Stock Exchange Release
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EARNINGS PER SHARE UP 12% AND DIVIDENDS UP 20%

FINANCIAL HIGHLIGHTS:

- **EARNINGS PER SHARE UP 12% TO 13.90P (2011: 12.42P)**
- **FULL YEAR DIVIDEND UP 20% TO 7.65P PER SHARE (2011: 6.40P PER SHARE)**
- **OPERATING PROFIT UP TO £1,087M (2011: £1,053M); OPERATING PROFIT FROM DIVISIONS UP TO £1,115M (2011: £1,058M)**
- **PROFIT AFTER TAX UP TO £801M (2011: £721M)**
- **NET CASH UP TO £865M (2011: £846M); NET CASH FROM DIVISIONS UP TO £845M (2011: £802M)**
- **IFRS RETURN ON EQUITY 15.5% (2011: 14.9%)**

ACCELERATING GROWTH IN FLOWS AND STOCK:

- **LGIM NET FLOWS UP TO £7.1BN (2011: £3.0BN)** **AUM UP 9% TO £406BN**
- **INDIVIDUAL ANNUITY SALES UP 26% TO £132M** **AUM UP 13% TO £32BN**
- **SAVINGS SALES UP 15% TO £1.5BN** **AUA UP 8% TO £70BN**
- **UK PROTECTION SALES UP 25% TO £221M** **GWP UP 6% TO £1.3BN**
- **US PROTECTION SALES UP 28% TO $142M** **GWP UP 10% TO $922M**
- **GI PREMIUMS UP 15% TO £349M**

Nigel Wilson, Group Chief Executive, said:

"Legal & General's double-digit sales growth in 2012 broke records, again demonstrating that customers value our insurance, savings and investment propositions. An uncertain, sluggish economy has had minimal impact. The more important growth drivers for us are ageing populations, falling state spending on welfare and new long-term investment opportunities as banks retrench. Our expertise, scale and synergies enable us to provide solutions to these challenges, placing us squarely among the beneficiaries from these structural changes.

Our 20% increase in dividend is underpinned by 12% EPS growth and strong cash flow. These in turn reflect growing strengths in execution, operational scale and efficient manufacturing and distribution. We have the capability, the opportunity and focused ambition, to grow earnings further in 2013 and beyond. Legal & General will develop the opportunities long-term structural changes offer through focus on retirement solutions, international investment management, digital solutions, protection and direct investment. Our financial strength enables us to continue to deliver strong organic growth, complemented by bolt-on acquisitions, where they can meet our rigorous financial and strategic criteria.

We provide financial services to our customers at the most exciting, critical or difficult moments in their lives, and we help drive investment and growth for the wider economy. Social purpose and financial success are two sides of the same coin here at Legal & General."

Financials Pence	2012	2011	Growth (%)
IFRS earnings per share (basic)	**13.90**	12.42	**12**
Full year dividend per share	**7.65**	6.40	**20**
Return on equity (%)	**15.5**	14.9	**0.6 pps**

FINANCIAL SUMMARY

OPERATING PROFIT UP IN ALL DIVISIONS

Financial highlights £m	2012	2011	Growth (%)
Analysis of operating profit[1]			
Protection and Annuities	**640**	601	**6**
Investment Management	**243**	234	**4**
Savings	**133**	126	**6**
US Protection	**99**	97	**2**
Operating profit from divisions	**1,115**	1,058	**5**
Group capital and financing and investment projects	**(28)**	(5)	**n/a**
Operating profit	**1,087**	1,053	**3**
Investment and other variances	**(51)**	(100)	**49**
Profit before tax	**1,036**	**953**	**9**
Net cash generation[1]			
Operational cash generation from divisions	**938**	896	**5**
New business strain	**(93)**	(94)	**1**
Net cash generation from divisions	**845**	802	**5**
Operational cash generation from Group capital and financing	**20**	44	**(55)**
Net cash generation	**865**	846	**2**

RECORD SALES - UK PROTECTION UP 25%; INDIVIDUAL ANNUITIES UP 26%

Sales £m	2012	2011	Growth (%)
UK Protection	**221**	177	**25**
Individual annuities	**132**	105	**26**
Bulk purchase annuities	**102**	146	**(30)**
Savings	**1,456**	1,262	**15**
US Protection	**90**	69	**30**
Other International	**112**	78	**44**
Total APE sales	**2,113**	1,837	**15**
Net flows £bn	**2012**	**2011**	**Growth (%)**
LGIM	**7.1**	3.0	**137**
Savings	**(0.6)**	1.2	**(150)**

SCALE – LGIM ASSETS: £406BN; ANNUITY ASSETS: £32BN

Assets £bn	2012	2011	Growth (%)
LGIM[2]	**406**	371	**9**
Savings	**70**	65	**8**
Annuities	**32**	28	**13**
Gross premiums	**2012**	**2011**	**Growth (%)**
UK Protection (£m)	**1,268**	1,200	**6**
General Insurance (£m)	**349**	304	**15**
US Protection ($m)	**922**	836	**10**

1. Operating profit and net cash generation are defined on pages 31 and 59 of the preliminary results announcements.
2. LGIM assets include £32bn of assets managed on behalf of Annuities and £49bn managed on behalf of Savings.

FULL YEAR DIVIDEND INCREASED BY 20% TO 7.65 PENCE PER SHARE

Double digit growth in earnings per share and a robust capital position coupled with the high level of visibility of future cash flows has led the Board to recommend an increase of 20% in the final dividend to 5.69p (2011: 4.74p) bringing the full year dividend to 7.65p. (2011: 6.40p). The cost of the full year dividend is £452m (2011: £375m) and is covered 1.91 times by the net cash generation.

FINANCIAL HIGHLIGHTS – EARNINGS UP 12% DRIVEN BY GROWTH IN SCALE

In 2012, Legal & General delivered growth in net cash generation, operating profit and earnings per share. This was supported by record sales of £2.1bn (2011: £1.8bn), net inflows into LGIM of £7.1bn (over double 2011), and growth in scale of assets and gross premiums to new highs.

Operating profit increased to £1,087m (2011: £1,053m). **All divisions increased operating profit, with total profit from the divisions up 5%** to £1,115m (2011: 1,058m). This strong growth has enabled us to deliver earnings per share up 12% to 13.90 pence (2011: 12.42 pence).

The growth in profit is supported by our substantial operational cash generation, which increased to £958m (2011: £940m). Again, **all divisions increased operational cash generation, with the contribution from the divisions up 5%** to £938m (2011: £896m). This has been delivered through growth in scale of each of our businesses. All divisions reached new heights in scale with LGIM AUM of £406bn, UK Housing and Protection gross premiums of £1.6bn, Savings AUA of £70bn and US Protection gross premiums of $0.9bn.

At the beginning of 2012, we provided operational cash generation guidance of £695m for our Annuities, UK Protection, Insured Savings and With-profits businesses and International dividends. **We delivered on our cash guidance** with a result of £697m for 2012 which demonstrates the strong predictability of our cash generation.

The operational cash generation from Group capital and financing reduced to £20m (2011: £44m) largely reflecting a reduced return assumption on UK equities of 5.8% (2011: 7.5%).

Growth in protection sales and significant inflows of workplace pensions were delivered efficiently through digital underwriting processes and automated loading of schemes and employees onto the Workplace pension platform. Overall we were able to fund higher levels of sales with marginally lower new business strain at £93m (2011: £94m).

In 2012, £754m (2011: £701m) of the net cash generation from the divisions was distributed to the Group, representing 89% (2011: 87%) of their net cash generation. Shareholder assets now total £6.5bn (2011: £5.9bn).

Legal & General has an IGD surplus of £4.1bn with a coverage ratio of 234%, after allowing for accrual of the final dividend (2011: £3.8bn; 220% coverage). The growth in surplus reflects the strong cash generation of the Group and the benefits of the US capital efficiency programme, which delivered an IGD benefit of £260m in 2012.

In addition to the Group's capital surplus, LGPL (the Group's main annuity subsidiary) has a credit default provision of £1.7bn (2011: £1.6bn). The provision has increased due to the growth in the annuity business during 2012 and is equivalent to 60bps (2011: 61bps) per annum over the life of the portfolio.

EXECUTIONAL EXCELLENCE POWERS GROWTH IN 2012

Retail Protection delivered sales 15% higher than in 2011 at £151m (2011: £131m). Automated underwriting provides flexible capacity and enabled 78% of cases to get a decision at the point of sale.

Group Protection sales grew substantially by 52% to £70m (2011: £46m) as Legal & General utilised the opportunities presented by auto enrolment and the continuing trend of businesses and the public sector to insure their employee liabilities.

Individual annuities achieved significant sales growth of 26% to £132m APE (2011: £105m), attracting growing numbers of retirees with higher average fund levels.

Our capability in meeting demand from pension trustees delivered **Bulk Annuity sales of £102m (2011: £146m) including the sizeable £35m APE Tate & Lyle buy-in** deal, and since the year end we have completed a longevity insurance deal with the BAE Systems 2000 Pension Plan covering £3.2bn of associated liabilities.

Direct investment within the annuity fund doubled to £1.2bn (2011: £0.6bn) in projects including the student accommodation for a number of universities and commercial property loans.

International clients provided net flows to LGIM of £7.8bn with overall net flows into LGIM of £7.1bn, more than double 2011 (£3.0bn). LGIM America AUM reached $33bn (2011: $24bn) with 39 external clients (2011: 16 clients).

Net inflows to active fixed income mandates were up 25% to £2.0bn (2011: £1.6bn) with total AUM at £82bn (2011: £72bn).

We delivered our RDR platform proposition in November, well ahead of the year end deadline. Legal & General, through sole supplier partnerships with leading building societies, has access to approximately 20m customers, across 1,200 high street branches.

Our Investor Portfolio Services (IPS) platform gained net inflows of £1.2bn and grew AUA to £8.6bn (2011: £6.8bn).

The **Workplace platform gained £1.6bn of net inflows and grew AUA to £6.0bn (2011: £3.8bn)** as schemes previously won began to be transferred to the platform at the start of auto enrolment in 2012 Q4.

US Protection delivered record sales up 28% at $142m APE (2011: $111m) making them a top 5 provider of term assurance in the US, from a position outside the top 10 just three years ago. This has led to an increase in gross premiums of 10% to $922m (2011: $836m) and operating profit of $156m (2011: $155m).

STRATEGY – ACCELERATING EVOLUTION

Long term structural trends are creating opportunities which fit Legal & General's capabilities and operating model. The long term trend of population ageing is occurring alongside limited capacity for government welfare budgets and pension funding. This requires a shift to greater self reliance supported by insurance and savings solutions and new approaches to pension de-risking. Banks have reduced lending, however, insurers like Legal & General, with strong balance sheets and long dated liabilities are well placed to provide funding for economic development.

As these themes gather momentum, we believe they will enable Legal & General's growth to continue to outperform the broader economy. Strong flows in 2012 reflect this increasing momentum and our ability to respond to demand.

We have a strong platform from which to drive the further acceleration of our growth. We retain our focus on operating efficient, high scale businesses with strong financial discipline. We have continued to emphasise strong cash delivery and avoided problem lines. We have created a resilient balance sheet and this strength provides options for growing the business, alongside growing dividends for shareholders and increasing value for society.

Accelerating Growth

We will evolve our business by combining our strength in organic growth with selected bolt-on acquisitions, which satisfy rigorous financial targets and strategic criteria. We will prioritise development, around the following five themes:

1) LGIM International Expansion – There are approximately $15 trillion of pension assets in the US. Legal & General's International business continues to attract increased flows from this source with $33bn of AUM. Flows also continue to build from other regions, and International assets have grown rapidly to £43bn AUM. We will accelerate inflows further, by leveraging existing relationships and extending our distribution capability to ensure profitable growth from scalable, efficient operating models.

2) Retirement Solutions – Pension deficits are at unsustainable levels: £75bn for the UK FTSE 350 and $0.5 trillion for the US S&P 1500. Through LGIM, Annuities and Savings we offer comprehensive solutions for different pension funding and retirement income needs. Our group-wide capability enables defined benefit (DB) clients to transition towards full de-risking via active fixed income, Liability Driven Investments (LDI), longevity insurance or partial buy-in. To capture the expected growth in defined contribution (DC) assets to c£830bn by 2022, we have established a leading position in Workplace Savings and enhanced LGIM's DC fund propositions. We see opportunities to export our annuities capability to Europe and beyond.

3) Digital Solutions – We continuously improve our processes in Protection, Annuities, Savings, and LGIM. Our digital platforms provide economic models for distribution in the workplace and post-RDR landscape and are well placed to gain from the expected doubling of UK assets on savings platforms from £214bn in 2012 to £429bn by 2017. We also intend to increase use of digital tools to engage and acquire customers. Some examples, for 2013 delivery, include a new Group Protection Quote and Buy tool for mid tier employers and an online modelling tool from LGIM to help smaller DB pension clients.

4) Protection – The UK Group Protection market grew 28% in 2012, and we attracted new to market schemes through product innovation and engagement with employers in tandem with pensions auto enrolment. As the UK government reduces welfare spending, protection in the UK can fill the gap. We can also leverage excellence in UK protection to grow our European protection franchises. L&G America is now a major player in the US life insurance market and has a sound platform from which to add new term life products and expand its distribution reach.

5) Direct Investments – Bank balance sheets have shrunk globally, with UK banks' annual net lending declining from around £175bn in 2007 to nil in 2012, creating a need for increased supply of direct finance. We will accelerate our direct investments in business ventures, property and infrastructure to gain higher risk adjusted returns to fund our long term liabilities. We doubled our direct investment from the annuity portfolio in 2012 to £1.2bn.

These themes build on our strengths in asset management and insurance solutions and will drive the acceleration of our scale and earnings growth across our businesses.

2013 OUTLOOK

As 2013 gets underway, we see momentum building in the long term themes of ageing populations, constraints on welfare spending, pension funding and bank financing. Visibility of welfare reform in the UK from April 2013 will motivate individuals to increase their self-reliance. Our early experience with auto enrolment indicates soft compulsion can encourage saving, with less than 10% of savers so far opted out. Recent deals with Tate & Lyle and BAE Systems provide case studies of our ability to meet demand for innovative pension de-risking options.

LGIM – At the start of 2013 we continue to build on the momentum which saw net flows more than double from £3.0bn in 2011 to £7.1bn in 2012. In addition to strong demand from US pension schemes, we are attracting growing interest in index funds from the Gulf and Europe, where we have extended our distribution capability.

Individual Annuities – Volumes remain strong in Q1 2013 for individual annuities. We support the move to increase the use of open market options, as we believe it benefits customers. In excess of 75% of our flows are already from external sources.

Bulk Annuities – In February 2013, we transacted a longevity insurance arrangement for the BAE Systems 2000 Pension Plan covering £3.2bn of associated liabilities, which was 70% reinsured to Hannover Re. The flexibility of options we can offer, including partial buy-in and longevity, enable us to offer a wide variety of affordable transition routes to pension trustees looking to de-risk.

Retail Protection – We expect volumes in H1 2013 to be somewhat lower due to gender neutral pricing which was implemented at the end of 2012. However, we expect stable volumes in H2 2013, supported by increased interest from IFAs and higher volumes of mortgages, due to the Funding for Lending scheme.

Group Protection – We expect the next phases of auto enrolment will have further benefit to Group Protection and that the trend for companies to move from self-insured to insured will continue to build. Substantial changes to UK welfare provision from April 2013 will increase awareness of the value of protection for both employers and employees.

Workplace Savings – In 2013, we expect to transfer 75,000 existing scheme members with approximately £0.5bn of assets from large schemes we have won in the past two years. In addition during 2013 we will auto enrol a further 440,000 employees, including by April 2013 over 150,000 employees from Alliance Boots, Asda, the Co-operative Group and Marks & Spencer.

Savings Investments – Delivery of our RDR solution to our partners in November 2012 enabled them to benefit from an early start to RDR. We expected lower sales from building society partners in Q1 2013 from a planned transition phase during which adviser activity is gradually being increased to ensure understanding and compliance with new processes. For those Legal & General advisers who are now fully operational, sales values are approaching similar levels to 2012. Initial feedback suggests customers are comfortable with the charging structure, and 97% of L&G Financial Services' customers have selected the ongoing service option. We expect the impact of transitioning to RDR may extend through at least H1 2013 for the wider advisory market.

US Protection – We expect further progression in market position for LGA as the business continues to widen and deepen reach with the leading broker general agents, who control much of the market flows.

BUSINESS REVIEW - HOUSING AND PROTECTION.

Financial highlights £m	2012	2011
Operational cash generation	**279**	271
New business strain	**(45)**	(66)
Net cash generation	**234**	205
Experience variances, assumption changes, tax and other variances	**125**	109
Operating profit	**359**	314
UK Protection new business APE	**221**	177
UK Protection new business EEV margin (%)	**11.8**	9.3
Protection gross premiums	**1,268**	1,200
General Insurance gross premiums	**349**	304
Total gross premiums	**1,617**	1,504

INNOVATION GROWS PROFIT AND SALES

Operating profit increased by 14% to £359m (2011: £314m) and operational cash generation increased to £279m (2011: £271m). Management of reinsurance and the use of automated underwriting in Retail Protection, with 78% of decisions made at point of sale, contributed to a fall in new business strain to £45m (2011: £66m). This supported the exceptional new business margin of 11.8% (2011: 9.3%).

Retail Protection sales were up 15% to £151m (2011: £131m) and gross premiums were 4% higher at £947m (2011: £914m), with over 50% of applications not linked to a mortgage. We benefit from diversified distribution. We are the sole provider to appointed representatives within the L&G Network and to building society partners who service 87% of customers in that sector. We are also the leading provider of retail protection to Independent Financial Advisers (IFAs).

Group Protection's high quality proposition achieved sales growth of 52% to £70m (2011: £46m) with gross premiums up 12% to £321m (2011: £286m). Auto enrolment has encouraged companies to review their employee benefits and a number have taken our protection products alongside our Workplace pension proposition.

The Legal & General Network is the leading provider of intermediated mortgages with a market share of 25% (2011: 20%). The Network facilitated lending of £19bn in 2012 and was responsible for 1 in 8 UK mortgages. This supports the sales of Retail Protection and General Insurance policies sold alongside the mortgage transaction.

General Insurance gross premiums increased by 15% to £349m (2011: £304m) benefiting from 27% growth from our broker accounts and 36% from direct sales. Despite less favourable weather conditions in 2012, the business delivered a healthy combined operating ratio of 95% (2011: 90%), and an operating profit of £30m (2011: £42m).

Bringing Legal & General Netherlands (LGN) and Legal & General France (LGF) into the division enables them to benefit from closer alignment with the UK Protection business. Sales from LGN and LGF were up 39% to £93m (2011: £67m) and operating profit was £43m (2011: £40m). Operational cash generation of €18m (2011: €17m) represents the sustainable dividends paid from LGN and LGF to the Group.

BUSINESS REVIEW - ANNUITIES.

Financial highlights £m	2012	2011
Operational cash generation	**243**	227
New business surplus	**14**	35
Net cash generation	**257**	262
Experience variances, assumption changes, tax and other variances	**24**	25
Operating profit	**281**	287
Individual Annuity new business APE	**132**	105
Bulk Annuity new business APE	**102**	146
Total annuity new business APE	**234**	251
Annuities new business EEV margin (%)	**8.8**	10.0
Annuities assets under management (£bn)	**32.2**	28.4

CAPABILITY ATTRACTING FLOWS

Operational cash generation grew by 7% to £243m (2011: £227m), reflecting the growth in the scale of the business. The Annuities division now has assets under management of £32.2bn, up 13% on 2011 and provides income to 705,000 pensioners (2011: 661,000). Operating profit of £281m (2011: £287m) reflects a reduced new business surplus of £14m (2011: £35m).

Individual Annuities achieved record sales, up 26% to £132m (2011: £105m) as increasing numbers of people reach retirement and defined contribution pension pot sizes continue to grow. Our competitive pricing and diversified distribution allows us to take advantage of this continuing trend.

Legal & General welcomes the FSA's review into annuities. It is important that customers get the best possible outcome from their annuity purchase. More customers shopping around for annuities can only benefit customers and annuity providers, like Legal & General, who are price competitive. In 2012, Legal & General received in excess of 75% of individual annuity sales from external sources.

In the Bulk Annuity market, we wrote 90 policies worth £102m of APE (2011: 85 policies worth £146m). This year included £35m from the Tate & Lyle pension scheme, while last year included £110m from the Turner & Newell pension scheme.

Legal & General's strength in assessing scheme risk and constructing asset portfolios to match scheme liabilities supports a steady flow of interest from companies seeking to reduce risk on their balance sheets.

On 21 February 2013, **we completed the largest longevity insurance contract in the UK to date** covering 31,000 existing pensioners and £3.2bn of associated liabilities within the BAE Systems 2000 Pension Plan. We reinsured 70% of the liabilities to our partner Hannover Re.

We have maintained our pricing discipline throughout the year, writing business with the primary aim of achieving our target return on economic capital. On the EEV basis, however, the margin decreased reflecting a shorter duration in the mix of business written than in 2011.

BUSINESS REVIEW - INVESTMENT MANAGEMENT.

Financial highlights £m	2012	2011
Total revenue	**446**	417
Total costs	**(203)**	(183)
Operating profit	**243**	234
Net cash generation	**197**	189
Cost:income ratio (%)	**46**	44
Gross inflows (£bn)	**34.2**	32.8
Net inflows (£bn)	**7.1**	3.0
of which International	**7.8**	4.5
Closing assets under management (£bn)	**406**	371
of which International	**43**	32

LGIM INTERNATIONAL POWERS GROWTH

LGIM's net inflows of £7.1bn rose to over double the £3.0bn recorded in 2011, benefiting from record gross inflows of £34.2bn. This growth has led to an increase in **AUM of 9% to £406bn** (2011: £371bn).

LGIM's total revenue increased to £446m (2011: £417m) reflecting the growth in AUM, whilst **operating profit increased to £243m (2011: £234m**). LGIM continued to invest in the business to support its strategies for growth, while maintaining a strong cost to income ratio of 46%.

LGIM's international operations have grown substantially with net inflows from international clients of £7.8bn (2011: £4.5bn). **International assets have increased by 34% to £43bn** (2011: £32bn) and now account for over 10% of LGIM's total AUM. Growth has been driven by developing our reach with major pension funds in the US and building our distribution capability in the Gulf, Europe and Asia.

In the US, LGIM America's (LGIMA) excellent active fixed income performance and its ability to offer a full spectrum of Liability Driven Investment (LDI) solutions has attracted 23 new external clients in 2012. **LGIMA now has 39 external clients (2011: 16)** and **AUM of $33bn (2011: $24bn)**. LGIMA's core capabilities in active fixed income and LDI solutions match the accelerating demand from US pension funds for better liability matching.

In the Gulf and Europe, LGIM has successfully increased gross inflows to £5.5bn in 2012 (2011: £4.2bn). We have extended distribution capability for these regions, where we are attracting growing interest in LGIM's index, fixed income and property funds. LGIM also won its first mandate from Asia during 2012.

For the evolving UK pensions market, LGIM has continued to support the de-risking of defined benefit (DB) pension schemes. LGIM has delivered innovative index strategies, continued to achieve excellent performance in active fixed income and met demand for closer liability matching through a market leading LDI proposition.

In the **UK defined contribution (DC) market, LGIM attracted £0.6bn of net inflows and AUM grew by 19% in 2012 to £25.4bn (2011: £21.3bn).** The launch of new DC funds together with the first phase of auto enrolment has accelerated momentum and LGIM has attracted strong flows from Legal & General's Workplace platform and external corporate clients.

INDEX CAPABILITIES

Asset movements £bn	UK equities	Int'l equities	Fixed interest	Total
Assets under management (at 1 January 2012)	**63.3**	**82.2**	**78.7**	**224.2**
Gross inflows	3.4	10.1	8.9	22.4
Gross outflows	(6.1)	(6.4)	(7.1)	(19.6)
Net flows	**(2.7)**	**3.7**	**1.8**	**2.8**
Market and other movements	3.6	12.9	(0.3)	16.2
Assets under management (at 31 December 2012)	**64.2**	**98.8**	**80.2**	**243.2**

Index remains core to LGIM's business model and, with assets of £243bn, it accounts for 60% of total AUM. LGIM has extended its index capability to offer clients the ability to track indices based on measures other than the market capitalisation of the securities in those indices.

LGIM delivered significant enhancements to its DC proposition in 2012. To meet the needs of pension savers at the growth phase of their plans, LGIM launched three diversified funds, which blend equity, fixed income and alternative asset classes. Employees of 30 companies have invested significant funds into the Multi-Asset Fund. As part of our commitment to existing clients, LGIM also restructured its pre-retirement fund to ensure continuing alignment with its core objective.

LDI AND ACTIVE CAPABILITIES

Asset movements £bn	LDI	Fixed interest	Equities	Property & other	Total
Assets under management (at 1 January 2012)	**58.4**	**72.4**	**7.2**	**9.0**	**147.0**
Gross inflows	5.7	6.0	-	0.1	11.8
Gross outflows	(3.4)	(4.0)	-	(0.1)	(7.5)
Net flows	**2.3**	**2.0**	**-**	**-**	**4.3**
Market and other movements	3.3	7.8	0.5	(0.1)	11.5
Assets under management (at 31 December 2012)	**64.0**	**82.2**	**7.7**	**8.9**	**162.8**

LGIM continues to see demand for its LDI solutions from UK and US DB pension schemes looking to de-risk. The business has grown rapidly, with **LDI AUM more than doubling over the last five years to £64bn (2011: £58bn).**

The excellent performance achieved by LGIM's active fixed income products, where the majority of funds have outperformed their benchmark over one, three and five years, has generated significant levels of new business. Net active fixed income inflows increased **by 25% to £2.0bn (2011: £1.6bn) and AUM is now £82bn (2011: £72bn).**

BUSINESS REVIEW - SAVINGS.

Financial highlights £m	2012	2011
Operational cash	**179**	174
New business strain	**(62)**	(63)
Net cash generation	**117**	111
Experience variances, assumption changes, tax and other variances	**16**	15
Operating profit	**133**	126
New business APE	**1,456**	1,262
Net flows (£bn)	**(0.6)**	1.2
New business strain % PVNBP[1]	**1.6**	2.7
Assets under administration (£bn)	**70**	65

1. UK Insured Savings business.

PLATFORM FLOWS PLUS COST EFFICIENCY DRIVING PERFORMANCE

New business sales were a record £1.5bn (2011: £1.3bn), up 15% as we delivered on our growth strategy of seizing the opportunities created by pension scheme reorganisations driven by the advent of auto enrolment. Our Workplace Savings business had an outstanding year with pension sales more than double 2011 levels at £614m (2011: £269m) and net inflows of £1.6bn (2011: £0.9bn). As at the end of 2012, we had secured over 300 pension schemes, with nearly 150,000 contributing members and a potential auto enrolment population in excess of 500,000 employees.

Assets under administration (AUA) reached a new high of £70bn (2011: £65bn) up 8%. Net flows of £(0.6)bn reflect expected levels of net outflows on legacy with-profit products of £2.2bn, which have been largely offset by the strong net inflows from Workplace Savings.

Platforms are playing an important role in the UK savings landscape and we are benefiting from investment in Workplace and Investor Portfolio Service (IPS) platforms. In 2012, our Workplace platform grew 58% to £6.0bn (2011: £3.8bn), and our IPS platform grew to £8.6bn (2011: £6.8bn) of combined mutual fund and insured assets.

Net cash generation was up 5% to £117m (2011: £111m) as a result of the continuing success of our strategy of growing the scale of our Savings business and driving efficiency with new business strain once again lower at 1.6% of Present Value of New Business Premiums (PVNBP).

Operating profit was up 6% to £133m (2011: £126m) and was delivered alongside record sales and investment into auto enrolment and RDR digital solutions.

SUCCESSFUL DELIVERY OF RDR STRATEGY

We executed our strategy for the post-RDR marketplace and our IPS platform provides an economic and compliant model for advice and supports advisers to have more time for client fee generating activity. During 2012, we consolidated our position in the building society sector and are the sole savings provider to Nationwide, Yorkshire, Leeds and Principality Building Societies and a number of other societies. These relationships give us access to 1,200 UK branches covering 20 million customers. We believe the new RDR regime will increase the role of the Building Society sector in providing effective financial advice to mass market and mass affluent customers and lead to increased flows into passive funds. **We successfully deployed our RDR solution early in November 2012** to our Building Society partners. This enabled our partners to transition to an efficient and compliant RDR advice model.

Asset movements £bn	Insured Savings	Savings Investments	With-profits	Total
Assets under administration (at 1 Jan 2012)	**19.1**	**25.3**	**20.5**	**64.9**
Gross inflows	3.7	5.5	0.8	10.0
Gross outflows	(3.1)	(4.5)	(3.0)	(10.6)
Net flows	**0.6**	**1.0**	**(2.2)**	**(0.6)**
Market movements	1.9	2.1	1.8	5.8
Assets under administration (at 31 Dec 2012)	**21.6**	**28.4**	**20.1**	**70.1**
Financial summary £m				
Net cash generation 2012	**46**	**19**	**52**	**117**
Net cash generation 2011	38	22	51	111
Operating profit 2012	**48**	**16**	**69**	**133**
Operating profit 2011	34	23	69	126

INSURED SAVINGS – WORKPLACE MOMENTUM

We are developing Workplace Savings as a key distribution channel. In 2012, Workplace Savings secured a further 174 schemes (2011: 133 schemes) and we have now won six of what we believe are the twelve largest auto enrolment schemes. In the last quarter of 2012, we successfully auto enrolled over 60,000 employees and to date opt out rates have been less than 10%. At 31 December 2012, we had 381,000 customers on our Workplace pensions platform.

Net flows from Workplace were £1.6bn in 2012 (2011: £0.9bn). In 2013, we expect to transfer 75,000 existing scheme members with approximately £0.5bn of assets as we continue to load the large schemes we have won in the past two years. In addition, we will auto enrol a further 440,000 employees during 2013, including over 150,000 employees from Alliance Boots, Asda, Co-op and Marks & Spencer by April.

During 2013, employers with between 50,000 and 500 employees are required to auto enrol their staff. We continue to quote for schemes within this size that have yet to choose a scheme provider for auto enrolment.

Insured Savings new business strain as a percentage of PVNBP has reduced further to 1.6% (2011: 2.7%), down from 5.5% just four years ago. This significant reduction has been driven by our efficient, scalable Workplace Savings operating model. Highly automated processes have driven efficiency.

SAVINGS INVESTMENTS – TRANSITIONING MODEL

Savings Investments sales were lower at £598m (2011: £688m). We pulled back sales of structured products as pricing and pay-off structures have been less suitable for customers in a low interest rate environment; as a result sales were £25m (2011: £102m). Sales of retail funds were lower at £216m (2011: £294m), as a result of advisers spending time preparing for RDR. However, we increased assets administered on our IPS platform, gaining strong net inflows of collectives of £1.2bn (2011: £1.2bn).

We have consolidated the positioning of our SIPP proposition with sales of £77m (2011: £80m) and strong net inflows of £0.5bn in Suffolk Life. We are beginning to see consolidation in the SIPP market and Suffolk Life is well placed to take advantage with a high quality proposition.

WITH-PROFITS SAVINGS – MATURING ENDOWMENTS IN LINE WITH EXPECTATION

With-profits Savings operating profit was resilient at £69m (2011: £69m). Net outflows of £2.2bn reflect expected maturing endowment policies sold in the 1980s, resulting in AUA of £20.1bn (2011: £20.5bn).

BUSINESS REVIEW - US PROTECTION.

Financial highlights $m	2012	2011
Operating profit[1]	**156**	155
Net cash generation	**63**	58
Gross premium income	**922**	836
New business APE	**142**	111
New business EEV margin (%)	**11.8**	10.7

1. In 2012, the Group applied the new US accounting policy on the recognition of Deferred Acquisition Costs (DAC) which changed the rules on capitalising costs incurred in acquiring insurance business. Applying this retrospectively reduced the opening 2012 shareholders' equity of the Group (and LGA) by $216m and lowered 2012 operating profit by $12m (2011: $5m). This has no effect on EEV or IGD surplus. Details of the adjustment are outlined in note 2.19.

EXECUTION OF CAPITAL PROGRAMME SUPPORTS GROWTH

Legal & General America (LGA) delivered record sales with 28% growth to $142m (2011: $111m) and has grown its core term product over 12 consecutive quarters. This success is through the delivery of LGA's focus on extending distribution reach through key brokerage agents in the US market. LGA is now a top five writer of term assurance in the US, from outside the top 10 just three years ago.

New business margin improved to 11.8% (2011: 10.7%) with LGA benefiting from growth in scale and improved cost efficiencies.

The capacity for sales growth has been possible through the delivery of the US capital efficiency programme. In 2012, LGA completed a further two phases of this programme, by utilising internal reinsurance to provide a capital benefit to LGA of $545m and a benefit of £260m to the Group's IGD. Since the programme started in 2010, the capital benefit to LGA has been $735m and the benefit to the Group's IGD has been £402m. This capital programme has enabled LGA to grow its new business sales by 87% since 2009 and increase new business margin to 11.8% from 4.9% in 2009.

We will continue to focus on using LGA capital efficiently. In the next year we anticipate releasing the excess capital on the 2013 new business that arises as a result of the XXX/AXXX reserving regime in the US. We will assess and execute transactions on the back book of policies in future years.

Growth in sales helped gross premiums increase 10% to $922m (2011: $836m) and operating profit is now $156m (2011: $155m).

Operational cash generation for LGA is the sustainable dividends paid to the Group. Operational cash generation has continued to grow to $63m in 2012 (2011: $58m). **In March 2013 LGA paid an ordinary dividend to the Group of $66m.** This dividend will be recognised as operational cash generation in the Q1 2013 results.

BUSINESS REVIEW - GROUP BUSINESS UNIT.

GROUP CAPITAL AND FINANCING

Financial highlights £m	2012	2011
Investment return	**168**	191
Interest expense	**(127)**	(123)
Investment expenses and unallocated corporate expenses	**(19)**	(17)
Group capital and financing operating profit	**22**	51
Operational cash generation	**20**	44
Closing Group capital and financing assets	**4,741**	4,344
Closing outstanding borrowings	**2,784**	2,732

The Group capital and financing segment contains Legal & General's shareholder funds and Group borrowings. These assets provide liquidity and capital support centrally.

The smoothed investment return on the investment portfolio of £168m (2011: £191m) is calculated asset class by asset class and equates to an annualised average smoothed investment return of 3.9% (2011: 4.7%) on the average balance of invested assets of £4.3bn (2011: £4.0bn). The fall in the average investment return is predominantly due to the reduction of assumed returns on UK equities to 5.8% (2011: 7.5%).

Interest expense of £127m (2011: £123m) reflects the average cost of debt of 4.9% per annum (2011: 4.8%) and on average nominal value of debt balances of £2.6bn (2011: £2.6bn).

The £4.7bn (2011: £4.3bn) investment portfolio follows a diversified multi-asset strategy. At the end of 2012, the portfolio had £3.1bn invested in cash and high quality sovereign and corporate bonds, a further £1.4bn invested in equities, with the remainder in property and other assets. Late in 2012 we increased exposure to higher emerging market growth, tactically implemented equity protection to reduce volatility and increased diversity of active managers.

The year end balance of £2.8bn Group borrowings contains £2.5bn of long term financing and £0.3bn of short term borrowings. The earliest bond call or maturity date is 2015.

Legal & General has a well established commercial paper programme, providing the Group with access to short term funds from the Sterling and Euro capital markets. In addition, Legal & General's £1bn revolving credit facility is provided by a diversified syndicate of 21 of the Group's key relationship banks. The facility will mature in 2017 with the option to extend through to 2018. No drawings have been made under this facility to date.

ASSET EXPOSURES

Asset portfolio £bn	2012		2011	
	LGPL[1]	Total	LGPL[1]	Total
Bonds:	**29.2**	**34.9**	26.3	32.2
Sovereigns:				
UK and US	***3.5***	***4.0***	*3.1*	*4.0*
GIIPS[2]	***0.2***	***0.4***	*0.2*	*0.3*
Other countries	***0.8***	***1.9***	*0.8*	*1.9*
Banks:				
UK and US	***1.7***	***2.2***	*2.2*	*2.8*
GIIPS[2]	***0.1***	***0.1***	*0.1*	*0.1*
Other countries	***0.5***	***0.9***	*0.6*	*0.9*
Other bonds				
UK and US	***14.8***	***17.2***	*13.1*	*15.6*
GIIPS[2]	***0.8***	***0.8***	*0.7*	*0.7*
Other countries	***6.8***	***7.4***	*5.5*	*5.9*
Property	**0.7**	**0.8**	0.5	0.6
Equities	**-**	**1.4**	-	0.9
Derivatives	**2.9**	**3.1**	2.9	3.4
Cash and cash equivalents	**0.5**	**2.7**	0.3	2.3
Total Asset Portfolio	**33.3**	**42.9**	30.0	39.4

1. LGPL is the main operating subsidiary for the UK's annuity business.
2. GIIPS represents Greece, Italy, Ireland, Portugal and Spain.

The investment strategy of Legal & General's asset portfolio has clear long term objectives in order to match the long dated nature of liabilities, manage credit risk and gain economic value. The performance of the portfolio is actively managed by LGIM against these objectives with continual refinement as market conditions evolve.

Legal & General's main investment exposure is in LGPL. During 2012, we took advantage of the general contraction of credit spreads to further reduce our exposure to subordinated bank debt in LGPL, which now represents only 2.8% of the portfolio (2011: 4.7%). LGPL has minimal exposure to GIIPS sovereign debt of £240m, all within Italy and exposure to GIIPS bank debt is similarly small at £52m. The proceeds from disposals and new premiums into LGPL were invested in a combination of UK Gilts, corporate bonds issued by companies in non-cyclical sectors and direct investments, including secured commercial lending.

Infrastructure is a key developing sector for Legal & General. In addition to the £1.6bn LGPL held in infrastructure bonds at the end of 2012, we accelerated our exposure to direct investments. By the end of 2012, we had directly invested almost £1.2bn into projects including the Football Association's National Centre in Burton upon Trent, Tesco's distribution hub in Reading and student accommodation in Southampton, Greenwich and Imperial College.

In LGPL, we maintain a provision of £1.7bn, equivalent to 60bps per annum over the life of the portfolio, to provide for the risk of credit default. Over the last five years we have suffered defaults of less than £60m. During 2012 we suffered a minor default, our first for three years, on a bond with a nominal value of less than £1m. We expect to recover greater than 80% of the value of the bond.

GROUP TAX RATES – EFFECTIVE TAX RATE OF 22.7%

Equity holders' effective tax rate %	2012	2011
Total Effective Tax Rate	**22.7**	24.3
Annualised rate of UK corporation tax	**24.5**	26.5

In 2012, 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.

CHANGES TO THE UK CORPORATION TAX REGIME FOR LIFE INSURERS

A new regime for the taxation of life assurance companies came into effect on 1 January 2013, and our project to implement the changes has been successfully completed. There is no material impact from the changes on IFRS profits and EEV is improved by £14m.

DEFERRED TAX ASSET UTILISATION

Deferred tax £m	2012	2011
Excess and deferred expenses (XSE)	**217**	209
Capital losses	**14**	147
Trading losses	**127**	159
Other	**(42)**	(22)
UK net deferred tax asset	**316**	**493**

The utilisation of trading losses is partly reflected within the Protection and Annuities business where it has contributed £72m in 2012 (2011: £80m) to net cash generation. It is expected that trading losses will continue to be available to the Protection and Annuities business into 2014 and possibly beyond.

BUSINESS REVIEW - CASH GENERATION

The sources of our cash generation are transparent and the table below highlights the cash generation by segment.

	2012			2011		
£m	Op cash	Strain	Net cash	Op cash	Strain	Net cash
Annuities	243	14	257	227	35	262
UK Protection	240	(45)	195	232	(66)	166
Insured Savings	108	(62)	46	101	(63)	38
With-profits	52		52	51		51
US Protection	40		40	35		35
European dividends	14		14	16		16
Sub total	**697**	**(93)**	**604**	**662**	**(94)**	**568**
Savings Investments	19		19	22		22
GI and Other risk	25		25	23		23
LGIM	197		197	189		189
GCF	20		20	44		44
Total cash generation	**958**	**(93)**	**865**	**940**	**(94)**	**846**

At the beginning of 2012 we provided operational cash generation guidance of £695m for the Annuities, UK Protection, Insured Savings and With-profits businesses and US and European dividends. The 2012 operational cash generation of these businesses was in line with this guidance at £697m. For 2013, growth of 6% is forecast to around £735m.

CLEAR LINKAGE BETWEEN CASH GENERATION AND EARNINGS

Operational cash generation from operating divisions (i.e. net of Group capital and financing) increased 5% to £938m (2011: £896m) and net cash generation from business lines increased to £845m (2011: £802m). After allowing for operational cash generation from group capital and financing, which reduced to £20m (2011: £44m) largely as a result of lower assumed returns on UK equities of 5.8% (2011: 7.5%), total net cash generation was £865m (2011: £846m).

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

£m	Op cash	Strain	Net cash	Variances and other	Profit after tax	Tax	Profit before tax
Annuities	243	14	257	(45)	212	69	281
Housing and Protection	279	(45)	234	35	269	90	359
Investment mgt	197	-	197	-	197	46	243
Savings	179	(62)	117	(17)	100	33	133
US Protection	40	-	40	22	62	37	99
GCF	20	-	20	(2)	18	4	22
Investment projects	-	-	-	(38)	(38)	(12)	(50)
Operating profit	**958**	**(93)**	**865**	**(45)**	**820**	**267**	**1,087**
Variances and other	-	-	-	(19)	(19)	(32)	(51)
Total	**958**	**(93)**	**865**	**(64)**	**801**	**235**	**1,036**
Per share	**16.37**		**14.78**		**13.90**		
Dividend per share			**7.65**		**7.65**		
Dividend coverage			**1.91**		**1.80**		

CASH GENERATION BACKED BY DIVIDENDS TO GROUP

In 2012, 89% of the net cash generation of the divisions was distributed to the Group (2011: 87%). This demonstrates the fungible and liquid nature of the cash generated by the divisions. It is the intention that the business units will continue to distribute a substantial part of their net cash generated to the Group in 2013.

£m	2012			2011		
	Net cash £m	**Dividend £m**	**Dividend % of cash**	Net cash £m	Dividend £m	Dividend % of cash
Annuities	**257**			262		
Housing and Protection	**234**	**539**	**89**	205	516	89
Savings	**117**			111		
Investment management	**197**	**175**	**89**	189	150	79
US Protection	**40**	**40**	**100**	35	35	100
Sub total	**845**	**754**	**89**	802	701	87
Group capital and financing	**20**			44		
Total	**865**	**754**	**87**	846	701	83

CASH GENERATION TRANSLATED INTO SHAREHOLDER ASSETS

Total shareholder assets, which include Group capital and financing assets and other shareholder assets, increased by £0.6bn to £6.5bn (2011: £5.9bn) as a result of the Group's strong cash generation. Shareholder assets have now increased by 55% from the £4.2bn held at the beginning of 2010. The table below demonstrates the strong link between our cash generation metric and shareholder assets in our balance sheet.

Shareholder Assets £m	2012	2011
Opening Group capital and financing assets	***4,344***	*3,656*
Opening shareholder assets in other subsidiaries	***1,588***	*1,688*
Opening shareholder assets	**5,932**	5,344
Group operational cash generation	**958**	940
New business strain	**(93)**	(94)
Net cash generation	**865**	846
External dividend payments in the year	**(394)**	(298)
Other	**123**	40
Closing Group capital and financing assets	***4,741***	*4,344*
Closing shareholder assets in other subsidiaries	***1,785***	*1,588*
Closing shareholder assets	**6,526**	5,932

BUSINESS REVIEW - BALANCE SHEET

CAPITAL RESOURCES – STABLE AND STRONG BALANCE SHEET

As at 31 December 2012 the Insurance Group's Directive (IGD) surplus was £4.1bn (2011: £3.8bn).

The Group's capital resources totalled £7.2bn, covering the capital resources requirement of £3.1bn by 2.34 times. This capital buffer is in addition to the £1.7bn of LGPL credit default provision and is after allowing for the accrual of the 2012 final dividend of £336m.

Capital £bn	2012	2011
Group capital resources	**7.2**	6.9
Group capital resources requirement	**3.1**	3.1
IGD surplus[1]	**4.1**	3.8
Coverage ratio %	**234**	220

The IGD capital position reflects regulatory reporting, i.e. Pillar 1 for the UK firms and international regulatory reporting for the overseas subsidiaries. The table below demonstrates how the Group's net cash generation flows through to the IGD capital position.

IGD Surplus[1] £bn	
At 1 January 2012	**3.8**
Operational cash	1.0
New business strain	(0.1)
2012 dividend	(0.5)
Experience variances, assumption changes and other variances	(0.1)
Increase in UK capital requirement	(0.2)
Release of capital from US capital programme	0.3
Other regulatory adjustments[2]	(0.1)
At 31 December 2012	**4.1**

1. All IGD amounts are estimated, unaudited and after accrual of the final dividend of £336m (2011: £279m).
2. Includes £(72)m resulting from the utilisation of trading losses included in net cash.

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

Pillar 1 capital requirement £bn	2012	2011
Protection and Annuities	**1.9**	1.7
Savings	**0.1**	0.1
With-profits – operational	**0.6**	0.6
Other subsidiaries	**0.4**	0.3
Operational group capital resources requirement	**3.0**	2.7
With-profits insurance capital component (WPICC)[1]	**0.1**	0.4
Group capital resources requirement	**3.1**	3.1

1. This is the result of the mechanical calculation of the capital required in the With-profits fund on the regulatory (Peak 1) and realistic (Peak 2) bases. The interaction between the two bases will give rise, under certain market conditions, to a technical capital requirement called the With-profits insurance capital requirement (WPICC).

SUPPLEMENTARY EEV DISCLOSURE

EEV highlights	2012	2011
Worldwide new business margin (%)	**4.7**	5.1
Equity per share including LGIM (pence)	**173**	167
Equity per share (pence)	**151**	147

Analysis of EEV results £m	2012	2011
Contribution from new business	**475**	441
Expected return from in-force business	**448**	494
Experience variances and assumption changes	**(76)**	270
Development costs	**(37)**	(10)
Contribution from shareholder net worth	**145**	178
EEV operating profit on covered business	**955**	1,373
Investment management	**216**	210
Other businesses (including General Insurance and the Group's finance costs)	**(130)**	(114)
EEV operating profit	**1,041**	1,469
Investment variance and economic assumption changes	**(194)**	(132)
Losses attributable to non-controlling interests	**(12)**	(3)
EEV profit from ordinary activities before tax	**835**	1,334
Tax and other	**(101)**	(103)
EEV profit from ordinary activities after tax	**734**	1,231
EEV earnings per share (pence)	**12.75**	21.17

EEV OPERATING PROFIT

Although there is a reduction in EEV operating profit to £1,041m (2011: £1,469m), this primarily reflects a number of one-off items in both 2011 and 2012. In 2011, these totalled a positive £270m, whilst in 2012 the impact of regulatory changes in the US contributed to a negative variance of £76m. In addition, 2012 included a lower expected return on in-force, due to the fall in the opening risk discount rate, which reduced operating profit by a further £46m.

Contribution from new business increased to £475m (2011: £441m) primarily due to improved sales and margins in the UK and US Protection business, reflecting greater underwriting efficiency and continuing growth in market share.

EEV PER SHARE

The Group has delivered £734m (2011: £1,234m) of EEV profit after tax, which after external dividend payments of £394m and foreign exchange, pension deficit and other adjustments of £(48)m, increased EEV shareholders' equity to £8,900m (2011: £8,608 m).

The number of shares increased to 5,913m (2011: 5,872m) principally due to the vesting of 3 year "Save As You Earn" (SAYE) options granted to our employees in 2009.

This movement in equity coupled with the increase in the number of shares equates to shareholders' equity per share of 151 pence (2011: 147 pence). Including LGIM's external funds in the calculation increases the EEV per share to 173 pence.

NEW BUSINESS CONTRIBUTION

Contribution from new business increased to £475m (2011: £441m) as sales, on a PVNBP basis, increased 20% to £10.2bn (2011: £8.5bn). This increase reflected the impact of the growth in our workplace business on non-profit pension sales and the increase in US and UK protection sales.

Strong cost management, underwriting efficiency, and the benefits of growing scale helped both the UK and US Protection businesses to deliver improved margins in the year. The UK protection business grew margins to an exceptional 11.8% (2011: 9.3%) whilst the US Protection business also delivered an 11.8% margin, up from 10.7% in 2011. Worldwide EEV new business margins reduced slightly to 4.7% (2011: 5.1%) owing to the greater proportion of sales from the Savings business and a lower annuity new business margin, reflecting a shorter duration in the mix of business written than 2011.

EEV EXPERIENCE VARIANCES AND ASSUMPTION CHANGES

2011 experience and assumption changes reflected the impact of a number of one-off items and totalled a positive £270m.

In 2012, experience and assumption changes of £(76)m primarily included the impact of new US reserving requirements (Actuarial Guidance 38).

LGIM is reported on an IFRS basis. Operating profit of £216m (2011: £210m) excludes £27m (2011: £24m) of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a “look through” basis and as a consequence are included in the Protection, Annuities and Savings covered businesses on an EEV basis.

INVESTMENT VARIANCES AND ECONOMIC ASSUMPTION CHANGES

Investment variance and economic assumption changes of £(194)m primarily reflects the impact of increases in long duration and falls in short duration interest rates on the reinvestment and divestment assumptions, coupled with higher cost of capital from lower assumed returns on shareholder assets.

MONETISATION OF VALUE IN-FORCE

The monetisation of the Group’s Value In-force (VIF) will form the basis of future profits and operational cash generation of the Annuity, Protection and Insured Savings businesses. The ageing profile of the undiscounted VIF monetisation is given in the table below:

Estimated monetisation of UK VIF (undiscounted)[1]	2013 - 2017	2018 - 2022	2023 - 2027	Beyond 2027
UK VIF monetisation	**30%**	**20%**	**13%**	**37%**

1. Management estimates.

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

Reconciliation of UK long term Risk and Savings VIF £bn	Discounted	Undiscounted[1]
Opening VIF at 1 January 2012	**4.2**	**8.4**
Contribution from new business	0.4	0.8
Unwind of discount rate	0.2	-n/a
Expected release from non profit and with-profits businesses[2]	(0.6)	(0.6)
Closing operational VIF at 31 December 2012	**4.2**	**8.6**
Experience variances / assumption changes	-	0.1
Investment variance / economic assumption changes	-	-
Other	0.2	0.1
Closing VIF at 31 December 2012	**4.4**	**8.8**

1. Management estimates.
2. Comprises the expected release from non profit business of £591m and with-profits transfer of £52m.

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 £0.2bn (2011: £0.2bn), equivalent to 4p per share (2011: 4p per share).

The external assets component of LGIM is included at the IFRS net asset value of £0.4bn (2011: £0.4bn), equivalent to 6p per share (2011: 6p 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 £0.6bn (10p per share) to £1.9bn (33p per share). In line with the rest of the Group, the embedded value for LGIM excludes any value for future new business and as such is lower than the true valuation of the company.

Estimated LGIM discounted cash flow valuation	2012 p per share	2012 £bn
Look through value of profits on covered business	**4**	0.2
Net asset value	**6**	0.4
Current value of LGIM in Group embedded value	**10**	0.6
LGIM VIF	**23**	1.3
Alternative discounted value of LGIM future cash flows	**33**	1.9

Including LGIM, this scenario equates to an indicative valuation per share of 173 pence.

Indicative valuation including LGIM	2012 p per share	2012 £bn
EEV as reported	**150.5**	8.9
LGIM VIF	**22.8**	1.3
Total including LGIM	**173.3**	10.2

PRINCIPAL RISKS AND UNCERTAINTIES

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

REGULATORY AND LEGISLATION

PRINCIPAL UNCERTAINTY AND POTENTIAL IMPACT	MITIGATION, TREND AND OUTLOOK
Changes in regulation or legislation may have a detrimental effect on our strategy or profitability. Legislation and government fiscal policy can influence our product design, the period of retention of products and our required reserves for future liabilities. Regulation defines the overall framework for the design, marketing and distribution of our products; and the prudential capital that we hold. The nature of long term business can result in some changes in regulation having a retrospective effect on our businesses.	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. 2012 has the seen the successful delivery of our Retail Distribution Review (RDR) proposition together with the transition of our business partners to the new regime. We have also delivered the core components of our Solvency II (SII) programme. However, there remains much uncertainty both to the implementation timescales of SII and the final calibrations that will be used for long term business. The regulatory change agenda also continues with the transition of the FSA into the Prudential Regulatory Authority and Financial Conduct Authority. Whilst the high level approaches of the respective bodies have been published, the potential remains that their new rule books present unintended consequences to the insurance sector and that a more aggressive supervision and enforcement regime lead to increased capital requirements and increased costs in meeting regulatory requirements. Other areas of significant regulatory change include further regulation of the UK mortgage market and the EU Packaged Retail Investment Products directive.
Investment market performance or conditions in the broader economy may adversely impact our earnings and profitability. The performance and liquidity of investment markets, interest rate movements and inflation can impact the value of the investment assets we hold to meet the obligations arising from insurance business as well as the value of the obligations themselves, resulting in mismatches in the profile of cash flows of our assets and liabilities. In addition, significant falls in investment values can also impact the fee income of our investment management business. Broader economic conditions can impact the timing of the purchase and the period of retention of retail financial services products.	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 medium-term plan we have sought to ensure focus upon those market segments that will be resilient in projected conditions. Although investment markets have shown a strong recovery in 2012 and early 2013, the outlook for the global economy continues to remain uncertain. Rates of economic growth look set to be subdued and macro-economic policy responses are likely to drive a prolonged period of low interest rates. While EU governments have acted to stabilise the Euro zone, there remains potential for shocks to global financial markets, which in extreme could impact our ability to execute hedging strategies that ensure the profile of our asset and liability cash flows are appropriately matched.

INDUSTRY CHANGE

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

The financial services sector continues to go through a period of change. Significant changes in the markets in which we operate may require the review and realignment of elements of our business strategy. A failure to be sufficiently responsive to potential change and understand the implication to our businesses, or the incorrect execution of change, may impact the achievement of our strategic objectives.

We seek to ensure we have market leading expertise in the core fields in which we operate, and actively focus on retaining the best personnel with the knowledge to design and support our products. We have re-aligned our internal organisation to fully support our ambition, including the development of our digital capabilities.

The UK Government continues to focus on a broad range of changes to the provision of state benefits including changes to the state pension. Such changes will impact the way in which consumers approach protecting their income and planning for their retirement. The distribution landscape is also expected to continue to evolve post the implementation of RDR, presenting a range of opportunities.

COUNTERPARTY AND THIRD PARTY RISKS

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

A default event within the banking sector, or a major sovereign debt event, could result in dislocation of bond markets, significantly widening credit spreads, and in extreme conditions may result in default of strongly rated issuers of debt, requiring us to increase our default provisions.

We also have exposures to banking, money market and reinsurance counterparties, and the providers of settlement, custody and other bespoke business services to the Group, a failure of which could expose us either to financial loss or short term operational disruption of our business processes.

We actively manage our exposure to default risks, setting robust counterparty selection criteria and exposure limits. We continue to diversify the asset classes backing our annuities business, to include the use of property lending, sale and leaseback and infrastructure assets. Our service providers are also subject to rigorous selection criteria.

Over 2012, credit spreads have begun to normalise reflecting increased market confidence in the issuers of investment grade bonds, whilst within Legal & General we continue to experience a very low level of actual defaults. However, while we assess the occurrence of a major bank default or sovereign event as being a more extreme outcome than in previous years, the risk and associated uncertainties remain. The current economic environment also presents an increased risk that suppliers of business services may be unable to meet their obligations.

UK FINANCIAL SERVICES SECTOR CONTAGION RISKS

As a UK-based Group, our earnings are influenced by the performance and perception of the UK financial services sector as a whole.

The financial crisis, subsequent investment performance and low interest rate environment, together with consumers' perceptions of the robustness of financial institutions may impact consumer attitudes to long term savings. Recent regulatory actions, for example in the banking sector with regard to Payment Protection Insurance (PPI), may also adversely impact consumers' perception of the value of insurance products and result in changes to the regulatory and legislative environment in which we operate.

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 engage with our regulators to support understanding of the risk drivers in the markets in which we operate.

As a significant participant in the long term savings markets, we are inherently exposed to the risk of a downturn in new business volumes and changes in policy persistency as a consequence of consumer sentiment. We are also exposed to the risk of increased costs of regulatory compliance through regulatory and legislative responses to events in the banking sector being read across to insurers without reference to the different business models.

MORTALITY, CATASTROPHE AND OTHER ASSUMPTION UNCERTAINTIES

Reserves for long term business may require revision as a result of changes in experience, regulation or legislation.

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

We undertake significant analysis of longevity and mortality risks to ensure an appropriate premium is charged for the risks we take on and that our reserves remain appropriate. We remain focused on developing a comprehensive understanding of annuitant mortality and we continue to evolve and develop our underwriting capabilities. The sensitivities of our UK Long term Business to annuitant mortality are set out in note 2.15. We also continue to ensure that legislators recognise the benefits to consumers of pricing insurance products based on the risk factors that each policy presents.

Whilst we regularly appraise the assumptions underpinning the business that we write using both external and our own mortality data, extreme events, such as a rapid advance in medical science leading to significantly enhanced annuitant longevity or an event causing widespread mortality/morbidity remain inherent risks to our business. Following the implementation of EU gender neutral pricing legislation in the UK, there also remains potential for further legislation to price insurance products irrespective of other risk factors, such as age or disability.

BUSINESS PROCESS RISKS

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

We have constructed our framework of internal controls to minimise the risk of unanticipated loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage.

Our “three lines of defence” risk governance model seeks to ensure that business management take an active part in developing an appropriate control environment for the risks implicit in business processes they manage, with expert advice and guidance from Risk Management. Our internal audit function provides independent assurance on the adequacy and effectiveness of our controls. The report of the Group Audit Committee within the 2012 Report and Accounts outlines its work during the year in reviewing our internal control system.

As our business grows 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.

ENQUIRIES

INVESTORS:

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

MEDIA:

John Godfrey	Group Communications Director	020 3124 2090
Richard King	Head of Media Relations	020 3124 2095
Anastasia Shiach	Tulchan Communications	020 7353 4200
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 10.00 GMT today at One Coleman Street, London, EC2R 5AA. There will be a live webcast of the presentation which can be accessed at http://investor.legalandgeneral.com/results.cfm. A replay will be available on this website later today.

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

PARTICIPANT DIAL-IN NUMBERS

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

Financial Calendar 2013	Date
Ex dividend date	24 April 2013
Record date	26 April 2013
Annual general meeting	22 May 2013
Payment date of 2012 interim dividend	29 May 2013
Q1 Interim Management Statement 2013	2 May 2013
Half-year Results 2013	6 August 2013
Q3 Interim Management Statement 2013	5 November 2013

The Preliminary Results for the year ended 31 December 2012 do not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The Group's statutory accounts for 2011 and 2012 have been audited by PricewaterhouseCoopers LLP and their reports were unqualified and did not contain a statement under section 498(2) or (3) of the Companies Act 2006. The Group's 2011 statutory accounts have been filed with the Registrar of Companies.

FORWARD-LOOKING STATEMENTS

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

DIRECTORS' RESPONSIBILITY STATEMENT (EXTRACTED FROM THE 2012 ANNUAL REPORT AND ACCOUNTS)

The directors are responsible for preparing the Directors' Report, the Directors' Report on Remuneration and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). In preparing the Group financial statements, the directors have also elected to comply with IFRSs issued by the International Accounting Standards Board (IASB).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and IFRSs issued by IASB, and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the group and Company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Report on Remuneration comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the directors confirms that, to the best of his knowledge:

- the financial statements, which have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the Group as a whole; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the Group as a whole, together with a description of the principal risks and uncertainties that they face.

Each of the directors whose names and functions are listed below confirms that, so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and each of the directors has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of such information. This confirmation is given in accordance with section 418(2) of the Companies Act 2006.

J. M. Stewart	Chairman	N. Prettejohn	Non-Executive Director
N.D. Wilson	Group Chief Executive	H.E. Staunton	Non-Executive Director
M.E. Fairey	Non-Executive Director	J.S. Wilson	Non-Executive Director
Dame C.H.F. Furse	Non-Executive Director	M.J. Zinkula	CEO LGIM
M.J. Gregory	CEO Savings		
R.H.P. Markham	Non-Executive Director		
J.B. Pollock	CEO Protection & Annuities		
S.G. Popham	Non-Executive Director		

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Supplementary operating profit information
For the year ended 31 December 2012

	Notes	2012 £m	2011 [1] £m
From continuing operations			
Protection and Annuities	2.01(a)	**640**	601
Savings	2.02(a)	**133**	126
Investment management	2.03	**243**	234
US Protection		**99**	97
Group capital and financing	2.04	**22**	51
Investment projects[2]		**(50)**	(56)
Operating profit		**1,087**	1,053
Investment variances[3]		**(39)**	(97)
Losses attributable to non-controlling interests		**(12)**	(3)
Profit before income tax attributable to equity holders of the Company		**1,036**	953
Tax expense attributable to equity holders of the Company	2.05	**(235)**	(232)
Profit for the year		**801**	721
Attributable to:			
Non-controlling interests		**(12)**	(3)
Equity holders of the Company		**813**	724

		p	p[1]
Earnings per share	2.07		
Based on operating profit from continuing operations after tax attributable to equity holders of the Company		**14.01**	13.47
Based on profit attributable to equity holders of the Company		**13.90**	12.42
Diluted earnings per share	2.07		
Based on operating profit from continuing operations after tax attributable to equity holders of the Company		**13.78**	13.25
Based on profit attributable to equity holders of the Company		**13.66**	12.22

1. Supplementary operating profit has been adjusted to reflect the retrospective adoption of ASU 2010-26, issued by the FASB, which specifies the accounting for deferred acquisition costs under US GAAP. Details of this adjustment are outlined in Note 2.19. The impact is to reduce US Protection operating profit by £3m for 2011.
2. Investment projects predominantly relate to Solvency II and other strategic investments.
3. Investment variances include £18m of restructuring costs relating to a number of reorganisation initiatives around the Group, including the restructure of the International segment.

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

During the year, the Group has changed the management lines of the international subsidiaries to reflect the development of our international strategy. This has had the consequence of changing the reportable segments of the Group as outlined below. In accordance with the requirements of IFRS 8, ‘Operating Segments’, the prior period segmental information has been restated to reflect these changes.

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

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

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

Investment return on Group capital incorporates a longer term expected investment return using longer term investment return assumptions applied to the average balance of Group invested assets (including interest bearing intra-group balances) calculated on a monthly basis. Profits or losses arising from actuarial movements on annuities held by the Group’s defined benefit pension schemes are excluded from operating profit. Profits or losses arising on the elimination of own debt holdings are also excluded from operating profit. The Group capital and financing segment also includes our joint ventures in Egypt and Gulf.

Supplementary operating profit information
2.01 Protection and Annuities
(a) Protection and Annuities operating profit

	Notes	2012 £m	2011 £m
Annuities		**281**	287
Protection		**289**	242
General insurance	2.01(f)	**30**	42
Other		**(3)**	(10)
Total UK Housing and Protection operating profit		**316**	274
Total UK Protection and Annuities operating profit	2.01(b)	**597**	561
Netherlands		**28**	20
France		**15**	20
Total Protection and Annuities operating profit		**640**	601

(b) Analysis of UK Protection and Annuities operating profit

	Notes	Annui-ties 2012 £m	Housing and Protec-tion 2012 £m	Total 2012 £m	Annui-ties 2011 £m	Housing and Protec-tion 2011 £m	Total 2011 £m
UK Protection and Annuities business segment operating profit comprises:							
Operational cash generation		**243**	**265**	**508**	227	255	482
New business strain		**14**	**(45)**	**(31)**	35	(66)	(31)
Net cash generation		**257**	**220**	**477**	262	189	451
Experience variances	2.01(c)			**14**			22
Changes to valuation assumptions	2.01(d)			**(2)**			24
Movements in non-cash items	2.01(e)			**(41)**			(86)
Other				**2**			-
				450			411
Tax gross up				**147**			150
Total UK Protection and Annuities operating profit				**597**			561

During the year, Netherlands and France paid £14m (2011: £16m) of sustainable dividends to the Group, which has been included in net cash generation for the Protection and Annuities segment.

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

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

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

Supplementary operating profit information
2.01 Protection and Annuities (continued)
(c) Experience variances

	2012 £m	2011 £m
Persistency	**(4)**	(4)
Mortality/morbidity[1]	**3**	(32)
Expenses	**2**	(2)
Bulk purchase annuity data loading	**37**	42
Project and development costs	**(10)**	(7)
Tax[2]	**(14)**	33
Other	**-**	(8)
	14	22

1. Mortality/morbidity in 2011 relates to a number of high value claims in group protection. This has trended back to assumptions in 2012.
2. This relates to 2012 unrelieved expenses carried forward for tax purposes. In 2011 there was a net utilisation of brought forward expenses.

(d) Changes to valuation assumptions

	2012 £m	2011 £m
Persistency	**(8)**	(1)
Mortality/morbidity[1]	**(14)**	(1)
Expenses[2]	**(2)**	28
Other[3]	**22**	(2)
	(2)	24

1. This primarily relates to the update of assumptions in the annuities business.
2. Prior year expenses relate to efficiency improvements in Protection and Annuities.
3. Other valuation assumption changes primarily relates to a reduction to the retail protection reserve for reinsurance default and a reduction in reserves applying PS06/14 to a retail protection product.

(e) Movements in non-cash items

	2012 £m	2011 £m
Deferred tax[1]	**(32)**	(77)
Other	**(9)**	(9)
	(41)	(86)

1. This amount includes £(72)m (2011: £(80)m) for the utilisation of trading losses within net cash generation. The offsetting items comprise movements in deferred tax from creation of carried forward unrelieved expenses for tax purposes.

(f) General insurance operating profit

	Net cash generation 2012 £m	Tax 2012 £m	Operating profit 2012 £m	Net cash generation 2011 £m	Tax 2011 £m	Operating profit 2011 £m
Household	**22**	**7**	**29**	27	10	37
Other business	**1**	**-**	**1**	4	1	5
	23	**7**	**30**	31	11	42

Supplementary operating profit information
2.01 Protection and Annuities (continued)
(g) General insurance underwriting result

	2012 £m	2011 £m
Household[1]	**16**	23
Other business	**1**	4
	17	27

1. The 2012 household underwriting result reflects weather experience consistent with our assumptions. The 2011 result reflects the benign weather experienced during the year.

(h) General insurance combined operating ratio[1]

	2012 %	2011 %
Household	**95**	91
Other business	**95**	78
	95	90

1. The calculation of the general insurance combined operating ratio has been amended to incorporate commission and expenses as a percentage of earned premiums, as opposed to premium written. Prior year comparatives have been amended accordingly.

Supplementary operating profit information
2.02 Savings
(a) Savings operating profit

	Note	2012 £m	2011 £m
Savings investments[1]		**16**	23
Insured savings[2]		**48**	34
With-profits[3]		**69**	69
Total Savings operating profit	2.02(b)	**133**	126

1. Savings investments operating profit includes retail and institutional unit trusts and Suffolk Life.
2. Insured savings includes non profit investment bonds and pensions (including workplace savings and SIPPs), Nationwide Life savings business, International (Ireland) and our joint venture operation in India.
3. With-profits business operating profit is the shareholders' share of total with-profits bonuses.

(b) Analysis of Savings operating profit

	Notes	Insured savings 2012 £m	With-profits 2012 £m	Savings invest-ments 2012 £m	Total 2012 £m
Savings business segment operating profit comprises:					
Operational cash generation		**108**	**52**	**19**	**179**
New business strain		**(62)**	**-**	**-**	**(62)**
Net cash generation		**46**	**52**	**19**	**117**
Insured savings					
Experience variances	2.02(c)				**(39)**
Changes to valuation assumptions	2.02(d)				**20**
Movements in non-cash items and other	2.02(e)				**11**
Savings investments					
Movements in non-cash items and other					**(9)**
					100
Tax gross up					**33**
Total Savings operating profit					**133**

Supplementary operating profit information
2.02 Savings (continued)
(b) Analysis of Savings operating profit (continued)

	Notes	Insured savings 2011 £m	With-profits 2011 £m	Savings invest-ments 2011 £m	Total 2011 £m
Savings business segment operating profit comprises:					
Operational cash generation		101	51	22	174
New business strain		(63)	-	-	(63)
Net cash generation		38	51	22	111
Insured savings					
Experience variances	2.02(c)				(12)
Changes to valuation assumptions	2.02(d)				(5)
Movements in non-cash items and other	2.02(e)				4
Savings investments					
Movements in non-cash items and other					(6)
					92
Tax gross up					34
Total Savings operating profit					126

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

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

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

(c) Experience variances

	2012 £m	2011 £m
Persistency	**(3)**	(1)
Mortality/morbidity	**-**	2
Expenses	**(1)**	1
Project and development costs[1]	**(33)**	(12)
Tax	**1**	(4)
Other	**(3)**	2
	(39)	(12)

1. The 2012 project and development costs are primarily driven by the Retail Distribution Review £18m (2011: £3m) with additional expenditure on our workplace proposition (including auto-enrolment) of £12m (2011: £7m). Other costs are £3m (2011: £2m).

Supplementary operating profit information
2.02 Savings (continued)
(d) Changes to valuation assumptions

	2012 £m	2011 £m
Persistency	**-**	(2)
Mortality/morbidity	**-**	1
Expenses[1]	**17**	(2)
Other	**3**	(2)
	20	(5)

1. Expense valuation assumptions relate to efficiency improvements in workplace pensions.

(e) Movements in non-cash items and other

	Note	2012 £m	2011 £m
Deferred tax		**(6)**	(6)
Deferred acquisition costs (DAC)[1]	2.02(f)	**(9)**	(20)
Deferred income liabilities (DIL)[1]		**14**	27
Other[2]		**12**	3
		11	4

1. Fluctuations to the DAC and DIL movement are caused by changes to economic assumptions and the associated impact on the trail commission asset within the DAC balance and the trail commission liability in the DIL balance.
2. Other includes the operating profit/(loss) attributable to our joint venture in India.

(f) Deferred acquisition cost movement, net of associated deferred tax

	2012 £m	2011 £m
As at 1 January	**592**	612
Amortisation through income[1]	**(28)**	(74)
Acquisition costs deferred	**42**	54
As at 31 December	**606**	592

1. The DAC amortisation incorporates a one-off increase of £23m relating to the accounting for Trail Commission DOC where estimation techniques used to determine the amortisation profile has been revised and strengthened.

The Group's balance sheet deferred acquisition costs of £1.9bn (2011: £1.8bn) is presented gross of associated deferred tax. The main contributors to the balance are LGA £0.8bn (2011: £0.7bn), non profit savings of £0.7bn (2011: £0.7bn), retail investments £0.1bn (2011: £0.1bn), savings with-profits £0.1bn (2011: £0.1bn) and other business totalling £0.2bn (2011: £0.2bn).

Expected amortisation profile:

	2012 £m	2011 £m
Expected to be amortised within one year	**76**	65
Expected to be amortised between one year and five years	**305**	271
Expected to be amortised in over five years	**225**	256
	606	592

Supplementary operating profit information
2.03 Investment management

	2012 £m	2011 £m
Pension funds (managed and segregated)	**181**	172
Other non-pension[1]	**22**	25
Investment management services for internal funds	**40**	37
Total Investment management operating profit	**243**	234

1. Other non-pension includes institutional segregated mandates, private equity and property (both in the UK and overseas). Interest income on shareholder funds of £6m (2011: £9m) on an average asset balance of £0.4bn (2011: £0.4bn) has been included within other non-pension operating profit.

2.04 Group capital and financing

	2012 £m	2011 £m
Investment return	**168**	191
Interest expense[1]	**(127)**	(123)
Investment expenses	**(5)**	(5)
Unallocated corporate expenses[2]	**(14)**	(12)
Total Group capital and financing operating profit	**22**	51

1. Interest expense excludes interest on non recourse financing (see Note 2.12).
2. Unallocated corporate expenses includes the operating profit/(loss) attributable to our joint venture operations in Egypt and the Gulf.

2.05 Analysis of tax attributable to equity holders

	Profit/ (loss) before tax 2012 £m	Tax (expense)/ credit 2012 £m	Profit/ (loss) before tax 2011 Restated[1] £m	Tax (expense)/ credit 2011 Restated[1] £m
Protection and Annuities	**640**	**(159)**	601	(162)
Savings	**133**	**(33)**	126	(34)
Investment management	**243**	**(46)**	234	(45)
US Protection	**99**	**(37)**	97	(34)
Group capital and financing	**22**	**(4)**	51	(8)
Investment projects	**(50)**	**12**	(56)	15
Operating profit/Tax expense	**1,087**	**(267)**	1,053	(268)
Investment variances	**(39)**	**39**	(97)	42
Impact of change in UK tax rates	**-**	**(7)**	-	(6)
Losses attributable to non-controlling interests	**(12)**	**-**	(3)	-
Profit for the year/Tax expense for the year	**1,036**	**(235)**	953	(232)

1. Operating profit/Tax expense has been restated to reflect the retrospective adoption of ASU 2010-26, issued by the FASB, which specifies the accounting for deferred acquisition costs under US GAAP. Details of this restatement are outlined in Note 2.19.

The equity holders' effective tax rate for the period is 22.7% (2011: 24.4%). The Group's effective tax rate remains slightly below the UK corporation tax rate due to a number of differences between the measurement of accounting and taxable profits.

Consolidated Income Statement

For the year ended 31 December 2012

	Notes	2012 £m	2011 Restated[1] £m
Revenue			
Gross written premiums	2.06	**5,668**	5,719
Outward reinsurance premiums		**(718)**	(620)
Net change in provision for unearned premiums		**(25)**	(18)
Net premiums earned		**4,925**	5,081
Fees from fund management and investment contracts		**875**	897
Investment return		**28,834**	12,143
Operational income		**342**	196
Total revenue		**34,976**	18,317
Expenses			
Claims and change in insurance liabilities		**8,588**	7,173
Reinsurance recoveries		**(779)**	(493)
Net claims and change in insurance liabilities		**7,809**	6,680
Change in provisions for investment contract liabilities		**23,656**	9,306
Acquisition costs		**784**	783
Finance costs		**165**	165
Other expenses		**1,194**	1,010
Transfers to/(from) unallocated divisible surplus		**158**	(402)
Total expenses		**33,766**	17,542
Profit before tax		**1,210**	775
Tax (expense)/income attributable to policyholder returns		**(174)**	178
Profit before tax attributable to equity holders of the Company		**1,036**	953
Total tax expense		**(409)**	(54)
Tax expense/(income) attributable to policyholder returns		**174**	(178)
Tax expense attributable to equity holders	2.05	**(235)**	(232)
Profit for the year		**801**	721
Attributable to:			
Non-controlling interests		**(12)**	(3)
Equity holders of the Company		**813**	724
Dividend distributions to equity holders of the Company during the year	2.08	**394**	298
Dividend distributions to equity holders of the Company proposed after the year end	2.08	**336**	279

	Notes	p	Restated[1] p
Earnings per share			
Based on profit attributable to equity holders of the Company	2.07	**13.90**	12.42
Diluted earnings per share			
Based on profit attributable to equity holders of the Company	2.07	**13.66**	12.22

1. The Consolidated Income Statement has been restated to reflect the retrospective adoption of ASU 2010-26, issued by the FASB, which specifies the accounting for deferred acquisition costs under US GAAP. Details of this adjustment are outlined in Note 2.19.

This financial information was approved by the Board on 5 March 2013.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 £m	2011 Restated £m
Profit for the year	**801**	721
Other comprehensive income after tax		
Exchange differences on translation of overseas operations	**(13)**	-
Actuarial (losses) on defined benefit pension schemes	**(107)**	(121)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	**41**	48
Net change in financial investments designated as available-for-sale	**32**	15
Total comprehensive income for the year	**754**	663
Total comprehensive income attributable to:		
Non-controlling interests	**(12)**	(3)
Equity holders of the Company	**766**	666

Consolidated Balance Sheet

As at 31 December 2012

	Notes	2012 £m	2011 Restated[1] £m
Assets			
Purchased interest in long term businesses and other intangible assets		**211**	148
Deferred acquisition costs		**1,904**	1,833
Investment in associates		**87**	60
Property, plant and equipment		**92**	78
Investment property		**5,143**	4,894
Financial investments	2.09	**316,748**	300,604
Reinsurers' share of contract liabilities		**2,499**	2,289
Deferred tax asset		**316**	493
Current tax recoverable		**194**	94
Other assets		**1,564**	1,893
Assets of operations classified as held for sale[2]		**891**	-
Cash and cash equivalents		**16,652**	14,113
Total assets		**346,301**	326,499
Equity			
Share capital	2.10	**148**	147
Share premium	2.10	**956**	941
Employee scheme treasury shares		**(43)**	(48)
Capital redemption and other reserves		**153**	117
Retained earnings		**4,227**	3,899
Shareholders' equity		**5,441**	5,056
Non-controlling interests		**39**	66
Total equity		**5,480**	5,122
Liabilities			
Subordinated borrowings	2.12	**1,890**	1,921
Participating insurance contracts	2.13	**8,116**	8,750
Participating investment contracts	2.14	**7,403**	7,276
Unallocated divisible surplus		**1,153**	1,038
Value of in-force non-participating contracts		**(242)**	(242)
Participating contract liabilities		**16,430**	16,822
Non-participating insurance contracts	2.13	**37,728**	34,006
Non-participating investment contracts	2.14	**264,958**	251,345
Non-participating contract liabilities		**302,686**	285,351
Senior borrowings	2.12	**1,475**	1,329
Provisions	2.17	**983**	891
Deferred tax liabilities		**382**	327
Current tax liabilities		**68**	1
Payables and other financial liabilities		**8,083**	7,643
Other liabilities		**959**	933
Net asset value attributable to unit holders		**7,702**	6,159
Liabilities of operations classified as held for sale[2]		**163**	-
Total liabilities		**340,821**	321,377
Total equity and liabilities		**346,301**	326,499

1. The consolidated balance sheet has been restated to reflect the retrospective adoption of ASU 2010-26, issued by the FASB, which specifies the accounting for deferred acquisition costs under US GAAP. Details of this adjustment are outlined in Note 2.19.
2. Assets and liabilities of operations classified as held for sale relate to seed capital the Group has invested into newly established funds. They are classified as held for sale as the Group expects it's ownership to reduce below the level for control within 12 months of classification.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
As at 1 January 2012	**147**	**941**	**(48)**	**117**	**3,899**	**5,056**	**66**	**5,122**
Profit for the year	-	-	-	-	813	813	(12)	801
Exchange differences on translation of overseas operations	-	-	-	(13)	-	(13)	-	(13)
Actuarial (losses) on defined benefit pension schemes	-	-	-	-	(107)	(107)	-	(107)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	-	-	-	-	41	41	-	41
Net change in financial investments designated as available-for-sale	-	-	-	32	-	32	-	32
Total comprehensive income/(expense) for the year	-	-	-	19	747	766	(12)	754
Options exercised under share option schemes:								
- Executive share option schemes	-	1	-	-	-	1	-	1
- Savings related share option scheme	1	14	-	-	-	15	-	15
Shares purchased	-	-	(3)	-	-	(3)	-	(3)
Shares vested	-	-	8	(21)	-	(13)	-	(13)
Employee scheme treasury shares:								
- Value of employee services	-	-	-	19	-	19	-	19
Share scheme transfers to retained earnings	-	-	-	-	(6)	(6)	-	(6)
Dividends	-	-	-	-	(394)	(394)	-	(394)
Movement in third party interests	-	-	-	-	-	-	(15)	(15)
Currency translation differences	-	-	-	19	(19)	-	-	-
As at 31 December 2012	**148**	**956**	**(43)**	**153**	**4,227**	**5,441**	**39**	**5,480**

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2011 (Restated)	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 2011	147	938	(41)	91	3,546	4,681	47	4,728
Profit for the year	-	-	-	-	724	724	(3)	721
Exchange differences on translation of overseas operations	-	-	-	-	-	-	-	-
Actuarial (losses) on defined benefit pension schemes	-	-	-	-	(121)	(121)	-	(121)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	-	-	-	-	48	48	-	48
Net change in financial investments designated as available-for-sale	-	-	-	15	-	15	-	15
Total comprehensive income/(expense) for the year	-	-	-	15	651	666	(3)	663
Options exercised under share option schemes:								
- Executive share option schemes	-	1	-	-	-	1	-	1
- Savings related share option scheme	-	2	-	-	-	2	-	2
Shares purchased	-	-	(15)	-	-	(15)	-	(15)
Shares vested	-	-	8	(19)	-	(11)	-	(11)
Employee scheme treasury shares:								
- Value of employee services	-	-	-	27	-	27	-	27
Share scheme transfers to retained earnings	-	-	-	-	3	3	-	3
Dividends	-	-	-	-	(298)	(298)	-	(298)
Movement in third party interests	-	-	-	-	-	-	22	22
Currency translation differences	-	-	-	3	(3)	-	-	-
As at 31 December 2011	147	941	(48)	117	3,899	5,056	66	5,122

Consolidated Cash Flow Statement
For the year ended 31 December 2012

	2012 £m	2011 Restated £m
Cash flows from operating activities		
Profit for the year	**801**	721
Adjustments for non cash movements in net profit for the year		
Realised and unrealised gains on financial investments and investment properties	**(18,429)**	(3,014)
Investment income	**(9,470)**	(8,971)
Interest expense	**165**	165
Tax expense	**409**	54
Other adjustments	**67**	68
Net (increase)/decrease in operational assets		
Investments held for trading or designated as fair value through profit or loss	**(1,118)**	3,736
Investments designated as available-for-sale	**30**	(29)
Other assets	**(3,008)**	(1,678)
Net increase in operational liabilities		
Insurance contracts	**3,221**	2,075
Transfer from unallocated divisible surplus	**115**	(431)
Investment contracts	**13,795**	(2,068)
Value of in-force non-participating contracts	**-**	135
Other liabilities	**7,026**	2,258
Cash used in operations	**(6,396)**	(6,979)
Interest paid	**(164)**	(164)
Interest received	**5,013**	5,021
Tax paid[1]	**(193)**	(193)
Dividends received	**4,539**	3,872
Net cash flows from operating activities	**2,799**	1,557
Cash flows from investing activities		
Net acquisition of plant, equipment and intangibles	**(59)**	(41)
Acquisitions (net of cash acquired)[2]	**(27)**	(11)
Capital injection into overseas joint ventures	**-**	(5)
Net cash flows from investing activities	**(86)**	(57)
Cash flows from financing activities		
Dividend distributions to ordinary equity holders of the Company during the year	**(394)**	(298)
Proceeds from issue of ordinary share capital	**16**	3
Purchase of employee scheme shares	**(3)**	(15)
Proceeds from borrowings	**1,318**	1,327
Repayment of borrowings	**(1,105)**	(1,428)
Net cash flows from financing activities	**(168)**	(411)
Net increase in cash and cash equivalents	**2,545**	1,089
Exchange (losses) on cash and cash equivalents	**(6)**	(12)
Cash and cash equivalents at 1 January	**14,113**	13,036
Cash and cash equivalents at 31 December	**16,652**	14,113

1. Tax comprises UK corporation tax paid of £60m (2011: £80m), overseas corporate taxes of £8m (2011: £8m) and withholding tax of £125m (2011: £105m).
2. Net cash flows from acquisitions include total net identifiable assets acquired of £33m (2011: £15m) less cash and cash equivalents acquired of £6m (2011: £4m).

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

Notes to the Financial Statements
2.06 Gross written premiums on insurance contracts

	2012 £m	2011 £m
From continuing operations		
Protection and Annuities		
Non-participating UK business	**3,782**	3,778
Netherlands (LGN)	**172**	194
France (LGF)	**406**	393
General insurance		
- Household	**327**	283
- Other business	**22**	21
Total Protection and Annuities	**4,709**	4,669
Savings		
Non-participating Savings business	**39**	40
Participating business	**336**	488
Total Savings	**375**	528
US Protection	**584**	522
Total gross written premiums	**5,668**	5,719

2.07 Earnings per share
(a) Earnings per share

	Profit before tax 2012 £m	Tax expense 2012 £m	Profit after tax 2012 £m	Earnings per share 2012 p	Profit before tax 2011 Restated £m	Tax expense 2011 Restated £m	Profit after tax 2011 Restated £m	Earnings per share 2011 Restated p
Operating profit	**1,087**	**(267)**	**820**	**14.01**	1,053	(268)	785	13.47
Investment variances	**(39)**	**39**	**-**	**0.01**	(97)	42	(55)	(0.94)
Impact of change in UK tax rates	**-**	**(7)**	**(7)**	**(0.12)**	-	(6)	(6)	(0.11)
Earnings per share based on profit attributable to equity holders	**1,048**	**(235)**	**813**	**13.90**	956	(232)	724	12.42

(b) Diluted earnings per share
(i) Based on operating profit after tax

	Profit after tax 2012 £m	Number of shares[1] 2012 m	Earnings per share 2012 p	Profit after tax 2011 Restated £m	Number of shares[1] 2011 m	Earnings per share 2011 Restated p
Operating profit after tax	**820**	**5,851**	**14.01**	785	5,828	13.47
Net shares under options allocable for no further consideration	**-**	**99**	**(0.23)**	-	97	(0.22)
Diluted earnings per share	**820**	**5,950**	**13.78**	785	5,925	13.25

Notes to the Financial Statements
2.07 Earnings per share (continued)
(b) Diluted earnings per share (continued)
(ii) Based on profit attributable to equity holders

	Profit after tax 2012 £m	**Number of shares[1] 2012 m**	**Earnings per share 2012 p**	Profit after tax 2011 Restated £m	Number of shares[1] 2011 m	Earnings per share 2011 Restated p
Profit attributable to equity holders of the Company	**813**	**5,851**	**13.90**	724	5,828	12.42
Net shares under options allocable for no further consideration	**-**	**99**	**(0.24)**	-	97	(0.20)
Diluted earnings per share	**813**	**5,950**	**13.66**	724	5,925	12.22

1. Weighted average number of shares.

The number of shares in issue at 31 December 2012 was 5,912,782,826 (31 December 2011: 5,872,166,893).

2.08 Dividends

	Per share 2012 p	**Total 2012 £m**	Per share 2011 p	Total 2011 £m
Ordinary share dividends paid in the year				
- Prior year final dividend	**4.74**	**278**	3.42	201
- Current year interim dividend	**1.96**	**116**	1.66	97
	6.70	**394**	5.08	298
Ordinary share dividend proposed[1]	**5.69**	**336**	4.74	279

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

2.09 Financial investments

	2012 £m	2011 £m
Equities	**148,488**	134,594
Unit trusts	**7,238**	7,487
Debt securities[1]	**152,526**	149,711
Accrued interest	**1,669**	1,705
Derivative assets[2]	**6,445**	6,756
Loans and receivables	**382**	351
	316,748	300,604

1. Detailed analysis of debt securities which shareholders are directly exposed to are disclosed in Note 4.02.
2. Derivative exposures arise from efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps, foreign exchange forward contracts for asset and liability management and the matching of Guaranteed Equity Bonds within the Nationwide portfolio. Derivative assets are shown gross of derivative liabilities and include £3,296m (2011: £3,174m) held on behalf of unit linked policyholders.

There have been no significant transfers between levels 1, 2 and 3 of the fair value hierarchy (as prescribed in IFRS 7 'Financial Instruments: Disclosures') for the year ended 31 December 2012. Further details are provided in Note 4.07.

Notes to the Financial Statements
2.10 Share capital and share premium

Authorised share capital	2012 Number of shares	2012 £m	2011 Number of shares	2011 £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 2012	**5,872,166,893**	**147**	**941**
Options exercised under share option schemes			
- Executive share option scheme	**1,626,478**	**-**	**1**
- Savings related share option scheme	**38,989,455**	**1**	**14**
As at 31 December 2012	**5,912,782,826**	**148**	**956**

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2011	5,866,669,323	147	938
Options exercised under share option schemes			
- Executive share option scheme	1,736,890	-	1
- Savings related share option scheme	3,760,680	-	2
As at 31 December 2011	5,872,166,893	147	941

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.

Notes to the Financial Statements
2.11 Segmental analysis of shareholders' equity

	2012 **£m**	2011 Restated £m
Protection and Annuities		
General insurance	**180**	148
Netherlands (LGN)	**156**	118
France (LGF)	**204**	196
Other	**10**	6
Total Protection and Annuities	**550**	468
Savings		
Savings investments	**138**	136
Other	**52**	48
Total Savings	**190**	184
Investment management	**360**	351
US Protection	**919**	910
Group capital and financing	**3,422**	3,143
Shareholders' equity	**5,441**	5,056

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

The Group has five reporting segments comprising Protection and Annuities, Savings, Investment management, US Protection, and Group capital and financing.

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

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

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

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

Shareholders' equity supporting the non profit Protection and Annuities and Savings businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within Group capital and financing. This also includes capital within the Group's treasury function and unit trust funds and property partnerships, which are managed on behalf of clients but are required to be consolidated under IFRS, which do not constitute a separately reportable segment. The Group capital and financing segment also includes our joint ventures in Egypt and the Gulf.

Notes to the Financial Statements
2.12 Borrowings

	2012 £m	2011 £m
Subordinated borrowings		
6.385% Sterling perpetual capital securities (Tier 1)	**700**	721
5.875% Sterling undated subordinated notes (Tier 2)	**419**	421
4.0% Euro subordinated notes 2025 (Tier 2)	**479**	483
10% Sterling subordinated notes 2041 (Tier 2)	**309**	309
Client fund holdings of Group debt[1]	**(17)**	(13)
Total subordinated borrowings	**1,890**	1,921
Senior borrowings		
Sterling medium term notes 2031-2041	**608**	608
Euro Commercial paper	**333**	246
Bank loans/other	**6**	8
Client fund holdings of Group debt[1]	**(53)**	(51)
Total senior borrowings (excluding non recourse)	**894**	811
Total borrowings (excluding non recourse)	**2,784**	2,732
Non recourse		
- US Dollar Triple X securitisation 2037	**272**	286
- Suffolk Life unit linked borrowings	**123**	136
- LGV 6/LGV 7 Private Equity Fund Limited Partnership	**128**	96
- Consolidated Property Limited Partnerships	**58**	-
Total senior borrowings (including non recourse)	**1,475**	1,329
Total borrowings	**3,365**	3,250

1. £70m (2011: £64m) of the Group's subordinated and senior debt is currently held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total borrowings in the table above.

Notes to the Financial Statements
2.12 Borrowings (continued)

Subordinated borrowings

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

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

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

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

Non recourse financing

US Dollar Triple X securitisation 2037
In 2006, a subsidiary of LGA issued US$450m of non recourse debt in the US capital markets to meet the Triple X reserve requirements of part of the US term insurance written after 2005 and 2006. It is secured on the cash flows related to that tranche of business.

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

LGV6/LGV7 Private Equity Fund Limited Partnerships
These borrowings are non recourse bank borrowings.

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

Syndicated credit facility

As at 31 December 2012, the Group had in place a £1.00bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in October 2017. No drawings were made under this facility during 2012.

Holding company short term assets

Short term assets available at the holding company level exceeded the amount of non-unit linked short term borrowings of £337m (2011: £254m). They comprise Euro Commercial paper and bank loans.

Notes to the Financial Statements
2.13 Insurance contract liabilities
(a) Analysis of insurance contract liabilities

	Notes	**Gross 2012 £m**	**Re-insurance 2012 £m**	Gross 2011 £m	Re-insurance 2011 £m
Participating insurance contracts	2.13(b)	**8,116**	**(1)**	8,750	(1)
Non-participating insurance contracts[1]	2.13(c)	**37,445**	**(2,277)**	33,761	(2,110)
General insurance contracts	2.13(d)	**283**	**(8)**	245	(6)
Insurance contract liabilities		**45,844**	**(2,286)**	42,756	(2,117)

1. Excluding General insurance contracts.

(b) Movement in participating insurance contract liabilities

	Gross 2012 £m	**Re-insurance 2012 £m**	Gross 2011 £m	Re-insurance 2011 £m
As at 1 January	**8,750**	**(1)**	9,383	(1)
New liabilities in the year	**262**	**-**	374	-
Liabilities discharged in the year	**(1,413)**	**-**	(1,435)	-
Unwinding of discount rates	**78**	**-**	85	-
Effect of change in non-economic assumptions	**4**	**-**	(26)	-
Effect of change in economic assumptions	**329**	**-**	357	-
Other	**106**	**-**	12	-
As at 31 December	**8,116**	**(1)**	8,750	(1)

Notes to the Financial Statements
2.13 Insurance contract liabilities (continued)
(c) Movement in non-participating insurance contract liabilities

	Gross 2012 £m	Re-insurance 2012 £m	Gross 2011 £m	Re-insurance 2011 £m
As at 1 January	**33,761**	**(2,110)**	31,064	(2,096)
New liabilities in the year	**2,667**	**(392)**	2,687	(309)
Liabilities discharged in the year	**(2,271)**	**213**	(2,018)	144
Unwinding of discount rates	**1,311**	**(118)**	1,321	(123)
Effect of change in non-economic assumptions	**(124)**	**132**	(403)	389
Effect of change in economic assumptions[1]	**2,229**	**(17)**	1,133	(111)
Foreign exchange adjustments	**(128)**	**15**	(23)	(4)
As at 31 December	**37,445**	**(2,277)**	33,761	(2,110)

1. The economic assumptions changes in 2012 principally reflect the narrowing of credit spreads. Movements in credit spreads also increased the value of the corresponding backing assets.

(d) Analysis of General insurance contract liabilities

	Gross 2012 £m	Re-insurance 2012 £m	Gross 2011 £m	Re-insurance 2011 £m
Outstanding claims	**74**	**-**	76	(1)
Claims incurred but not reported	**30**	**-**	17	-
Unearned premiums	**179**	**(8)**	152	(5)
General insurance contract liabilities	**283**	**(8)**	245	(6)

(e) Movement in General insurance claim liabilities

	Gross 2012 £m	Re-insurance 2012 £m	Gross 2011 £m	Re-insurance 2011 £m
As at 1 January	**93**	**(1)**	127	(1)
Claims arising	**181**	**-**	172	-
Claims paid	**(172)**	**1**	(207)	-
Adjustments to prior year liabilities	**2**	**-**	1	-
As at 31 December	**104**	**-**	93	(1)

Notes to the Financial Statements
2.14 Investment contract liabilities
(a) Analysis of investment contract liabilities

	Gross 2012 £m	Re-insurance 2012 £m	Gross 2011 £m	Re-insurance 2011 £m
Participating investment contracts	**7,403**	**(2)**	7,276	-
Non-participating investment contracts	**264,958**	**(211)**	251,345	(172)
Investment contract liabilities	**272,361**	**(213)**	258,621	(172)

(b) Movement in investment contract liabilities

	Gross 2012 £m	Re-insurance 2012 £m	Gross 2011 £m	Re-insurance 2011 £m
As at 1 January	**258,621**	**(172)**	260,749	(233)
Reserves in respect of new business[1]	**28,347**	**(2,045)**	28,500	(1,431)
Amounts paid on surrenders and maturities during the year[1]	**(37,699)**	**704**	(39,419)	744
Investment return and related benefits	**23,469**	**1,300**	9,168	748
Management charges	**(300)**	**-**	(315)	-
Foreign exchange adjustments	**(55)**	**-**	(59)	-
Other	**(22)**	**-**	(3)	-
As at 31 December	**272,361**	**(213)**	258,621	(172)

1. Reserves in respect of new business and surrenders and maturities exclude £16.0bn (2011: £13.6bn) net inflows from investment products that are not consolidated into the Group's results, £1.5bn (2011: £3.1bn) held on a temporary basis, generally as part of portfolio reconstructions, £(1.1)bn (2011: £(0.9)bn) of general insurance products flows and £(0.5)bn (2011: £(0.7)bn) of other movements, which contribute towards Investment Management and Savings new business flows disclosed in our new business section.

Fair value movements of £(16,305)m (2011: £(9,813)m) are included within the income statement arising from movements in investment contract liabilities designated as FVTPL.

2.15 Sensitivity analysis
(a) UK long term business

	Impact on pre-tax Group profit net of re-insurance 2012 £m	Impact on Group equity net of re-insurance 2012 £m	Impact on pre-tax Group profit net of re-insurance 2011 £m	Impact on Group equity net of re-insurance 2011 £m
Sensitivity test				
1% increase in interest rates	**47**	**36**	49	36
1% decrease in interest rates	**(85)**	**(64)**	(142)	(104)
Credit spread widens by 100bps with no change in expected defaults	**(79)**	**(59)**	(52)	(38)
1% increase in inflation	**(17)**	**(13)**	37	28
Default of largest reinsurer	**(676)**	**(511)**	(694)	(510)
1% decrease in annuitant mortality	**(96)**	**(73)**	(76)	(55)

The table above shows the impact on Group pre-tax profit and equity, net of reinsurance, under each sensitivity scenario for the non-participating business written in the non profit part of the UK LTF.

Notes to the Financial Statements
2.15 Sensitivity analysis (continued)

The interest rate sensitivities reflect the impact of the regulatory restrictions on the reinvestment rate used to value the liabilities of the UK long term business. This scenario does not reflect management action which could be taken to reduce the impact of a decrease in interest rates.

* In calculating the alternative values, all other assumptions are left unchanged. In practice, items of the Group's experience may be correlated.
* 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 analysis also ignores 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.
* These stresses use the assets that back the liabilities. Any excess assets have not been stressed in these calculations.
* The sensitivity of the profit to changes in assumptions may not be linear. They should not be extrapolated to changes of a much larger order.
* The change in interest rate test 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. Valuation interest rates are assumed to move in line with market yields adjusted to allow for the impact of FSA regulations.
* In the sensitivity for credit spreads corporate bond yields have increased by 100bps, gilt and approved security yields unchanged, and there has been no adjustment to the default assumptions.
* The inflation stress adopted is a 1% pa increase in inflation resulting in a 1% pa reduction in real yield and no change to the nominal yield. In addition the expense inflation rate is increased by 1% pa.
* The reinsurer stress shown is equal to the technical provisions ceded to that insurer.
* 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.
* Default of largest reinsurer: The largest reinsurer was deduced at an entity level by mathematical reserves ceded. The largest reinsurer is Swiss Re. The increase in reserves is consistent with the reinsured reserves.

(b) General insurance

	Impact on pre-tax profit net of re-insurance 2012 £m	**Impact on equity net of re-insurance 2012 £m**	Impact on pre-tax profit net of re-insurance 2011 £m	Impact on equity net of re-insurance 2011 £m
Sensitivity test				
Single storm event with 1 in 200 year probability	**(63)**	**(47)**	(90)	(66)
Subsidence event – worst claims ratio in last 30 years	**(50)**	**(37)**	(41)	(30)
Economic downturn	**(41)**	**(31)**	(43)	(32)
5% decrease in overall claims ratio	**8**	**6**	9	7
5% surplus over claims liabilities	**5**	**4**	5	3

2.16 Foreign exchange rates

Principal rates of exchange used for translation are:

Year end exchange rates	**At 31.12.12**	At 31.12.11
United States Dollar	**1.63**	1.55
Euro	**1.23**	1.20

Average exchange rates	**01.01.12 - 31.12.12**	01.01.11 - 31.12.11
United States Dollar	**1.58**	1.60
Euro	**1.23**	1.15

Notes to the Financial Statements
2.17 Provisions
(a) Analysis of provisions

	Note	**2012 £m**	2011 £m
Retirement benefit obligations	2.17(b)	**969**	871
Other provisions		**14**	20
		983	891

(b) Retirement benefit obligations

	Fund and Scheme 2012 £m	**Overseas 2012 £m**	Fund and Scheme 2011 £m	Overseas 2011 £m
Gross pension obligations included in provisions	**(967)**	**(2)**	(870)	(1)
Annuity obligations insured by Society	**636**	**-**	583	-
Gross defined benefit pension deficit	**(331)**	**(2)**	(287)	(1)
Deferred tax on defined benefit pension deficit	**76**	**-**	72	-
Net defined benefit pension deficit	**(255)**	**(2)**	(215)	(1)

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 2012, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Society) has been estimated at £255m (2011: £215m). These amounts have been recognised in the financial statements with £152m charged against shareholder equity (2011: £128m) and £103m against the unallocated divisible surplus (2011: £87m).

2.18 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 FSA, ombudsman rulings, industry compensation schemes and court judgments.

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

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

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

Notes to the Financial Statements
2.19 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's financial statements also comply with IFRS and interpretations by the IFRS Interpretations Committee as issued by the IASB. The consolidated 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 presentational currency, at the closing rate at the date of the balance sheet. The income and expenses for each income statement are translated at average exchange rates. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to a separate component of shareholders' equity.

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

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

During the year, the Group has changed the management lines of the international subsidiaries to reflect the development of our international strategy. This has had the consequence of changing the reportable segments of the Group as outlined below. In accordance with the requirements of IFRS 8, 'Operating Segments', the prior period segmental information has been restated to reflect these changes.

The Group has five reporting segments comprising Protection and Annuities (P&A), Savings, Investment management, US Protection, and Group capital and financing.

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

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

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

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

Shareholders' equity supporting the non profit Protection and Annuities and Savings businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within Group capital and financing. This also includes capital within the Group's treasury function and unit trust funds and property partnerships, which are managed on behalf of clients but are required to be consolidated under IFRS, which do not constitute a separately reportable segment. The Group capital and financing segment also includes our joint ventures in Egypt and the Gulf.

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

The Group assesses performance and allocates resources on the basis of IFRS supplementary operating profit before tax. Segmental IFRS supplementary operating profit before tax is reconciled to the consolidated profit from continuing operations before tax attributable to equity holders and consolidated profit from ordinary activities after income tax.

Notes to the Financial Statements
2.19 Basis of preparation (continued)

Change to accounting policy - US Deferred Acquisition Costs

During 2012, the Group has changed its accounting policy for deferred acquisition costs in the US. This follows the FASB's pronouncement on deferral methodology, applying to reporting periods starting after 15 December 2011. This has been applied to IFRS as an improvement in accounting policy, as allowed under IFRS 4, 'Insurance contracts'.

In October 2010, the Emerging Issues Task Force of the US Financial Accounting Standards Board issued Update 2010-26 on 'Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts'. Under US GAAP, costs that can be deferred and amortised are those that 'vary with and are primarily related to the acquisition of insurance contracts'. The Update requires insurers to capitalise only those incremental costs directly related to acquiring a contract, charging all other indirect acquisition expenses to the income statement as incurred. The main impact of the update is therefore to disallow insurers from deferring indirect acquisition costs and those costs relating to unsuccessful sales.

We currently apply US GAAP to value the insurance assets and liabilities of our US operations, as allowed under IFRS 4 'Insurance contracts'. As a result of the FASB's pronouncement we are applying the change in deferral methodology for our US business for deferred acquisition costs retrospectively, restating the comparatives as required under IAS 8, 'Accounting policies, changes in accounting estimates and errors'.

The impact of the restatement on 2012 was to reduce operating profit and profit before tax by £8m and profit after tax by £5m.

The impact of this change upon the 2011 annual income statement, statement of comprehensive income and earnings per share, together with the balance sheet at 31 December 2011 and 31 December 2010 is shown below.

Consolidated Income Statement	As reported 2011 £m	Change in US DAC treatment 2011 £m	Restated 2011 £m
Acquisition costs	780	3	783
Profit before tax	778	(3)	775
Tax expense	(55)	1	(54)
Profit for the period	723	(2)	721
Consolidated Statement of Comprehensive Income			
Exchange differences on translation of overseas operations	1	(1)	-
Net change in financial investments designated as available-for-sale	10	5	15
Total comprehensive income for the period	661	2	663

The restatement of US DAC reduces operating profit by £3m for the 12 months ended 31 December 2011.

Earnings per share	As reported 2011 p	Change in US DAC treatment 2011 p	Restated 2011 p
Based on profit attributable to equity holders of the Company	12.46	(0.04)	12.42
Diluted earnings per share			
Based on profit attributable to equity holders of the Company	12.25	(0.03)	12.22

Consolidated Balance Sheet	As reported 2011 £m	Change in US DAC treatment 2011 £m	Restated 2011 £m	As reported 2010 £m	Change in US DAC treatment 2010 £m	Restated 2010 £m
Assets						
Deferred acquisition costs	2,053	(220)	1,833	2,000	(225)	1,775
Equity						
Capital redemption and other reserves	101	16	117	79	12	91
Retained earnings	4,059	(160)	3,899	3,704	(158)	3,546
Liabilities						
Deferred tax liabilities	403	(76)	327	356	(79)	277

3.01 Operational cash generation

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

For the year ended 31 December 2012	Operational cash generation £m	New business strain £m	Net cash £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	Investment gains and losses, international and other £m	IFRS profit/ (loss) after tax £m	Tax expense/ (credit) £m	IFRS profit/ (loss) before tax £m
UK Protection and Annuities operating profit	**508**	**(31)**	**477**	**14**	**(2)**	**(41)**	**2**	**450**	**147**	**597**
Netherlands and France[1]	**14**	**-**	**14**	**-**	**-**	**-**	**17**	**31**	**12**	**43**
Total Protection and Annuities operating profit	**522**	**(31)**	**491**	**14**	**(2)**	**(41)**	**19**	**481**	**159**	**640**
Total Savings operating profit	**179**	**(62)**	**117**	**(39)**	**20**	**2**	**-**	**100**	**33**	**133**
Investment management operating profit	**197**	**-**	**197**	**-**	**-**	**-**	**-**	**197**	**46**	**243**
US Protection[1]	**40**	**-**	**40**	**-**	**-**	**-**	**22**	**62**	**37**	**99**
Group capital and financing	**20**	**-**	**20**	**-**	**-**	**-**	**(2)**	**18**	**4**	**22**
Investment projects	**-**	**-**	**-**	**-**	**-**	**-**	**(38)**	**(38)**	**(12)**	**(50)**
Operating profit	**958**	**(93)**	**865**	**(25)**	**18**	**(39)**	**1**	**820**	**267**	**1,087**
Investment variances	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(39)**	**(39)**
Impact of change in UK tax rates	**-**	**-**	**-**	**-**	**-**	**-**	**(7)**	**(7)**	**7**	**-**
Losses attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**(12)**	**(12)**	**-**	**(12)**
Total	**958**	**(93)**	**865**	**(25)**	**18**	**(39)**	**(18)**	**801**	**235**	**1,036**

1. During the year, Netherlands and France paid £14m and the US Protection division paid £40m of sustainable dividends to the Group, which has been included in net cash generation.

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

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

3.01 Operational cash generation (continued)

For the year ended 31 December 2011 (Restated)	Operational cash generation £m	New business strain £m	Net cash £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	Investment gains and losses, international and other £m	IFRS profit/ (loss) after tax £m	Tax expense/ (credit) £m	IFRS profit/ (loss) before tax £m
UK Protection and Annuities										
operating profit	482	(31)	451	22	24	(86)	-	411	150	561
Netherlands and France[1]	16	-	16	-	-	-	12	28	12	40
Total Protection and Annuities										
operating profit	498	(31)	467	22	24	(86)	12	439	162	601
Total Savings										
operating profit	174	(63)	111	(12)	(5)	(2)	-	92	34	126
Investment management										
operating profit	189	-	189	-	-	-	-	189	45	234
US Protection[1]	35	-	35	-	-	-	28	63	34	97
Group capital and financing	44	-	44	-	-	-	(1)	43	8	51
Investment projects	-	-	-	-	-	-	(41)	(41)	(15)	(56)
Operating profit	940	(94)	846	10	19	(88)	(2)	785	268	1,053
Investment variances	-	-	-	-	-	-	(55)	(55)	(42)	(97)
Impact of change										
in UK tax rates	-	-	-	-	-	-	(6)	(6)	6	-
Losses attributable to										
non-controlling interests	-	-	-	-	-	-	(3)	(3)	-	(3)
Total	940	(94)	846	10	19	(88)	(66)	721	232	953

1. During the year, Netherlands and France paid £16m and the US Protection division paid £35m of sustainable dividends to the Group, which has been included in net cash generation.

3.02 Regulatory capital resources
(a) Insurance Group's Directive (IGD)

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

	At 31.12.12 £bn	At 31.12.11 Restated[1] £bn
Core tier 1	**6.2**	5.9
Innovative tier 1	**0.6**	0.6
Upper tier 2	**0.4**	0.4
Lower tier 2	**0.8**	0.8
Deductions[2]	**(0.8)**	(0.8)
Group capital resources	**7.2**	6.9
Group capital resources requirement[3]	**3.1**	3.1
IGD surplus	**4.1**	3.8
Coverage ratio (Group capital resources / Group capital resources requirement)[4]	**2.34 times**	2.20 times

1. Group capital resources has been restated to reflect the retrospective adoption of ASU 2010-26, issued by the FASB, which specifies the accounting for deferred acquisition costs under US GAAP. Details of this restatement are outlined in Note 2.19. There is no impact on total Group capital resources as a result of this change.
2. Deductions comprises inadmissible assets in LGA of £0.6bn (2011: £0.6bn), in Society of £0.1bn (2011: £0.1bn) and in other Group companies of £0.1bn (2011: £0.1bn).
3. The Group capital resources requirement includes a With-profits Insurance Capital Component (WPICC) of £0.1bn (2011: £0.4bn).
4. Coverage ratio is calculated on unrounded values.

A segmental analysis is given below.

	At 31.12.12 £bn	At 31.12.11 £bn
Society long term fund[1]	**2.7**	2.8
Society shareholder capital	**2.3**	2.4
General insurance	**0.2**	0.1
France (LGF)	**0.3**	0.2
Netherlands (LGN)	**0.2**	0.1
Nationwide Life	**-**	0.1
USA (LGA)	**0.3**	0.2
Investment management	**0.4**	0.3
Other[2]	**1.7**	1.5
Innovative tier 1	**0.6**	0.6
Tier 2	**1.2**	1.2
Debt	**(2.7)**	(2.6)
Group capital resources	**7.2**	6.9
Society long term fund[1]	**2.7**	2.8
Other	**0.4**	0.3
Group capital resources requirement	**3.1**	3.1

1. The Society LTF capital requirement of £2.7bn (2011: £2.8bn) is met by £2.7bn (2011: £2.8bn) of capital resources in the LTF and £nil (2011: £nil) of capital outside the LTF.
2. Other includes corporate assets held within the Group's treasury function.

3.02 Regulatory capital resources (continued)
(a) Insurance Group's Directive (IGD) (continued)

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

	At 31.12.12 £bn	At 31.12.11 Restated £bn
Capital and reserves attributable to equity holders on an IFRS basis	**5.4**	5.1
Innovative tier 1	**0.6**	0.6
Tier 2	**1.2**	1.2
Proposed dividends	**(0.3)**	(0.3)
Additional capital available from Society	**0.9**	0.9
Adjustment to reflect regulatory value of the LGA operation	**(0.6)**	(0.6)
Other regulatory adjustments	**-**	-
Group capital resources	**7.2**	6.9

(b) With-profits realistic balance sheet

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

	At 31.12.12 £bn	At 31.12.11 £bn
With-profits surplus	**0.7**	0.7
Risk capital margin	**0.1**	0.1
Surplus	**0.6**	0.6

Society is required to maintain a surplus in the with-profits part of the fund on a realistic basis (Peak 2). The risk capital margin is calculated based on the most onerous capital requirement calculated after performing five stresses specified by the FSA. The surplus includes the present value of future shareholder transfers of £0.3bn (2011: £0.2bn) as a liability in the calculation.

(c) Society capital surplus

Society is required to measure and monitor its capital resources on a regulatory basis.

	At 31.12.12 Long term business £bn	**At 31.12.12 General insu-rance £bn**	At 31.12.11 Long term business £bn	At 31.12.11 General insu-rance £bn
Available capital resources - Tier 1	**5.5**	**0.2**	5.6	0.1
Insurance capital requirement	**2.6**	**0.1**	2.4	0.1
Capital requirements of regulated related undertakings	**0.2**	**-**	0.2	-
With-profits Insurance Capital Component	**0.1**	**-**	0.4	-
Capital resources requirement	**2.9**	**0.1**	3.0	0.1
Regulatory capital surplus	**2.6**	**0.1**	2.6	-

3.02 Regulatory capital resources (continued)
(c) Society capital surplus (continued)
Movement in Society long term insurance capital requirement

Pillar 1 capital requirement	At 31.12.12 £bn	At 31.12.11 £bn
Protection	**0.7**	0.7
Annuities	**1.2**	1.0
Non profit pensions and unit linked bonds	**0.1**	0.1
Non profit	**2.0**	1.8
With-profits	**0.6**	0.6
Long term insurance capital requirement	**2.6**	2.4

On a regulatory basis (Peak 1), Society long term business regulatory capital surplus of £2.6bn (2011: £2.6bn) comprises capital resources within the long term fund of £2.7bn (2011: £2.8bn) and capital resources outside the long term fund of £2.8bn (2011: £2.8bn) less the capital resources requirement of £2.9bn (2011: £3.0bn).

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

Net Cash and Capital

Asset Disclosures

4.01 Investment portfolio

	Market value 2012 £m	Market value 2011 £m
Worldwide assets under management	**413,152**	378,573
Client and policyholder assets	**(351,663)**	(320,228)
Non-unit linked with-profits assets[1]	**(18,605)**	(18,927)
Assets to which shareholders are directly exposed	**42,884**	39,418
Comprising:		
Assets held to back the UK non-linked non profit business:		
Legal & General Pensions Limited (LGPL)[2]	**33,289**	30,029
Other UK non profit insurance business	**76**	285
	33,365	30,314
Assets held to back other insurance businesses (including Triple-X reserves)	**2,993**	3,172
Group capital and financing assets	**4,741**	4,344
Other shareholder assets	**1,785**	1,588
	42,884	39,418

1. Includes assets backing participating business in LGF of £2,304m (2011: £2,277m).
2. LGPL is the main operating subsidiary for the UK's annuity business.

Analysed by asset class:

	Note	LGPL 2012 £m	Other UK non profit insurance business 2012 £m	Other insurance business 2012 £m	Group capital and financing assets 2012 £m	Other share-holder assets 2012 £m	Total 2012 £m	Total 2011 £m
Equities[1]		**-**	**-**	**-**	**1,426**	**6**	**1,432**	913
Bonds	4.02	**29,254**	**-**	**2,781**	**1,727**	**1,161**	**34,923**	32,228
Derivative assets[2]		**2,891**	**22**	**30**	**160**	**-**	**3,103**	3,415
Property		**656**	**-**	**-**	**104**	**13**	**773**	606
Cash (including cash equivalents)		**488**	**54**	**182**	**1,324**	**605**	**2,653**	2,256
		33,289	**76**	**2,993**	**4,741**	**1,785**	**42,884**	39,418

1. Group capital and financing equity investments includes £197m of seed capital, invested into newly established funds, with underlying exposure in global corporate bonds. These have been categorised as held for sale operations in the Group's consolidated balance sheet as the Group expects its level of ownership to reduce below the level of control within 12 months of classification.
2. Derivative assets are shown gross of derivative liabilities. Exposures arise from:
a. 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.
b. Derivatives matching guaranteed equity bonds within the Nationwide Life portfolio.

4.02 Bond portfolio summary
(a) Analysed by sector

	Notes	LGPL 2012 £m	LGPL 2012 %	**Total 2012 £m**	**Total 2012 %**
Sovereigns, Supras and Sub-Sovereigns	4.02(b)	4,543	16	**6,328**	**18**
Banks:					
- Tier 1[1]	4.04	212	1	**223**	**1**
- Tier 2 and other subordinated	4.04	707	2	**776**	**2**
- Senior		1,399	5	**2,243**	**6**
Utilities		3,928	13	**4,177**	**12**
Consumer Services and Goods		2,624	9	**3,040**	**9**
Financial Services		980	3	**1,198**	**3**
Technology and Telecoms		2,010	7	**2,337**	**7**
Insurance		1,225	4	**1,362**	**4**
Industrials		1,512	5	**1,816**	**5**
Oil and Gas		1,782	6	**2,009**	**6**
Health Care		860	3	**926**	**3**
Property		628	2	**698**	**2**
Traditional and secured asset backed securities	4.03	5,747	20	**6,693**	**19**
CDO	4.02(d)	1,097	4	**1,097**	**3**
Total		29,254	100	**34,923**	**100**

	Notes	LGPL 2011 £m	LGPL 2011 %	Total 2011 £m	Total 2011 %
Sovereigns, Supras and Sub-Sovereigns	4.02(b)	4,072	15	6,188	19
Banks:					
- Tier 1[1]	4.04	236	1	259	1
- Tier 2 and other subordinated	4.04	1,177	4	1,338	4
- Senior		1,463	5	2,234	7
Utilities		3,457	13	3,722	12
Consumer Services and Goods		2,557	10	2,928	9
Financial Services		941	4	1,179	4
Technology and Telecoms		1,902	7	2,209	7
Insurance		968	4	1,120	3
Industrials		1,265	5	1,515	5
Oil and Gas		1,614	6	1,837	6
Health Care		748	3	786	2
Property		577	2	640	2
Traditional and secured asset backed securities	4.03	4,344	17	5,275	16
CDO	4.02(d)	998	4	998	3
Total		26,319	100	32,228	100

1. Tier 1 holdings include £56m (2011: £49m) of preference shares.

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

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

	Note	LGPL 2012 £m	**Total 2012 £m**	LGPL 2011 £m	Total 2011 £m
Market value by region					
United Kingdom		11,569	**12,578**	10,387	11,758
USA		8,394	**10,856**	8,040	10,548
Netherlands		1,661	**2,267**	1,226	1,830
France		1,313	**1,742**	1,124	1,523
Italy		636	**744**	543	652
Germany		316	**651**	445	761
Ireland[1]		271	**289**	213	225
Spain		192	**260**	187	236
Belgium		27	**84**	23	79
Portugal		13	**16**	41	45
Greece		-	**-**	-	-
Europe - Other		1,164	**1,552**	994	1,324
Rest of World		2,601	**2,787**	2,098	2,249
CDO	4.02(d)	1,097	**1,097**	998	998
Total		29,254	**34,923**	26,319	32,228

1. Within LGPL, out of the £271m of bonds domiciled in Ireland, £239m relate to financing vehicles where the underlying exposure lies outside Ireland.

Additional analysis of sovereign debt exposures

	Sovereigns, Supras and Sub-Sovereigns			
	LGPL 2012 £m	**Total 2012 £m**	LGPL 2011 £m	Total 2011 £m
Market value by region				
United Kingdom[1]	3,158	**3,552**	2,694	3,205
USA	323	**470**	380	782
Netherlands	1	**423**	15	468
France	80	**299**	119	317
Italy	240	**312**	201	281
Germany	165	**380**	143	386
Ireland	-	**6**	-	4
Spain	-	**47**	-	29
Belgium	-	**38**	-	40
Portugal	-	**4**	-	3
Greece	-	**-**	-	-
Europe - Other	459	**631**	448	602
Rest of World	117	**166**	72	71
Total	4,543	**6,328**	4,072	6,188

1. LGPL holds liquidity in the form of cash and cash equivalents of £488m (2011: £285m) and gilts of £3,158m (2011: £2,694m).

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

	LGPL 2012 £m	LGPL 2012 %	**Total 2012 £m**	**Total 2012 %**
AAA	4,899	17	**6,892**	**20**
AA	3,240	11	**4,087**	**12**
A	9,810	34	**11,466**	**33**
BBB	8,625	29	**9,595**	**27**
BB or below	467	2	**521**	**1**
Unrated: Bespoke CDOs	975	3	**975**	**3**
Other[1]	1,238	4	**1,387**	**4**
	29,254	100	**34,923**	**100**

	LGPL 2011 £m	LGPL 2011 %	Total 2011 £m	Total 2011 %
AAA	4,685	18	7,328	23
AA	2,896	11	3,657	11
A	9,710	37	11,290	35
BBB	6,876	26	7,721	24
BB or below	417	2	481	1
Unrated: Bespoke CDOs	872	3	872	3
Other[1]	863	3	879	3
	26,319	100	32,228	100

1. Other unrated bonds have been assessed and rated internally and are all assessed as investment grade.

4.02 Bond portfolio summary (continued)
(d) CDOs

The Group holds collateralised debt obligations (CDOs) with a market value of £1,097m at 31 December 2012 (2011: £998m).

These holdings include £948m (2011: £846m) relating to four CDOs that were constructed in 2007 and 2008 in accordance with terms specified by Legal & General as part of a strategic review of the assets backing the annuity portfolio. These CDOs mature in 2017 and 2018. The Group selected at outset and manages the reference portfolios underlying the CDOs to give exposure to globally diversified portfolios of investment grade corporate bonds. The Group is able to substitute the constituents of the original reference portfolios with new reference assets, allowing the management of the underlying credit risk although substitutions in 2011 were limited and there have been no substitutions in 2012. A breakdown of the underlying CDO reference portfolio by sector is provided below:

Sector

	2012 %	2011 %
Banks	**14**	14
Utilities	**10**	10
Consumer Services & Goods	**25**	25
Financial Services	**6**	6
Technology & Telecoms	**9**	9
Insurance	**6**	6
Industrials	**20**	20
Oil & Gas	**6**	6
Health Care	**4**	4
	100	100

The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.6%, on average across the four CDOs, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses.

Beyond 27.6% of default losses on the reference portfolio, losses to the CDO would occur at a rate that is a multiple of the loss rate on the reference portfolio. For illustration a £200m loss could be incurred if default losses to the reference portfolios exceeded 30.5% or if 43.6% of the names in the diversified global investment grade portfolio defaulted, with an average 30% recovery rate. (All figures are averages across the four CDOs.)

The underlying reference portfolio has had no reference entity defaults in 2011 or 2012.

Losses are limited under the terms of the CDOs to assets and collateral invested.

These CDOs also incorporate features under which, in certain circumstances, the Group can choose either to post additional cash collateral or to allow wind up of the structures. These features are dependant on the portfolios' weighted average spreads, default experience to date and time to maturity. No additional collateral was posted to any of the CDOs during the year ended 31 December 2012 (2011: £nil). During the period, the Group received £nil (2011: £nil) of previously posted collateral.

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

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

The balance of £149m (2011: £152m) of CDO holdings includes a £27m (2011: £26m) exposure to an equity tranche of a bespoke CDO.

4.03 Traditional and secured asset backed securities summary
(a) By security

	LGPL 2012 £m	LGPL 2012 %	**Total 2012 £m**	**Total 2012 %**
Traditional asset backed securities:				
Residential Mortgage-Backed Securities - Prime[1]	469	8	**674**	**10**
Residential Mortgage-Backed Securities - Sub-prime[2]	-	-	**17**	**-**
Commercial Mortgage-Backed Securities	213	4	**457**	**7**
Credit Card	11	-	**162**	**2**
Auto	2	-	**113**	**2**
Consumer Loans	30	1	**30**	**-**
Student Loans	17	-	**59**	**1**
	742	13	**1,512**	**22**
Securitisations and debentures:				
Secured Bond	2,230	39	**2,294**	**34**
Commercial Property Backed Bonds	573	10	**575**	**9**
Infrastructure / Private Finance Initiative / Social housing	1,559	27	**1,570**	**24**
Whole Business Securitisation	425	7	**431**	**6**
Other secured holdings[3]	218	4	**311**	**5**
	5,005	87	**5,181**	**78**
Total traditional and secured asset backed securities	5,747	100	**6,693**	**100**

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

	LGPL 2011 £m	LGPL 2011 %	Total 2011 £m	Total 2011 %
Traditional asset backed securities:				
Residential Mortgage-Backed Securities - Prime[1]	416	10	680	13
Residential Mortgage-Backed Securities - Sub-prime[2]	-	-	20	-
Commercial Mortgage-Backed Securities	245	6	450	9
Credit Card	2	-	134	3
Auto	11	-	113	2
Consumer Loans	37	1	40	1
Student Loans	20	-	26	-
	731	17	1,463	28
Securitisations and debentures:				
Secured Bond	1,935	45	1,975	37
Commercial Property Backed Bonds	236	5	236	5
Infrastructure / Private Finance Initiative / Social housing	1,104	25	1,168	22
Whole Business Securitisation	299	7	302	6
Other secured holdings[3]	39	1	131	2
	3,613	83	3,812	72
Total traditional and secured asset backed securities	4,344	100	5,275	100

1. 54% (2011: 56%) of Prime RMBS holdings relate to UK mortgages.
2. 60% (2011: 55%) of Sub-prime RMBS holdings have a credit rating of AAA and 94% (2011: 71%) relate to the UK.
3. Other secured holdings in LGPL include covered bonds of £207m (2011: £29m).

Of the £770m (2011: £733m) of traditional ABS holdings held outside of LGPL, 72% are rated AAA (2011: 65%).

4.03 Traditional and secured asset backed securities summary (continued)
(b) By credit rating

	LGPL 2012 £m	LGPL 2012 %	**Total 2012 £m**	**Total 2012 %**
AAA	908	16	**1,587**	**24**
AA	1,327	23	**1,456**	**22**
A	1,851	32	**1,927**	**29**
BBB	998	17	**1,039**	**16**
BB or below	144	3	**150**	**2**
Unrated[1]	519	9	**534**	**7**
Total	5,747	100	**6,693**	**100**

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

	LGPL 2011 £m	LGPL 2011 %	Total 2011 £m	Total 2011 %
AAA	802	18	1,411	27
AA	1,077	25	1,202	23
A	1,604	37	1,661	31
BBB	634	15	739	14
BB or below	81	2	114	2
Unrated	146	3	148	3
Total	4,344	100	5,275	100

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

4.04 Group subordinated bank exposures

	Total 2012 £m	**Total 2012 %**	Total 2011 £m	Total 2011 %
Tier 1				
United Kingdom[1]	**161**	**16**	139	9
USA	**10**	**1**	47	3
Europe	**52**	**5**	61	4
Others	**-**	**-**	12	1
Total tier 1	**223**	**22**	259	17
Lower tier 2				
United Kingdom	**235**	**24**	586	36
USA	**312**	**31**	394	25
Europe	**100**	**10**	142	9
Others	**26**	**3**	68	4
Upper tier 2				
United Kingdom	**66**	**7**	63	4
USA	**2**	**-**	1	-
Europe	**-**	**-**	39	2
Others	**-**	**-**	2	-
Other subordinated				
United Kingdom	**1**	**-**	-	-
USA	**32**	**3**	43	3
Europe	**2**	**-**	-	-
Others	**-**	**-**	-	-
Total tier 2 and other subordinated	**776**	**78**	1,338	83
Total	**999**	**100**	1,597	100

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

4.05 Value of policyholder assets held in Society and LGPL

	2012 £m	2011 £m
With-profits business	**24,656**	24,862
Non profit business	**46,869**	42,516
	71,525	67,378

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

As at 31 December 2012	**Fund level investment return %**	**UK with-profits asset share %**	**UK with-profits non par %**	**UK with-profits other %**
Equities	**11**	**41**	**3**	**(53)**
Bonds	**10**	**37**	**82**	**143**
Property	**2**	**13**	**-**	**-**
Cash	**1**	**9**	**15**	**10**
		100	**100**	**100**
Investment return (% pa)	**9**	**10**	**12**	**-**
Invested assets (£bn):				
Net of derivative liabilities		**12.0**	**2.6**	**1.8**
Gross of derivative liabilities		**12.0**	**2.6**	**1.8**

As at 31 December 2011				
Equities	(8)	38	3	(47)
Bonds	9	40	88	139
Property	5	15	-	-
Cash	1	7	9	8
		100	100	100
Investment return (% pa)	4	2	8	19
Invested assets (£bn):				
Net of derivative liabilities		12.4	2.4	1.8
Gross of derivative liabilities		12.5	2.4	1.8

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

Asset Disclosures

4.07 Analysis of fair value measurement bases

As at 31 December 2012	**Fair value measurement at the end of the reporting period based on: Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Group capital and other insurance business				
Equities	**1,169**	**162**	**101**	**1,432**
Bonds[1]	**2,661**	**3,007**	**1**	**5,669**
Derivative assets	**44**	**146**	**-**	**190**
	3,874	**3,315**	**102**	**7,291**
Non profit non-unit linked				
Bonds[1]	**4,002**	**25,160**	**92**	**29,254**
Derivative assets	**111**	**2,802**	**-**	**2,913**
	4,113	**27,962**	**92**	**32,167**

As at 31 December 2011	Fair value measurement at the end of the reporting period based on: Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Group capital and other insurance business				
Equities	564	221	128	913
Bonds[1]	2,058	3,783	6	5,847
Derivative assets	13	295	-	308
	2,635	4,299	134	7,068
Non profit non-unit linked				
Bonds[1]	3,440	22,941	-	26,381
Derivative assets	255	2,820	32	3,107
	3,695	25,761	32	29,488

1. Consolidated CDO holdings have been presented on a net basis within level 2. The analysis excludes cash, loans and receivables and property investments of £3,426m (2011: £2,862m), as disclosed in Note 4.01.

4.07 Analysis of fair value measurement bases (continued)

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

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflects the Group's view of market assumptions in the absence of observable market information. The Group utilises techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

The levels of fair value measurement bases are defined as follows:
Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: fair values measured using valuation techniques for all inputs significant to the measurement other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs).

All of the Group's level 2 assets have been valued using standard market pricing sources, such as iBoxx, IDC and Bloomberg except for bespoke CDO and swaps holdings (see below). In normal market conditions, we would consider these market prices to be observable market prices. Following consultation with our pricing providers and a number of their contributing brokers, we have considered that these prices are not from a suitably active market and have prudently classified them as level 2.

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

Level 3 assets, where internal models are used to represent a small proportion of assets to which shareholders are exposed, and reflect unquoted equities including investments in private equity, property vehicles and suspended securities.

In many situations, inputs used to measure the fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, the Group determines the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. As a result, both observable and unobservable inputs may be used in the determination of fair values that the Group has classified within level 3.

The Group determines the fair values of certain financial assets and liabilities based on quoted market prices, where available. The Group also determines fair value based on estimated future cash flows discounted at the appropriate current market rate. As appropriate, fair values reflect adjustments for counterparty credit quality, the Group's credit standing, liquidity and risk margins on unobservable inputs.

Where quoted market prices are not available, fair value estimates are made at a point in time, based on relevant market data, as well as the best information about the individual financial instrument. Illiquid market conditions have resulted in inactive markets for certain of the Group's financial instruments. As a result, there is generally no or limited observable market data for these assets and liabilities. Fair value estimates for financial instruments deemed to be in an illiquid market are based on judgments regarding current economic conditions, liquidity discounts, currency, credit and interest rate risks, loss experience and other factors. These fair values are estimates and involve considerable uncertainty and variability as a result of the inputs selected and may differ significantly from the values that would have been used had a ready market existed, and the differences could be material. As a result, such calculated fair value estimates may not be realisable in an immediate sale or settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique could significantly affect these fair value estimates.

Fair values are subject to a control framework designed to ensure that input variables and outputs are assessed independent of the risk taker. These inputs and outputs are reviewed and approved by a valuation committee.

Significant transfers between levels

There have been no significant transfers between levels 1, 2 and 3 for the year ended 31 December 2012 (2011: No significant transfers between levels 1, 2 and 3).

Asset Disclosures

Consolidated Income Statement
For the year ended 31 December 2012

	Notes	**2012 £m**	2011 £m
From continuing operations			
Protection and Annuities	5.01	**668**	808
Savings	5.01	**89**	226
Investment management	5.06	**216**	210
US Protection	5.01	**98**	238
Group capital and financing	5.07	**20**	43
Investment projects[1]		**(50)**	(56)
Operating profit		**1,041**	1,469
Investment variances[2]	5.01	**(32)**	(111)
Effect of economic assumption changes	5.08	**(162)**	(21)
Losses attributable to non-controlling interests		**(12)**	(3)
Profit before tax		**835**	1,334
Tax expense attributable to equity holders of the Company	5.10	**(168)**	(259)
Effect of tax rate changes and other taxation impacts	5.10	**67**	156
Profit for the year		**734**	1,231
Losses attributable to non-controlling interests		**12**	3
Profit attributable to equity holders of the Company		**746**	1,234

		p	p
Earnings per share	5.11		
Based on operating profit after tax attributable to equity holders of the Company		**14.01**	19.08
Based on profit attributable to equity holders of the Company		**12.75**	21.17
Diluted earnings per share	5.11		
Based on operating profit after tax attributable to equity holders of the Company		**13.78**	18.77
Based on profit attributable to equity holders of the Company		**12.54**	20.83

1. Investment projects predominately relates to Solvency II and other strategic investments.
2. Investment variances include £18m of restructuring costs relating to a number of reorganisation initiatives around the Group, including the restructuring of the International segment.

During the year, the Group has changed the management lines of the international subsidiaries to reflect the development of our international strategy. This has had the consequence of changing the reportable segments of the Group as outlined in Note 2.19. The prior period segmental information has been restated accordingly.

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2012

	2012 £m	2011 £m
Profit for the year	**734**	1,231
Other comprehensive income after tax		
Exchange differences on translation of overseas operations	**(22)**	(1)
Actuarial (losses) on defined benefit pension schemes	**(59)**	(70)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	**41**	48
Total comprehensive income for the year	**694**	1,208

	2012 £m	2011 £m
Total comprehensive income/(expense) attributable to:		
Non-controlling interests	**(12)**	(3)
Equity holders of the Company	**706**	1,211

Consolidated Balance Sheet
As at 31 December 2012

	Notes	2012 £m	2011 Restated[1] £m
Assets			
Investments		**338,630**	319,671
Long term in-force business asset		**3,670**	3,700
Other assets		**7,460**	6,680
Total assets		**349,760**	330,051
Equity			
Shareholders' equity	5.14/5.15	**8,900**	8,608
Non-controlling interests		**39**	66
Total equity		**8,939**	8,674
Liabilities			
Subordinated borrowings	2.12	**1,890**	1,921
Unallocated divisible surplus		**1,153**	1,038
Participating contract liabilities		**15,277**	15,784
Non-participating contract liabilities		**302,686**	285,351
Senior borrowings	2.12	**1,475**	1,329
Other liabilities and provisions		**18,340**	15,954
Total liabilities		**340,821**	321,377
Total equity and liabilities		**349,760**	330,051

1. The Consolidated Balance Sheet has been restated to reflect the retrospective adoption of ASU 2010-26, issued by the FASB, which specifies the accounting for deferred acquisition costs under US GAAP. Details of this restatement are outlined in Note 5.19.

5.01 Profit/(loss) for the year

For the year ended 31 December 2012	Notes	P&A and Savings £m	Investment management £m	US Protection £m	Group capital and financing £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.03	**377**		**98**		**475**
Contribution from in-force business:						
- expected return[1]		**372**		**76**		**448**
- experience variances	5.05	**12**		**(59)**		**(47)**
- operating assumption changes	5.05	**(11)**		**(18)**		**(29)**
Development costs		**(37)**		**-**		**(37)**
Contribution from shareholder net worth		**6**		**5**	**134**	**145**
Operating profit on covered business		**719**	**-**	**102**	**134**	**955**
Business reported on an IFRS basis:						
Protection and Annuities non-covered business[2]		**27**				**27**
Savings non-covered business[3]		**11**				**11**
Investment management[4]	5.06		**216**			**216**
Group capital and financing	5.07				**(114)**	**(114)**
Investment projects[5]					**(50)**	**(50)**
US Protection non-covered business[6]				**(4)**		**(4)**
Total operating profit		**757**	**216**	**98**	**(30)**	**1,041**
Investment variances[7]		**7**	**(5)**	**6**	**(40)**	**(32)**
Effect of economic assumption changes	5.08	**(164)**	**-**	**2**	**-**	**(162)**
Losses attributable to non-controlling interests		**-**	**-**	**-**	**(12)**	**(12)**
Profit/(loss) before tax		**600**	**211**	**106**	**(82)**	**835**
Tax (expense)/credit on profit from ordinary activities	5.10	**(128)**	**(39)**	**(28)**	**27**	**(168)**
Effect of tax rate changes and other taxation impacts[8]	5.10	**89**	**-**	**(22)**	**-**	**67**
Profit/(loss) for the year		**561**	**172**	**56**	**(55)**	**734**

Operating profit attributable to:		
Protection and Annuities		**668**
Savings		**89**

1. The expected return on in-force is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the UK Protection and Annuities and Savings business was £4,247m in 2012 (2011: £3,886m). This is adjusted for the effects of opening model changes of £86m (2011: £200m) to give an adjusted opening base VIF of £4,333m (2011: £4,086m). This is then multiplied by the opening risk discount rate of 6.2% (2011: 7.3%) and the result grossed up at the notional attributed tax rate of 21% (2011: 23%) to give a return of £340m (2011: £387m). The same approach has been applied for the overseas Protection and Annuities businesses.
2. Protection and Annuities non-covered business primarily reflects GI operating profit of £30m (2011: £42m). See Note 2.01(f).
3. Savings non-covered business mainly comprises Savings investments on an IFRS basis, adjusted for Suffolk Life, International (Ireland), Nationwide and our joint venture operation in India.
4. Investment management operating profit excludes £27m (2011: £24m) of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis and as a consequence are included in the Protection and Annuities, Savings and Group capital and financing covered business on an EEV basis.
5. Investment projects predominately relates to Solvency II and other strategic investments.
6. US Protection non-covered business includes business unit costs of £4m (2011: £4m) allocated to the US Protection segment.
7. Investment variances include £18m of restructuring costs relating to a number of reorganisation initiatives around the Group, including the restructuring of the International segment.
8. Primarily reflects the implementation of the UK planned future reductions in corporation tax to 21% on 1 April 2014, and improvements in the US to the recognition of tax losses and DAC tax assets.

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

For the year ended 31 December 2011	Notes	P&A and Savings £m	Investment management £m	US Protection £m	Group capital and financing £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.03	372		69		441
Contribution from in-force business:						
- expected return[1]		421		73		494
- experience variances	5.05	87		150		237
- operating assumption changes	5.05	95		(62)		33
Development costs		(10)		-		(10)
Contribution from shareholder net worth		9		12	157	178
Operating profit on covered business		974	-	242	157	1,373
Business reported on an IFRS basis:						
Protection and Annuities non-covered business[2]		35				35
Savings non-covered business[3]		25				25
Investment management[4]	5.06		210			210
Group capital and financing	5.07				(114)	(114)
Investment projects[5]					(56)	(56)
US Protection non-covered business[6]				(4)		(4)
Total operating profit		1,034	210	238	(13)	1,469
Investment variances		102	(7)	16	(222)	(111)
Effect of economic assumption changes	5.08	16	-	(37)	-	(21)
Losses attributable to non-controlling interests		-	-	-	(3)	(3)
Profit/(loss) before tax		1,152	203	217	(238)	1,334
Tax (expense)/credit on profit from ordinary activities	5.10	(266)	(38)	(76)	121	(259)
Effect of tax rate changes and other taxation impacts[7]	5.10	156	-	-	-	156
Profit/(loss) for the year		1,042	165	141	(117)	1,231

Operating profit attributable to:		
Protection and Annuities		808
Savings		226

1. The expected return on in-force is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the UK Protection and Annuities and Savings business was £3,886m. This is adjusted for the effects of opening model changes of £200m to give an adjusted opening base VIF of £4,086m. This is then multiplied by the opening risk discount rate of 7.3% and the result grossed up at the notional attributed tax rate of 23% to give a return of £387m. The same approach has been applied for the overseas Protection and Annuities businesses.
2. Protection and Annuities non-covered business primarily reflects GI operating profit of £42m (see Note 2.01(f)).
3. Savings non-covered business mainly comprises Savings investments on an IFRS basis, adjusted for Suffolk Life, International (Ireland), Nationwide and our joint venture operation in India.
4. Investment management operating profit excludes £24m of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis and as a consequence are included in the Protection and Annuities, Savings and Group capital and financing covered business on an EEV basis.
5. Investment projects predominately relates to Solvency II and other strategic investments.
6. US Protection non-covered business includes business unit costs of £4m allocated to the US Protection segment.
7. Primarily reflects the implementation of the UK planned future reductions in corporation tax to 23% on 1 April 2014.

5.02 New business summary[1]

	Notes	**APE[2] 2012 £m**	**PVNBP[3] 2012 £m**	**Margin[4] 2012 %**	APE 2011 £m	PVNBP 2011 £m	Margin 2011 %
Protection and Annuities[5]	5.03	**537**	**4,239**	**8.3**	490	3,983	8.4
Savings	5.03	**877**	**5,119**	**0.5**	590	3,896	0.8
US Protection	5.03	**90**	**830**	**11.8**	69	637	10.7
		1,504	**10,188**	**4.7**	1,149	8,516	5.1

1. Covered business only.
2. Annual Premium Equivalent (APE) comprises the new annual premiums together with 10% of single premiums.
3. The present value of new business premiums (PVNBP) on the EEV basis is defined as the present value of annual premiums plus single premiums for any given period. It is calculated using the same assumptions as for the contribution from new business but determined as at the point of sale.
4. The new business margin is defined as the contribution from new business (including the cost of solvency capital) divided by the PVNBP.
5. Longevity insurance has been excluded from the Protection and Annuities new business measures as outlined in Note 6.07.

5.03 New business by product[1]

For the year ended 31 December 2012	Annual premiums £m	Present value of annual premiums £m	Capital-isation factor[2]	Single premiums £m	PVNBP £m	Contri-bution from new business[3] £m	Margin %
Protection	**221**	**1,176**	**5.3**	**-**	**1,176**	**139**	**11.8**
Annuities	**-**	**-**	**-**	**2,339**	**2,339**	**206**	**8.8**
Longevity insurance[4]	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**-**	**n/a**
Netherlands (LGN)	**13**	**106**	**7.7**	**82**	**188**	**2**	**0.9**
France (LGF)	**38**	**303**	**8.1**	**233**	**536**	**3**	**0.6**
Total Protection and Annuities	**272**	**1,585**	**5.8**	**2,654**	**4,239**	**350**	**8.3**
Unit linked bonds	**-**	**-**	**-**	**525**	**525**	**3**	**0.5**
Pensions, stakeholder and other non profit	**519**	**1,951**	**3.8**	**2,135**	**4,086**	**18**	**0.4**
With-profits savings	**58**	**166**	**2.9**	**342**	**508**	**6**	**1.2**
Total Savings	**577**	**2,117**	**3.7**	**3,002**	**5,119**	**27**	**0.5**
US Protection	**90**	**830**	**9.2**	**-**	**830**	**98**	**11.8**
Total new business	**939**	**4,532**	**4.8**	**5,656**	**10,188**	**475**	**4.7**
Cost of capital						**60**	
Contribution from new business before cost of capital						**535**	

For the year ended 31 December 2011	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 %
Protection	177	931	5.3	-	931	86	9.3
Annuities	-	-	-	2,515	2,515	252	10.0
Longevity insurance[4]	n/a	n/a	n/a	n/a	n/a	7	n/a
Netherlands (LGN)	5	35	6.7	95	130	(2)	(1.3)
France (LGF)	24	175	7.5	232	407	(2)	(0.4)
Total Protection and Annuities	206	1,141	5.5	2,842	3,983	341	8.4
Unit linked bonds	-	-	-	623	623	8	1.3
Pensions, stakeholder and other non profit	244	902	3.7	1,620	2,522	10	0.4
With-profits savings	69	226	3.3	525	751	13	1.8
Total Savings	313	1,128	3.6	2,768	3,896	31	0.8
US Protection	69	637	9.3	-	637	69	10.7
Total new business	588	2,906	4.9	5,610	8,516	441	5.1
Cost of capital						59	
Contribution from new business before cost of capital						500	

1. Covered business only.
2. The capitalisation factor is the present value of annual premiums divided by the amount of annual premiums.
3. The contribution from new business is defined as the present value at point of sale of assumed profits from new business written in the period and then rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.
4. Annual premium and PVNBP measures are not applicable.

5.04 UK non profit internal rate of return (IRR) and payback period[1] by product

	IRR 2012 %	**Payback period 2012 years**	IRR 2011 %	Payback period 2011 years
Protection	**>15**	**3**	>15	4
Annuities[2]	**>30**	**<0**	>30	<0
Unit linked bonds	**7**	**9**	10	7
Pensions, stakeholder and other non profit	**9**	**12**	8	12

1. The payback period is calculated on an undiscounted basis.
2. Given negative strain on annuity business and an immediate IFRS payback, the IRR calculation is infinite.

5.05 Analysis of experience variances and operating assumption changes

	P&A and Savings			US Protection		
For the year ended 31 December 2012	**Experience variances £m**	**Operating assumption changes £m**	**Total £m**	**Experience variances £m**	**Operating assumption changes £m**	**Total £m**
Persistency	**(18)**	**(6)**	**(24)**	**(14)**	**-**	**(14)**
Mortality/morbidity	**12**	**(15)**	**(3)**	**(4)**	**(18)**	**(22)**
Expenses	**(11)**	**(17)**	**(28)**	**-**	**-**	**-**
Other	**29**	**27**	**56**	**(41)**	**-**	**(41)**
	12	**(11)**	**1**	**(59)**	**(18)**	**(77)**

2012 P&A and Savings negative persistency experience reflects higher than expected lapses in unit linked bonds.

2012 operating assumption changes in P&A and Savings have been driven by negative mortality and demographic assumption changes in the annuity business and higher investment expense assumptions, largely offset by positive impacts reflecting changes in UK tax legislation.

2012 US Protection modelling and other experience variances mostly relate to additional reserving associated with the introduction of AG38 regulatory requirements.

2012 operating assumption changes in US Protection mostly relate to higher mortality assumptions on unit linked secondary guarantee business.

	P&A and Savings			US Protection		
For the year ended 31 December 2011	Experience variances £m	Operating assumption changes £m	Total £m	Experience variances £m	Operating assumption changes £m	Total £m
Persistency	(1)	6	5	9	(21)	(12)
Mortality/morbidity	(35)	(10)	(45)	(17)	(52)	(69)
Expenses	(7)	56	49	-	-	-
Other	130	43	173	158	11	169
	87	95	182	150	(62)	88

2011 P&A and Savings mortality experience variances primarily relates to our group protection business which was impacted by a number of high value claims which predominately occurred during H1 11.

2011 P&A and Savings expense operating assumption changes reflects the change in long term expense assumptions in protection business and changes in the modelled long term unit cost and investment expenses assumptions in non profit savings and pensions.

Adverse US Protection persistency and mortality operating assumptions changes mainly relate to term assurances in the period after the end of the guaranteed level premium period when premiums increase.

The domicile of a US captive structure was moved from Bermuda to Vermont which results in an acceleration of the emergence of surplus, and as a consequence increases the present value of the in-force business.

5.06 Investment management operating profit

	2012 £m	2011 £m
Pension funds (managed and segregated)[1]	**181**	172
Other non-pension[2]	**22**	25
Investment management services for internal funds[3]	**13**	13
Total Investment management operating profit	**216**	210

1. The managed pension funds business within Investment management has been reported on an IFRS basis as is consistent with prior years.
2. Other non-pension includes institutional segregated mandates, private equity and property (both in the UK and overseas). Interest income on shareholder funds of £6m (2011: £9m) on an average asset balance of £0.4bn (2011: £0.4bn) has been included within other non-pension operating profit.
3. Investment management services for internal funds excludes £27m (2011: £24m) of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis within the Protection and Annuities and Savings covered business on an EEV basis.

5.07 Group capital and financing operating profit[1]

	2012 £m	2011 £m
Investment return	**168**	191
Interest expense[2]	**(127)**	(123)
Investment expenses	**(5)**	(5)
Unallocated corporate expenses[3]	**(14)**	(12)
Other	**(2)**	(8)
Total Group capital and financing operating profit	**20**	43
Analysed as:		
On an EEV basis	**134**	157
On an IFRS basis	**(114)**	(114)

1. Group capital and financing represents operating profit on the shareholder assets held within the covered business, reported on an embedded value basis, and operating profit on the shareholder assets held outside the covered business reported on an IFRS basis.
2. Interest expense excludes non recourse financing (see Note 2.12).
3. Unallocated corporate expenses includes the operating profit/(loss) attributable to our joint venture operations in Egypt and the Gulf.

5.08 Effect of economic assumption changes

	2012 £m	2011 £m
Business reported on an EEV basis:		
Protection and Annuities and Savings[1]	**(164)**	16
US Protection	**2**	(37)
	(162)	(21)

1. Protection and Annuities and Savings primarily reflect the impact of changes in reinvestment and disinvestment rates, higher costs of capital on increasing reserves mainly due to narrowing credit spreads, and other consequential impacts within lower yielding environments, partially offset by a lower risk discount rate.

5.09 Time value of financial options and guarantees

	2012 £m	2011 £m
Protection and Annuities and Savings[1]	**30**	27
US Protection	**-**	4
	30	31

1. Includes £18m (2011: £16m) relating to UK with-profits business, and £5m (2011: £5m) relating to UK non profit business.

5.10 Tax

	Profit/ (loss) before tax 2012 £m	Tax (expense)/ credit 2012 £m	Profit/ (loss) before tax 2011 £m	Tax (expense)/ credit 2011 £m
From continuing operations				
Protection and Annuities	**668**	**(145)**	808	(189)
Savings	**89**	**(19)**	226	(54)
Investment management	**216**	**(40)**	210	(40)
US Protection	**98**	**(25)**	238	(83)
Group capital and financing	**20**	**(4)**	43	(6)
Investment projects	**(50)**	**12**	(56)	15
Operating profit	**1,041**	**(221)**	1,469	(357)
Variation from longer term investment return	**(32)**	**14**	(111)	87
Effect of economic assumption changes	**(162)**	**39**	(21)	11
Losses attributable to non-controlling interests	**(12)**	**-**	(3)	-
Effect of tax rate changes and other taxation impacts[1]	**-**	**67**	-	156
Profit/(loss) before tax / Tax	**835**	**(101)**	1,334	(103)

1. Primarily reflects the implementation of the UK planned future reductions in corporation tax to 21% on 1 April 2014, and improvements in the US to the recognition of tax losses and DAC tax assets.

The UK EEV calculations assume a tax basis which reflects the annualised current tax rate of 24.5% and the planned future reductions in corporation tax to 23% from 1 April 2013, and 21% from 1 April 2014. The tax rate used for grossing up in the income statement is based on a UK corporation tax rate of 21% (2011: 23%).

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% (2011: 35%), France is 34.3% (2011: 34.3%) and Netherlands is 25% (2011: 25%).

Notes to the Financial Statements

5.11 Earnings per share
(a) Earnings per share

	Profit before tax 2012 £m	Tax (exp-ense)/ credit 2012 £m	Profit after tax 2012 £m	Per share 2012 p	Profit before tax 2011 £m	Tax (exp-ense)/ credit 2011 £m	Profit after tax 2011 £m	Per share 2011 p
Operating profit	**1,041**	**(221)**	**820**	**14.01**	1,469	(357)	1,112	19.08
Investment variances	**(32)**	**14**	**(18)**	**(0.30)**	(111)	87	(24)	(0.41)
Effect of economic assumption changes	**(162)**	**39**	**(123)**	**(2.11)**	(21)	11	(10)	(0.17)
Effect of tax rate changes and other taxation impacts	**-**	**67**	**67**	**1.15**	-	156	156	2.67
Earnings per share based on profit attributable to equity holders	**847**	**(101)**	**746**	**12.75**	1,337	(103)	1,234	21.17

(b) Diluted earnings per share
(i) Based on operating profit after tax

	Profit after tax 2012 £m	Number of shares[1] 2012 m	Per share 2012 p	Profit after tax 2011 £m	Number of shares[1] 2011 m	Per share 2011 p
Operating profit after tax	**820**	**5,851**	**14.01**	1,112	5,828	19.08
Net shares under options allocable for no further consideration	**-**	**99**	**(0.23)**	-	97	(0.31)
Diluted earnings per share	**820**	**5,950**	**13.78**	1,112	5,925	18.77

(b) Diluted earnings per share
(ii) Based on profit attributable to equity holders of the Company

	Profit after tax 2012 £m	Number of shares[1] 2012 m	Per share 2012 p	Profit after tax 2011 £m	Number of shares[1] 2011 m	Per share 2011 p
Profit attributable to equity holders of the Company	**746**	**5,851**	**12.75**	1,234	5,828	21.17
Net shares under options allocable for no further consideration	**-**	**99**	**(0.21)**	-	97	(0.34)
Diluted earnings per share	**746**	**5,950**	**12.54**	1,234	5,925	20.83

1. Weighted average number of shares.

The number of shares in issue at 31 December 2012 was 5,912,782,826 (31 December 2011: 5,872,166,893).

5.12 Group embedded value reconciliation - summary

For the year ended 31 December 2012	Covered business UK business £m	P&A overseas business £m	US Protection £m	Non-covered business £m	Total £m
At 1 January					
Value of in-force business (VIF)	**4,247**	**217**	**913**	**-**	**5,377**
Shareholder net worth (SNW)	**3,218**	**252**	**149**	**(388)**	**3,231**
	7,465	**469**	**1,062**	**(388)**	**8,608**
Exchange rate movements	**-**	**(12)**	**(50)**	**40**	**(22)**
Operating profit after tax for the year	**653**	**19**	**77**	**71**	**820**
Non-operating (loss)/profit for the year	**(23)**	**(20)**	**(18)**	**(25)**	**(86)**
Profit for the year	**630**	**(1)**	**59**	**46**	**734**
Capital movements	**-**	**-**	**-**	**-**	**-**
Intra-group distributions[2]	**(473)**	**(14)**	**(40)**	**527**	**-**
Dividends to equity holders of the Company	**-**	**-**	**-**	**(394)**	**(394)**
Transfer to non-covered business[3]	**(22)**	**-**	**-**	**22**	**-**
Other reserve movements including pension deficit[4]	**(20)**	**-**	**(57)**	**51**	**(26)**
Embedded value	**7,580**	**442**	**974**	**(96)**	**8,900**
Value of in-force business	**4,402**	**146**	**735**	**-**	**5,283**
Shareholder net worth	**3,178**	**296**	**239**	**(96)**	**3,617**

For the year ended 31 December 2011	Covered business UK business £m	P&A overseas business £m	US Protection £m	Non-covered business £m	Total £m
At 1 January					
Value of in-force business (VIF)	3,886	253	762	-	4,901
Shareholder net worth (SNW)	3,035	290	458	(954)	2,829
	6,921	543	1,220	(954)	7,730
Exchange rate movements	-	(13)	9	3	(1)
Operating profit after tax for the year	859	8	156	89	1,112
Non-operating profit/(loss) for the year:	222	(33)	(15)	(55)	119
Profit for the year	1,081	(25)	141	34	1,231
Capital movements[1]	-	9	(271)	262	-
Intra-group distributions[2]	(437)	(45)	(37)	519	-
Dividends to equity holders of the Company	-	-	-	(298)	(298)
Transfer to non-covered business[3]	(19)	-	-	19	-
Other reserve movements including pension deficit[4]	(81)	-	-	27	(54)
Embedded value	7,465	469	1,062	(388)	8,608
Value of in-force business	4,247	217	913	-	5,377
Shareholder net worth	3,218	252	149	(388)	3,231

1. The 2011 capital movement of £262m primarily reflects the capital contribution made to LGA to enable the repurchase of Potomac securities of £271m. There is no corresponding movement in 2012.
2. UK intra-group distributions reflect a £525m (2011: £500m) dividend paid from Society to Group and dividends of £40m (2011: £20m) paid to Society from subsidiaries (primarily Nationwide Life). Dividends of $63m from LGA, €15m from LGN and €3m from LGF were also paid to the group (2011: $57m from LGA, €50m from LGN and €2m from LGF).
3. The transfer to non-covered business represents the IFRS profits arising in the period from the provisions of investment management services by Legal & General Investment Management to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.
4. The other reserve movements reflects the pension deficit movement, the movement of investment project costs from covered to non-covered business and the effect of reinsurance arrangement transactions between UK and US covered business.

Further analysis of the Protection and Annuities and Savings UK covered business can be found in Note 5.13.

European Embedded Value
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5.13 UK embedded value reconciliation

For the year ended 31 December 2012	Free surplus £m	Required capital £m	Shareholder net worth £m	Value of in-force £m	Total £m
At 1 January					
Value of in-force business (VIF)	-	-	-	4,247	4,247
Shareholder net worth (SNW)	1,461	1,757	3,218	-	3,218
	1,461	1,757	3,218	4,247	7,465
Operating profit/(loss) for the year:					
- New business contribution[1]	(275)	182	(93)	386	293
- Expected return on VIF	-	-	-	270	270
- Expected transfer from Non profit VIF to SNW[2]	762	(171)	591	(591)	-
- With-profits transfer	52	-	52	(52)	-
- Expected return on SNW	53	63	116	-	116
Generation of embedded value	592	74	666	13	679
- Experience variances	(26)	18	(8)	20	12
- Operating assumption changes	13	1	14	(23)	(9)
- Development costs	(29)	-	(29)	-	(29)
Variances	(42)	19	(23)	(3)	(26)
Operating profit after tax for the year	550	93	643	10	653
Non-operating profit/(loss) for the year:					
- Investment variances	(72)	11	(61)	3	(58)
- Economic assumption changes	(110)	96	(14)	(40)	(54)
- Effect of tax rate changes and other taxation impacts	-	-	-	89	89
Non-operating (loss)/profit for the year:	(182)	107	(75)	52	(23)
Profit for the year	368	200	568	62	630
Intra-group distributions[3]	(473)	-	(473)	-	(473)
Transfer to non-covered business[4]	(22)	-	(22)	-	(22)
Other reserve movements including pension deficit[5]	(124)	11	(113)	93	(20)
Embedded value	1,210	1,968	3,178	4,402	7,580
Represented by:					
- Non profit				4,008	
- With-profits				394	
Value of in-force business	-	-	-	4,402	4,402
Shareholder net worth	1,210	1,968	3,178	-	3,178

1. The free surplus reduction of £275m to finance new business includes £93m IFRS new business strain and £182m additional required capital.
2. The increase in free surplus of £762m from the expected transfer from the in-force non profit business includes £591m of IFRS operational cash generation and a £171m reduction in required capital.
3. UK intra-group dividends reflect a £525m dividend paid from Society to Group and dividends of £40m paid to Society from subsidiaries (primarily Nationwide Life). Dividends of €15m from LGN were also paid to Society (2011: €50m from LGN).
4. The transfer to non-covered business represents the IFRS profits arising in the period from the provisions of investment management services by Legal & General Investment Management to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.
5. The other reserve movements reflects the pension deficit movement, the movement of investment project costs from covered to non-covered business and the effect of reinsurance arrangement transactions between UK and US covered business.

5.13 UK embedded value reconciliation (continued)

For the year ended 31 December 2011	Free surplus £m	Required capital £m	Shareholder net worth £m	Value of in-force £m	Total £m
At 1 January					
Value of in-force business (VIF)	-	-	-	3,886	3,886
Shareholder net worth (SNW)	1,395	1,640	3,035	-	3,035
	1,395	1,640	3,035	3,886	6,921
Operating profit/(loss) for the year:					
- New business contribution[1]	(258)	167	(91)	381	290
- Expected return on VIF	-	-	-	298	298
- Expected transfer from Non profit VIF to SNW[2]	745	(185)	560	(560)	-
- With-profits transfer	51	-	51	(51)	-
- Expected return on SNW	58	67	125	-	125
Generation of embedded value	596	49	645	68	713
- Experience variances	(52)	20	(32)	108	76
- Operating assumption changes	34	3	37	41	78
- Development costs	(8)	-	(8)	-	(8)
Variances	(26)	23	(3)	149	146
Operating profit after tax for the year	570	72	642	217	859
Non-operating profit/(loss) for the year:					
- Investment variances	81	-	81	(47)	34
- Economic assumption changes	(65)	45	(20)	53	33
- Effect of tax rate changes and other taxation impacts	-	-	-	155	155
Non-operating profit/(loss) for the year:	16	45	61	161	222
Profit for the year	586	117	703	378	1,081
Intra-group distributions[3]	(437)	-	(437)	-	(437)
Transfer to non-covered business[4]	(19)	-	(19)	-	(19)
Other reserve movements including pension deficit[5]	(64)	-	(64)	(17)	(81)
Embedded value	1,461	1,757	3,218	4,247	7,465
Represented by:					
- Non profit				3,808	
- With-profits				439	
Value of in-force business	-	-	-	4,247	4,247
Shareholder net worth	1,461	1,757	3,218	-	3,218

1. The free surplus reduction of £258m to finance new business includes £94m IFRS new business strain and £167m additional required capital. Other items have a net negative impact of £3m.
2. The increase in free surplus of £745m from the expected transfer from the in-force non profit business includes £560m of IFRS operational cash generation and a £185m reduction in required capital.
3. UK intra-group distributions reflect a £500m dividend paid from Society to Group and dividends of £20m paid to Society from subsidiaries (primarily Nationwide Life). Dividends of €50m from LGN were also paid to Society.
4. The transfer to non-covered business represents the IFRS profits arising in the period from the provisions of investment management services by Legal & General Investment Management to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.
5. The other reserve movements reflects the pension deficit movement, the movement of investment project costs from covered to non-covered business and the effect of reinsurance arrangement transactions between UK and US covered business.

5.14 Analysis of shareholders' equity

As at 31 December 2012	P&A and Savings £m	Investment management £m	US Protection £m	Group capital and financing £m	Total £m
Analysed as:					
IFRS basis shareholders' equity[1]	740	360	919	3,422	5,441
Additional retained profit/(loss) on an EEV basis	4,484	-	55	(1,080)	3,459
Shareholders' equity on an EEV basis	**5,224**	**360**	**974**	**2,342**	**8,900**
Comprising:					
Business reported on an IFRS basis	380	360	-	(836)	(96)
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus[2]	57		206	1,210	1,473
- Required capital to cover solvency margin	239		33	1,968	2,240
Value of in-force					
- Value of in-force business	5,054		745		5,799
- Cost of capital	(506)		(10)		(516)

As at 31 December 2011 (Restated)	P&A and Savings £m	Investment management £m	US Protection £m	Group capital and financing £m	Total £m
Analysed as:					
IFRS basis shareholders' equity[1]	652	351	910	3,143	5,056
Additional retained profit/(loss) on an EEV basis	4,402	-	152	(1,002)	3,552
Shareholders' equity on an EEV basis	5,054	351	1,062	2,141	8,608
Comprising:					
Business reported on an IFRS basis	338	351	-	(1,077)	(388)
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus[2]	37		111	1,461	1,609
- Required capital to cover solvency margin	215		38	1,757	2,010
Value of in-force					
- Value of in-force business	4,907		924		5,831
- Cost of capital	(443)		(11)		(454)

1. Shareholders' equity supporting the UK non profit Protection and Annuities and Savings businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within the Group capital and financing 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.

Further analysis of shareholders' equity is included in Note 5.15.

5.15 Segmental analysis of shareholders' equity

	Covered business EEV basis 2012 £m	**Other business IFRS basis 2012 £m**	**Total 2012 £m**	Covered business EEV basis 2011 £m	Other business IFRS basis 2011 £m	Total 2011 £m
Protection and Annuities						
- P&A reported on an EEV basis	**3,131**	**-**	**3,131**	2,995	-	2,995
- General insurance	**-**	**180**	**180**	-	148	148
- Netherlands (LGN)	**248**	**-**	**248**	271	-	271
- France (LGF)	**194**	**-**	**194**	198	-	198
- Other	**-**	**10**	**10**	-	6	6
Total Protection and Annuities	**3,573**	**190**	**3,763**	3,464	154	3,618
Savings						
- Savings reported on an EEV basis	**1,271**	**-**	**1,271**	1,252	-	1,252
- Savings investments	**-**	**138**	**138**	-	136	136
- Other	**-**	**52**	**52**	-	48	48
Total Savings	**1,271**	**190**	**1,461**	1,252	184	1,436
Investment management	**-**	**360**	**360**	-	351	351
US Protection	**974**	**-**	**974**	1,062	-	1,062
Group capital and financing	**3,178**	**(836)**	**2,342**	3,218	(1,077)	2,141
	8,996	**(96)**	**8,900**	8,996	(388)	8,608

5.16 Reconciliation of shareholder net worth

	UK covered business 2012 £m	**Total 2012 £m**	UK covered business 2011 £m	Total 2011 Restated £m
SNW of long term operations (IFRS basis)	**4,294**	**5,537**	4,209	5,444
Other liabilities (IFRS basis)	**-**	**(96)**	-	(388)
Shareholders' equity on the IFRS basis	**4,294**	**5,441**	4,209	5,056
Purchased interest in long term business	**(63)**	**(64)**	(76)	(77)
Deferred acquisition costs/deferred income liabilities	**(235)**	**(1,093)**	(252)	(1,071)
Contingent loan[1]	**-**	**-**	(210)	(210)
Deferred tax[2]	**(253)**	**74**	(235)	87
Other[3]	**(565)**	**(741)**	(218)	(554)
Shareholder net worth on the EEV basis	**3,178**	**3,617**	3,218	3,231

1. During H1 12, the contingent loan was settled between Society and LGPL. On an EEV basis, the contingent loan was modelled within the VIF. On an IFRS basis, the contingent loan asset was included within the Group capital and financing net assets.
2. Deferred tax represents all tax which is expected to be paid under current legislation.
3. Other in the P&A and Savings covered business relates primarily to the different treatment of annuities and non profit pension results under EEV compared with IFRS. Other total business also includes the different treatment of the LGA Triple X securitisation on an EEV and IFRS basis.

5.17 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 2012

	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
Protection and Annuities and Savings[1]	8,022	595	(507)	230	(191)	109
US Protection	974	119	(99)	40	(41)	-
Total covered business	**8,996**	**714**	**(606)**	**270**	**(232)**	**109**

	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
Protection and Annuities and Savings[1]	8,022	(240)	106	83	(260)	83
US Protection	974	-	9	1	n/a	137
Total covered business	**8,996**	**(240)**	**115**	**84**	**(260)**	**220**

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
Protection and Annuities and Savings[1]	377	59	(49)	1	2	12
US Protection	98	19	(16)	1	(3)	-
Total covered business	**475**	**78**	**(65)**	**2**	**(1)**	**12**

	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
Protection and Annuities and Savings[1]	377	(6)	16	18	(14)	14
US Protection	98	-	1	3	n/a	17
Total covered business	**475**	**(6)**	**17**	**21**	**(14)**	**31**

1. Includes Group capital and financing.

Opposite sensitivities are broadly symmetrical.

Sensitivity to changes in assumptions may not be linear, and as such, they should not be extrapolated to changes of a much larger order. A 2% higher risk discount rate would result in a £888m negative impact on UK embedded value and a £82m negative impact on UK new business contribution for the year.

5.18 Assumptions

UK assumptions

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

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

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

ii. Where interest rate swaps are used to reduce risk, it is assumed that these swaps will be sold before expiry and the proceeds reinvested in corporate bonds with a redemption yield 0.70% p.a. (0.70% p.a. at 31 December 2011) greater than the swap rate at that time (i.e. the long term credit rate).

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

The returns on fixed and index-linked securities are calculated net of an allowance for default risk which takes account of the credit rating, outstanding term of the securities, and increase in the expectation of credit defaults over the economic cycle. The allowance for corporate securities expressed as a level rate deduction from the expected returns for annuities was 26bps at 31 December 2012 (26bps at 31 December 2011).

UK covered business

i. Assets are valued at market value.

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

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

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

    An allowance is made for future mortality improvement, commencing 1 January 2009 as per CMIB's mortality improvement model (CMI 2011) with the following parameters:
    Males: Long Term Rate of 1.5% p.a. for future experience and 2.0% p.a. for statutory reserving, up to age 85 tapering to 0% at 120;
    Females: Long Term Rate of 1.0% p.a. for future experience and 1.5% p.a. for statutory reserving, up to age 85 tapering to 0% at 120.
    Future improvements are generally assumed to converge to the long term rate in 2026.

    On this basis, the best estimate of the expectation of life for a new 65 year old Male CPA annuitant is 24.1 years (31 December 2011: 24.2 years). The expectation of life on the regulatory reserving basis is 25.7 years (31 December 2011: 25.8 years).

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

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.

5.18 Assumptions (continued)

Economic assumptions

As at 31 December	**2012 % p.a.**	2011 % p.a.	2010 % p.a.
Risk Margin	**3.7**	3.7	3.3
Risk free rate[1]			
- UK	**2.3**	2.5	4.0
- Europe	**1.7**	2.6	3.2
- US	**1.8**	1.9	3.3
Risk discount rate (net of tax)			
- UK	**6.0**	6.2	7.3
- Europe	**5.4**	6.3	6.5
- US	**5.5**	5.6	6.6
Reinvestment rate (US)	**4.3**	4.2	5.5
Other UK business assumptions			
Equity risk premium	**3.3**	3.3	3.5
Property risk premium	**2.0**	2.0	2.0
Investment return (excluding annuities in LGPL)			
- Gilts:			
- Fixed interest	**1.9 – 2.3**	1.8 – 2.5	3.4 – 4.0
- RPI linked	**2.7**	2.6	4.1
- Non gilts:			
- Fixed interest	**1.9 – 2.9**	3.0 – 4.6	3.6 – 5.0
- Equities	**5.6**	5.8	7.5
- Property	**4.3**	4.5	6.0
Long-term rate of return on non profit annuities in LGPL	**4.3**	5.0	5.5
Inflation			
- Expenses/earnings	**3.4**	3.5	4.1
- Indexation	**2.9**	3.0	3.6

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

Tax

vii. The profits on the covered business, except for the profits on the Society shareholder capital held outside the long term fund, are calculated on an after tax basis and are grossed up by the notional attributed tax rate for presentation in the income statement. For the UK, the after tax basis assumes the annualised current tax rate of 24.5% and the subsequent planned future reductions in corporation tax to 23% from 1 April 2013, and 21% from 1 April 2014. The tax rate used for grossing up is the long term corporate tax rate in the territory concerned, which for the UK is 21% (31 December 2011: 23%) taking into account the expected further rate reductions to 21% by 1 April 2014. 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% (2011: 35%), France is 34.3% (34.3%) and Netherlands is 25% (25%).

5.18 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.

This section describes the models used to generate future investment simulations, and gives some sample statistics for the simulations used. A single model has been used for UK and international business, with different economic assumptions for 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.

Asset classes

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.

Summary statistics:

The following table sets out means and standard deviations (StDev) of future returns as at 31 December 2012 for the most significant asset classes. Correlations between asset classes have been set based on an internal assessment of historical data.

	10-year return		20-year return	
	Mean[1]	StDev[2]	Mean[1]	StDev[2]
UK Business (Sterling)				
Government bonds	1.9%	3.2%	3.3%	3.6%
Corporate bonds	3.5%	3.7%	4.6%	4.0%
Property (excess returns)	2.0%	14.9%	2.1%	15.1%
Equities (excess returns)	3.2%	20.0%	3.4%	20.5%
European Business (Euro)				
Long Government bonds[3]	1.8%	3.2%	2.7%	3.3%
Short Government bonds[4]	1.8%	2.3%	2.7%	5.3%
US Business (US Dollar)				
Long Government bonds[3]	1.9%	4.3%	3.0%	4.5%

1. For asset classes other than for equities and property, mean returns are calculated as the mean return in excess of 1 year government bonds plus the mean return on 1 year government bonds. Mean excess returns for the equities and property are calculated as the mean return in excess of 1 year government bonds. Each mean return is derived by calculating the accumulated value of a unit asset invested to time n years for each simulation, averaging the resultant values across all simulations, then calculating the equivalent annual return required to give this average accumulation (by taking the nth root of the average accumulation and deducting 1).
2. Standard deviations are calculated by accumulating a unit investment for n years in each simulation, taking the natural logarithm of the result, calculating the variance of this statistic, dividing by n and taking the square root. Equities and property values use excess returns. The results are comparable to implied volatilities quoted in investment markets.
3. Long term bonds are defined to be 10 year par-coupon bonds.
4. Short term bonds are defined to be 1 year duration bonds.

Risk discount rate:

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.

5.18 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 4.7% 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 5.6% to 6.6%).
- 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 (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 (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.

5.19 Methodology

Basis of preparation

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

The supplementary financial statements have been audited by PricewaterhouseCoopers LLP and prepared with assistance from our consulting actuaries; Towers Watson in the UK and Milliman in the USA.

Change to accounting policy - US deferred acquisition costs

During 2012 the Group has changed its accounting policy for deferred acquisition costs in the US, details of which can be found within Note 2.19. There is no impact on European embedded value reported profit resulting from this change. The impact on the Consolidated Balance Sheet is outlined below for 2011:

Consolidated Balance Sheet	As reported 2011 £m	Change in US DAC treatment 2011 £m	Restated 2011 £m
Assets			
Long term in-force business asset	3,556	144	3,700
Other assets (Deferred acquisition costs)	6,900	(220)	6,680
Liabilities			
Other liabilities and provisions (Deferred tax)	16,030	(76)	15,954
Total equity	8,674	-	8,674

Covered business

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

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

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

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

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).

5.19 Methodology (continued)

Service companies

All services relating to the UK covered business are charged on a cost recovery basis, with the exception of investment management services provided to Legal & General Pensions Limited (LGPL) and to Legal & General Assurance Society Limited (Society). Profits arising on the provision of these services are valued on a look through basis.

As the EEV methodology incorporates the future capitalised cost of these internal investment management services, the equivalent IFRS profits have been removed from the Investment management segment and are instead included in the results of the Protection and Annuities and Savings segments on an EEV basis.

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

New business

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

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

New business contribution arising from the new business premiums written during the reporting period has been calculated on the same economic and operating assumptions used in the embedded value at the end of the financial period. This has then been rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.

The present value of future new business premiums (PVNBP) has been calculated and expressed at the point of sale. The PVNBP is equivalent to the total single premiums plus the discounted value of regular premiums expected to be received over the term of the contracts using the same economic and operating assumptions used for the embedded value at the end of the financial period, with the exception of longevity insurance. For longevity insurance, PVNBP is not an appropriate measure of expected income stream and as such, the PVNBP has not been applied for this product.

The new business margin is defined as new business contribution at the end of the reporting period divided by the PVNBP, with the exception of longevity insurance. The new business margin has not been applied to longevity insurance for the reason above. The premium volumes and projection assumptions used to calculate the PVNBP are the same as those used to calculate new business contribution.

Intra-group reinsurance arrangements are in place between the US and UK businesses, and it is expected that these arrangements will be periodically extended to cover recent new business. US new business premiums and contribution reflect the groupwide expected impact of US directly-written business.

Projection assumptions

Cash flow projections are determined using best estimate assumptions for each component of cash flow and for each policy group. Future economic and investment return assumptions are based on conditions at the end of the financial period. Future investment returns are projected by one of two methods. The first method is based on an assumed investment return attributed to assets at their market value. The second, which is used by US Protection, where the investments of that subsidiary are substantially all fixed interest, projects the cash flows from the current portfolio of assets and assumes an investment return on reinvestment of surplus cash flows. The assumed discount and inflation rates are consistent with the investment return assumptions.

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

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

Tax

The projections take into account all tax which is expected to be paid, based on best estimate assumptions, applying current legislation and practice together with known future changes. The impact of the changes to the UK taxation regime for life assurance companies has been calculated to increase embedded value by £14m.

5.19 Methodology (continued)

Allowance for risk

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

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

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

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

Required capital and free surplus

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

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

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

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

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

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

For LGN, required capital has been set at 100% of EU minimum solvency margin for all products without FOGs. For those products with FOGs, capital of between 100% and 281% of the EU minimum solvency margin has been used. The level of capital has been determined using risk based capital techniques.

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

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

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.

5.19 Methodology (continued)

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

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

US Protection FOGs relate to guaranteed minimum crediting rates and surrender values on a range of contracts. The guaranteed surrender value of the contract is based on the accumulated value of the contract including accrued interest. The crediting rates are discretionary but related to the accounting income for the amortising bond portfolio. The majority of the guaranteed minimum crediting rates are between 3% and 4%. The assets backing these contracts are invested in US Dollar denominated fixed interest securities.

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

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

Risk free rate

The risk free rate is set to reflect both the pattern of the emerging profits under EEV and the relevant duration of the liabilities where backing assets reflect this assumption (e.g. equity returns). For the UK, it is set by reference to the gross redemption yield on the 15 year gilt index. For LGA, the risk free rate is the 10 year US Treasury effective yield, while the 10 year ECB AAA-rated Euro area central government bond par yield is used for LGN and LGF.

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.

5.19 Methodology (continued)

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 21.3%.

Whilst the WACC approach is a relatively simple and transparent calculation to apply, subjectivity remains within a number of the assumptions. Management believes that the chosen margin, together with the levels of required capital, the inherent strength of the Group's regulatory reserves and the explicit deduction for the cost of options and guarantees, is appropriate to reflect the risks within the covered business.

Analysis of profit

Operating profit is identified at a level which reflects an assumed longer term level of investment return.

The contribution to operating profit in a period is attributed to four sources:

i. new business;

ii. the management of in-force business;

iii. development costs; and

iv. return on shareholder net worth.

Further profit contributions arise from actual investment return differing from the assumed long term investment return (investment return variances), and from the effect of economic assumption changes.

The contribution from new business represents the value recognised at the end of each period from new business written in that period, after allowing for the actual cost of acquiring the business and of establishing the required technical provisions and reserves and after making allowance for the cost of capital. New business contributions are calculated using closing assumptions.

The contribution from in-force business is calculated using opening assumptions and comprises:

i. expected return - the discount earned from the value of business in-force at the start of the year;

ii. experience variances - the variance in the actual experience over the reporting period from that assumed in the value of business in-force as at the start of the year; and

iii. operating assumption changes - the effects of changes in future assumptions, other than changes in economic assumptions from those used in valuing the business at the start of the year. These changes are made prospectively from the end of the year.

Development costs relate to investment in strategic systems and development capability.

The contribution from shareholder net worth comprises the increase in embedded value based on assumptions at the start of the year in respect of the expected investment return on the Society shareholder capital.

Further profit contributions arise from investment return variances and the effect of economic assumption changes.

Investment return variances represent 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.

Economic assumption changes comprise 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.

New Business

6.01 Investment management new business

	2012 £m	2011 £m	Increase/ (decrease) %
Index funds	**22,400**	22,182	1
Liability driven investments	**5,678**	5,809	(2)
Active			
- Active fixed income	**6,042**	4,580	32
- Property	**125**	265	(53)
- Equity	**1**	8	(88)
Total LGIM new funds	**34,246**	32,844	4
Institutional unit trust	**424**	637	(33)
Total new funds[1]	**34,670**	33,481	4
Attributable to:			
LGIM UK customers	**25,096**	26,305	(5)
LGIM International customers	**9,150**	6,539	40
Legal & General Retail Investments	**424**	637	(33)
LGIM net flows	**7,144**	2,983	139

1. New monies from Legal & General Investment Management (LGIM) exclude £4.8bn (2011: £4.1bn) received during the year on a temporary basis, generally as part of portfolio reconstructions.

6.02 Investment management new business quarterly progression

	3 months to 31.12.12 £m	3 months to 30.09.12 £m	3 months to 30.06.12 £m	3 months to 31.03.12 £m	3 months to 31.12.11 £m	3 months to 30.09.11 £m	3 months to 30.06.11 £m	3 months to 31.03.11 £m
Index funds	**7,762**	**6,473**	**3,979**	**4,186**	4,555	4,691	6,067	6,869
Liability driven investments	**1,946**	**432**	**1,620**	**1,680**	1,085	1,985	780	1,959
Active								
- Active fixed income	**1,288**	**1,299**	**1,838**	**1,617**	2,014	505	900	1,161
- Property	**69**	**11**	**11**	**34**	87	63	17	98
- Equity	**-**	**-**	**1**	**-**	-	7	-	1
Total LGIM new funds	**11,065**	**8,215**	**7,449**	**7,517**	7,741	7,251	7,764	10,088
Institutional unit trust	**47**	**266**	**48**	**63**	123	109	123	282
Total new funds	**11,112**	**8,481**	**7,497**	**7,580**	7,864	7,360	7,887	10,370
Attributable to:								
LGIM UK customers	**8,562**	**4,628**	**5,859**	**6,047**	4,745	6,935	6,904	7,721
LGIM International customers	**2,503**	**3,587**	**1,590**	**1,470**	2,996	316	860	2,367
Legal & General Retail Investments	**47**	**266**	**48**	**63**	123	109	123	282
LGIM net flows	**2,563**	**618**	**1,376**	**2,587**	(607)	586	1,005	1,999

6.03 Legal & General Investment Management new business by investment approach

	2012 %	2011 %
Indexed equities	**40**	44
Indexed bonds (including index linked funds and cash)	**26**	23
Active bonds (including index linked funds and cash)	**18**	14
Liability driven investments	**16**	18
Property	**-**	1
Total	**100**	100

6.04 Assets under management

	At 2012 £m	At 2011 £m
Legal & General Investment Management assets under management	**405,972**	371,211
Other assets under management[1]	**7,180**	7,362
Worldwide assets under management	**413,152**	378,573

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

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

Represented by		
Index tracking funds:		
- UK equities	**64,159**	63,228
- Overseas equities	**98,775**	82,200
- Fixed interest	**43,758**	37,515
- Index linked	**35,679**	40,554
- Cash/deposits	**814**	671
Total index tracking funds	**243,185**	224,168
Actively managed funds	**98,830**	88,684
Liability driven investments	**63,957**	58,359
	405,972	371,211

By investment approach		
Index equities	**162,934**	145,428
Index bonds (including index linked funds and cash)	**80,251**	78,740
Active bonds (including index linked funds and cash)	**82,170**	72,355
Liability driven investments	**63,957**	58,359
Active equities	**7,698**	7,229
Property	**8,625**	8,757
Private equity	**337**	343
	405,972	371,211

By source of business		
Institutional assets under management[1] :		
- Managed pension funds pooled	**216,979**	205,174
- Liability driven investments	**63,968**	58,367
- Other	**26,793**	16,920
- Managed pension funds segregated	**8,548**	5,136
Total institutional assets under management	**316,288**	285,597
UK businesses (life and general insurance funds)	**74,346**	70,630
UK businesses (unit trusts - excluding life fund investment)	**15,338**	14,984
	405,972	371,211

1. Excludes institutional investments in unit trust funds.

6.05 Savings net flows

	2012 £m	2011 £m
Investments[1]	**916**	2,490
Insured[2]	**601**	424
With-profits	**(2,163)**	(1,736)
Total Savings net flows	**(646)**	1,178

1. Savings investments products include unwrapped unit trusts, ISAs, SIPPs through Suffolk Life and structured deposit and investment products.
2. Insured savings products include bonds, retail and workplace non profit pensions and insured SIPPs.

6.06 Savings net flows quarterly progression

	3 months to 31.12.12 £m	**3 months to 30.09.12 £m**	**3 months to 30.06.12 £m**	**3 months to 31.03.12 £m**	3 months to 31.12.11 £m	3 months to 30.09.11 £m	3 months to 30.06.11 £m	3 months to 31.03.11 £m
Investments[1]	**257**	**104**	**571**	**(16)**	165	622	804	899
Insured[2]	**287**	**160**	**56**	**98**	200	4	107	113
With-profits	**(690)**	**(644)**	**(358)**	**(471)**	(381)	(568)	(387)	(400)
Total Savings net flows	**(146)**	**(380)**	**269**	**(389)**	(16)	58	524	612

1. Savings investments products include unwrapped unit trusts, ISAs, SIPPs through Suffolk Life and structured deposit and investment products.
2. Insured savings products include bonds, retail and workplace non profit pensions and insured SIPPs.

6.07 Worldwide new business

	Annual premiums 2012 £m	**Single premiums 2012 £m**	**APE 2012 £m**	Annual premiums 2011 £m	Single premiums 2011 £m	APE 2011 £m	Increase/ (decrease) %
Protection							
- Retail[1]	**151**	**-**	**151**	131	-	131	15
- Group	**70**	**-**	**70**	46	-	46	52
	221	**-**	**221**	177	-	177	25
Annuities							
- Individual (non profit)	**-**	**1,308**	**131**	-	1,030	103	27
- Individual (with-profits)	**-**	**12**	**1**	-	24	2	(50)
- Bulk purchase	**-**	**1,019**	**102**	-	1,461	146	(30)
	-	**2,339**	**234**	-	2,515	251	(7)
Netherlands (LGN)	**13**	**82**	**21**	5	95	15	40
France (LGF)	**38**	**233**	**61**	24	232	47	30
France (LGF) retail investment business	**-**	**105**	**11**	-	46	5	120
Total Protection and Annuities[2]	**272**	**2,759**	**548**	206	2,888	495	11
Investments[3]	**69**	**5,285**	**598**	68	6,200	688	(13)
Insured business	**519**	**2,383**	**757**	244	2,015	445	70
With-profits	**58**	**342**	**92**	69	525	122	(25)
India (26% share)	**7**	**24**	**9**	5	22	7	29
Total Savings	**653**	**8,034**	**1,456**	386	8,762	1,262	15
US Protection	**90**	**-**	**90**	69	-	69	30
Egypt (55% share)	**14**	**-**	**14**	9	-	9	56
Gulf (50% share)	**4**	**6**	**5**	2	5	2	150
Total Other worldwide new business	**18**	**6**	**19**	11	5	11	73
Total worldwide new business	**1,033**	**10,799**	**2,113**	672	11,655	1,837	15

1. In previous periods, Retail Protection was named Individual Protection. This is purely a change in name rather than any change to classification.
2. Total Protection and Annuities new business excludes £nil (2011: £70m) of APE in relation to longevity insurance transactions. It has been excluded due to the unpredictable deal flow from this type of business.
3. Investments excludes institutional investments in unit trust funds which are disclosed as part of institutional fund management new business (see Note 6.01).

6.08 Worldwide new business APE quarterly progression

	3 months to 31.12.12 £m	**3 months to 30.09.12 £m**	**3 months to 30.06.12 £m**	**3 months to 31.03.12 £m**	3 months to 31.12.11 £m	3 months to 30.09.11 £m	3 months to 30.06.11 £m	3 months to 31.03.11 £m
Protection								
- Retail	**43**	**36**	**36**	**36**	33	33	32	33
- Group	**13**	**20**	**25**	**12**	7	10	14	15
	56	**56**	**61**	**48**	40	43	46	48
Annuities								
- Individual (non profit)	**45**	**35**	**25**	**26**	21	31	30	21
- Individual (with-profits)	**-**	**-**	**1**	**-**	-	1	-	1
- Bulk purchase	**54**	**41**	**3**	**4**	119	3	22	2
	99	**76**	**29**	**30**	140	35	52	24
Netherlands (LGN)	**5**	**5**	**5**	**6**	4	3	3	5
France (LGF)	**19**	**4**	**18**	**20**	5	6	21	15
France (LGF) retail investment business	**11**	**-**	**-**	**-**	2	1	1	1
Total Protection and Annuities	**190**	**141**	**113**	**104**	191	88	123	93
Investments[1]	**137**	**147**	**174**	**140**	133	184	195	176
Insured business	**318**	**197**	**110**	**132**	128	97	112	108
With-profits	**16**	**18**	**30**	**28**	26	25	35	36
India (26% share)	**2**	**1**	**1**	**5**	1	2	1	3
Total Savings	**473**	**363**	**315**	**305**	288	308	343	323
US Protection	**24**	**24**	**22**	**20**	19	18	16	16
Egypt (55% share)	**3**	**3**	**4**	**4**	3	3	2	1
Gulf (50% share)	**1**	**2**	**1**	**1**	-	1	1	-
Total Other worldwide new business	**4**	**5**	**5**	**5**	3	4	3	1
Total worldwide new business	**691**	**533**	**455**	**434**	501	418	485	433

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

6.09 Worldwide new business annual premium quarterly progression

	3 months to 31.12.12 £m	3 months to 30.09.12 £m	3 months to 30.06.12 £m	3 months to 31.03.12 £m	3 months to 31.12.11 £m	3 months to 30.09.11 £m	3 months to 30.06.11 £m	3 months to 31.03.11 £m
Protection								
- Retail	**43**	**36**	**36**	**36**	33	33	32	33
- Group	**13**	**20**	**25**	**12**	7	10	14	15
	56	**56**	**61**	**48**	40	43	46	48
Annuities								
- Individual (non profit)	**-**	**-**	**-**	**-**	-	-	-	-
- Individual (with-profits)	**-**	**-**	**-**	**-**	-	-	-	-
- Bulk purchase	**-**	**-**	**-**	**-**	-	-	-	-
	-	**-**	**-**	**-**	-	-	-	-
Netherlands (LGN)	**4**	**3**	**3**	**3**	1	2	1	1
France (LGF)	**12**	**-**	**11**	**15**	-	-	15	9
France (LGF) retail investment business	**-**	**-**	**-**	**-**	-	-	-	-
Total Protection and Annuities	**72**	**59**	**75**	**66**	41	45	62	58
Investments[1]	**13**	**18**	**25**	**13**	18	20	19	11
Insured business	**248**	**132**	**64**	**75**	72	51	62	59
With-profits	**12**	**11**	**17**	**18**	14	16	17	22
India (26% share)	**2**	**1**	**1**	**3**	1	1	1	2
Total Savings	**275**	**162**	**107**	**109**	105	88	99	94
US Protection	**24**	**24**	**22**	**20**	19	18	16	16
Egypt (55% share)	**3**	**3**	**4**	**4**	3	3	2	1
Gulf (50% share)	**1**	**1**	**1**	**1**	1	-	1	-
Total Other worldwide new business	**4**	**4**	**5**	**5**	4	3	3	1
Total worldwide new business	**375**	**249**	**209**	**200**	169	154	180	169

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

New Business

6.10 Worldwide new business single premium quarterly progression

	3 months to 31.12.12 £m	3 months to 30.09.12 £m	3 months to 30.06.12 £m	3 months to 31.03.12 £m	3 months to 31.12.11 £m	3 months to 30.09.11 £m	3 months to 30.06.11 £m	3 months to 31.03.11 £m
Protection								
- Retail	-	-	-	-	-	-	-	-
- Group	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Annuities								
- Individual (non profit)	446	348	250	264	212	313	293	212
- Individual (with-profits)	2	2	4	4	7	6	5	6
- Bulk purchase	544	408	31	36	1,190	31	217	23
	992	758	285	304	1,409	350	515	241
Netherlands (LGN)	15	22	16	29	20	17	19	39
France (LGF)	69	41	71	52	51	56	69	56
France (LGF) retail investment business	102	-	2	1	13	15	9	9
Total Protection and Annuities	1,178	821	374	386	1,493	438	612	345
Investments[1]	1,235	1,294	1,487	1,269	1,153	1,632	1,761	1,654
Insured business	699	650	461	573	568	456	502	489
With-profits	42	73	129	98	112	96	177	140
India (26% share)	5	2	2	15	5	4	2	11
Total Savings	1,981	2,019	2,079	1,955	1,838	2,188	2,442	2,294
US Protection	-	-	-	-	-	-	-	-
Egypt (55% share)	-	-	-	-	-	-	-	-
Gulf (50% share)	-	4	1	1	-	5	-	-
Total Other worldwide new business	-	4	1	1	-	5	-	-
Total worldwide new business	3,159	2,844	2,454	2,342	3,331	2,631	3,054	2,639

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

6.11 Overseas new business in local currency

	Annual premiums 2012	**Single premiums 2012**	**APE 2012**	Annual premiums 2011	Single premiums 2011	APE 2011	Increase/ (decrease) %
US Protection ($m)	**142**	**-**	**142**	111	-	111	28
Netherlands (LGN) (€m)	**17**	**101**	**27**	6	109	17	59
France (LGF) (€m)	**46**	**287**	**75**	27	267	54	39
France (LGF) retail investment business (€m)	**-**	**129**	**13**	-	53	5	160
India (Rs m) - Group's 26% interest	**564**	**2,264**	**790**	373	1,629	536	47
Egypt (Pounds m) - Group's 55% interest	**134**	**-**	**134**	87	-	87	54
Gulf (US$m) - Group's 50% interest	**6**	**10**	**7**	3	9	4	75

6.12 Worldwide APE by channel

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

For the year ended 31 December 2011	Annual premiums £m	Single premiums £m	APE £m	% of total
Retail IFA	155	5,744	729	40
Employee benefit consultants	348	2,140	562	31
Tied agents	30	77	38	2
Bancassurance	113	3,222	435	23
Direct	26	472	73	4
Total	672	11,655	1,837	100

6.13 Worldwide APE by channel quarterly progression

	3 months to 31.12.12 £m	**3 months to 30.09.12 £m**	**3 months to 30.06.12 £m**	**3 months to 31.03.12 £m**	3 months to 31.12.11 £m	3 months to 30.09.11 £m	3 months to 30.06.11 £m	3 months to 31.03.11 £m
Retail IFA	**188**	**166**	**176**	**169**	160	194	188	187
Employee benefit consultants	**377**	**232**	**131**	**146**	230	84	135	113
Tied agents	**9**	**10**	**11**	**8**	8	9	13	8
Bancassurance	**94**	**108**	**119**	**95**	91	113	127	104
Direct	**23**	**17**	**18**	**16**	12	18	22	21
Total	**691**	**533**	**455**	**434**	501	418	485	433