, where they are now managed. **As a result of this, the acquisition of GIA, and net flows in the year, international assets grew by 110% to £128.8bn (2013: £61.2bn).** In the US, LGIM's Active Fixed Income and LDI proposition continued to grow rapidly with net flows of $9.7bn (2013: $8.4bn). LGIM's continued success in the US has been driven by a combination of strong investment performance, with the majority of composites outperforming their benchmarks over one, three and five years, and a growing need from defined benefit clients for de-risking solutions.

Elsewhere, LGIM continues to make progress in Asia as it invests in resources and infrastructure, winning its first passive client in the region together with additional active fixed income inflows during the year.

LEGAL & GENERAL ASSURANCE SOCIETY.

Financial highlights £m	2014	2013
Operational cash generation	**472**	474
New business strain	**(48)**	(73)
Net cash generation	**424**	401
Experience variances, assumption changes, tax and non-cash movements	**36**	43
Operating profit	**460**	444

INCREASING SCALE AND EFFICIENCY

Net cash generation increased by 6% to £424m (2013: £401m) reflecting increased scale and efficiency with our Insurance and Savings business increasing their stock of premiums and assets respectively. **New business strain of £(48)m (2013: £(73)m)** included a £10m improvement in Insurance new business strain and was £15m lower in our Workplace and Mature savings divisions.

LGAS operating profit increased 4% to £460m (2013: £444m). The operating profit of Insurance was £370m (2013: £355m) benefitting from an increased contribution of our market leading Retail Protection business. This was partially offset by lower profits from our General Insurance business following adverse weather experience in Q1 2014, which resulted in additional claims of £12m. The combined operating ratio for GI was 87%. Savings operating profit was £90m (2013: £89m).

INSURANCE

Financial highlights £m	2014	2013
UK Insurance new business annual premiums	**230**	218
Insurance new business strain	**(5)**	(15)
UK Insurance gross premiums	**1,407**	1,326
General Insurance gross premiums	**377**	375
Total UK gross premiums	**1,784**	1,701

Retail Protection had another exceptional year, with gross premiums up 7% to £1,056m (£990m) and sales up 11% to £165m (2013: £148m). This represents another improvement in our share of the UK retail protection market, reinforcing our strong market leading position.

The business continues to benefit from the strength and breadth of our distribution covering IFAs, where we lead the market and have grown sales by 15% to £99m (2013: £86m) and building societies, where we are the sole provider to societies covering around 85% of UK building society members. The Legal & General Network facilitated £40 billion of mortgages in the year, approximately 1 in 6 of all UK mortgages. Our direct channel continues to grow, with sales increasing 34%, now accounting for 16% of new business (2013: 13%).

Group Protection delivered a 4% increase in gross premiums to £351m (2013: £336m) with new business sales marginally down on 2013 at £65m (2013: £70m) following some price increases we implemented in 2014.

UK Insurance new business strain reduced to £5m (2013: £15m), benefiting from higher sales and further operational efficiency.

General Insurance gross premiums increased marginally to £377m (2013: £375m) with direct to consumer premiums increasing 29% to £88m (2013: £68m). Operating profit of £59m (2013: £69m) resulted from a strong combined operating ratio of 87% (2013: 84%) and included a £12m impact of the adverse weather experienced at the start of the year.

SAVINGS

Asset movements £bn	Platforms[1]	Work-place	Suffolk Life	Mature Savings	Overseas	Consol Adj	Total LGAS
As at 1 January 2014	**64.1**	**8.7**	**6.6**	**36.3**	**4.5**	**(6.8)**	**113.4**
Gross inflows	10.1	2.8	1.3	1.4	0.4	(0.5)	15.5
Gross outflows	(4.7)	(0.6)	(0.5)	(4.4)	(0.4)	0.7	(9.9)
Net flows	**5.4**	**2.2**	**0.8**	**(3.0)**	**-**	**0.2**	**5.6**
Market movements	2.4	0.2	0.3	2.7	(0.1)	(0.3)	5.2
As at 31 December 2014	**71.9**	**11.1**	**7.7**	**36.0**	**4.4**	**(6.9)**	**124.2**

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

Savings assets increased 10% in the year to £124.2bn (2013: £113.4bn) as the strategy of developing highly scaleable and efficient platforms continues to deliver strong growth. **Savings operating profit increased marginally to £90m (2013: £89m)** with reduced contribution from our mature savings business being offset by better performance in our workplace business as it continues to increase in scale.

Our platform business delivered net flows of £5.4bn (2013: £7.9bn) as assets under administration increased 12% to £71.9bn (2013: £64.1bn). Cofunds continues to lead the market, with a 21% share of the platform market and positive flows across all channels (institutional, retail and bancassurance). The integration of Cofunds is on track. We have delivered annualised cost savings of £7m per annum at the end of 2014 and continue to target £11m per annum by the end of 2015.

The retail savings market is expected to benefit from the greater flexibility in pensions savings, as introduced in the recent budgetary reforms which, coupled with higher ISA limits, is expected to increase retail savings levels. We continue to enhance our existing functionality and improve our operational efficiency to deliver high quality, low cost savings products to existing and potential customers to capitalise on these trends.

Legal & General has recently launched its Direct to Consumer (‘D2C’) solutions, expanding our non-advised services to intermediaries in February 2015 by providing a cost effective digital solution directly to their consumers and offering a D2C service for ISA purchases via the Legal & General website.

In Workplace, assets have increased 28% to £11.1bn (2013: £8.7bn) with 1.2 million employees and 2,287 schemes now on the platform. This represents a further 325k customers and over 500 new schemes added since the end of 2013.

The increasing scale of Workplace has resulted in a halving of the operating losses experienced in 2013 to £15m in 2014. Our proposition continues to benefit from incremental enrolment into pre-existing schemes and new schemes, where we have a market share of c20% of new members being enrolled.

The defined contribution market, with the expected tripling of DC savings in the UK over the next 10 years, provides a significant opportunity to the Group. We continue to offer our default auto-enrolment funds at 50bps, below the 75bps cap recently prescribed and our recently announced SME solution, with no up-front charges, will target smaller schemes with a highly digitalised solution.

The continued growth in administered assets and increasing efficiency, including a 60% reduction in unit costs over the last three years, means that we are targetting to break-even in Workplace by the end of 2015.

Our SIPP business, Suffolk Life, delivered net inflows of £0.8bn (2013: £0.9bn). As a result the **assets of Suffolk Life have increased 17% in the period to £7.7bn** (2013: £6.6bn)**.**

In Mature Savings assets were £36.0bn (2013: £36.3bn). Net outflows of £(3.0)bn (2013: £(3.7)bn) were in-line with our expectations and partially offset by positive market movements of £2.7bn (2013: £3.8bn).

LEGAL & GENERAL CAPITAL.

POSITIVE CONTRIBUTION TO CASH AND PROFITS

Financial highlights £m	2014	2013
Operating profit	**203**	179
Operational cash generation	**162**	137

Legal & General Capital (LGC) increased operating profits by 13% to £203m (2013: £179m) representing the smoothed expected return on LGC assets after expenses, and equates to an assumed annualised investment return of 4.3% (2013: 4.1%) on an average asset base of £4.8bn (2013 £4.5bn). LGC assets increased by 10% to £5.1bn at the end of 2014 (2013: £4.7bn). Actual investment return was 3.5% (2013: 4.4%).

LGC is building an asset base to support the expansion of earnings, both within LGC and the other divisions. The key objectives are to:

(1) **Increase risk adjusted returns** on our regulatory solvency margin and surplus shareholder assets.

(2) Providing better **access to assets** to back our annuity liabilities in LGR. As an example, LGC acquired a £518m long-lease portfolio in the first half of 2014, which were syndicated to LGR and LGC, providing LGR with £326m of attractively priced assets.

(3) Buying **additional operational capabilities and developing strategic partnerships** to ensure good access to direct investments and generate better returns over the medium to longer term. LGC acquired a 40% stake in Pemberton Asset Management, with a commitment to invest €250m into SME loans across LGR and LGAS, developing a European Private Placement capability. We also invested alongside PGGM in a £370m UK Commercial Property portfolio where LGIM are the asset manager.

(4) Supporting Legal & General's **social purpose** agenda. LGC are focused on housing, urban regeneration, energy and alternative finance, where long term capital is failing to meet the demand.

£2.8BN FURTHER DIRECT INVESTMENTS COMPLETED

Direct Investments £bn	2014	2013
LGR	**4.6**	2.5
LGC	**0.7**	0.3
LGA & Other	**0.4**	0.1
Total	**5.7**	**2.9**

LGR continues to invest in longer term property leases, commercial mortgages and infrastructure. In the year this included £845m of additional property investments including the £252m Places for People deal to acquire 4,000 homes and to help finance 7,000 new homes over 7 years. In addition, a further £593m of secured lending and £260m of infrastructure investment were completed during the year.

LGC continues to invest in direct investments; LGC purchased a 40% stake in Pemberton, and provided a £77m cash injection into CALA to acquire Banner Homes. We increased the allocation into UK commercial property with strategic co-investments and provided £143m of short term loans to strategic partners to facilitate direct investments.

LGA has invested in commercial mortgages and US private placements including $544m private placements and USD Commercial Real Estate Lending.

RESILIENT GROUP-WIDE INVESTMENT STRATEGY

The Group's principal balance sheet of £57.2bn is well positioned for the medium term and is predominantly an Investment Grade debt portfolio with low bank sub-debt and peripheral European exposure, and, where applicable, is closely hedged to liabilities.

Asset portfolio £bn	2014			
	LGR[1]	LGC	Other	Total
Bonds:	**40.7**	**1.6**	**3.5**	**45.8**
Sovereigns	***7.8***	***0.2***	***1.2***	***9.2***
Banks	***2.3***	***0.4***	***0.2***	***2.9***
Other bonds	***30.6***	***1.0***	***2.1***	***33.7***
Property	**1.9**	**0.1**	**-**	**2.0**
Equities	**0.3**	**1.9**	**0.1**	**2.3**
Derivatives	**3.8**	**0.1**	**0.1**	**4.0**
Cash, cash equivalents, loans & receivables	**0.7**	**1.4**	**0.9**	**3.0**
Total financial investments	**47.4**	**5.1**	**4.6**	**57.1**
Other assets	**0.1**	**-**	**-**	**0.1**
Total investments	**47.5**	**5.1**	**4.6**	**57.2**

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

The **investment variance across the Group was £(8)m** (2013: £29m) reflecting the positive impact of changes in LGR's investment portfolio, with greater levels of direct investment, offset by equity returns in the LGC asset portfolio which were materially lower in 2014 than our medium term assumptions.

LEGAL & GENERAL AMERICA.

Financial highlights **$m**	**2014**	2013
Operating profit	**93**	145
Operational cash generation	**76**	69
Gross premium income	**1,117**	1,024
New business APE	**150**	155

INCREASED CONTRIBUTION TO CASH

Operational cash generation increased by 10% to $76m (2013: $69m). This represents the dividends paid by LGA to the Group and reflects the focus of LGA to deliver net cash generation. In 2015 LGA has already paid an ordinary dividend of $80m to the Group.

During 2014, LGA adjusted its new business pricing basis, allowing for the pricing of risk at a more granular level. As a consequence prices have been raised at lower margin price points and reduced elsewhere. This resulted in lower new business volumes of $150m (2013: $155m) over the full year, including a decline of $13m (15%) in the second half of 2014 compared to the corresponding period in 2013. New business margin decreased to 9.9% (2013: 11.6%) with the benefits from this change in business mix being more than offset by changes to longer term mortality and lapse assumptions.

Gross premiums increased 9% to $1,117m (2013: $1,024m) as we continue to benefit from strong relationships with the brokerage general agents, who distribute term assurance in the US market. LGA is the 3rd largest provider of term life assurance by sum assured in the US and remains the largest provider through the key distribution channel of BGAs. LGA now has 1.15 million customers (2013: 1.04 million).

PROFIT IMPACTED BY ADVERSE MORTALITY

Operating profit was significantly lower at $93m (2013: $145m) as LGA incurred total mortality claims which were $46m higher than assumptions. Mortality experience was generally unfavourable across the US life industry in 2014, especially in Q1 and Q4. The lower interest rate environment in the US also had an adverse impact on LGA’s profitability of around $10m year on year. We will continue to closely monitor emerging mortality experience in 2015 and take further management action, including pricing adjustments, as required.

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	292	51	343	3	346	82	428
LGIM	262	-	262	-	262	74	336
LGAS	472	(48)	424	(63)	361	99	460
LGC	162	-	162	-	162	41	203
LGA	46	-	46	(14)	32	24	56
Operating profit from divisions	**1,234**	**3**	**1,237**	**(74)**	**1,163**	**320**	**1,483**
Group debt and other costs	(133)	-	(133)	(32)	(165)	(43)	(208)
Operating profit	**1,101**	**3**	**1,104**	**(106)**	**998**	**277**	**1,275**
Investment and other variances	-	-	-	(6)	(6)	(31)	(37)
Total	**1,101**	**3**	**1,104**	**(112)**	**992**	**246**	**1,238**
Dividend			**668**		**668**		
Dividend coverage			**1.65**		**1.49**		

CASH GENERATION BACKED BY DIVIDENDS TO GROUP

In 2014, 86% of the net cash generation was distributed to the Group (2013: 88%). This demonstrates the high quality, liquid nature of the cash generation.

£m	**2014**			2013		
	Net cash £m	**Dividend £m**	**Dividend % of cash**	Net cash £m	Dividend £m	Dividend % of cash
LGR, LGAS and LGC	**929**	**685**	**74**	**831**	**627**	**75**
LGIM	**262**	**213**	**81**	**239**	**213**	**89**
LGA	**46**	**46**	**100**	**44**	**44**	**100**
Sub-total	**1,237**	**947**	**76**	**1,114**	**884**	**79**
Group debt and other costs	**(133)**			**(112)**	**-**	
Total	**1,104**	**944**	**86**	**1,002**	**884**	**88**

OPERATIONAL CASH GENERATION GUIDANCE

£m	2015 Guidance	2014
LGR	340	292
Insurance excluding General Insurance	290	286
Savings[1]	135	127
LGA[2]	50	46
LGC	170	162
Sub-total	**985**	**913**
LGIM		275
LGAS General Insurance		46
Operational cash generation from divisions		**1,234**
Group debt costs	(116)	(112)
Other costs		(21)
Total operational cash generation		**1,101**
New business surplus		3
Net cash generation		**1,104**

1. Workplace savings is excluded from Savings operational cash and cash guidance, and included within LGIM operational cash.

2. LGA has already paid its 2015 ordinary dividend of $80m in February 2015.

For LGR, LGA, LGC, Savings, Insurance excluding General Insurance and Group debt costs, we estimate operational cash generation will increase in 2015 by 8% to £869m (2013: £801m).

TAXATION.

GROUP TAX RATES – EFFECTIVE TAX RATE OF 19.9%

Equity holders' effective tax rate %	2014	2013
Total Effective Tax Rate	**19.9**	20.8
Annualised rate of UK corporation tax	**21.5**	23.25

In 2014, 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 £45m in respect of trading losses carried forward in Group companies (2013: £93m). The movement in the year includes a £71m (2013: £70m) contribution to net cash generation in LGR and LGAS Protection from the utilisation of tax losses. It is expected that the trading losses within LGR will be fully utilised during 2015.

BALANCE SHEET STRENGTH.

EXTENDING THE DEBT MATURITY OF THE GROUP

Legal & General continues to have a strong liquidity position reflecting its requirements for working capital and derivative collateral. The Group's outstanding core borrowings total £3.0bn (2013: £2.5bn). There is also a further £0.7bn (2013: £0.7bn) of operational borrowings including £0.7bn (2013: £0.6bn) of non recourse borrowings. In June 2014 we issued £600m of subordinated Tier 2 debt, with a maturity date of 2064 (with an initial call date of 2044), and coupon rate of 5.5% and **extended the overall average maturity of the group's borrowings significantly**.

Group debt costs of £142m (2013: £127m) reflect an average cost of debt of 5.2% per annum (2013: 4.9% per annum) on average nominal value of debt balances of £2.7bn (2013: £2.6bn).

IGD CAPITAL RESOURCES

As at 31 December 2014 the Insurance Group's Directive (IGD) surplus was £3.9bn (2013: £4.0bn).

The Group's capital resources totalled £7.7bn, covering the capital resources requirement of £3.8bn by 2.01 times.

Capital resources increased by £0.4bn, primarily as a result of net cash generation of £1.1bn and the issuance of £0.6bn of additional Lower Tier 2 debt in June, offset by £(0.7)bn of dividends, including allowance for the final dividend of £496m (2013: final dividend of £408m) and £(0.2)bn of additional provision for pension deficit payments during the year.

The Group's capital requirement increased by £0.5bn primarily as a result of an additional £0.4bn deployed in writing new business, offset by £(0.2)bn released from the run-off of existing business. The Group's capital surplus was impacted by a further £(0.3)bn resulting from sensitivity to asset market movements.

In LGPL, the Group's main annuity company, **we maintain a provision of £2.3bn (2013: £1.8bn) to provide for the risk of credit default**. Over the last five years we have experienced total actual defaults of less than £10m.

Capital £bn	2014	2013
Group capital resources	**7.7**	7.3
Group capital resources requirement	**3.8**	3.3
IGD surplus	**3.9**	**4.0**
Coverage ratio (%)	**201**	**221**

ECONOMIC CAPITAL

Economic capital is the amount of capital that the Board believes the Group needs to hold, over and above its liabilities, in order to meet the Group's strategic objectives. These numbers do not represent our view of the Solvency II outcome for the Group. Solvency II has elements which L&G considers to be inconsistent with the Group's definition of economic capital, so there will be differences between the two balance sheets. Our Economic Capital model has not been reviewed by the Prudential Regulatory Authority (PRA), nor will it be.

As at 31 December 2014 Legal & General Group had an economic capital surplus of £7.0bn (2013: £6.9bn), corresponding to an economic capital coverage ratio of 229% (2013: 251%).

Eligible own funds increased by £1.1bn to £12.5bn (2013: £11.4bn) primarily as a result of own funds generated by new business written, releases on the back book and the issuance of £0.6bn of debt, offset by dividends.

The economic capital requirement increased by £1.0bn to £5.5bn (2013: £4.5bn) primarily as a result of changes in market conditions, increases in surplus assets which attract risk capital and the capital requirements on new business written. Overall the new business written in 2014 has covered its capital requirements.

Capital £bn	2014	2013
Eligible own funds	**12.5**	11.4
Economic capital requirement	**5.5**	4.5
Economic capital surplus	**7.0**	**6.9**
1-in-200 coverage ratio (%)	**229**	**251**

SUPPLEMENTARY EEV DISCLOSURE.

EEV highlights Pence	2014	2013
Equity per share including LGIM	**212**	190
Equity per share	**185**	162

Analysis of EEV results £m	2014	2013
Contribution from new business	**850**	651
Intra-group transfer of annuities from With-Profit to Non-Profit Fund	**100**	-
Expected return from in-force business	**490**	426
Experience variances and assumption changes	**(185)**	(32)
Development costs	**(32)**	(40)
Contribution from shareholder net worth	**194**	125
EEV operating profit on covered business	**1,417**	1,130
Business reported on an IFRS basis	**164**	211
EEV operating profit	**1,581**	1,341
Economic variances	**790**	215
Losses attributable to non-controlling interests	**7**	13
EEV profit before tax	**2,378**	1,569
Tax and other	**(362)**	(270)
EEV profit after tax	**2,016**	1,299

EEV PER SHARE

The Group delivered £2,016m of EEV profit after tax, which after external dividend payments in the year of £580m and foreign exchange, pension deficit and other adjustments of £(45)m, increased EEV shareholders' equity to £10,975m (2013: £9,586m), equivalent to 185p per share (2013: 162p per share). Including LGIM's external funds in the calculation increases the EEV per share to 212p (2013: 190p).

NEW BUSINESS CONTRIBUTION

Contribution from new business increased to £850m (2013: £651m). The increase reflects the strong increase in the contribution from Legal & General Retirement, where sales increased to £6.6bn (2013: £4.1bn), excluding the internal transfer of annuities from with-profits to our shareholder fund in July.

Worldwide EEV new business margin increased to 5.8% (2013: 5.1%) primarily due to the higher mix and improved margin of our annuity business.

EEV OPERATING PROFIT

EEV operating profit increased by 18% to £1,581m (2013: £1,341m), as the Group benefited from its growth strategy and higher sales. Experience variances and assumption changes were £(185)m (2013: £(32)m) with positive experience and assumption changes in LGAS and LGR being more than offset by negative operating assumption changes in LGA of £(241)m. LGA has adjusted its mortality embedded value assumptions to reflect the potential impact of industry wide mortality tables issued for consultation in the second half of 2014.

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 £790m (2013: £215m) arose from a number of factors including gains of £0.8bn resulting from a reduction in the UK risk discount rate to 5.5% (2013: 6.8%) and £0.2bn arising from equity market gains, offset by £(0.4)bn resulting from the reduction in the UK risk free rate to 2.2% (2013: 3.4%) impacting expected longer-term investment returns.

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 2014	**4.9**	**10.5**
Contribution from new business	0.6	1.4
Intragroup transfer from with-profit to non-profit fund	0.1	0.2
Unwind of discount rate	0.3	**n/a**
Expected release from non profit and with-profits businesses[2]	(0.7)	(0.8)
Experience variances / assumption changes	-	0.2
Investment variance / economic assumption changes	0.9	0.6
Other	0.2	-
Closing VIF at 31 December 2014	**6.3**	**12.1**

1. Management estimates.
2. Comprises the expected release from non profit business of £645m and with-profits transfer of £43m.

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 £0.4bn (2013: £0.3bn), equivalent to 6p per share (2013: 5p per share).

The external assets component of LGIM is included at the IFRS net asset value of £0.5bn (2013: £0.4bn), equivalent to 8p per share (2013: 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 £0.9bn (14p per share) to £2.5bn (41p 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	2014 p per share	2014 £bn
Look through value of profits on covered business	**6**	0.4
Net asset value	**8**	0.5
Current value of LGIM in Group embedded value	**14**	0.9
LGIM VIF	**27**	1.6
Alternative discounted value of LGIM future cash flows	**41**	2.5

Including LGIM, this scenario equates to an indicative valuation per share of 212p (2013: 190p).

Indicative valuation including LGIM	2014 p per share	2014 £bn
EEV as reported	**185**	11.0
LGIM VIF	**27**	1.6
Total including LGIM	**212**	12.6

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
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 dramatic advances in medical science beyond those anticipated leading to unexpected changes in life expectancy. In protection business we remain inherently exposed to rates of mortality diverging from assumptions and to loss from events that cause 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 seek to ensure that legislators understand the benefits to consumers of pricing insurance products based on the risk factors that each policy presents.
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 investments we hold in shareholders' funds and those to meet the obligations from insurance business. Interest rate movement and inflation can also change the value of our obligations. We use a range of techniques to manage mismatches between assets and liabilities. However, loss can still arise from adverse markets. In addition, significant falls in investment values can reduce fee income to our investment management business, while broader economic conditions can impact the purchase and the retention of retail financial services products, impacting profitability.	Whilst global investment markets have returned to pre-financial crisis levels, in the current environment there is limited resilience in financial markets for shocks; with potential for significant falls in asset values should markets reassess returns. Factors that may result in shocks include a deterioration in geo-political stability for example as a consequence of tensions in Eastern Europe and the Middle East; an abrupt change in the monetary policies of the leading economies; or a further crisis in the Euro zone. Financial markets may also reappraise asset valuations as a result of changes in the outlook for the global economy including for example, a projected period of low or negative growth amongst leading economies or a period of prolonged deflation, and in response to outcomes from elections in the UK, Europe and the US. 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 systematic default event within the corporate sector, or a major sovereign debt event, could result in dislocation of bond markets, significantly widening credit spreads, and may result in default of even strongly rated issuers of debt, exposing us to financial loss. We are also exposed to banking, money market and reinsurance counterparties, and settlement, custody and other bespoke business services, a failure of which could expose us to both financial loss and operational disruption of our business processes.	Recent years have seen a narrowing of credit spreads reflecting market confidence in the issuers of investment grade bonds, and at Legal & General we have continued to experience low levels of default on our corporate bond portfolio. There remains, however, a range of factors that could trigger defaults by the issuers of debt, leading to reduced profitability or financial loss. These include a Sovereign debt event or a banking crisis developing, for example in emerging markets. An economic shock or significant change in the current economic outlook may also increase potential for a supplier of business services being unable to meet their obligations to us. 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.

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. Significant changes in legislation or regulation may reduce our future revenues and profitability or require us to hold more capital. The prominence of the risk increases where change is implemented without prior engagement with the sector. The nature of long term business can also result in some changes in regulation, and the re-interpretation of regulation over time, having a retrospective effect on our in force books of business, impacting the value of embedded future profits.	The regulatory landscape continues to evolve. The Solvency II capital regime is to be implemented by the PRA on 1 January 2016; the FCA is continuing to develop its approach to consumer regulation; and we continue to see new regulation emerging from the EU. More broadly, as illustrated in the 2014 budget announcement, the sectors in which we operate remain inherently exposed to sudden changes in legislation and regulation. With regard to Solvency II, the capital that we will be required to hold will not be certain until PRA agreement of our internal model, with the risk that the final outcome results in a lower capital surplus than under Solvency I. There are also challenges in ensuring that regulatory interpretation of the new rules is proportionate and cost effective for the insurance sector. In terms of consumer regulation, there remains a need for greater regulatory certainty to providing consumer guidance and addressing the advice gap in a post Retail Distribution Review and an increasingly digital world. We remain vigilant to the risk that future legislative and regulatory change may have unintended consequences for the sectors in which we operate. 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.
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 regulatory actions in the sector, may impact consumer attitudes to long-term savings and insurance products. Regulatory actions may also lead to changes to the regulatory and legislative environment in which we operate.	As a significant participant in the long-term savings and insurance 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 requirements for 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 needs to change
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 remain those of an ageing population; reform in the provision of state welfare; retrenchment by the banks; the globalisation of asset markets; and the increasing use of digital technologies. Responding to these trends potentially creates people and change risks, such as organisational challenges and management stretch across the range of initiatives. Regulatory changes and political risks may also present complexity in delivering our responses. We've defined clear strategies to respond to the macro trends. We monitor as part of our on-going risk review processes factors that may impact our responses to these macro trends and seek to ensure appropriate risk mitigation plans are put in place.

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. 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. Our "three lines of defence" risk governance model seeks to ensure that business management are actively engaged in maintaining an appropriate control environment, supported by risk functions led by the group chief risk officer, with independent assurance from Group Internal Audit.
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 continues to see 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. Working with our business partners, we seek to ensure the security of our systems with proactive response to emerging threats; however, the evolving nature of cyber threats means that residual risks will remain.

ENQUIRIES.

INVESTORS:

Laura Doyle	Head of Investor Relations	020 3124 2088
Stephen Thomas	Investor Relations Manager	020 3124 2047

MEDIA:

John Godfrey	Corporate Affairs Director	020 3124 2090
Richard King	Head of Group Corporate Communications	020 3124 2095
Michelle Clarke	Tulchan Communications	020 7353 4200

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

A presentation to analysts and fund managers will take place at 9.30 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	020 3059 8125
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 2015
Record date	24 April 2015
Annual general meeting	21 May 2015
Payment date of 2014 final dividend	4 June 2015
Q1 Interim Management Statement 2015	6 May 2015
Half-year results 2015	5 August 2015
Q3 Interim Management Statement 2015	4 November 2015

DEFINITIONS

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

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

Annualised return on equity is calculated by taking annualised profit after tax attributable to equity holders of the Company as a percentage of the average shareholders' capital employed, being an average of the opening and closing shareholders' equity during the period.

The Group's principal balance sheet includes those assets to which shareholders are exposed, excluding assets where our customers have the total market risk and reward.

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.

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Operating profit
For the year ended 31 December 2014

	Notes	2014 £m	2013 [1] £m
From continuing operations			
Legal & General Assurance Society (LGAS)	2.02	**460**	444
Legal & General Retirement (LGR)	2.02	**428**	310
Legal & General Investment Management (LGIM)	2.04	**336**	304
Legal & General Capital (LGC)	2.05	**203**	179
Legal & General America (LGA)		**56**	92
Operating profit from divisions		**1,483**	1,329
Group debt costs[2]		**(142)**	(127)
Group investment projects and expenses[3]	2.06	**(66)**	(44)
Operating profit		**1,275**	1,158
Investment and other variances	2.07	**(44)**	(27)
Gains on non-controlling interests		**7**	13
Profit before tax attributable to equity holders		**1,238**	1,144
Tax expense attributable to equity holders of the Company	2.22	**(246)**	(238)
Profit for the year		**992**	906
Profit attributable to equity holders of the Company		**985**	893
		p	p
Earnings per share			
Based on profit attributable to equity holders of the Company	2.08	**16.70**	15.20
Diluted earnings per share			
Based on profit attributable to equity holders of the Company	2.08	**16.54**	15.00

1. Gains on non-controlling interests have been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. The impact is to increase gains on non-controlling interests and profit for the year by £10m for 2013. The profit attributable to equity holders remains unaffected. Further details are contained in Note 2.24.
2. Group debt costs exclude interest on non recourse financing.
3. Group investment projects and expenses in 2014 include restructuring costs of £31m.

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

During the year the Group redefined its operating profit definition, and applied this prospectively. Under the new definition, restructuring costs, while varying from year to year, are considered to be part of ongoing business activities and as such, are included within operating profit.

Operating profit measures the pre-tax result excluding the impact of investment volatility, economic assumption changes and exceptional items. Operating profit therefore reflects longer-term economic assumptions for the Group’s 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. Exceptional income and expenses which arise outside the normal course of business in the year, such as merger and acquisition, start-up and closure costs, are excluded from operating profit.

LGAS represents Insurance 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 medium term investment return (less 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 Reconciliation of operational cash to operating profit before tax

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 2014	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	**472**	**(48)**	**424**	**(18)**	**32**	**(70)**	**(7)**	**361**	**99**	**460**
- Insurance	332	(5)	327	(8)	24	(50)	(6)	287	83	370
- Savings	140	(43)	97	(10)	8	(20)	(1)	74	16	90
LGR	**292**	**51**	**343**	**(13)**	**48**	**(32)**	**-**	**346**	**82**	**428**
LGIM	**262**	**-**	**262**	**-**	**-**	**-**	**-**	**262**	**74**	**336**
LGC	**162**	**-**	**162**	**-**	**-**	**-**	**-**	**162**	**41**	**203**
LGA	**46**	**-**	**46**	**-**	**-**	**-**	**(14)**	**32**	**24**	**56**
Total from divisions	**1,234**	**3**	**1,237**	**(31)**	**80**	**(102)**	**(21)**	**1,163**	**320**	**1,483**
Group debt costs	**(112)**	**-**	**(112)**	**-**	**-**	**-**	**-**	**(112)**	**(30)**	**(142)**
Group investment projects and expenses	**(21)**	**-**	**(21)**	**-**	**-**	**-**	**(32)**	**(53)**	**(13)**	**(66)**
Total	**1,101**	**3**	**1,104**	**(31)**	**80**	**(102)**	**(53)**	**998**	**277**	**1,275**

1. Operational cash generation includes dividends remitted from LGF of £2m (2013: £2m) and LGN of £29m (2013: £14m) within the Protection line and LGA of £46m (2013: £44m).
2. International and other includes £25m of restructuring costs (£31m before tax) (2013: £nil) within the Group investment projects and expenses line.

Operational cash generation for LGAS and LGR represents the expected surplus generated in the year from the 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 General Insurance and the 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 and LGC represents the operating profit (net of tax).

The operational cash generation for LGA represents the dividends received.

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

2.01 Reconciliation of operational cash to operating profit before tax (continued)

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 £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**
- Insurance	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 and LGN of £14m within the Protection line and LGA of £44m.

2.02 Analysis of LGAS and LGR operating profit

	LGAS 2014 £m	**LGR 2014 £m**	LGAS 2013 £m	LGR 2013 £m
Net cash generation	**424**	**343**	401	293
Experience variances				
Persistency	**-**	**(3)**	5	1
Mortality/Morbidity[1]	**(5)**	**13**	-	14
Expenses	**(4)**	**(3)**	(3)	-
BPA Loading	**-**	**6**	-	4
Project and development costs	**(12)**	**(19)**	(23)	(11)
Other	**3**	**(7)**	(13)	1
Total experience variances	**(18)**	**(13)**	(34)	9
Changes to valuation assumptions				
Persistency[2]	**42**	**-**	7	-
Mortality/Morbidity[3]	**37**	**61**	9	(13)
Expenses	**15**	**(5)**	8	-
Other[4]	**(62)**	**(8)**	7	-
Total valuation assumption changes	**32**	**48**	31	(13)
Movement in non-cash items				
Deferred tax	**6**	**(11)**	5	-
Utilisation of brought forward trading losses	**(9)**	**(62)**	(4)	(70)
Acquisition expense tax relief	**(42)**	**-**	(51)	-
Deferred Acquisition Costs (DAC)[5]	**(71)**	**-**	(63)	-
Deferred Income Liabilities (DIL)[5]	**46**	**-**	47	-
Other[6]	**-**	**41**	(3)	22
Total non-cash movement items	**(70)**	**(32)**	(69)	(48)
Other	**(7)**	**-**	10	-
Operating profit after tax	**361**	**346**	339	241
Tax gross up	**99**	**82**	105	69
Operating profit before tax	**460**	**428**	444	310

1. The mortality/morbidity experience variances in LGAS in 2014 primarily relates to adverse morbidity on one of our group protection products.
2. The persistency valuation assumption change in LGAS primarily relates to an improvement in the experience and modelling for persistency on some of our long term products.
3. The mortality/morbidity valuation assumption change in LGAS primarily relates to an improvement in the modelling for certain morbidity features on our retail protection products. The LGR mortality valuation assumption change primarily relates to the adoption of the recent CMI projection table (CMI2013) with an allowance for anticipated modelling changes that have been incorporated into the CMI2014 model.
4. The other valuation assumption change in LGAS primarily relates to a refinement in the modelling for reinsurance on certain long term policies.
5. The DAC in LGAS represents the amortisation charges offset by new acquisition costs deferred in the year. The DIL 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.
6. The other non-cash items in LGR primarily relates to the elimination of intra-group future profits arising from the provision of investment management services at market referenced rates.

2.03 General insurance operating profit and combined operating ratio

	2014 £m	2013 £m
General insurance operating profit[1]	**59**	69
General insurance combined operating ratio (%)[2]	**87**	84

1. The general insurance operating profit includes the underwriting result and investment return.
2. The calculation of the general insurance combined operating ratio incorporates commission and expenses as a percentage of net earned premiums.

2.04 LGIM

	2014 £m	2013 £m
Revenue	**645**	594
Expenses	**(309)**	(290)
Total LGIM operating profit	**336**	304

2.05 LGC

	2014 £m	2013 £m
Investment return	**219**	185
Expenses[1]	**(16)**	(6)
Total LGC operating profit	**203**	179

1. LGC expenses in 2014 include £10m of management expenses previously borne by the Group and allocated as Group expenses.

2.06 Group investment projects and expenses

	2014 £m	2013 £m
Group investment projects and central expenses	**(35)**	(44)
Restructuring costs	**(31)**	-
Total Group investment projects and expenses	**(66)**	(44)

2.07 Investment and other variances

	2014 £m	2013 £m
Investment variance[1]	**(8)**	29
M&A related[2]	**(21)**	(16)
Other[3]	**(15)**	(40)
Total Investment and other variances	**(44)**	(27)

1. Investment variance is negative, primarily due to lower equity returns from shareholder funds. This has been partially offset by an increase in exposure to Direct Investments in LGR, which has enhanced the risk adjusted return, and favourable default experience.
2. M&A related includes gains, expenses and intangible amortisation relating to acquisitions and disposals.
3. Other includes new business start-up costs, closure costs and other non-investment related variance items. In 2013, Other included £17m of restructuring costs.

Consolidated Income Statement

For the year ended 31 December 2014

	Notes	2014 £m	2013 [1] £m
Revenue			
Gross written premiums		**10,168**	6,162
Outward reinsurance premiums		**(1,122)**	(874)
Net change in provision for unearned premiums		**1**	(18)
Net premiums earned		**9,047**	5,270
Fees from fund management and investment contracts		**1,085**	1,040
Investment return		**40,639**	32,234
Operational income		**746**	720
Total revenue		**51,517**	39,264
Expenses			
Claims and change in insurance liabilities		**15,071**	5,767
Reinsurance recoveries		**(975)**	(1,113)
Net claims and change in insurance liabilities		**14,096**	4,654
Change in provisions for investment contract liabilities		**33,385**	30,458
Acquisition costs		**873**	855
Finance costs		**183**	166
Other expenses		**1,748**	1,694
Transfers (from)/to unallocated divisible surplus		**(181)**	112
Total expenses		**50,104**	37,939
Profit before tax		**1,413**	1,325
Tax expense attributable to policyholder returns		**(175)**	(181)
Profit before tax attributable to equity holders		**1,238**	1,144
Total tax expense		**(421)**	(419)
Tax expense attributable to policyholder returns		**175**	181
Tax expense attributable to equity holders	2.22	**(246)**	(238)
Profit for the year		**992**	906
Attributable to:			
Non-controlling interests		**7**	13
Equity holders of the Company		**985**	893
Dividend distributions to equity holders of the Company during the year	2.12	**580**	479
Dividend distributions to equity holders of the Company proposed after the year end	2.12	**496**	408

		p	p
Earnings per share			
Based on profit attributable to equity holders of the Company	2.08	**16.70**	15.20
Diluted earnings per share			
Based on profit attributable to equity holders of the Company	2.08	**16.54**	15.00

1. The Consolidated Income Statement has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.24. The impact is to increase the profit for the year by £10m for 2013.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	2014 £m	2013 [1] £m
Profit for the year	**992**	906
Items that will not be reclassified subsequently to profit or loss		
Actuarial losses on defined benefit pension schemes	**(94)**	(145)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	**38**	49
Total items that will not be reclassified to profit or loss subsequently	**(56)**	(96)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of overseas operations	**12**	(16)
Net change in financial investments designated as available-for-sale	**26**	(88)
Total items that may be reclassified to profit or loss subsequently	**38**	(104)
Other comprehensive expense after tax	**(18)**	(200)
Total comprehensive income for the year	**974**	706
Total comprehensive income attributable to:		
Non-controlling interests	**7**	13
Equity holders of the Company	**967**	693

1. The Consolidated Statement of Comprehensive Income has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.24. The impact is to increase the total comprehensive income for the year by £10m for 2013.

Consolidated Balance Sheet

As at 31 December 2014

	Notes	2014 £m	2013[1] £m
Assets			
Goodwill		**79**	73
Purchased interest in long term businesses and other intangible assets		**342**	308
Deferred acquisition costs		**1,936**	1,880
Investment in associates and joint ventures		**149**	101
Property, plant and equipment		**146**	129
Investment property	2.11	**8,152**	6,377
Financial investments	2.11	**360,614**	334,540
Reinsurers' share of contract liabilities		**2,906**	2,897
UK deferred tax asset	2.22	**54**	82
Current tax recoverable		**217**	310
Other assets		**2,249**	2,121
Cash and cash equivalents		**22,709**	17,454
Total assets		**399,553**	366,272
Equity			
Share capital	2.13	**149**	148
Share premium	2.13	**969**	959
Employee scheme treasury shares		**(37)**	(39)
Capital redemption and other reserves		**117**	57
Retained earnings		**4,830**	4,517
Shareholders' equity		**6,028**	5,642
Non-controlling interests		**275**	265
Total equity		**6,303**	5,907
Liabilities			
Participating insurance contracts	2.17	**6,579**	6,972
Participating investment contracts	2.18	**7,667**	7,493
Unallocated divisible surplus		**983**	1,221
Value of in-force non-participating contracts		**(208)**	(248)
Participating contract liabilities		**15,021**	15,438
Non-participating insurance contracts	2.17	**49,876**	40,273
Non-participating investment contracts	2.18	**288,558**	278,754
Non-participating contract liabilities		**338,434**	319,027
Core borrowings	2.15	**2,977**	2,453
Operational borrowings	2.16	**715**	775
Provisions	2.21	**1,247**	1,128
UK deferred tax liabilities	2.22	**180**	-
Overseas deferred tax liabilities	2.22	**434**	362
Current tax liabilities		**9**	14
Payables and other financial liabilities		**16,131**	9,305
Other liabilities		**963**	1,045
Net asset value attributable to unit holders		**17,139**	10,818
Total liabilities		**393,250**	360,365
Total equity and liabilities		**399,553**	366,272

1. The Consolidated Balance Sheet has been restated to reflect the adoption by the Group of IFRS 10, ‘Consolidated Financial Statements’. Further details are contained in Note 2.24. The impact is to increase the total equity by £207m for 2013.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014	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 2014	**148**	**959**	**(39)**	**57**	**4,517**	**5,642**	**265**	**5,907**
Profit for the year	-	-	-	-	985	985	7	992
Exchange differences on translation of overseas operations	-	-	-	12	-	12	-	12
Actuarial losses on defined benefit pension schemes	-	-	-	-	(94)	(94)	-	(94)
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	-	-	-	26	-	26	-	26
Total comprehensive income for the year	-	-	-	38	929	967	7	974
Options exercised under share option schemes:								
- Executive share option schemes	-	-	-	-	-	-	-	-
- Savings related share option scheme	1	10	-	-	-	11	-	11
Shares purchased	-	-	(7)	-	-	(7)	-	(7)
Shares vested	-	-	9	(17)	-	(8)	-	(8)
Employee scheme treasury shares:								
- Value of employee services	-	-	-	20	-	20	-	20
Share scheme transfers to retained earnings	-	-	-	-	(17)	(17)	-	(17)
Dividends	-	-	-	-	(580)	(580)	-	(580)
Movement in third party interests	-	-	-	-	-	-	3	3
Currency translation differences	-	-	-	19	(19)	-	-	-
As at 31 December 2014	**149**	**969**	**(37)**	**117**	**4,830**	**6,028**	**275**	**6,303**

Consolidated Statement of Changes in Equity (continued)

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[1]	Total equity £m
As at 1 January 2013	148	956	(43)	153	4,227	5,441	178	5,619
Profit for the year	-	-	-	-	893	893	13	906
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	13	706
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	-	-	-	-	-	-	74	74
Currency translation differences	-	-	-	(1)	1	-	-	-
As at 31 December 2013	148	959	(39)	57	4,517	5,642	265	5,907

1. The Consolidated Statement of Changes in Equity has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.24. The impact is to increase the total equity by £207m for 2013.

Consolidated Cash Flow Statement

For the year ended 31 December 2014

	2014 £m	2013 [1] £m
Cash flows from operating activities		
Profit for the year	**992**	906
Adjustments for non cash movements in net profit for the year		
Realised and unrealised gains on financial investments and investment properties	**(30,851)**	(21,456)
Investment income	**(9,205)**	(9,504)
Interest expense	**183**	166
Tax expense	**421**	419
Other adjustments	**87**	98
Net (increase)/decrease in operational assets		
Investments held for trading or designated as fair value through profit or loss	**5,931**	1,952
Investments designated as available-for-sale	**225**	60
Other assets	**(151)**	547
Net increase/(decrease) in operational liabilities		
Insurance contracts	**9,228**	1,384
Transfer (from)/to unallocated divisible surplus	**(222)**	63
Investment contracts	**10,156**	13,835
Value of in-force non-participating contracts	**40**	(6)
Other liabilities	**9,811**	3,883
Cash generated used in operations	**(3,355)**	(7,653)
Interest paid	**(203)**	(169)
Interest received	**4,857**	4,981
Tax paid[2]	**(76)**	(287)
Dividends received	**4,264**	4,497
Net cash flows generated from operating activities	**5,487**	1,369
Cash flows from investing activities		
Net acquisition of plant, equipment and intangibles	**(80)**	(48)
Acquisitions (net of cash acquired)[3]	**(38)**	(97)
Disposal of subsidiaries	**56**	-
Investment in joint ventures	**(77)**	(68)
Net cash flows from investing activities	**(139)**	(213)
Cash flows from financing activities		
Dividend distributions to ordinary equity holders of the Company during the year	**(580)**	(479)
Proceeds from issue of ordinary share capital	**11**	3
Purchase of employee scheme shares	**(2)**	(4)
Proceeds from borrowings	**674**	1,231
Repayment of borrowings	**(181)**	(1,115)
Net cash flows used in financing activities	**(78)**	(364)
Net increase in cash and cash equivalents	**5,270**	792
Exchange losses on cash and cash equivalents	**(15)**	-
Cash and cash equivalents at 1 January	**17,454**	16,662
Cash and cash equivalents at 31 December	**22,709**	17,454

1. The Consolidated Cash Flow Statement has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.24.
2. Tax comprises UK corporation tax paid of £29m (2013: £133m), overseas corporate taxes of £24m (2013: £6m) and withholding tax of £23m (2013: £148m).
3. Net cash flows from acquisitions includes cash paid of £38m (2013: £287m) less cash and cash equivalents acquired of £nil (2013: £190m).

The Group's Consolidated Cash Flow Statement includes all cash and cash equivalent flows, including those relating to the UK long-term fund policyholders.

2.08 Earnings per share
(a) Earnings per share

	Profit after tax 2014 £m	**Earnings per share[1] 2014 p**	Profit after tax 2013 £m	Earnings per share[1] 2013 p
Operating profit	**998**	**16.92**	883	15.03
Investment and other variances	**(13)**	**(0.22)**	13	0.22
Impact of change in UK tax rates	**-**	**-**	(3)	(0.05)
Earnings per share based on profit attributable to equity holders	**985**	**16.70**	893	15.20

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.

(b) Diluted earnings per share

	Profit after tax 2014 £m	**Number of shares[1] 2014 m**	**Earnings per share 2014 p**	Profit after tax 2013 £m	Number of shares[1] 2013 m	Earnings per share 2013 p
Profit attributable to equity holders of the Company	**985**	**5,897**	**16.70**	893	5,875	15.20
Net shares under options allocable for no further consideration	**-**	**59**	**(0.16)**	-	79	(0.20)
Diluted earnings per share	**985**	**5,956**	**16.54**	893	5,954	15.00

1. 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.

2.09 Acquisition
Global Index Advisors Inc.

On 19 May 2014, the Group acquired the trade and assets of Global Index Advisors Inc., an asset management advisory based in Atlanta, US. The acquisition provides the Group with opportunities to accelerate growth into the US Defined Contribution market.

	2014 £m
Total cash and deferred contingent consideration for 100% acquisition	**24**
Recognised amounts of identifiable assets transferred and liabilities assumed at fair value	
Intangibles	**38**
Deferred tax liabilities	**(14)**
Net assets attributable to equity holders of the Company	**24**

Deferred contingent consideration represents amounts payable for the trade and assets of Global Index Advisors Inc. contingent on meeting certain financial performance targets over a 1 to 2 year period. The range of undiscounted amounts the company could pay under the contingent consideration arrangements is between £nil and £6.9m.

2.10 Disposals

On 28 May 2014, the Group sold Amber Taverns, the operator of 95 community pubs in the North of England to funds managed by MxP Partners LLP and their associates for £50m. The carrying value of the company was c£37m, realising the profit on disposal of c£13m reported in the operational income in the Consolidated Income Statement. The majority of the profit on disposal is allocated to the with-profits fund.

On 31 October 2014, the Group sold its estate agency franchise business, Xperience, to the well established lettings franchise business, Martin & Co. for £6m. The carrying value of the business was £1m, realising the profit on disposal of £5m reported in operational income in the Consolidated Income Statement.

2.11 Financial investments and Investment property

	2014 £m	2013[1] £m
Equities	**162,177**	166,663
Unit trusts	**7,529**	7,426
Debt securities[2]	**178,766**	153,742
Accrued interest	**1,604**	1,633
Derivative assets[3]	**10,035**	4,746
Loans and receivables	**503**	330
Financial investments	**360,614**	334,540
Investment property	**8,152**	6,377
Total financial investments and investment property	**368,766**	340,917

1. Financial investments and Investment property and fair value hierarchy have been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.24.

2. Detailed analysis of debt securities which shareholders are directly exposed to are disclosed in Note 4.05.

3. 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 £6,011m (2013: £2,391m) held on behalf of unit linked policyholders.

2.12 Dividends

	Dividend 2014 £m	**Per share[1] 2014 p**	Dividend 2013 £m	Per share[1] 2013 p
Ordinary share dividends paid in the year				
- Prior year final dividend	**408**	**6.90**	337	5.69
- Current year interim dividend	**172**	**2.90**	142	2.40
	580	**9.80**	479	8.09
Ordinary share dividend proposed[2]	**496**	**8.35**	408	6.90

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 on the Consolidated Balance Sheet.

2.13 Share capital and share premium

Authorised share capital	**2014 Number of shares**	**2014 £m**	2013 Number of shares	2013 £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 2014	**5,917,066,636**	**148**	**959**
Options exercised under share option schemes			
- Executive share option scheme	**-**	**-**	**-**
- Savings related share option scheme	**25,003,593**	**1**	**10**
As at 31 December 2014	**5,942,070,229**	**149**	**969**

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

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.

2.14 Segmental analysis of profit/(loss) for the year

For the year ended 31 December 2014	**LGAS £m**	**LGR £m**	**LGIM £m**	**LGC £m**	**LGA £m**	**Group expenses and debt costs £m**	**Total £m**
Operating profit/(loss)	**460**	**428**	**336**	**203**	**56**	**(208)**	**1,275**
Investment and other variances[1]	**(7)**	**67**	**(12)**	**(37)**	**(13)**	**(42)**	**(44)**
Gains attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**7**	**7**
Profit/(loss) before tax attributable to equity holders	**453**	**495**	**324**	**166**	**43**	**(243)**	**1,238**
Tax (expense)/credit attributable to equity holders of the Company[2]	**(102)**	**(97)**	**(70)**	**(9)**	**(19)**	**51**	**(246)**
Profit/(loss) for the year	**351**	**398**	**254**	**157**	**24**	**(192)**	**992**

For the year ended 31 December 2013	LGAS £m	LGR £m	LGIM £m	LGC £m	LGA £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	444	310	304	179	92	(171)	1,158
Investment and other variances	(73)	63	(6)	60	(13)	(58)	(27)
Gains attributable to non-controlling interests[3]	-	-	-	-	-	13	13
Profit/(loss) before tax attributable to equity holders	371	373	298	239	79	(216)	1,144
Tax (expense)/credit attributable to equity holders of the Company	(83)	(83)	(65)	(27)	(43)	63	(238)
Profit/(loss) for the year	288	290	233	212	36	(153)	906

1. Positive investment and other variances for LGR are primarily due to favourable default experience and an increase in exposure to Direct Investments which has enhanced the risk adjusted return. Negative investment and other variances for LGC reflect lower equity returns from shareholder funds.
2. The low tax charge for LGC primarily reflects the impact of non-taxable income and recognition of losses.
3. The segmental analysis of profit/(loss) for the year has been restated to reflect the adoption by the Group of IFRS 10 'Consolidated Financial Statements'. Further details are contained in Note 2.24. The impact is to increase profit for the year by £10m for 2013.

2.15 Core Borrowings

	Carrying amount 2014 £m	**Fair value 2014 £m**	Carrying amount 2013 £m	Fair value 2013 £m
Subordinated borrowings				
6.385% Sterling perpetual capital securities (Tier 1)	**658**	**642**	680	650
5.875% Sterling undated subordinated notes (Tier 2)	**416**	**431**	418	438
4.0% Euro subordinated notes 2025 (Tier 2)	**472**	**482**	498	531
10% Sterling subordinated notes 2041 (Tier 2)	**310**	**424**	309	417
5.5% Sterling subordinated notes 2064 (Tier 2)	**588**	**666**	-	-
Client fund holdings of Group debt[1]	**(28)**	**(31)**	(13)	(13)
Total subordinated borrowings	**2,416**	**2,614**	1,892	2,023
Senior borrowings				
Sterling medium term notes 2031-2041	**609**	**800**	608	721
Client fund holdings of Group debt[1]	**(48)**	**(62)**	(47)	(55)
Total senior borrowings	**561**	**738**	561	666
Total core borrowings	**2,977**	**3,352**	2,453	2,689

1. £76m (2013: £60m) 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 are 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. 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
In 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.

5.5% Sterling subordinated notes 2064
On 19 June 2014, Legal & General Group Plc issued £600m of 5.5% dated subordinated notes. The notes are callable at par on 27 June 2044 and every five years thereafter. If not called, the coupon from 27 June 2044 will be reset to the prevailing five year benchmark gilt yield plus 3.17% pa. These notes mature on 27 June 2064 and are treated as tier 2 capital for regulatory purposes.

2.16 Operational Borrowings

	Carrying amount 2014 £m	**Fair value 2014 £m**	Carrying amount 2013 [1] £m	Fair value 2013 [1] £m
Short term operational borrowings				
Euro Commercial paper	**73**	**73**	173	173
Bank loans/other	**13**	**13**	16	16
Total short term operational borrowings	**86**	**86**	189	189
Non recourse borrowings				
US Dollar Triple X securitisation 2037	**286**	**240**	268	230
Suffolk Life unit linked borrowings	**120**	**120**	116	116
LGV 6/LGV 7 Private Equity Fund Limited Partnership	**136**	**136**	131	131
Consolidated Property Limited Partnerships	**148**	**148**	129	129
Total non recourse borrowings	**690**	**644**	644	606
Group holding of operational borrowings[2]	**(61)**	**(52)**	(58)	(49)
Total operational borrowings	**715**	**678**	775	746

1. Operational Borrowings has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.24.
2. 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 £86m (2013: £189m). 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.

LGV 6/LGV 7 Private Equity Fund Limited Partnerships
These borrowings are non recourse bank borrowings.

Consolidated Property Limited Partnerships
These borrowings are non recourse bank borrowings.

Syndicated credit facility

As at 31 December 2014, the Group had in place a £1bn 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. No amounts were outstanding at 31 December 2014.

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

	Notes	**Gross 2014 £m**	**Re-insurance 2014 £m**	Gross 2013 £m	Re-insurance 2013 £m
Participating insurance contracts	2.17(b)	**6,579**	**(1)**	6,972	(1)
Non-participating insurance contracts	2.17(c)	**49,589**	**(2,587)**	39,975	(2,596)
General insurance contracts	2.17(d)	**287**	**(8)**	298	(5)
Insurance contract liabilities		**56,455**	**(2,596)**	47,245	(2,602)

(b) Movement in participating insurance contract liabilities

	Gross 2014 £m	**Re-insurance 2014 £m**	Gross 2013 £m	Re-insurance 2013 £m
As at 1 January	**6,972**	**(1)**	8,116	(1)
New liabilities in the year	**61**	**-**	75	-
Liabilities discharged in the year	**(1,159)**	**-**	(1,606)	-
Unwinding of discount rates	**54**	**-**	79	-
Effect of change in non-economic assumptions	**(5)**	**-**	4	-
Effect of change in economic assumptions	**561**	**-**	291	-
Other	**95**	**-**	13	-
As at 31 December	**6,579**	**(1)**	6,972	(1)

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

	Gross 2014 £m	Re-insurance 2014 £m	Gross 2013 £m	Re-insurance 2013 £m
As at 1 January	**39,975**	**(2,596)**	37,445	(2,277)
New liabilities in the year	**7,325**	**(446)**	3,872	(334)
Liabilities discharged in the year	**(2,469)**	**259**	(2,307)	167
Unwinding of discount rates	**1,493**	**(145)**	1,308	(134)
Effect of change in non-economic assumptions	**(569)**	**362**	77	(25)
Effect of change in economic assumptions	**3,844**	**(3)**	(430)	-
Foreign exchange adjustments	**(10)**	**(18)**	10	7
As at 31 December	**49,589**	**(2,587)**	39,975	(2,596)

(d) Analysis of General insurance contract liabilities

	Gross 2014 £m	Re-insurance 2014 £m	Gross 2013 £m	Re-insurance 2013 £m
Outstanding claims	**61**	**(1)**	66	-
Claims incurred but not reported	**30**	**-**	37	-
Unearned premiums	**196**	**(7)**	195	(5)
General insurance contract liabilities	**287**	**(8)**	298	(5)

(e) Movement in General insurance claim liabilities

	Gross 2014 £m	Re-insurance 2014 £m	Gross 2013 £m	Re-insurance 2013 £m
As at 1 January	**103**	**-**	104	-
Claims arising	**182**	**(2)**	175	-
Claims paid	**(183)**	**1**	(156)	-
Adjustments to prior year liabilities	**(11)**	**-**	(20)	-
As at 31 December	**91**	**(1)**	103	-

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

	Note	Gross 2014 £m	Re-insurance 2014 £m	Gross 2013 £m	Re-insurance 2013 £m
Participating investment contracts		**7,667**	**14**	7,493	-
Non-participating investment contracts		**288,558**	**(324)**	278,754	(295)
Investment contract liabilities	2.18(b)	**296,225**	**(310)**	286,247	(295)

(b) Movement in investment contract liabilities

	Gross 2014 £m	Re-insurance 2014 £m	Gross 2013 £m	Re-insurance 2013 £m
As at 1 January	**286,247**	**(295)**	272,361	(213)
Reserves in respect of new business	**30,645**	**(334)**	30,816	(237)
Amounts paid on surrenders and maturities during the year	**(53,311)**	**60**	(47,055)	66
Investment return and related benefits	**33,126**	**259**	30,369	89
Management charges	**(309)**	**-**	(295)	-
Foreign exchange adjustments	**(177)**	**-**	51	-
Other	**4**	**-**	-	-
As at 31 December	**296,225**	**(310)**	286,247	(295)

Change in provisions for investment contract liabilities represents the total gross and reinsurance investment return and related benefits of £33,385m (2013: £30,458m).

Fair value movements of £33,198m (2013: £30,095m) are included within the income statement arising from movements in investment contract liabilities designated as fair value through profit and loss.

2.19 IFRS sensitivity analysis

	Impact on pre-tax Group profit net of re-insurance 2014 £m	Impact on Group equity net of re-insurance 2014 £m
Economic sensitivity		
Long-term insurance		
1% increase in interest rates	**120**	**54**
1% decrease in interest rates	**(245)**	**(146)**
1% increase in long term inflation expectations	**(193)**	**(152)**
Credit spread widens by 100bps with no change in expected defaults	**(177)**	**(212)**
10% decrease in listed equities	**(155)**	**(126)**
10% fall in property values	**(130)**	**(102)**
10bps increase in credit default assumption	**(370)**	**(290)**
10bps decrease in credit default assumption	**344**	**270**
Non-economic sensitivity		
Long-term insurance		
1% decrease in annuitant mortality	**(170)**	**(133)**
5% increase in assurance mortality	**(56)**	**(44)**
Default of largest external reinsurer	**(657)**	**(516)**
General Insurance		
Single storm event with 1 in 200 year probability	**(74)**	**(59)**
Subsidence event – worst claims ratio in last 30 years	**(54)**	**(43)**
5% decrease in overall claims ratio	**8**	**6**
5% surplus over claims liabilities	**5**	**4**

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

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

The interest rate sensitivity assumes a 100 basis point change in the gross redemption yield on fixed interest securities together with a 100 basis point change in the real yields on variable securities. For the UK long term funds, valuation interest rates are assumed to move in line with market yields adjusted to allow for the impact of PRA regulations. The interest rate sensitivities reflect the impact of the regulatory restrictions on the reinvestment rate used to value the liabilities of the long term business. Modelling improvements have been made in the year which more accurately isolate the impacts of discrete assumptions changes. This, coupled with the increase in the Group's annuity liabilities have led to an increase in the reported 2014 sensitivities for interest rates and inflation. No yield floors have been applied in the estimation of the stresses, despite the current low interest rate environment.

Interest rate and inflation expectation have historically shown positive correlation and have therefore been presented next to each other.

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.

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 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 assurance mortality stress represents an increase in mortality/morbidity rates for assurance contracts by 5%.

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 external reinsurer, the reinsurer stress shown is equal to the technical provisions ceded to the external reinsurer and represents the impact of the default of largest external reinsurer at an entity level.

2.20 Foreign exchange rates

Principal rates of exchange used for translation are:

Year end exchange rates	At 31.12.14	At 31.12.13
United States Dollar	**1.56**	1.66
Euro	**1.29**	1.20

Average exchange rates	01.01.14 - 31.12.14	01.01.13 - 31.12.13
United States Dollar	**1.65**	1.57
Euro	**1.24**	1.18

2.21 Provisions
(a) Analysis of provisions

	2014 £m	2013 £m
Retirement benefit obligations	**1,217**	1,113
Other provisions	**30**	15
	1,247	1,128

(b) Retirement benefit obligations

	Fund and Scheme 2014 £m	Overseas 2014 £m	Fund and Scheme 2013 £m	Overseas 2013 £m
Gross pension obligations included in provisions	**(1,215)**	**(2)**	(1,113)	-
Annuity obligations insured by Society	**723**	**-**	646	-
Gross defined benefit pension deficit	**(492)**	**(2)**	(467)	-
Deferred tax on defined benefit pension deficit	**98**	**-**	93	-
Net defined benefit pension deficit	**(394)**	**(2)**	(374)	-

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 2014, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Society) has been estimated at £394m (2013: £374m). These amounts have been recognised in the financial statements with £248m charged against shareholder equity (2013: £236m) and £146m against the unallocated divisible surplus (2013: £138m).

2.22 Tax
(a) Tax charge in the Consolidated Income Statement

The tax attributable to equity holders differs from the tax calculated at the standard UK corporation tax rate as follows:

	2014 £m	2013 £m
Profit before tax attributable to equity holders	**1,238**	1,144
Tax calculated at 21.5% (2013: 23.25%)	**266**	266
Effects of:		
Adjustments in respect of prior years	**8**	4
Income not subject to tax, such as dividends	**(9)**	(6)
Change in valuation of tax losses	**(6)**	(19)
Higher rate of tax on profits taxed overseas	**8**	23
Additional allowances/non-deductible expenses	**(7)**	(11)
Impact of reduction in UK corporate tax rate to 20% (2013: 20%/21%) on deferred tax balances	**-**	3
Differences between taxable and accounting investment gains e.g. RPI relief	**(15)**	(19)
Other	**1**	(3)
Tax attributable to equity holders	**246**	238
Equity holders' effective tax rate[1]	**19.9%**	20.8%

1. Equity holders' effective tax rate is calculated by dividing the tax attributable to equity holders over profit before tax attributable to equity holders.

(b) Deferred Tax

(i) UK deferred tax (liabilities)/ assets	2014 £m	2013 £m
Realised and unrealised gains on investments	**(168)**	(160)
Excess of depreciation over capital allowances	**19**	24
Excess expenses[1]	**105**	192
Deferred acquisition expenses	**(61)**	(72)
Difference between the tax and accounting value of insurance contracts	**(143)**	(70)
Accounting provisions	**3**	8
Trading losses[2]	**45**	93
Pension fund deficit	**98**	93
Purchased interest in long term business	**(24)**	(26)
Net UK deferred tax (liabilities)/ assets[3]	**(126)**	82

(ii) Overseas deferred tax (liabilities)/ assets	2014 £m	2013 £m
Realised and unrealised gains on investments	**(53)**	(33)
Deferred acquisition expenses	**(295)**	(241)
Difference between the tax and accounting value of insurance contracts	**(242)**	(229)
Accounting provisions	**(20)**	(17)
Trading losses	**186**	158
Purchased interest in long term business	**(10)**	-
Net Overseas deferred tax liabilities	**(434)**	(362)

1. The reduction in the deferred tax asset on excess expenses reflects the full utilisation of excess management expenses together with the unwind of the spread acquisition expenses relating to changes in the I-E legislation.

2. The reduction in the deferred tax asset primarily reflects utilisation of brought forward trading losses against LGAS and LGR taxable profits (£71m) partly offset by additional tax losses.

3. The move to a net deferred tax liability provision in the UK reflects the continued utilisation of tax losses and corresponding reduction in deferred tax asset while the deferred tax liability on actuarial reserves has increased. On the Consolidated Balance Sheet the net UK deferred tax liability has been split between an asset of £54m and a liability of £180m where the relevant items cannot be offset.

2.23 Contingent liabilities, guarantees and indemnities

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

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

In 1975, Legal and 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.

2.24 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. The Group financial statements also comply with IFRS and interpretations by the IFRS Interpretations Committee as issued by the IASB as adopted by the European Union. 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.

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

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.

The LGC segment includes shareholders' equity supporting the non-profit LGR and LGAS businesses held within Society and Legal & General Pensions Limited (LGPL) and capital held by the Group's treasury function.

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.

2.24 Basis of preparation (continued)

Changes to accounting policy - IASB consolidation project

On 1 January 2014 the application of IFRS 10, 'Consolidated Financial Statements', and IFRS 11, 'Joint Arrangements' became compulsory for entities reporting in the EU.

IFRS 10, 'Consolidated Financial Statements' defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. This states that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The application of IFRS 10 has resulted in the Group consolidating a small number of investment vehicles which were not previously consolidated. There is no material impact on the profit reported for the year ended 31 December 2013 or 31 December 2014. The effect on profit, total equity and cash flow previously reported at 31 December 2013 is shown below. The prior year information in Notes 2.11 and 2.16 has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'.

IFRS 11, 'Joint Arrangements' defines and establishes accounting principles for joint arrangements. Based on how rights and obligations are shared by parties to the arrangements, it distinguishes between two such types: joint ventures and joint operations. As all of our joint arrangements are classified as joint ventures the adoption of this Standard has no impact upon the Group.

IFRS 12, 'Disclosures of Interests in Other Entities' requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities, and the effects of those interests on its financial position, financial performance and cash flows. The additional requirements of this standard are reflected within the Group's 2014 Annual Report and Accounts.

Consolidated Income Statement	As previously reported 31.12.13 £m	IFRS 10 Impact 31.12.13 £m	Restated 31.12.13 £m
Investment return	32,221	13	32,234
Finance costs	(163)	(3)	(166)
Profit for the year	**896**	**10**	**906**
Attributable to:			
Non-controlling interests	3	10	13
Equity holders of the Company	893	-	893
Consolidated Balance Sheet			
Assets			
Investment property	6,060	317	6,377
Financial investments	331,802	2,738	334,540
Other assets	2,115	6	2,121
Cash and cash equivalents	17,407	47	17,454
Shareholders' equity			
Non-controlling interests	58	207	265
Liabilities			
Operational borrowings	704	71	775
Payables and other financial liabilities	8,931	374	9,305
Other liabilities	1,032	13	1,045
Net asset value attributable to unit holders	8,375	2,443	10,818
Consolidated Cash Flow Statement			
Net cash flows from operating activities	1,332	37	1,369
Cash and cash equivalents at 1 January	16,652	10	16,662
Cash and cash equivalents at 31 December	17,407	47	17,454

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 2014 Annual Report and Accounts.

Asset and premium flows

3.01 Legal & General investment management assets

For the year ended 31 December 2014	Index funds £bn	Active fixed income £bn	Solu-tions[1] £bn	Property £bn	Active equities £bn	Total AUM £bn	Overlay assets[2] £bn	Advisory assets £bn	Total assets £bn
As at 1 January 2014	**269.8**	**89.4**	**70.4**	**11.3**	**8.6**	**449.5**	**162.1**	**-**	**611.6**
Acquisition of GIA assets	-	-	-	-	-	-	-	13.4	13.4
External inflows	22.8	5.5	7.6	1.4	0.1	37.4			37.4
External outflows	(39.1)	(3.8)	(6.6)	(0.5)	(0.1)	(50.1)			(50.1)
Overlay / advisory net flows	-	-	-	-	-	-	18.8	(0.2)	18.6
External net flows[3]	**(16.3)**	**1.7**	**1.0**	**0.9**	**-**	**(12.7)**	**18.8**	**(0.2)**	**5.9**
Internal net flows	0.3	(0.5)	1.3	0.7	(0.1)	1.7	-	-	1.7
Total net flows	**(16.0)**	**1.2**	**2.3**	**1.6**	**(0.1)**	**(11.0)**	**18.8**	**(0.2)**	**7.6**
Cash management movements[4]	-	(1.6)	-	-	-	(1.6)	-	-	(1.6)
Market and other movements[3]	21.0	14.8	26.0	0.7	(0.3)	62.2	13.7	1.6	77.5
As at 31 December 2014	**274.8**	**103.8**	**98.7**	**13.6**	**8.2**	**499.1**	**194.6**	**14.8**	**708.5**
Assets attributable to:									
External						**409.1**	194.6	14.8	**618.5**
Internal						**90.0**	-	-	**90.0**
Assets attributable to:									
UK						**388.6**	191.1	-	**579.7**
International[5]						**110.5**	3.5	14.8	**128.8**

1. Solutions includes liability driven investments and multi-asset funds.
2. Overlay assets comprise derivative notionals associated with Solutions business.
3. External net flows exclude movements in overlay assets which have a short maturity period as determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 31 December 2014 is £46.5bn and the movement in these assets is included in market and other movements for overlay assets.
4. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.
5. International assets include £37.5bn of assets transferred from our London office to our Chicago office.

For the year ended 31 December 2013	Index funds £bn	Active fixed income £bn	Solu-tions[1] £bn	Property £bn	Active equities £bn	Total AUM £bn	Overlay assets[2] £bn	Total assets £bn
As at 1 January 2013	**243.2**	**82.2**	**64.0**	**8.9**	**7.7**	**406.0**	**136.7**	**542.7**
External inflows	31.3	8.7	8.6	1.0	0.1	49.7		49.7
External outflows	(31.8)	(2.7)	(5.2)	(0.3)	(0.4)	(40.4)		(40.4)
Overlay net flows	-	-	-	-	-	-	11.2	11.2
External net flows[3]	**(0.5)**	**6.0**	**3.4**	**0.7**	**(0.3)**	**9.3**	**11.2**	**20.5**
Internal net flows	0.7	(1.7)	0.8	0.2	(0.2)	(0.2)	-	(0.2)
Total net flows	**0.2**	**4.3**	**4.2**	**0.9**	**(0.5)**	**9.1**	**11.2**	**20.3**
Cash management movements[4]	-	-	-	-	-	-	-	-
Market and other movements[3]	26.4	2.9	2.2	1.5	1.4	34.4	14.2	48.6
As at 31 December 2013	**269.8**	**89.4**	**70.4**	**11.3**	**8.6**	**449.5**	**162.1**	**611.6**
Assets attributable to:								
External						**370.2**	162.1	**532.3**
Internal						**79.3**	-	**79.3**
Assets attributable to:								
UK						**390.3**	160.1	**550.4**
International						**59.2**	2.0	**61.2**

1. Solutions includes liability driven investments and multi-asset funds.
2. Overlay assets comprise derivative notionals associated with Solutions business.
3. External net flows exclude movements in overlay assets which have a short maturity period as determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 31 December 2013 is £32.8bn and the movement in these assets is included in market and other movements for overlay assets.
4.Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.

3.01 Legal & General investment management assets (continued)

	12 months to 31.12.14 £bn	12 months to 31.12.13 £bn
LGIM total assets net flows	**7.6**	20.3
Attributable to:		
International[1]	**8.5**	15.8
UK Institutional	**(1.5)**	5.8
UK Retail[2]	**0.8**	0.4
Annuities[3]	**2.5**	1.4
Mature Businesses	**(2.7)**	(3.1)

1. 2013 International net flows includes £2.9bn of Legal & General France assets.
2. 2014 UK Retail net flows include £0.7bn of assets previously managed externally.
3. Pension funds already managed by LGIM that switch into LGR annuities are excluded.

Asset and premium flows

3.02 Legal & General investment management assets quarterly progression

For the year ended 31 December 2014	Index funds £bn	Active fixed income £bn	Solu-tions[1] £bn	Property £bn	Active equities £bn	Total AUM £bn	Overlay assets[2] £bn	Advisory assets £bn	Total assets £bn
At 1 January 2014	**269.8**	**89.4**	**70.4**	**11.3**	**8.6**	**449.5**	**162.1**	**-**	**611.6**
External inflows	4.7	1.4	2.1	0.3	-	8.5			8.5
External outflows	(5.7)	(0.5)	(1.2)	(0.1)	-	(7.5)			(7.5)
Overlay net flows	-	-	-	-	-	-	5.2	-	5.2
External net flows[3]	**(1.0)**	**0.9**	**0.9**	**0.2**	**-**	**1.0**	**5.2**	**-**	**6.2**
Internal net flows	0.1	2.0	0.3	0.5	(0.1)	2.8	-	-	2.8
Total net flows	**(0.9)**	**2.9**	**1.2**	**0.7**	**(0.1)**	**3.8**	**5.2**	**-**	**9.0**
Cash management movements[4]	-	-	-	-	-	-	-	-	-
Market and other movements[3]	1.5	2.9	4.9	(0.1)	0.1	9.3	1.0	-	10.3
At 31 March 2014	**270.4**	**95.2**	**76.5**	**11.9**	**8.6**	**462.6**	**168.3**	**-**	**630.9**
External inflows	5.8	1.5	2.6	0.3	0.1	10.3			10.3
External outflows	(13.4)	(1.4)	(0.9)	(0.1)	(0.1)	(15.9)			(15.9)
Overlay / advisory net flows	-	-	-	-	-	-	7.1	0.1	7.2
External net flows[3]	**(7.6)**	**0.1**	**1.7**	**0.2**	**-**	**(5.6)**	**7.1**	**0.1**	**1.6**
Internal net flows	0.1	(1.3)	0.7	0.2	(0.1)	(0.4)	-	-	(0.4)
Total net flows	**(7.5)**	**(1.2)**	**2.4**	**0.4**	**(0.1)**	**(6.0)**	**7.1**	**0.1**	**1.2**
Acquisition of GIA assets	-	-	-	-	-	-	-	13.4	13.4
Cash management movements[4]	-	0.2	-	-	-	0.2	-	-	0.2
Market and other movements[3]	5.8	3.0	(0.7)	0.5	(0.3)	8.3	(0.5)	0.2	8.0
At 30 June 2014	**268.7**	**97.2**	**78.2**	**12.8**	**8.2**	**465.1**	**174.9**	**13.7**	**653.7**
External inflows	5.4	1.0	1.3	0.3	-	8.0			8.0
External outflows	(8.6)	(0.8)	(1.4)	(0.2)	-	(11.0)			(11.0)
Overlay / advisory net flows	-	-	-	-	-	-	2.5	-	2.5
External net flows[3]	**(3.2)**	**0.2**	**(0.1)**	**0.1**	**-**	**(3.0)**	**2.5**	**-**	**(0.5)**
Internal net flows	(0.2)	(0.9)	0.1	(0.1)	(0.1)	(1.2)	-	-	(1.2)
Total net flows	**(3.4)**	**(0.7)**	**-**	**-**	**(0.1)**	**(4.2)**	**2.5**	**-**	**(1.7)**
Cash management movements[4]	-	(0.7)	-	-	-	(0.7)	-	-	(0.7)
Market and other movements[3]	5.2	1.7	9.5	0.4	(0.2)	16.6	7.9	0.5	25.0
At 30 September 2014	**270.5**	**97.5**	**87.7**	**13.2**	**7.9**	**476.8**	**185.3**	**14.2**	**676.3**
External inflows	6.9	1.6	1.6	0.5	-	10.6			10.6
External outflows	(11.4)	(1.1)	(3.1)	(0.1)	-	(15.7)			(15.7)
Overlay / advisory net flows	-	-	-	-	-	-	4.0	(0.3)	3.7
External net flows[3]	**(4.5)**	**0.5**	**(1.5)**	**0.4**	**-**	**(5.1)**	**4.0**	**(0.3)**	**(1.4)**
Internal net flows	0.3	(0.3)	0.2	0.1	0.2	0.5	-	-	0.5
Total net flows	**(4.2)**	**0.2**	**(1.3)**	**0.5**	**0.2**	**(4.6)**	**4.0**	**(0.3)**	**(0.9)**
Cash management movements[4]	-	(1.1)	-	-	-	(1.1)	-	-	(1.1)
Market and other movements[3]	8.5	7.2	12.3	(0.1)	0.1	28.0	5.3	0.9	34.2
At 31 December 2014	**274.8**	**103.8**	**98.7**	**13.6**	**8.2**	**499.1**	**194.6**	**14.8**	**708.5**

1. Solutions includes liability driven investments and multi-asset funds.
2. Overlay assets comprise derivative notionals associated with Solutions business.
3. External net flows exclude movements in overlay assets which have a short maturity period as determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 31 December 2014 is £46.5bn (Q1 2014: £33.8bn; Q2 2014: £33.3bn; Q3 2014: £41.2bn), and the movement in these assets is included in market and other movements for overlay assets.
4. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.

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

For the year ended 31 December 2013	Index funds £bn	Active fixed income £bn	Solutions[1] £bn	Property £bn	Active equities £bn	Total AUM £bn	Overlay assets[2] £bn	Total assets £bn
At 1 January 2013	**243.2**	**82.2**	**64.0**	**8.9**	**7.7**	**406.0**	**136.7**	**542.7**
External inflows	11.0	1.3	1.1	0.1	-	13.5		13.5
External outflows	(7.1)	(0.5)	(1.1)	-	(0.1)	(8.8)		(8.8)
Overlay net flows	-	-	-	-	-	-	2.5	2.5
External net flows[3]	**3.9**	**0.8**	**-**	**0.1**	**(0.1)**	**4.7**	**2.5**	**7.2**
Internal net flows	0.1	(0.7)	0.1	-	-	(0.5)	-	(0.5)
Total net flows	**4.0**	**0.1**	**0.1**	**0.1**	**(0.1)**	**4.2**	**2.5**	**6.7**
Cash management movements[5]	-	0.5	-	-	-	0.5	-	0.5
Market and other movements[3]	20.1	2.0	7.3	0.3	0.8	30.5	3.8	34.3
At 31 March 2013	**267.3**	**84.8**	**71.4**	**9.3**	**8.4**	**441.2**	**143.0**	**584.2**
External inflows	6.2	1.0	4.6	0.2	-	12.0		12.0
External outflows	(7.9)	(0.7)	(0.7)	(0.1)	(0.3)	(9.7)		(9.7)
Overlay net flows	-	-	-	-	-	-	3.2	3.2
External net flows[3]	**(1.7)**	**0.3**	**3.9**	**0.1**	**(0.3)**	**2.3**	**3.2**	**5.5**
Internal net flows	0.4	(0.8)	0.6	-	-	0.2	-	0.2
Total net flows	**(1.3)**	**(0.5)**	**4.5**	**0.1**	**(0.3)**	**2.5**	**3.2**	**5.7**
Cash management movements[5]	-	0.5	-	-	-	0.5	-	0.5
Market and other movements[3]	(3.9)	(1.9)	(5.0)	-	(0.4)	(11.2)	(0.5)	(11.7)
At 30 June 2013	**262.1**	**82.9**	**70.9**	**9.4**	**7.7**	**433.0**	**145.7**	**578.7**
External inflows[4]	8.0	4.4	2.2	0.4	0.1	15.1		15.1
External outflows	(8.3)	(0.6)	(1.7)	(0.1)	-	(10.7)		(10.7)
Overlay net flows	-	-	-	-	-	-	3.3	3.3
External net flows[3]	**(0.3)**	**3.8**	**0.5**	**0.3**	**0.1**	**4.4**	**3.3**	**7.7**
Internal net flows	-	0.6	-	0.1	(0.1)	0.6	-	0.6
Total net flows	**(0.3)**	**4.4**	**0.5**	**0.4**	**-**	**5.0**	**3.3**	**8.3**
Cash management movements[5]	-	(1.0)	-	-	-	(1.0)	-	(1.0)
Market and other movements[3]	3.2	1.4	0.1	0.6	0.3	5.6	2.4	8.0
At 30 September 2013	**265.0**	**87.7**	**71.5**	**10.4**	**8.0**	**442.6**	**151.4**	**594.0**
External inflows	6.1	2.0	0.7	0.3	-	9.1		9.1
External outflows	(8.5)	(0.9)	(1.7)	(0.1)	-	(11.2)		(11.2)
Overlay net flows	-	-	-	-	-	-	2.2	2.2
External net flows[3]	**(2.4)**	**1.1**	**(1.0)**	**0.2**	**-**	**(2.1)**	**2.2**	**0.1**
Internal net flows	0.2	(0.8)	0.1	0.1	(0.1)	(0.5)	-	(0.5)
Total net flows	**(2.2)**	**0.3**	**(0.9)**	**0.3**	**(0.1)**	**(2.6)**	**2.2**	**(0.4)**
Cash management movements[5]	-	-	-	-	-	-	-	-
Market and other movements[3]	7.0	1.4	(0.2)	0.6	0.7	9.5	8.5	18.0
At 31 December 2013	**269.8**	**89.4**	**70.4**	**11.3**	**8.6**	**449.5**	**162.1**	**611.6**

1. Solutions includes liability driven investments and multi-asset funds.
2. Overlay assets comprise derivative notionals associated with Solutions business.
3. External net flows exclude movements in overlay assets which have a short maturity period as determined by client agreements and are subject to a higher degree of variability. The total value of these assets at 31 December 2013 is £32.8bn (Q1 2013: £22.4bn; Q2 2013: £21.9bn; Q3 2013: £24.3bn), and the movement in these assets is included in market and other movements for overlay assets.
4. Includes £2.9bn of Legal & General France assets.
5. Cash management movements include external holdings in money market funds and other cash mandates held for clients' liquidity management purposes.

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

	3 months to 31.12.14 £bn	3 months to 30.09.14 £bn	3 months to 30.06.14 £bn	3 months to 31.03.14 £bn	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
LGIM total assets net flows	**(0.9)**	**(1.7)**	**1.2**	**9.0**	(0.4)	8.3	5.7	6.7
Attributable to:								
International[1]	**1.3**	**1.3**	**2.5**	**3.4**	1.8	6.4	0.6	7.0
UK Institutional	**(2.6)**	**(1.7)**	**(0.2)**	**3.0**	(1.6)	1.1	5.6	0.7
UK Retail[2]	**0.3**	**-**	**0.2**	**0.3**	0.1	0.3	0.3	(0.3)
Annuities[3]	**(0.3)**	**(0.1)**	**(0.3)**	**3.2**	(0.1)	1.4	0.1	-
Mature Businesses	**0.4**	**(1.2)**	**(1.0)**	**(0.9)**	(0.6)	(0.9)	(0.9)	(0.7)

1. Q3 2013 International net flows include £2.9bn of Legal & General France assets.
2. Q2 2014 UK Retail net flows include £0.7bn of assets previously managed externally.
3. Pension funds already managed by LGIM that switch into LGR annuities are excluded.

3.03 Assets under administration

For the year ended 31 December 2014	Platforms[1] £bn	Mature Retail Savings[2] £bn	Work-place £bn	Suffolk Life £bn	Overseas LGAS Savings £bn	Consol-idation adjust-ment[3] £bn	Total LGAS £bn	Retail Invest-ments[4] £bn	Annuities £bn
As at 1 January 2014	**64.1**	**36.3**	**8.7**	**6.6**	**4.5**	**(6.8)**	**113.4**	**20.5**	**34.4**
Gross inflows[5]	10.1	1.4	2.8	1.3	0.4	(0.5)	15.5	4.4	6.5
Gross outflows	(4.7)	(4.4)	(0.6)	(0.5)	(0.4)	0.7	(9.9)	(4.8)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(2.1)
Net flows	**5.4**	**(3.0)**	**2.2**	**0.8**	**-**	**0.2**	**5.6**	**(0.4)**	**4.4**
Market and other movements	2.4	2.7	0.2	0.3	(0.1)	(0.3)	5.2	1.2	5.4
As at 31 December 2014	**71.9**	**36.0**	**11.1**	**7.7**	**4.4**	**(6.9)**	**124.2**	**21.3**	**44.2**

For the year ended 31 December 2013	Platforms[1] £bn	Mature Retail Savings[2] £bn	Work-place £bn	Suffolk Life £bn	Overseas LGAS Savings £bn	Consol-idation adjust-ment[3] £bn	Total LGAS £bn	Retail Invest-ments[4] £bn	Annuities £bn
As at 1 January 2013	**8.6**	**36.2**	**6.0**	**5.1**	**4.5**	**(1.4)**	**59.0**	**18.6**	**32.2**
Gross inflows[5]	11.0	1.4	2.1	1.3	0.1	(0.3)	15.6	3.6	4.0
Gross outflows	(3.1)	(5.1)	(0.6)	(0.4)	(0.1)	0.5	(8.8)	(3.7)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(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	2.0	0.1
As at 31 December 2013	**64.1**	**36.3**	**8.7**	**6.6**	**4.5**	**(6.8)**	**113.4**	**20.5**	**34.4**

1. Platforms include Investor Portfolio Services (IPS) and Cofunds since acquisition.
2. Mature Retail Savings products include with-profits products, bonds and retail pensions.
3. Consolidation adjustment represents Suffolk Life and Mature Retail Savings assets included in the Platforms column.
4. Retail Investments include £1.7bn (2013: £1.5bn) of LGIM unit trust assets held on our Cofunds platform and £3.2bn (2013: £3.2bn) of LGIM unit trust assets held on our IPS platform.
5. Platforms gross inflows include Cofunds institutional net flows. Total Platforms comprise £38.3bn (2013: £36.3bn) of retail assets and £33.6bn (2013: £27.8bn). of assets held on behalf of institutional clients.

Asset and premium flows

3.04 Assets under administration quarterly progression

For the year ended 31 December 2014	Platforms[1] £bn	Mature Retail Savings[2] £bn	Work-place £bn	Suffolk Life £bn	Overseas LGAS Savings £bn	Consol-idation adjust-ment[3] £bn	Total LGAS £bn	Retail Invest-ments[4] £bn	Annuities £bn
At 1 January 2014	**64.1**	**36.3**	**8.7**	**6.6**	**4.5**	**(6.8)**	**113.4**	**20.5**	**34.4**
Gross inflows[5]	2.6	0.4	0.7	0.3	0.1	(0.1)	4.0	1.0	3.3
Gross outflows	(1.1)	(1.1)	(0.2)	(0.1)	(0.1)	0.2	(2.4)	(0.9)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.5)
Net flows	**1.5**	**(0.7)**	**0.5**	**0.2**	**-**	**0.1**	**1.6**	**0.1**	**2.8**
Market and other movements	-	0.5	(0.1)	0.1	(0.1)	(0.1)	0.3	0.2	1.1
At 31 March 2014	**65.6**	**36.1**	**9.1**	**6.9**	**4.4**	**(6.8)**	**115.3**	**20.8**	**38.3**
Gross inflows[5]	2.2	0.3	0.6	0.3	0.1	(0.1)	3.4	0.9	0.2
Gross outflows	(1.2)	(1.1)	(0.1)	(0.1)	(0.1)	0.2	(2.4)	(1.5)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.5)
Net flows	**1.0**	**(0.8)**	**0.5**	**0.2**	**-**	**0.1**	**1.0**	**(0.6)**	**(0.3)**
Market and other movements	0.8	0.6	(0.1)	0.1	0.1	-	1.5	0.4	0.5
At 30 June 2014	**67.4**	**35.9**	**9.5**	**7.2**	**4.5**	**(6.7)**	**117.8**	**20.6**	**38.5**
Gross inflows[5]	2.8	0.4	0.7	0.4	0.1	(0.2)	4.2	1.2	0.4
Gross outflows	(1.3)	(1.2)	(0.2)	(0.2)	(0.1)	0.2	(2.8)	(1.3)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.6)
Net flows	**1.5**	**(0.8)**	**0.5**	**0.2**	**-**	**-**	**1.4**	**(0.1)**	**(0.2)**
Market and other movements	0.1	0.4	0.1	0.1	(0.1)	(0.1)	0.5	0.2	1.6
At 30 September 2014	**69.0**	**35.5**	**10.1**	**7.5**	**4.4**	**(6.8)**	**119.7**	**20.7**	**39.9**
Gross inflows[5]	2.5	0.3	0.8	0.3	0.1	(0.1)	3.9	1.3	2.6
Gross outflows	(1.1)	(1.0)	(0.1)	(0.1)	(0.1)	0.1	(2.3)	(1.1)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.5)
Net flows	**1.4**	**(0.7)**	**0.7**	**0.2**	**-**	**-**	**1.6**	**0.2**	**2.1**
Market and other movements	1.5	1.2	0.3	-	-	(0.1)	2.9	0.4	2.2
At 31 December 2014	**71.9**	**36.0**	**11.1**	**7.7**	**4.4**	**(6.9)**	**124.2**	**21.3**	**44.2**

1. Platforms include Investor Portfolio Services (IPS) and Cofunds since acquisition.
2. Mature Retail Savings products include with-profits products, bonds and retail pensions.
3. Consolidation adjustment represents Suffolk Life and Mature Retail Savings assets included in the Platforms column.
4. 2014 Retail Investments include £1.7bn (Q1 2014: £1.6bn; Q2 2014: £1.5bn; Q3 2014: £1.6bn) of LGIM unit trust assets held on our Cofunds platform and £3.2bn (Q1 2014: £3.2bn; Q2 2014: £3.2bn; Q3 2014: £3.2bn) of LGIM unit trust assets held on our IPS platform.
5. Platforms gross inflows include Cofunds institutional net flows. Total Platforms comprise £38.3bn (Q1 2014: £36.6bn; Q2 2014: £37.3bn; Q3 2014: £37.4bn) of retail assets and £33.6bn (Q1 2014: £29.0bn; Q2 2014: £30.1bn; Q3 2014: £31.6bn) of assets held on behalf of institutional clients.

3.04 Assets under administration quarterly progression (continued)

For the year ended 31 December 2013	Platforms[1] £bn	Mature Retail Savings[2] £bn	Work-place £bn	Suffolk Life £bn	Overseas LGAS Savings £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**	**4.5**	**(1.4)**	**59.0**	**18.6**	**32.2**
Gross inflows	0.2	0.4	0.5	0.2	0.1	-	1.4	0.7	0.8
Gross outflows	(0.2)	(1.2)	(0.2)	(0.1)	(0.1)	0.1	(1.7)	(1.1)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.4)
Net flows	**-**	**(0.8)**	**0.3**	**0.1**	**-**	**0.1**	**(0.3)**	**(0.4)**	**0.4**
Market and other movements	0.5	1.7	0.6	0.3	-	(0.1)	3.0	1.2	0.7
At 31 March 2013	**9.1**	**37.1**	**6.9**	**5.5**	**4.5**	**(1.4)**	**61.7**	**19.4**	**33.3**
Gross inflows[5]	1.7	0.4	0.5	0.3	-	-	2.9	1.1	0.6
Gross outflows	(0.7)	(1.4)	(0.1)	(0.1)	-	-	(2.3)	(1.0)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(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)	(0.4)	(1.2)
At 30 June 2013	**53.7**	**35.7**	**7.3**	**5.7**	**4.5**	**(6.5)**	**100.4**	**19.1**	**32.2**
Gross inflows[5]	4.5	0.3	0.5	0.4	-	(0.1)	5.6	1.0	2.3
Gross outflows	(1.2)	(1.4)	(0.1)	(0.1)	-	0.2	(2.6)	(0.9)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(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	0.6	0.5
At 30 September 2013	**58.3**	**36.0**	**7.9**	**6.1**	**4.5**	**(6.6)**	**106.2**	**19.8**	**34.5**
Gross inflows[5]	4.6	0.3	0.6	0.4	-	(0.2)	5.7	0.8	0.3
Gross outflows	(1.0)	(1.1)	(0.2)	(0.1)	-	0.2	(2.2)	(0.7)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.5)
Net flows	**3.6**	**(0.8)**	**0.4**	**0.3**	**-**	**-**	**3.5**	**0.1**	**(0.2)**
Market and other movements	2.2	1.1	0.4	0.2	-	(0.2)	3.7	0.6	0.1
At 31 December 2013	**64.1**	**36.3**	**8.7**	**6.6**	**4.5**	**(6.8)**	**113.4**	**20.5**	**34.4**

1. Platforms include Investor Portfolio Services (IPS) and Cofunds since acquisition.
2. Mature Retail Savings products include with-profits products, bonds and retail pensions.
3. Consolidation adjustment represents Suffolk Life and Mature Retail Savings assets included in the Platforms column.
4. 2013 Retail Investments include £1.5bn (Q1 2013: £1.3bn; Q2 2013: £1.3bn; Q3 2013: £1.4bn) of LGIM unit trust assets held on our Cofunds platform and £3.2bn (Q1 2013: £3.1bn; Q2 2013: £3.0bn; Q3 2013: £3.1bn) of LGIM unit trust assets held on our IPS platform.
5. Platforms gross inflows include Cofunds institutional net flows. Total Platforms comprise £36.3bn (Q1 2013: £9.1bn; Q2 2013: £34.2bn; Q3 2013: £35.1bn) of retail assets and £27.8bn (Q1 2013: £nil; Q2 2013: £19.5bn; Q3 2013: £23.2bn) of assets held on behalf of institutional clients.

Asset and premium flows

3.05 Annuities single premiums quarterly progression

	3 months to 31.12.14 £m	**3 months to 30.09.14[1] £m**	**3 months to 30.06.14 £m**	**3 months to 31.03.14 £m**	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
Individual Annuities	**83**	**125**	**139**	**244**	200	323	348	406
Bulk Purchase Annuities	**2,619**	**233**	**90**	**3,045**	199	1,943	313	357
Total Annuities	**2,702**	**358**	**229**	**3,289**	399	2,266	661	763

1. Excludes £1.9bn of annuity assets transferred from the with-profits fund.

3.06 Insurance new business

	Annual premiums 2014 £m	Annual premiums 2013 £m
UK Retail Protection	**165**	148
UK Group Protection	**65**	70
France Protection	**33**	21
Netherlands Protection	**3**	7
US Protection	**91**	99
Longevity Insurance	**-**	270
Total Insurance new business	**357**	615

3.07 Insurance new business annual premiums quarterly progression

	3 months to 31.12.14 £m	**3 months to 30.09.14 £m**	**3 months to 30.06.14 £m**	**3 months to 31.03.14 £m**	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
UK Retail Protection	**41**	**41**	**41**	**42**	43	40	38	27
UK Group Protection	**11**	**14**	**20**	**20**	13	17	20	20
France Protection	**-**	**-**	**-**	**33**	-	-	-	21
Netherlands Protection	**-**	**1**	**-**	**2**	2	1	2	2
US Protection	**21**	**23**	**24**	**23**	26	28	23	22
Longevity Insurance	**-**	**-**	**-**	**-**	95	-	-	175
Total Insurance new business	**73**	**79**	**85**	**120**	179	86	83	267

Asset and premium flows

3.08 Gross written premiums on Insurance business

	12 months to 31.12.14 £m	12 months to 31.12.13 £m
UK Retail Protection	**1,056**	990
UK Group Protection	**351**	336
General Insurance	**377**	375
France Protection	**173**	168
Netherlands Protection	**51**	54
US Protection	**678**	654
Longevity Insurance	**333**	212
Total gross written premiums on Insurance business	**3,019**	2,789

3.09 Gross written premiums on Insurance business quarterly progression

	3 months to 31.12.14 £m	**3 months to 30.09.14 £m**	**3 months to 30.06.14 £m**	**3 months to 31.03.14 £m**	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
UK Retail Protection	**273**	**269**	**260**	**254**	256	250	244	240
UK Group Protection	**57**	**65**	**130**	**99**	54	74	123	85
General Insurance	**95**	**104**	**94**	**84**	95	97	97	86
France Protection	**41**	**41**	**45**	**46**	41	41	43	43
Netherlands Protection	**9**	**16**	**12**	**14**	13	14	13	14
US Protection	**184**	**162**	**170**	**162**	172	156	172	154
Longevity Insurance	**82**	**84**	**83**	**84**	60	60	60	32
Total gross written premiums on Insurance business	**741**	**741**	**794**	**743**	691	692	752	654

3.10 Overseas new business in local currency

	Annual premiums 31.12.14	**Single premiums 31.12.14**	**APE 31.12.14**	Annual premiums 31.12.13	Single premiums 31.12.13	APE 31.12.13
US (US$m)	**150**	**-**	**150**	155	-	155
Netherlands (€m)	**10**	**138**	**24**	10	126	23
France (€m)	**41**	**351**	**76**	26	312	57
India (Rs m) - Group's 26% interest	**408**	**4,003**	**808**	491	4,264	917
Egypt (Pounds m) - Group's 55% interest	**149**	**-**	**149**	136	-	136
Gulf (US$m) - Group's 50% interest	**3**	**5**	**4**	3	4	3

Asset and premium flows

3.11 Worldwide new business

	Annual premiums 2014 £m	Single premiums 2014 £m	APE 2014 £m	Annual premiums 2013 £m	Single premiums 2013 £m	APE 2013 £m	APE Increase/ (decrease) %
Individual Annuities	-	591	59	-	1,277	128	(54)
Bulk Purchase Annuities	-	5,987	599	-	2,812	281	113
Total LGR[1]	**-**	**6,578**	**658**	-	4,089	409	61
UK Retail Protection	165	-	165	148	-	148	11
UK Group Protection	65	-	65	70	-	70	(7)
France	33	283	61	22	264	48	27
Netherlands	8	111	19	8	107	19	-
Workplace Savings	592	1,061	698	660	747	735	(5)
Platforms (Cofunds & IPS)[2]	56	3,624	418	43	2,452	288	45
Suffolk Life	-	1,239	124	-	1,330	133	(7)
Mature Retail Savings[3]	10	791	89	11	790	90	(1)
With-profits	53	75	61	53	80	61	-
Total LGAS	**982**	**7,184**	**1,700**	1,015	5,770	1,592	7
Retail Investments[4]	**13**	**4,018**	**415**	12	3,427	355	17
US Protection	**91**	**-**	**91**	99	-	99	(8)
India (26% share)	4	40	8	5	46	10	(20)
Egypt (55% share)	13	-	13	13	-	13	-
Gulf (50% share)	2	3	2	2	3	2	-
Total Emerging Markets	**19**	**43**	**23**	20	49	25	(8)
Total Worldwide new business	**1,105**	**17,823**	**2,887**	1,146	13,335	2,480	16

1. Total LGR new business excludes £nil (2013: £270m) 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

3.12 Worldwide new business APE quarterly progression

	3 months to 31.12.14 £m	3 months to 30.09.14 £m	3 months to 30.06.14 £m	3 months to 31.03.14 £m	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
Individual Annuities	**8**	**13**	**14**	**24**	20	33	35	40
Bulk Purchase Annuities	**262**	**23**	**9**	**305**	20	194	31	36
Total LGR[1]	**270**	**36**	**23**	**329**	40	227	66	76
UK Retail Protection	**41**	**41**	**41**	**42**	43	40	38	27
UK Group Protection	**11**	**14**	**20**	**20**	13	17	20	20
France	**7**	**7**	**7**	**40**	4	7	6	31
Netherlands	**10**	**2**	**2**	**5**	4	4	4	7
Workplace Savings	**168**	**169**	**183**	**178**	240	166	127	202
Platforms (Cofunds & IPS)[2]	**85**	**116**	**114**	**103**	99	94	69	26
Suffolk Life	**30**	**29**	**30**	**35**	44	39	31	19
Mature Retail Savings[3]	**22**	**24**	**21**	**22**	25	21	22	22
With-profits	**13**	**13**	**17**	**18**	17	13	14	17
Total LGAS	**387**	**415**	**435**	**463**	489	401	331	371
Retail Investments[4]	**113**	**111**	**91**	**100**	83	94	104	74
US Protection	**21**	**23**	**24**	**23**	26	28	23	22
India (26% share)	**2**	**1**	**2**	**3**	1	2	1	6
Egypt (55% share)	**3**	**3**	**3**	**4**	3	3	3	4
Gulf (50% share)	**1**	**-**	**-**	**1**	-	1	-	1
Total Emerging Markets	**6**	**4**	**5**	**8**	4	6	4	11
Total Worldwide new business	**797**	**589**	**578**	**923**	642	756	528	554

1. Total LGR new business excludes £nil (2013: £270m) 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.

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 a 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 31.12.14 £bn	At 31.12.13 £bn
Core tier 1	**6.4**	6.3
Innovative tier 1	**0.6**	0.6
Tier 2[1]	**1.7**	1.2
Deductions	**(1.0)**	(0.8)
Group capital resources	**7.7**	7.3
Group capital resources requirement[2]	**3.8**	3.3
IGD surplus	**3.9**	4.0
Group capital resources requirement coverage ratio[3]	**201%**	221%

1. The Group issued £0.6bn subordinated notes constituting Lower Tier 2 Capital in June 2014.
2. Group capital resources requirement includes a With-profits Insurance Capital Component (WPICC) of £0.4bn (2013: £0.2bn).
3. Coverage ratio is calculated on unrounded values.

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

	At 31.12.14 £bn	At 31.12.13 £bn
Capital and reserves attributable to equity holders on an IFRS basis	**6.0**	5.6
Innovative tier 1	**0.6**	0.6
Tier 2	**1.7**	1.2
UK unallocated divisible surplus	**0.7**	1.1
Proposed dividends	**(0.5)**	(0.4)
Intangibles	**(0.4)**	(0.4)
Other regulatory adjustments[1]	**(0.4)**	(0.4)
Group capital resources	**7.7**	7.3

1. Other regulatory adjustments include differences between accounting and regulatory bases.

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

	At 31.12.14 £bn
IGD surplus at 1 January	**4.0**
Net cash generation	**1.1**
Dividends	**(0.7)**
New business capital deployed	**(0.4)**
Existing business capital release	**0.2**
New subordinated debt issued	**0.6**
Additional pension deficit repayments	**(0.2)**
Interest rate and market impacts	**(0.3)**
Other With-profits impacts	**(0.2)**
Other variances and regulatory adjustments	**(0.2)**
IGD surplus at 31 December	**3.9**

1. All IGD amounts are estimated, unaudited and after accrual of the final dividend of £496m in 2014 (2013: £408m).

4.01 Group regulatory capital (continued)
(b) IGD sensitivity analysis

The table below provides management estimates of the impact of changes in market conditions on the IGD surplus.

	Impact on surplus capital 2014 £bn
Sensitivity test	
20% fall in equity values	**(0.4)**
40% fall in equity values	**(1.0)**
15% fall in property values	**(0.2)**
100bp increase in interest rates	**0.4**
100bp decrease in interest rates	**(0.6)**
100bp increase in credit spreads	**(0.1)**
100bp decrease in credit spreads	**0.1**

We have applied a consistent methodology to the IFRS sensitivity testing in Note 2.19.

The above sensitivity analysis does not reflect management actions which could be taken to reduce the impacts. In practice, the Group actively manages its asset and liability positions to respond to market movements. Additionally, the sensitivity tests are considered in isolation, although in practice there is likely to be a correlation between the scenarios.

The impacts of these stresses are not linear therefore these results should not be used to extrapolate the impact of a smaller or larger stress. The results of these tests are indicative of the market conditions prevailing at the balance sheet date. The results would be different if performed at an alternative reporting date.

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.

Modelling improvements have been made in the year, which more accurately isolate the impacts of discrete assumptions changes. This, coupled with the increase in the Group's annuity liabilities, has led to an increase in the reported sensitivities to interest rates movements. Zero yield floors have not been applied in the estimation of the stresses, despite the low interest rate environment at the balance sheet date.

4.02 Group Economic Capital

Legal & General defines economic capital to be the amount of capital that the Board believes the Group needs to hold, over and above its liabilities, in order to meet its strategic objectives. This is not the same as regulatory capital which reflects regulatory rules and constraints. The Group's objectives include being able to meet its liabilities as they fall due whilst maintaining the confidence of our investors, rating agencies, customers and intermediaries.

Legal & General has invested considerable time and resource in developing a risk based capital model that is used to calculate the Group's Economic Capital Balance Sheet and support the management of risk within the Group. The Group continues to develop the economic capital model in light of developments in the Group's business model, refinements in modelling and the analysis of experience, emerging market practice and feedback from independent reviewers. The Group's economic capital position will reflect these changes as they are implemented. It is intended that this modelling framework, suitably adjusted for regulatory constraints, should also meet the needs of the Solvency II regime, due to come in to force on 1 January 2016. Our Economic Capital model has not been reviewed by the Prudential Regulatory Authority (PRA), nor will it be.

The economic capital numbers presented here do not represent our view of the Solvency II outcome for the Group. Solvency II has elements which are considered to be inconsistent with the Group's definition of economic capital, so there will be differences between the two balance sheets. Legal & General is engaged in discussions with the PRA and in 2015 we will make a formal application for approval of an internal model for use under Solvency II. As yet our Solvency II internal model has not been reviewed or approved by the PRA.

(a) Capital position

As at 31 December 2014 the Group had an economic capital surplus of £7.0bn (2013: £6.9bn), corresponding to an economic capital coverage ratio of 229% (2013: 251%). The economic capital position is as follows:

	2014 £bn	2013 £bn
Eligible own funds	**12.5**	11.4
Economic capital requirement	**5.5**	4.5
Surplus	**7.0**	6.9
1-in-200 coverage ratio[1]	**229%**	251%

1. Coverage ratio is calculated on unrounded values.

Further explanation of the underlying methodology and assumptions are set out in the sections below.

(b) Methodology

Eligible own funds are defined to be the excess of the value of assets over the liabilities. Subordinated debt issued by the Group is considered to be part of available capital, rather than a liability, as it is subordinate to policyholder claims.

Assets are valued at IFRS fair value with adjustments to remove intangibles, deferred acquisition costs and to value reassurers' share of technical provisions on a basis consistent with the liabilities on the Economic Capital Balance Sheet. The economic value of assets excluded from the IFRS Balance Sheet (e.g. present value of future with-profits transfers) is also included.

Liabilities are valued on a best estimate market consistent basis, with the application of an Economic Matching Adjustment for valuing annuity liabilities.

The Economic Capital Requirement is the amount of capital required to cover the 1-in-200 worst projected future outcome in the year following the valuation, allowing for realistic management and policyholder actions and the impact of the stress on the tax position of the Group. This allows for diversification between the different firms within the Group and between the risks that they are exposed to.

The liabilities include a Recapitalisation Cost to allow for the cost of recapitalising the balance sheet following the 1-in-200 stress in order to maintain confidence that our future liabilities will be met. This is calculated using a cost of capital that reflects the long term average rates at which it is expected that the Group could raise debt and allowing for diversification between all Group entities.

All material insurance firms, including Legal & General Assurance Society, Legal & General Insurance, Legal & General Pensions Management Company (PMC) (LGIM's insurance subsidiary) and Legal & General America (LGA) are incorporated into the Group's Economic Capital model assessment of required capital, assuming diversification of the risks between those firms.

Firms for which the capital requirements are less material, for example Legal & General France, Legal & General Netherlands and Suffolk Life, are valued on the firm's latest interpretation of the Solvency II Standard Formula basis. The business retained within Legal & General Pensions Limited, an internal Insurance Special Purpose Vehicle, has been valued on a "look through" basis and capital requirements calculated as if the business was not internally reassured. Non-insurance firms are included using their current regulatory surplus, without allowing for any diversification with the rest of the Group.

Allowance is made within the Economic Capital Balance Sheet for the Group's defined benefit pension scheme based upon the scheme's funding basis, and allowance is made within the capital requirement by stressing the funding position using the same economic capital basis as for the insurance firms.

The results and the model are unaudited but certain elements of the methodology, assumptions and processes have been reviewed by PwC.

4.02 Group Economic Capital (continued)
(c) Assumptions

The calculation of the Economic Capital Balance Sheet and associated capital requirement requires a number of assumptions, including:

(i) assumptions required to derive the present value of best estimate liability cash flows. Non market assumptions are broadly the same as those used to derive the Group's EEV disclosures. Future investment returns and discount rates are based on market data where a deep and liquid market exists or using appropriate estimation techniques where this is not the case. The risk-free rates used to discount liabilities are market swap rates, with a 10 basis point deduction to allow for a credit risk adjustment;

(ii) assumptions regarding management actions and policyholder behaviour across the full range of scenarios. The only management actions allowed for are those that have been approved by the Board and are in place at the balance sheet date;

(iii) assumptions regarding the volatility of the risks to which the Group is exposed to are used to calculate Economic Capital Requirement. Assumptions have been set using a combination of historic market, demographic and operating experience data. In areas where data is not considered robust, expert judgement has been used; and

(iv) assumptions on the dependencies between risks, which are calibrated using a combination of historic data and expert judgement.

For annuities the liability discount rate includes an Economic Matching Adjustment. The Economic Matching Adjustment is derived using the same approach as the Solvency II matching adjustment, but any constraints we consider economically artificial, such as capping the yield on assets with a credit rating below BBB and any ineligibility of certain assets, have not been applied.

The other key assumption relating to the annuity business is the assumption of longevity. As for IFRS and EEV, Legal & General models base mortality and future improvement of mortality separately. For our Economic Capital assessment we believe it is appropriate to ensure that the balance sheet makes sufficient allowance to meet the 1 in 200 stress to longevity over the run off of the liabilities rather than just over a 1 year timeframe as required by Solvency II.

(d) Analysis of change

The table below shows the movement (net of tax) during the financial year in the Group's Economic Capital surplus.

Analysis of movement from 1 January to 31 December 2014	**Economic Capital surplus £bn**
Economic solvency position as at 1 January 2014	**6.9**
Operating experience[1]	0.5
New business strain[2]	-
Non-operating experience[3]	(0.4)
Other capital movements:	
Subordinated debt issuance	0.6
Dividends paid in the period	(0.6)
Economic solvency position as at 31 December 2014	**7.0**

1. Release of surplus generated by in-force business, model and assumption changes.
2. New business written in 2014 is broadly neutral on surplus.
3. Non-operating experience: changes in asset mix across the Group (with corresponding increase in Economic Capital Requirement), changes in pension scheme deficit (following completion of the triennial valuation) and other market movements.

4.02 Group Economic Capital (continued)
(e) Reconciliation of IFRS Shareholders' Equity to Economic Capital Eligible Own Funds

The table below gives a reconciliation of the Eligible own funds on an Economic Capital basis and the Group's IFRS shareholders' equity.

	2014 £bn	2013 £bn
IFRS shareholders' equity at 31 December	**6.0**	5.6
Remove DAC, goodwill and other intangible assets and liabilities	(2.0)	(1.7)
Add subordinated debt treated as economic available capital[1]	2.4	1.9
Insurance contract valuation differences[2]	6.6	6.2
Add value of shareholder transfers	0.3	0.3
Increase in value of net deferred tax liabilities (resulting from valuation differences)	(0.6)	(0.7)
Other	0.1	0.4
Adjustment - Basic own funds to Eligible own funds[3]	(0.3)	(0.6)
Eligible own funds at 31 December	**12.5**	11.4

1. Treated as available capital on the Economic Capital Balance Sheet as the liabilities are subordinate to policyholder claims.
2. Differences in the measurement of liabilities between IFRS and Economic Capital, offset by the inclusion of the recapitalisation cost.
3. Eligibility restrictions relating to the own funds of US captive reassurers and the UK With-profits fund.

The figures that appear in this note are all pre-accrual for the final dividend.

(f) Sensitivity analysis

The following sensitivities are provided to give an indication of how the Group's economic capital surplus as at 31 December 2014 would have changed in a variety of adverse events. These are all independent stresses to a single risk. In practice the balance sheet is impacted by combinations of stresses and the combined impact can be larger than adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse stresses will happen together.

	Impact on net of tax capital surplus 2014 £bn	Impact on economic capital coverage ratio 2014 %
Credit spread widens by 50bps (AAA-rated), 100bps (AA-rated), 150bps (A-rated), 200bps (BBB-rated), 250bps (BB-rated), 300bps (B-rated), 350bps (other rated) on Legal & General's corporate bond holdings, with no change in the firm's long term default expectations	**(0.7)**	**(15)**
A worsening in our expectation of future default and downgrade to 125% times our assumed best estimate level	**(0.5)**	**(21)**
20% fall in equity market	**(0.4)**	**(4)**
40% fall in equity markets	**(0.7)**	**(9)**
15% fall in property markets	**(0.2)**	**(3)**
100bps increase in risk free rates	**-**	**9**
100bps fall in risk free rates	**0.1**	**(10)**
1% reduction in annuitant base mortality	**(0.1)**	**(2)**

The above sensitivity analysis does not reflect management actions which could be taken to reduce the impacts. In practice, the Group actively manages its asset and liability positions to respond to market movements.

The impacts of these stresses are not linear therefore these results should not be used to extrapolate the impact of a smaller or larger stress. The results of these tests are indicative of the market conditions prevailing at the balance sheet date. The results would be different if performed at an alternative reporting date.

4.02 Group Economic Capital (continued)
(g) Analysis of Group Economic Capital Requirement

The table below shows a breakdown of the Group's Economic Capital Requirement by risk type. The split is shown after the effects of diversification.

	2014 %	2013 %
Interest Rate	6	5
Equity	15	16
Credit[1]	44	44
Property[2]	4	8
Currency	3	(3)
Inflation	(2)	(1)
Total Market Risk[3]	**70**	**69**
Counterparty Risk	**1**	**1**
Life Mortality	-	1
Life Longevity[4]	10	12
Life Lapse[5]	5	7
Life Catastrophe	3	4
Non-life underwriting	1	2
Health underwriting	1	-
Expense	1	1
Total Insurance Risk	**21**	**27**
Operational Risk[6]	7	4
Miscellaneous	1	(1)
Total Economic Capital Requirement	**100**	100

1. Credit risk is Legal & General's most significant exposure, arising predominantly from the c£40bn portfolio of bonds backing the Group's annuity business.
2. During 2014, the Group improved the modelling of its sale and leaseback assets, resulting in a lower capital requirement.
3. The Group also has significant exposure to other market risks, primarily due to the investment holdings within the shareholder funds but also the risk to fee income from assets backing unit linked and with-profit Savings businesses.
4. Longevity risk is Legal & General's most significant insurance risk exposure, arising from the annuity book on which the majority of the longevity risk is retained.
5. Lapse risk is also a significant risk, primarily through the risk of mass lapse on investment management and savings businesses and the risk of non-renewal on the Group's protection businesses.
6. During 2014, Legal & General has improved its operational risk scenario analysis in response to internal and external feedback, which led to a revised calibration.

(h) Solvency II

The Economic Capital results set out above do not reflect the Solvency II regime. We anticipate that our Solvency II internal model will be approved in 2015, ready for use on the Solvency II go live date - 1 January 2016. We expect the final outcome on Solvency II to result in a lower Group capital surplus and solvency ratio than the Economic Capital basis.

Capital and Investments

4.03 Investment portfolio

	Market value 2014 £m	Market value[1] 2013 £m
Worldwide total assets	**710,554**	614,360
Client and policyholder assets	**(638,117)**	(553,251)
Non-unit linked with-profits assets	**(15,242)**	(17,391)
Investments to which shareholders are directly exposed	**57,195**	43,718

1. Comparative has been restated following the adoption of IFRS 10, further details are contained in Note 2.24.

Analysed by investment class:

	Note	LGR investments[1] 2014 £m	Other non profit insurance investments 2014 £m	LGC investments 2014 £m	Other shareholder investments 2014 £m	Total 2014 £m	Total 2013 £m
Equities[2]		**279**	**-**	**1,905**	**81**	**2,265**	1,760
Bonds	4.05	**40,737**	**2,546**	**1,620**	**908**	**45,811**	35,697
Derivative assets[3]		**3,827**	**14**	**98**	**1**	**3,940**	2,307
Property		**1,879**	**-**	**147**	**4**	**2,030**	1,447
Cash (including cash equivalents), loans & receivables		**652**	**368**	**1,339**	**659**	**3,018**	2,331
Financial investments		**47,374**	**2,928**	**5,109**	**1,653**	**57,064**	43,542
Other assets[4]		**118**	**-**	**13**	**-**	**131**	176
Total investments		**47,492**	**2,928**	**5,122**	**1,653**	**57,195**	43,718

1. LGR investments includes all business written in LGPL, including £0.6bn of non annuity assets held in LGPL.
2. Includes equity investment in CALA Group Limited.
3. Derivative assets are shown gross of derivative liabilities of £2.7bn (2013: £1.4bn). 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.
4. Other assets include finance lease debtors.

4.04 Direct Investments[1]

(a) Analysed by asset class

	Direct[1] Investments 2014 £m	**Traded[2] securities 2014 £m**	**Total 2014 £m**	Direct[1] Investments 2013 £m	Traded[2] securities 2013 £m	Total 2013 £m
Equities	**318**	**1,947**	**2,265**	202	1,558	1,760
Bonds	**2,983**	**42,828**	**45,811**	1,048	34,649	35,697
Derivative assets	**-**	**3,940**	**3,940**	-	2,307	2,307
Property	**2,030**	**-**	**2,030**	1,447	-	1,447
Cash (including cash equivalents), loans & receivables	**241**	**2,777**	**3,018**	6	2,325	2,331
Other assets	**131**	**-**	**131**	176	-	176
	5,703	**51,492**	**57,195**	2,879	40,839	43,718

1. Direct Investments constitute an agreement with another party and represent an exposure to untraded and often less liquid asset classes. Direct Investments include physical assets, bilateral loans and private equity but exclude hedge funds.
2. Traded securities are defined by exclusion. If an instrument is not a Direct Investment, then it is classed as a traded security.

(b) Analysed by segment

	LGR 2014 £m	**LGC 2014 £m**	**LGA 2014 £m**	**LGAS 2014 £m**	**Total 2014 £m**
Equities	**-**	**318**	**-**	**-**	**318**
Bonds	**2,586**	**168**	**229**	**-**	**2,983**
Property	**1,879**	**147**	**-**	**4**	**2,030**
Cash (including cash equivalents), loans & receivables	**-**	**54**	**187**	**-**	**241**
Other assets	**118**	**13**	**-**	**-**	**131**
	4,583	**700**	**416**	**4**	**5,703**

	LGR 2013 £m	LGC 2013 £m	LGA 2013 £m	LGAS 2013 £m	Total 2013 £m
Equities	-	202	-	-	202
Bonds	997	-	51	-	1,048
Property	1,294	149	-	4	1,447
Cash (including cash equivalents), loans & receivables	-	-	6	-	6
Other assets	176	-	-	-	176
	2,467	351	57	4	2,879

(c) Movement in the year

	Carrying value 01.01.14 £m	Additions £m	Disposals £m	Change in market value £m	Other £m	**Carrying value 31.12.14 £m**
Equities	202	132	(31)	18	(3)	**318**
Bonds	1,048	1,629	(82)	202	186	**2,983**
Property	1,447	794	(256)	45	-	**2,030**
Cash (including cash equivalents), loans & receivables	6	230	(1)	6	-	**241**
Other assets	176	13	-	2	(60)	**131**
	2,879	2,798	(370)	273	123	**5,703**

4.05 Bond portfolio summary
(a) Analysed by sector

	Note	LGR 2014 £m	LGR 2014 %	**Total 2014 £m**	**Total 2014 %**
Sovereigns, Supras and Sub-Sovereigns	4.05(b)	7,760	19	**9,249**	**20**
Banks:					
- Tier 1		24	-	**26**	**-**
- Tier 2 and other subordinated		559	1	**621**	**1**
- Senior		1,667	4	**2,221**	**5**
Financial Services:					
- Tier 1		-	-	**-**	**-**
- Tier 2 and other subordinated		96	-	**132**	**-**
- Senior		946	2	**1,138**	**3**
Insurance:					
- Tier 1		128	-	**129**	**-**
- Tier 2 and other subordinated		363	1	**375**	**1**
- Senior		624	2	**704**	**2**
Utilities		5,561	14	**5,824**	**13**
Consumer Services and Goods & Health Care		4,126	10	**4,726**	**10**
Technology and Telecoms		2,548	6	**2,836**	**6**
Industrials & Oil and Gas		4,306	11	**4,928**	**11**
Property		1,882	5	**2,126**	**5**
Asset backed securities:[1]					
- Traditional		722	2	**1,234**	**3**
- Securitisations and debentures		8,305	20	**8,422**	**18**
CDOs[2]		1,120	3	**1,120**	**2**
Total		40,737	100	**45,811**	**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 2014. 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. The CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the market valuation.

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

	Note	LGR 2013 £m	LGR 2013 %	Total 2013 £m	Total 2013 %
Sovereigns, Supras and Sub-Sovereigns	4.05(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
CDOs[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 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. The CDO's are valued using an external valuation which is based on observable market inputs. This is then validated against the market valuation.

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

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

	LGR 2014 £m	**Total 2014 £m**	LGR 2013 £m	Total 2013 £m
Market value by region:				
United Kingdom	20,055	**21,021**	13,099	14,178
USA	9,515	**11,839**	7,237	9,779
Netherlands	1,910	**2,182**	1,736	2,164
France	1,412	**1,726**	1,382	1,681
Germany	378	**682**	411	791
Greece	-	**-**	-	-
Ireland	276	**303**	234	271
Italy	301	**429**	636	786
Portugal	1	**11**	15	31
Spain	212	**260**	178	263
Russia	19	**37**	-	1
Rest of Europe	1,857	**2,164**	1,299	1,720
Brazil	139	**157**	83	86
Rest of World	3,542	**3,880**	2,610	2,848
CDOs	1,120	**1,120**	1,098	1,098
Total	40,737	**45,811**	30,018	35,697

Additional analysis of sovereign debt exposures

	Sovereigns, Supras and Sub-Sovereigns			
	LGR 2014 £m	**Total 2014 £m**	LGR 2013 £m	Total 2013 £m
Market value by region:				
United Kingdom	5,946	**6,267**	3,340	3,725
USA	536	**772**	282	664
Netherlands	5	**153**	10	194
France	1	**138**	90	220
Germany	204	**417**	212	472
Greece	-	**-**	-	-
Ireland	-	**8**	-	7
Italy	2	**96**	236	323
Portugal	-	**9**	-	16
Spain	-	**10**	-	14
Russia	19	**28**	-	1
Rest of Europe	765	**922**	474	660
Brazil	55	**64**	11	13
Rest of World	227	**365**	117	193
Total	7,760	**9,249**	4,772	6,502

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

	LGR 2014 £m	LGR 2014 %	**Total 2014 £m**	**Total 2014 %**
AAA	1,936	5	**3,451**	**8**
AA	10,357	25	**11,190**	**24**
A	13,231	33	**14,420**	**31**
BBB	10,360	25	**11,441**	**25**
BB or below	630	2	**853**	**2**
Unrated: Bespoke CDOs[1]	994	2	**994**	**2**
Other	3,229	8	**3,462**	**8**
	40,737	100	**45,811**	**100**

	LGR 2013 £m	LGR 2013 %	Total 2013 £m	Total 2013 %
AAA	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[1]	983	3	983	3
Other	1,749	6	1,938	5
	30,018	100	35,697	100

1. 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 had no reference entity defaults in 2013 or 2014. Losses are limited under the terms of the CDOs to assets and collateral invested.

4.06 Value of policyholder assets held in Society and LGPL

	2014 £m	2013 £m
With-profits business	**21,614**	23,959
Non profit business	**57,835**	49,949
	79,449	73,908

European Embedded Value

Group embedded value - summary

For the year ended 31 December 2014	Covered business UK business £m	Covered business LGAS overseas business £m	Covered business LGA £m	Non-covered business £m	Total £m
At 1 January 2014					
Value of in-force business (VIF)	**4,693**	**197**	**699**	**-**	**5,589**
Shareholder net worth (SNW)	**3,249**	**315**	**234**	**199**	**3,997**
Embedded value at 1 January 2014	**7,942**	**512**	**933**	**199**	**9,586**
Exchange rate movements	**-**	**(30)**	**44**	**(16)**	**(2)**
Operating profit/(loss) after tax for the year	**1,264**	**31**	**(68)**	**107**	**1,334**
Non-operating profit/(loss) after tax for the year	**709**	**(11)**	**(11)**	**(5)**	**682**
Profit/(loss) for the year	**1,973**	**20**	**(79)**	**102**	**2,016**
Intra-group distributions[1]	**(641)**	**(30)**	**(46)**	**717**	**-**
Dividends to equity holders of the Company	**-**	**-**	**-**	**(580)**	**(580)**
Transfer to non-covered business[2]	**(26)**	**-**	**-**	**26**	**-**
Other reserve movements including pension deficit[3]	**389**	**-**	**(125)**	**(309)**	**(45)**
Embedded value at 31 December 2014	**9,637**	**472**	**727**	**139**	**10,975**
Value of in-force business	**6,118**	**147**	**518**	**-**	**6,783**
Shareholder net worth	**3,519**	**325**	**209**	**139**	**4,192**
Embedded value per share (p)[4]					**185**

1. UK intra-group distributions primarily reflect a £675m dividend paid from LGAS to Group, and dividends of €35m (2013: €16m) from LGN and £5m from Nationwide Life (2013: £10m) paid to LGAS. Dividends of $76m (2013: $69m) from LGA and €2m (2013: €2m) from LGF were paid to Group.
2. The transfer to non-covered business represents the IFRS profits arising in the year 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 primarily reflect the effect of reinsurance arrangement transactions between UK and US covered business, pension deficit movement, movement in the savings related share options scheme and intragroup capital contribution.
4. The number of shares in issue at 31 December 2014 was 5,942,070,229 (31 December 2013: 5,917,066,636).

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 2013	Covered business: UK business £m	Covered business: LGAS overseas business £m	Covered business: LGA £m	Non-covered business £m	Total £m
At 1 January 2013					
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)	(17)	241
Profit for the year	1,026	76	46	151	1,299
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)	(55)	(119)
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 LGAS to Group, and dividends of £10m paid to LGAS from subsidiaries (primarily Nationwide Life). Dividends of €16m from LGN were also paid to LGAS. Dividends of $69m from LGA and €2m from LGF were paid to the group.

2. The transfer to non-covered business represents the IFRS profits arising in the year 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.

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 2014	Shareholder net worth Free surplus £m	Required capital £m	Total £m	Value of in-force £m	Total embedded value £m
At 1 January 2014	1,174	2,390	3,564	4,890	8,454
Exchange movement	(1)	(16)	(17)	(13)	(30)
Operating profit/(loss) after tax - UK business:					
Contribution from new risks after cost of capital					
- New business contribution[1]	(340)	343	3	607	610
- Intragroup transfer from With-Profit to Non Profit Fund	-	-	-	80	80
- Expected return on VIF	-	-	-	317	317
- Expected transfer from VIF to SNW[2]	901	(213)	688	(688)	-
- Expected return on SNW	55	116	171	-	171
Generation of embedded value	616	246	862	316	1,178
- Experience variances	175	(83)	92	(6)	86
- Operating assumption changes	171	(109)	62	(36)	26
- Development costs	(26)	-	(26)	-	(26)
Variances	320	(192)	128	(42)	86
Operating profit after tax - LGAS overseas	4	3	7	24	31
Operating profit after tax - LGAS & LGR	940	57	997	298	1,295
Non-operating profit/(loss) after tax - UK business:					
- Economic variances	(359)	219	(140)	851	711
- Other taxation impacts[3]	(12)	-	(12)	10	(2)
Non-operating profit/(loss) after tax - LGAS overseas	57	(7)	50	(61)	(11)
Non-operating profit/(loss) after tax - LGAS & LGR	(314)	212	(102)	800	698
Profit for the year - LGAS & LGR	626	269	895	1,098	1,993
Intra-group distributions[4]	(671)	-	(671)	-	(671)
Transfer to non-covered business[5]	(26)	-	(26)	-	(26)
Other reserve movements including pension deficit[6]	(125)	224	99	290	389
Embedded value at 31 December 2014	**977**	**2,867**	**3,844**	**6,265**	**10,109**

1. The UK free surplus reduction of £340m to finance new business primarily reflects £343m additional required capital in relation to new business.
2. The increase in UK free surplus of £901m from the expected transfer from the in-force non profit business includes £688m of operational cash generation and a £213m reduction in required capital. The £764m operational cash generation from LGAS and LGR per Note 2.01 also includes £29m dividend from LGN, £2m dividend from LGF and £44m primarily reflecting profit from non-covered business.
3. Reflects the impact of the change in treatment in deferred tax to align with IFRS by removing the effect of discounting.
4. Intra-group distributions primarily reflect £675m dividend paid from LGAS to Group and dividend of €35m from LGN and £5m from Nationwide to LGAS.
5. The transfer to non-covered business represents the IFRS profits arising in the year 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 reflect the pension deficit movement, the effect of reinsurance arrangement transactions between UK and US covered business and intragroup capital contribution.

The value of in-force business of £6,265m is comprised of £5,925m of non profit business and £340m of with-profits business.

5.01 LGAS and LGR embedded value reconciliation (continued)

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	1,259	2,215	3,474	4,548	8,022
Exchange movement	3	3	6	3	9
Operating profit/(loss) after tax - UK business:					
Contribution from new risks after cost of capital					
- New business contribution[1]	(324)	284	(40)	484	444
- Intragroup transfer from With-Profit to Non Profit Fund	-	-	-	-	-
- Expected return on VIF	-	-	-	266	266
- Expected transfer from VIF to SNW[2]	869	(181)	688	(688)	-
- 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 - LGAS & LGR	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[3]	-	-	-	41	41
Non-operating profit after tax - LGAS overseas	20	-	20	40	60
Non-operating profit/(loss) after tax - LGAS & LGR	129	(8)	121	161	282
Profit for the year - LGAS & LGR	671	165	836	266	1,102
Intra-group distributions[4]	(617)	-	(617)	-	(617)
Transfer to non-covered business[5]	(27)	-	(27)	-	(27)
Other reserve movements including pension deficit[6]	(115)	7	(108)	73	(35)
Embedded value at 31 December 2013	1,174	2,390	3,564	4,890	8,454

1. The UK free surplus reduction of £324m to finance new business includes £40m new business strain and £284m additional required capital.
2. The increase in UK free surplus of £869m from the expected transfer from the in-force covered business includes £688m of operational cash generation and a £181m reduction in required capital. The £734m operational cash from LGAS and LGR per Note 2.01 also includes £2m and £14m remitted from LGF and LGN respectively, and £30m primarily reflecting IFRS profit from non covered business.
3. Reflects the implementation of the UK planned future reductions in corporation tax to 20% on 1 April 2015.
4. UK intra-group dividends reflect a £625m dividend paid from LGAS to Group and dividends of £10m paid to LGAS from subsidiaries (primarily Nationwide Life). Dividends of €16m from LGN were also paid to LGAS.
5. The transfer to non-covered business represents the IFRS profits arising in the year 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 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.

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

5.02 Analysis of shareholders' equity

As at 31 December 2014	**LGAS and LGR £m**	**LGIM £m**	**LGC and group expenses £m**	**LGA £m**	**Total £m**
Analysed as:					
IFRS basis shareholders' equity[1]	**847**	**541**	**3,770**	**870**	**6,028**
Additional retained profit/(loss) on an EEV basis	**6,227**	**-**	**(1,137)**	**(143)**	**4,947**
Shareholders' equity on an EEV basis	**7,074**	**541**	**2,633**	**727**	**10,975**
Comprising:					
Business reported on an IFRS basis	**484**	**541**	**(886)**	**-**	**139**
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus[2]	**90**		**887**	**161**	**1,138**
- Required capital to cover solvency margin	**235**		**2,632**	**48**	**2,915**
Value of in-force					
- Value of in-force business[3]	**6,870**			**529**	**7,399**
- Cost of capital	**(605)**			**(11)**	**(616)**

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 £43m (2013: £23m).

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

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.

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

5.03 Segmental analysis of shareholders' equity

	Covered business EEV basis 2014 £m	**Other business IFRS basis 2014 £m**	**Total 2014 £m**	Covered business EEV basis 2013 £m	Other business IFRS basis 2013 £m	Total 2013 £m
LGAS						
- LGAS UK Protection and Savings	**2,354**	**-**	**2,354**	2,331	-	2,331
- LGAS overseas business	**472**	**-**	**472**	512	-	512
- General insurance and other	**-**	**484**	**484**	-	408	408
Total LGAS	**2,826**	**484**	**3,310**	2,843	408	3,251
LGR	**3,764**	**-**	**3,764**	2,362	-	2,362
LGIM	**-**	**541**	**541**	-	421	421
LGC and group expenses	**3,519**	**(886)**	**2,633**	3,249	(630)	2,619
LGA	**727**	**-**	**727**	933	-	933
Total	**10,836**	**139**	**10,975**	9,387	199	9,586

5.04 Reconciliation of shareholder net worth

	UK covered business 2014 £m	**Total 2014 £m**	UK covered business 2013 £m	Total 2013 £m
SNW of long term operations (IFRS basis)	**4,693**	**5,889**	4,291	5,443
Other assets (IFRS basis)	**-**	**139**	-	199
Shareholders' equity on the IFRS basis	**4,693**	**6,028**	4,291	5,642
Purchased interest in long term business	**(46)**	**(49)**	(52)	(59)
Deferred acquisition costs/deferred income liabilities	**(201)**	**(1,255)**	(223)	(1,129)
Deferred tax[1]	**(16)**	**444**	(162)	232
Other[2]	**(911)**	**(976)**	(605)	(689)
Shareholder net worth on the EEV basis	**3,519**	**4,192**	3,249	3,997

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 between the EEV and IFRS basis.

5.05 Profit/(loss) for the year

For the year ended 31 December 2014	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 risks after cost of capital:						
- contribution from new business	5.06	**760**			**90**	**850**
- intra-group transfer from With-Profit to Non Profit Fund		**100**			**-**	**100**
Contribution from in-force business:						
- expected return[1]		**424**			**66**	**490**
- experience variances [2]		**21**			**(23)**	**(2)**
- operating assumption changes[3]		**58**			**(241)**	**(183)**
Development costs		**(32)**			**-**	**(32)**
Contribution from shareholder net worth		**7**		**184**	**3**	**194**
Operating profit/(loss) on covered business		**1,338**	**-**	**184**	**(105)**	**1,417**
Business reported on an IFRS basis[4,5,6]		**50**	**304**	**(190)**	**-**	**164**
Total operating profit/(loss)		**1,388**	**304**	**(6)**	**(105)**	**1,581**
Economic variances[7]		**893**	**(12)**	**(74)**	**(17)**	**790**
Gains on non-controlling interests		**-**	**-**	**7**	**-**	**7**
Profit/(loss) before tax		**2,281**	**292**	**(73)**	**(122)**	**2,378**
Tax (expense)/credit on profit from ordinary activities		**(372)**	**(63)**	**32**	**43**	**(360)**
Other taxation impacts[8]		**(2)**	**-**	**-**	**-**	**(2)**
Profit/(loss) for the year		**1,907**	**229**	**(41)**	**(79)**	**2,016**

Operating profit attributable to:		
LGAS		**377**
LGR		**1,011**

	p
Earnings per share	
Based on profit attributable to equity holders of the Company	**34.07**
Diluted earnings per share	
Based on profit attributable to equity holders of the Company	**33.73**

1. The expected return on in-force for LGAS and LGR 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 £4,693m in 2014 (£4,402m in 2013). This is adjusted for the effects of opening model changes of £(30)m (2013: £27m) to give an adjusted opening base VIF of £4,663m (2013: £4,429m). This is then multiplied by the opening risk discount rate of 6.8% (2013: 6.0%) and the result grossed up at the notional attributed tax rate of 20% (2013: 20%) to give a return of £397m (2013: £331m). The same approach has been applied for the LGAS overseas businesses.
2. LGAS and LGR variance primarily reflects UK cost of capital unwind and favourable mortality experience for bulk annuities. LGA experience variance primarily relates to adverse mortality experience within term assurance and universal life products respectively.
3. LGAS and LGR operating assumption change primarily reflects mortality assumptions changes for non-profit annuities. LGA operating assumption change primarily incorporates an adjustment to our mortality assumptions to reflect the changes in industry wide mortality tables (which were issued in the second half of 2014).
4. LGAS and LGR non-covered business primarily reflects GI operating profit of £59m (2013: £69m).
5. LGIM operating profit includes Retail Investments and excludes £32m (2013: £34m) 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 Group debt costs and investment projects and expenses, partly offset by investment returns from non-covered shareholder assets.
7. The LGAS and LGR positive variance has resulted from a number of factors including lower risk discount rate, favourable default experience and enhanced yield on annuity assets offset by a lower risk free rate. LGC and group expenses primarily reflects lower equity return from shareholder funds.
8. Other taxation impacts reflects the change in the treatment of deferred tax on in-force business to align with IFRS by removing the effect of discounting.

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

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 risks after cost of capital:						
- contribution from new business	5.06	544			107	651
- intra-group transfer from With-Profit to Non Profit Fund		-			-	-
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		-	-	13	-	13
Profit before tax		1,207	264	28	70	1,569
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	49	46	1,299

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. This is adjusted for the effects of opening model changes of £27m to give an adjusted opening base VIF of £4,429m. This is then multiplied by the opening risk discount rate of 6.0% and the result grossed up at the notional attributed tax rate of 20% to give a return of £331m. 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 of £69m.
5. LGIM operating profit includes Retail Investments and excludes £34m 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 Group debt costs and investment projects and expenses, partly offset by investment returns from non-covered shareholder assets.
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 the corporation tax rate to 20% on 1 April 2015.

5.06 New business by product[1]

For the year ended 31 December 2014	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 Insurance	**230**	**1,336**	**5.8**	**-**	**1,336**	**112**	**8.4**
Overseas business	**41**	**300**	**7.3**	**394**	**694**	**7**	**1.0**
UK Savings	**654**	**2,448**	**3.7**	**2,738**	**5,186**	**27**	**0.5**
Total LGAS	**925**	**4,084**	**4.4**	**3,132**	**7,216**	**146**	**2.0**
LGR	**n/a**	**-**	**n/a**	**6,578**	**6,578**	**614**	**9.3**
LGA	**91**	**907**	**10.0**	**-**	**907**	**90**	**9.9**
Total new business	**1,016**	**4,991**	**4.9**	**9,710**	**14,701**	**850**	**5.8**
Cost of capital						**108**	
Contribution from new business before cost of capital						**958**	

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 the 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.

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 Insurance	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	

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 the 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. 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 2014

	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]	10,109	855	(724)	628	(488)	175
LGA	727	103	(85)	22	(21)	-
Total covered business	10,836	958	(809)	650	(509)	175

	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]	10,109	(302)	158	82	(428)	71
LGA	727	-	12	(2)	n/a	168
Total covered business	10,836	(302)	170	80	(428)	239

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]	760	117	(96)	38	(29)	26
LGA	90	14	(11)	5	(5)	-
Total covered business	850	131	(107)	43	(34)	26

	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]	760	(7)	30	20	(97)	10
LGA	90	-	1	4	n/a	16
Total covered business	850	(7)	31	24	(97)	26

1. Includes LGC.

Opposite sensitivities are broadly symmetrical.

The above sensitivity analyses do not reflect management actions which could be taken to reduce the impacts. 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 £1,281m negative impact on UK embedded value and a £168m 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. An indicative combined yield, after allowance for long term default risk and the following additional assumptions, is 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 of 0.70% p.a. (0.70% p.a. at 31 December 2013) 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. The allowance for corporate securities expressed as a level rate deduction from the expected returns for annuities was 21bps at 31 December 2014 (27bps at 31 December 2013).

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. For new business, mortality assumptions may be modified to take certain scheme specific features into account.

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 2014 % p.a.	As at 2013 % p.a.	As at 2012 % p.a.
Risk margin	**3.3**	3.4	3.7
Risk free rate[1]			
- UK	**2.2**	3.4	2.3
- Europe	**0.6**	2.2	1.7
- US	**2.2**	3.1	1.8
Risk discount rate (net of tax)			
- UK	**5.5**	6.8	6.0
- Europe	**3.9**	5.6	5.4
- US	**5.5**	6.5	5.5
Reinvestment rate (US)	**5.0**	5.8	4.3
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 LGR)			
- Fixed interest:			
-Gilts & non gilts	**1.7 - 2.4**	2.2 – 3.6	1.9 – 2.9
- Equities	**5.5**	6.7	5.6
- Property	**4.2**	5.4	4.3
Long-term rate of return on non profit annuities in LGR	**3.6**	4.6	4.3
Inflation[2]			
- Expenses/earnings	**3.7**	4.1	3.4
- Indexation	**3.2**	3.6	2.9

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.
2. The LGR inflation rate has been set with reference to a curve.

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 21.5% and the subsequent enacted future reduction in corporation tax to 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 2013: 20%) after taking into account the expected further rate reduction 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 2013: 35%), France is 34.43% (31 December 2013: 34.43%) and Netherlands is 25% (31 December 2013: 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.

5.08 Assumptions (continued)

Sensitivity calculations

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

- 1% variation in discount rate – a one percentage point increase/decrease in the risk margin has been assumed in each case (for example a 1% increase in the risk margin would result in a 4.3% 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 5.5% to 6.5%).
- 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 information has been prepared in accordance with the European Embedded Value (EEV) Principles issued in May 2004 by the European Insurance CFO Forum.

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

Changes to accounting policy - IASB consolidation project

On 1 January 2014 the application of IFRS 10, 'Consolidated Financial Statements' became compulsory for entities reporting in the EU.

IFRS 10, 'Consolidated Financial Statements' defines the principal of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. This states that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The application of IFRS 10 has resulted in the Group consolidating a small number of investment vehicles which were not previously consolidated which impacted the gain attributable to non-controlling interest.

As a result, the prior year disclosure in the Group embedded value summary and Note 5.05 have been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. The effect on amounts previously reported at 31 December 2013 is shown below. Embedded value at 31 December 2013 remains unaffected by the adoption.

	2013 £m
Profit for the year as previously reported (after tax)	1,289
Gains on non-controlling interests	
IFRS 10 'Consolidated Financial Statements' amendment	10
Revised profit for the year (after tax)	**1,299**

Covered business

The Group uses EEV methodology to value individual and group life assurance, pensions and annuity business written in the UK, 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 (LGAS). 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 (LGIM) 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. 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 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. LGA new business premiums and contribution reflect the groupwide expected impact of LGA 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 104% of EU minimum solvency margin for all products without FOGs. For those products with FOGs, capital of between 104% and 339% of the EU minimum solvency margin has been used. These capital requirements have been scaled up by a factor of 1.042 at the total level to ensure the total requirement meets the 160% Solvency I from the capital policy for the EEV, for the NBVA no scaling is applied. 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. 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% (2013: 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. These are shown below operating profit.

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 period.

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.

Proforma

On 28 November 2014, the Group announced changes to its organisational structure effective from 1 January 2015. In terms of changes to the Group's segmental results, the only change is the move of the workplace savings business from the LGAS Savings division into LGIM. The proforma shown below restates the LGAS Savings and LGIM segmental information for the prior periods to reflect these changes. To reiterate, no other segmental changes have been made to the Group's results following this announcement.

	FY 2014				FY 2013			
	Reported Savings £m	**Adjusted Savings £m**	**Reported LGIM £m**	**Adjusted LGIM £m**	Reported Savings £m	Adjusted Savings £m	Reported LGIM £m	Adjusted LGIM £m
Operational cash generation	**140**	**127**	**262**	**275**	164	152	239	251
New business strain	**(43)**	**(14)**		**(29)**	(58)	(22)		(36)
Net cash generation	**97**	**113**	**262**	**246**	106	130	239	215
Experience variances	**(10)**	**(7)**		**(3)**	(27)	(13)		(14)
Changes in valuation assumptions	**8**	**3**		**5**	11	2		9
Non-cash items and other	**(20)**	**(22)**		**2**	(22)	(29)		7
International and other	**(1)**	**(1)**		**-**	-	-		-
Operating profit after tax	**74**	**86**	**262**	**250**	68	90	239	217
Tax expense	**16**	**19**	**74**	**71**	21	28	65	58
Operating profit before tax	**90**	**105**	**336**	**321**	89	118	304	275
Investment variance	**(19)**	**(24)**	**(12)**	**(7)**	(55)	(47)	(6)	(14)
Profit before tax	**71**	**81**	**324**	**314**	34	71	298	261

	HY 2014				HY 2013			
	Reported Savings £m	Adjusted Savings £m	Reported LGIM £m	Adjusted LGIM £m	Reported Savings £m	Adjusted Savings £m	Reported LGIM £m	Adjusted LGIM £m
Operational cash generation	71	64	125	132	82	76	119	125
New business strain	(23)	(8)		(15)	(31)	(14)		(17)
Net cash generation	48	56	125	117	51	62	119	108
Experience variances	(6)	(3)		(3)	(5)	(3)		(2)
Changes in valuation assumptions	(1)	-		(1)	11	(1)		12
Non-cash items and other	(6)	(10)		4	(22)	(12)		(10)
International and other	-	-		-	(1)	(1)		-
Operating profit after tax	35	43	125	117	34	45	119	108
Tax expense	9	11	34	32	11	14	33	30
Operating profit before tax	44	54	159	149	45	59	152	138
Investment variance	(18)	(18)	(5)	(5)	(35)	(27)	(2)	(10)
Profit before tax	26	36	154	144	10	32	150	128