Stock Exchange Release
06 August 2014

DIVIDENDS UP 21%, NET CASH UP 13%

FINANCIAL HIGHLIGHTS:

- **NET CASH GENERATION UP 13% TO £567M (H1 2013: £500M)**
- **OPERATIONAL CASH GENERATION UP 8% TO £578M (H1 2013: £537M)**
- **OPERATING PROFIT UP 11% TO £636M (H1 2013: £571M)**
- **PROFIT AFTER TAX UP 9% TO £507M (H1 2013: £466M)**
- **EARNINGS PER SHARE UP 9% TO 8.51P (H1 2013: 7.82P)**
- **RETURN ON EQUITY 17.6% (H1 2013: 16.8%)**
- **INTERIM DIVIDEND UP 21% TO 2.90P PER SHARE (H1 2013: 2.40P)**

BUSINESS HIGHLIGHTS:

- **ANNUITY ASSETS UP 20% TO £38.5BN (H1 2013: £32.2BN)**
- **RECORD ANNUITY SALES OF £3.5BN (H1 2013: £1.4BN)**
- **LGIM AUM UP 7% TO £465.1BN (H1 2013: £433.0BN)**
- **LGIM TOTAL ASSETS[1] UP 13% TO £653.7BN (H1 2013: £578.7BN)**
- **UK PROTECTION GWP UP 7% TO £743M (H1 2013: £692M)**
- **UK PROTECTION SALES UP 17% TO £123M (H1 2013: £105M)**
- **SAVINGS AUA UP 17% TO £117.8BN (H1 2013: £100.4BN)**
- **LGC NEW DIRECT INVESTMENT OF £1.6BN (H1 2013: £0.9BN)**
- **LGA SALES UP 11% TO $78M (H1 2013: $70M)**

Nigel Wilson, Group Chief Executive, said:

“These are strong financial results with dividends once again growing over 20% and a return on equity of 17.6%. We continue to deliver good growth on all other key metrics. We are successfully executing our strategy connecting our five long-term macroeconomic and demographic trends to real business outcomes. Strong business performance across a well-diversified range of insurance, savings and investment markets underpins consistent earnings quality and dividend growth and enables us to respond positively to the ever changing political and regulatory landscape.

We were early adopters of institutional ‘slow money’ and have provided £5bn to drive major investment in housing and infrastructure. We increasingly use digital technology to power cheaper insurance, savings and investment products for customers: pension auto-enrolment, where we cap charges at 0.5% will ultimately transform welfare provision – Beveridge 2.0. A growing number of partners from all sectors - CALA Homes, Places for People, English Cities Fund, Shelter, and government – local and central – not only share our thinking, but are working with us to deliver it.

We have the scale and the skill to play a major role investing in the fabric of the UK to drive growth and competitiveness. Our economically and socially useful products address long-term, intergenerational issues for young and old, that go to the heart of improving quality of life for individuals and families, while strategic clarity and operational excellence drive consistent improvement in shareholder returns.”

1. LGIM total assets includes £465bn (H1 2013: £433bn) of AUM and £189bn (H1 2013: £146bn) of derivative overlay and GIA advisory assets.

FINANCIAL SUMMARY

Financial highlights £m	H1 2014	H1 2013	Growth %
Analysis of operating profit			
Legal & General Retirement	**188**	151	**25**
Legal & General Investment Management	**159**	152	**5**
Legal & General Assurance Society	**223**	213	**5**
Legal & General Capital	**102**	86	**19**
Legal & General America	**43**	53	**(19)**
Operating profit from divisions	**715**	**655**	**9**
Group debt costs	**(63)**	(64)	**2**
Investment projects and expenses	**(16)**	(20)	**20**
Operating profit	**636**	**571**	**11**
Investment and other variances (incl. minority interests)	**-**	23	**n/a**
Profit before tax	**636**	**594**	**7**
Operational cash generation	**578**	537	**8**
New business strain	**(11)**	(37)	**70**
Net cash generation	**567**	**500**	**13**

LEGAL & GENERAL RETIREMENT (LGR)

£bn	H1 2014	H1 2013	Growth %
Annuity assets	**38.5**	32.2	**20**
Longevity insurance premiums (£m)	**167**	92	**82**
Annuity sales	**3.5**	1.4	**147**
Annuity net inflows	**2.5**	0.5	**400**

LEGAL & GENERAL INVESTMENT MANAGEMENT (LGIM)

£bn	H1 2014	H1 2013	Growth %
LGIM AUM[1]	**465.1**	433.0	**7**
LGIM total assets	**653.7**	578.7	**13**
LGIM International total assets	**82.8**	61.2	**35**
LGIM total net flows	**10.4**	13.4	**(22)**
LGIM International net flows	**5.9**	7.6	**(22)**

LEGAL & GENERAL ASSURANCE SOCIETY (LGAS)

£m	H1 2014	H1 2013	Growth %
UK Protection new business annual premiums	**123**	105	**17**
UK Protection gross premiums	**743**	692	**7**
General Insurance gross premiums	**178**	183	**(3)**
Savings AUA (£bn)	**117.8**	100.4	**17**
Savings net flows (£bn)	**2.6**	0.3	**n/a**

LEGAL & GENERAL CAPITAL (LGC)

£bn	H1 2014	H1 2013	Growth %
LGC assets	**5.2**	4.7	**11**

LEGAL & GENERAL AMERICA (LGA)

$m	H1 2014	H1 2013	Growth %
LGA new business annual premiums	**78**	70	**11**
LGA gross premiums	**553**	503	**10**

1. LGIM AUM includes £38.5bn (H1 2013: £32.2bn) managed on behalf of LGR and £43.3bn (H1 2013: £40.7bn) managed on behalf of LGAS Savings.

FINANCIAL HIGHLIGHTS – INCREASED MOMENTUM

Legal & General delivered excellent growth in operational and net cash generation, operating profit and earnings per share. The business continues to deliver significant increases in the drivers of our growth, with annuity assets increasing 20% to £38.5bn (H1 2013: £32.2bn), Insurance premiums increasing 9% to £1.5bn (H1 2013: £1.4bn) and Savings assets increasing 17% to £117.8bn (H1 2013: £100.4bn). LGIM further increased its total assets by 13% to £653.7bn (H1 2013: £578.7bn).

Operational cash generation increased by 8% to £578m (H1 2013: £537m). LGR increased cash by £16m, to £146m (H1 2013: £130m) reflecting the increasing stock of annuity assets under administration. LGAS increased cash by 3% to £237m (H1 2013: £231m), including an 11% increase in Protection operational cash. LGIM's cash generation increased 5% to £125m (H1 2013: £119m) reflecting its growing stock of assets, whilst LGC and LGA contributed £82m and £44m, up 21% and 2%, respectively. Group debt costs and other expenses contributed £(56)m (H1 2013: £(54)m) to cash.

Net cash generation increased by 13% to £567m (H1 2013: £500m), driven by the strong operational cash generation, reduced new business strain in LGAS Protection and LGAS Savings, as well as improved positive new business surplus for Annuities.

Operating profit increased by 11% to £636m (H1 2013: £571m), reflecting the strong underlying performance of our divisions. Profit before tax increased 7% to £636m (H1 2013: £594m). The strong profit and net cash generation growth has enabled us to deliver **earnings per share up 9% to 8.51 pence** (H1 2013: 7.82 pence) and a higher **annualised return on equity of 17.6% (H1 2013: 16.8%)**.

The Board has confidence in the strength and growth prospects for the business. This underpins the decision to **increase the interim dividend by 21% to 2.90 pence** (H1 2013: 2.40 pence) per share and is in line with our dividend guidance announced at the 2013 full year results.

BUSINESS HIGHLIGHTS – DRIVING GROWTH

The Group continues to execute on its clear and focused strategy based on five key macro trends: ageing populations; globalisation of asset markets; welfare reform; digital lifestyles and retrenching banks, through both organic growth and selective bolt-on acquisitions. Our response to these trends: Retirement Solutions; LGIM international expansion; Protection; Digital Solutions and Direct Investments are continuing to drive growth in our cash and earnings.

LGR more than quadrupled bulk annuity new business premium to £3.1bn (H1 2013: £0.7bn) including the largest ever UK Bulk Annuity contract increasing our **stock of annuity assets by 20% to £38.5bn** (H1 2013: £32.2bn). Individual Annuity premiums reduced to £0.4bn (H1 2013: £0.7bn) reflecting the impact we expected from the budgetary reforms to the UK pensions market.

LGIM total AUM increased 7% to £465.1bn (H1 2013: £433.0bn), with total assets, including derivative overlay and advisory assets, increasing 13% to £653.7bn (H1 2013: £578.7bn).

Net AUM flows of £(2.0)bn (H1 2013: £7.7bn) included International AUM flows of £4.0bn (H1 2013: £7.5bn) as LGIM continues to expand overseas, with continued growth in LGIM America's LDI and Active Fixed Income products. As a result International AUM increased by 25% to £65.3bn (H1 2013: £52.4bn).

Total Index net outflows of £(8.4)bn (H1 2013: inflows of £2.7bn) included c£5bn of assets being withdrawn by three large clients in the UK to either be managed in-house or to fund bulk annuity transactions. LGIM's **market leading Liability Driven Investment (LDI) proposition delivered net AUM flows of £3.6bn** (H1 2013: £4.6bn), increasing LDI AUM to £78.2bn (H1 2013: £70.9bn).

Protection premiums continued to grow, with UK Protection premiums up 7% to £743m (H1 2013: £692m) with strong increases in both our highly automated Retail Protection business, with premiums up 6% to £514m (H1 2013: £484m) and a 10% increase in Group Protection premium to £229m (H1 2013: £208m). In the US, our protection business delivered a 10% increase in gross premium, up to $553m (H1 2013: $503m).

General Insurance delivered a robust operating profit of £28m (H1 2013: £39m) with a combined operating ratio of 88% (H1 2013: 81%) despite £12m of additional weather related claims in Q1.

Our Savings business continued to deliver on strategy with assets under administration increasing to £117.8bn (H1 2013: £100.4bn). **Workplace assets have increased 30% to £9.5bn** (H1 2013: £7.3bn), whilst **Platform assets increased 26% to £67.4bn** (H1 2013: £53.7bn).

LGC increased operating profit to £102m and **invested £1.6bn in direct investments** (H1 2013 £0.9bn) over the first half of the year supporting improved returns in LGR, LGA and LGC assets, continuing the broad principal investment strategy of increasing risk adjusted returns for the Group whilst supporting the economy directly in housing, infrastructure and healthcare.

OUTLOOK

General Outlook
Legal & General's two key economies are the UK and USA, both of which are enjoying some of the strongest growth amongst developed countries. Each of our five core businesses are focused on large markets where we see long term structural growth potential. Our scale, efficiency and track record of innovation mean we are ideally placed to take advantage of these growth opportunities. We estimate the global defined benefit (DB) market, which is at an early stage of a structural de-risking trend, to be approaching $10 trillion on a buyout basis. In the UK defined contribution (DC) market, where we already have a 20% market share of new schemes, we anticipate around 12 million auto-enrolled pension savers by 2030. Our recent acquisition of Global Index Advisors (GIA) gives us access to the $6trillion US defined contribution market.

We believe that aligning our strategy to the five macro trends creates a high degree of resilience, although no model can be completely immunised from global risks and uncertainties.

Legal & General Retirement (LGR)
Our expertise in the bulk annuity and longevity insurance markets and the clear intention of the majority of defined benefit schemes to de-risk means we are confident in our ability to more than offset reductions in individual annuity sales with higher bulk annuity volumes. With continued strength in our quote pipeline we expect further bulk business to be written in the second half of 2014. In July we completed an internal transfer of £1.9bn of annuity liabilities from our with-profits fund, increasing the size of the annuity portfolio that delivers cashflows and earnings for shareholders.

The changes introduced in the March Budget have introduced greater flexibility for individuals in retirement. These changes will enable us to add further earnings streams and we are already developing a range of individual retirement solutions to address this evolving market.

We do not believe the recent consultation outcome on private sector DB to DC transfers will have a material impact on the current low volume of these transfers given the safeguards announced and the valuable benefit that a DB pension income provides.

Legal & General Investment Management (LGIM)
As the UK defined benefit market matures we expect it to continue to de-risk. This will impact our passive equity funds backing DB schemes but will benefit our growing LDI business, where LGIM is the number one player in the market. Also in the UK, we expect growth in the defined contribution market as well as our property and multi-asset offerings.

LGIM's international business continues to gather momentum, particularly in the US, where we are expanding our distribution capabilities and enhancing our product offering across LDI and active fixed income, and into indexed products. Elsewhere LGIM remains focused on opportunities in Europe, the Gulf and Asia.

Legal & General Assurance Society (LGAS)
We expect our Protection business to leverage its market leading position. We have recently signed new exclusive distribution deals with National Australia Group and TSB which we expect to contribute to further growth in 2015.

In General Insurance we are seeking to increase the contribution to Group earnings both through organic growth and potential bolt-on acquisition opportunities.

In Savings we continue to enhance Cofunds, the biggest platform in the UK with £67bn of assets. We expect to have a Legal & General D2C proposition available around the end of the year.

In Workplace savings, having secured an estimated 20% of auto-enrolees to date, we expect the strength of our proposition including our 50bps charge cap to deliver further growth. In the immediate future we are on track to halve the 2013 losses of £29m this year.

Legal & General Capital (LGC)
LGC is broadening the asset base of the Group and driving more attractive risk adjusted returns across the divisions. As our direct investment capability develops, we see increasing opportunities and growing pipeline through 2014 including €250m investment into European SME loans through our investment in Pemberton Asset Management and developing a UK Private Rented Sector portfolio. Following its acquisition of Banner Homes in March, CALA Group is accelerating its growth, with plans to treble in size with turnover in excess of £800m by 2016.

Legal & General America (LGA)
Our recently introduced price changes are anticipated to result in marginally lower new business volumes in the second half of 2014 when compared to the first half of 2014. LGA remains focused on net cash generation.

LEGAL & GENERAL RETIREMENT.

Financial highlights £m	H1 2014	H1 2013
Operational cash generation	**146**	130
New business surplus	**20**	17
Net cash generation	**166**	147
Experience variances, assumption changes, tax and non-cash movements	**22**	4
Operating profit	**188**	151
Bulk annuity single premiums (£bn)	**3.1**	0.7
Individual annuity single premiums (£bn)	**0.4**	0.7
Total annuity single premiums (£bn)	**3.5**	1.4
Annuity net inflows (£bn)	**2.5**	0.5
Bulk annuity assets (£bn)	**24.6**	19.6
Individual annuity assets (£bn)	**13.9**	12.6
Total annuity assets (£bn)	**38.5**	32.2
Longevity insurance gross premiums	**167**	92
New business EEV margin (%)	**8.4**	8.4

RECORD PREMIUMS AND INCREASED CASH

Operational cash generation increased 12% to £146m (H1 2013: £130m) reflecting the growth in scale of the business. **Net cash generation increased by 13% to £166m** (H1 2013: £147m), with new business surplus increasing to £20m (H1 2013: £17m), reflecting our continued ability to source attractively priced assets and effective portfolio strategies to back our new business.

Operating profit increased 25% to £188m (H1 2013: £151m) reflecting this growth, with the stock of **annuity assets increasing 20% to £38.5bn** (H1 2013: £32.2bn). We continue to benefit from operating through a wide range of distribution channels and being a key player in all the main markets for retirement solutions and pension scheme de-risking.

We remain confident that we will exceed the £4.1bn of annuity premiums written in 2013 as we continue to have a strong quote pipeline. Due to their inherent complexity and size of bulk annuity deals, the timing of deal flows will be unevenly distributed between quarterly reporting periods.

NEW BUSINESS MARGINS REMAIN STRONG

We continue to see the annuity market as an attractive place to deploy capital and have delivered **a strong new business margin of 8.4% (H1 2013: 8.4%)** in the first half.

Our comprehensive range of products, comprising buy-in and buy-out bulk annuities, individual annuities and longevity insurance means that we are able to target our sales appetite to the areas where we expect to optimise our return on economic capital. We have grown annuity premiums by 147% to £3.5bn (H1 2013: £1.4bn) with increased bulk annuity sales dwarfing the lower volumes of individual annuities. We have written more billion pound bulk annuity transactions in the UK over the last three years than all other providers combined due to our numerous competitive advantages built up over nearly three decades, including specialist expertise across longevity, investment management and asset transitioning.

LGC has successfully sourced increased amounts of new assets to back our annuity business, matching the illiquid and long duration profile of our liabilities, including housing and UK infrastructure. These investments enhance risk adjusted yields enabling competitively priced new business and attractive returns to shareholders.

INCREASING DEMAND FOR GLOBAL DE-RISKING SOLUTIONS

Bulk Annuity single premiums increased 368% to £3.1bn (H1 2013: £0.7bn), including the largest ever UK Bulk Annuity contract with the ICI pension fund, covering £3bn of the Fund's liabilities.

We continue to explore opportunities to use our specialist experience and robust capital base in the global de-risking market. Private defined benefit buy-out liabilities in the key markets of the UK, US, Netherlands and Canada are estimated at approaching $10 trillion, with de-risking solutions becoming increasingly affordable with supportive equity markets.

The acquisition of Lucida, completed in August 2013 is now fully integrated into Legal & General. In an industry where business combinations can be seen as problematic in terms of legacy systems, this was done using only existing resources and systems. On completion of the integration we have released almost £200m from Lucida, recouping the acquisition cost of £149m and covering the majority of the incremental capital required. The Lucida transaction has demonstrated our ability to deliver significant benefits from bolt-on acquisitions.

INDIVIDUAL RETIREMENT

Individual Annuity sales were down 49% to £383m (H1 2013: £754m) following the recent budget changes. In this period of change, we are focused on maintaining pricing discipline. We continue to expect the market to remain subdued with volumes down 50% for 2014 and down a further 50% in 2015.

The flexibility introduced by the Chancellor in his recent budget will increase the choice available to consumers in their retirement. Our individual retirement business is responding to changing consumer demand, presenting new earnings opportunities.

We already offer income drawdown solutions to higher net worth customers, supported by LGAS's existing capabilities, and intend to refresh and relaunch this into a simple income drawdown account to provide flexible access for all retirement savers. LGIM has been developing managed funds, suitable for individuals in retirement, which we expect to form an important part of our product offering.

Many people will not have saved sufficiently to fund the retirement income they would like. We therefore expect that increasing numbers of customers will seek to use the equity in their homes to supplement their retirement income. We are assessing the viability of launching lifetime mortgages to help them do this.

LEGAL & GENERAL INVESTMENT MANAGEMENT.

Financial highlights £m	H1 2014	H1 2013
Total revenue	**309**	292
Total costs	**150**	140
Operating profit	**159**	152
Net cash generation	**125**	119
Cost:income ratio (%)	**49**	48
External net flows (£bn)	**8.0**	13.7
Internal net flows (£bn)	**2.4**	(0.3)
Total net flows (£bn)	**10.4**	13.4
of which International (£bn)	**5.9**	7.6
	H1 2014	FY 2013
Assets under management (£bn)	**465.1**	449.5
Overlay assets[1] (£bn)	**174.9**	162.1
GIA advisory assets[2] (£bn)	**13.7**	-
Total assets (£bn)	**653.7**	611.6
International assets under management (£bn)	**65.3**	59.2
International overlay assets (£bn)	**3.8**	2.1
GIA advisory assets (£bn)	**13.7**	-
Total international assets (£bn)	**82.8**	61.2

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

CONTINUED GROWTH IN CASH AND PROFITS

Operating profit increased 5% to £159m (H1 2013: £152m), reflecting growth in revenues whilst maintaining a steady cost:income ratio of 49% (H1 2013: 48%). LGIM continues to invest in its client service proposition and systems infrastructure to ensure it is able to provide innovative investment solutions that are scalable. Total revenues increased 6% to £309m (H1 2013: £292m), with assets under management up 7% to £465bn (H1 2013: £433bn), benefitting from strong demand for de-risking solutions and active strategies, together with positive market returns.

Total asset net flows for the period were £10.4bn (H1 2013: £13.4bn). International asset net flows of £5.9bn (H1 2013: £7.6bn), were driven by strong fixed income and LDI flows in the US and included LGIM's first passive mandate in Asia. In the UK, net inflows of £4.5bn (H1 2013: £5.8bn) reflected strong demand for LGIM's LDI solutions with increasing net derivative overlay asset inflows.

Net flows in our UK passive book included c£5bn of assets being withdrawn by three large clients to either be managed in-house or to fund bulk annuity transactions. Due to the institutional nature of our clients, passive fund flows are variable in nature.

STRONG INTERNATIONAL GROWTH

International assets grew by 52% to £82.8bn (H1 2013: £54.4bn). In the US, LGIM's Active Fixed Income and LDI proposition continued to grow rapidly with net inflows of £4.6bn (H1 2013: £1.8bn). LGIM's continued success in the US has been driven by a combination of excellent investment performance, with the majority of composites outperforming their benchmarks over one, three and five years, and a growing need from defined benefit clients for de-risking solutions. LGIM's acquisition of US based Global Index Advisors (GIA) was completed in mid-May, with $23.3bn of advised assets as at the end of June.

In Europe, LGIM won its first flows into its SICAV fund range from the Netherlands. It continues to make progress in Asia as it invests in resources and infrastructure, winning its first passive mandate in the region together with additional active fixed income funds in the first half of the year.

MARKET LEADING DE-RISKING SOLUTIONS

Asset movements £bn	Index	Solut -ions	Active Fixed Income	Active Equities	Property & other	Total AUM	Overlay assets	GIA advisory assets	Total assets
As at 1 January 2014	**269.8**	**70.4**	**89.4**	**8.6**	**11.3**	**449.5**	**162.1**	**-**	**611.6**
Acquisition of GIA assets	-	-	-	-	-	**-**	-	13.4	**13.4**
Gross inflows	10.5	4.7	3.7	0.1	0.6	**19.6**	-	**-**	**19.6**
Gross outflows	(19.1)	(2.1)	(2.5)	(0.1)	(0.2)	**(24.0)**	-	**-**	**(24.0)**
Overlay / Advisory net flows	-	-	-	-	-	**-**	12.3	0.1	**12.4**
External net flows	**(8.6)**	**2.6**	**1.2**	**-**	**0.4**	**(4.4)**	**12.3**	**0.1**	**8.0**
Internal net flows	0.2	1.0	0.7	(0.2)	0.7	**2.4**	-	-	**2.4**
Total net flows	**(8.4)**	**3.6**	**1.9**	**(0.2)**	**1.1**	**(2.0)**	**12.3**	0.1	**10.4**
Market and other mvmts	7.3	4.2	5.9	(0.2)	0.4	**17.6**	0.5	0.2	**18.3**
As at 30 June 2014	**268.7**	**78.2**	**97.2**	**8.2**	**12.8**	**465.1**	**174.9**	**13.7**	**653.7**

Strong equity markets are conducive to de-risking. This has led to clients moving out of passive equity funds and transitioning towards LDI, ahead of potential buy-out. As a result, LGIM has experienced strong inflows and switches into its LDI and active funds, where it benefitted from external net AUM flows of £4.2bn (H1 2013: £6.2bn) in the period. According to KPMG's most recent LDI survey, LGIM is the largest LDI manager in the UK increasing its share of the market to 44%. Total LDI assets, including overlay assets, increased 17% to £253.1bn (H1 2013: £216.6bn) in the period. Overlay assets of £174.9bn (H1 2013: £145.7bn), a key component of Solutions revenue, represent the value of derivative instruments used to help LGIM's clients manage the risk of meeting their future liabilities. LGIM's capabilities and market position means that the Solutions business is extremely well placed to capitalise on the continuing de-risking trend.

Legal & General Property (LGP), the fourth largest institutional real estate manager in the UK, increased AUM by 36% to £12.8bn (H1 2013: £9.4bn), driven by strong net inflows of £1.1bn (H1 2013: £0.2bn). LGIM's property team is attracting growing flows from both retail and institutional clients, whilst it continues to play an integral role in the group's initiative to increase Direct Investments, completing transactions totalling in excess of £0.8bn on behalf of LGC and LGR during the period.

WELL POSITIONED FOR UK SAVINGS TRENDS

UK defined contribution (DC) pension AUM increased 15% to £33.0bn (H1 2013: £28.7bn). Total net inflows of £1.2bn included £0.8bn of net inflows from Legal & General's Workplace Savings platform. LGIM continues to invest in its UK DC proposition, adding resources and creating innovative new products designed to meet the specific needs of DC investors. A core part of this involves the launch of the Real Income Growth Strategy (RIGS) by LGIM's active equities team, which has a real return objective, while its Multi-asset and Solutions teams are developing complementary retirement income strategies. The scale and efficiency of LGIM's passive management and asset allocation capabilities continue to provide competitive advantage to the Group's workplace proposition, particularly in light of the recently announced capping of charges on auto-enrolment default funds at 75bps.

The integration of the Retail arm into LGIM is now complete and is already leveraging the synergies. In July we announced bespoke pricing of our multi-index funds through Cofunds. These funds provide customers with combined exposure to LGIM's Index funds and UK Property Trust, combining the scale of manufacturing of LGIM with Cofunds' distribution capabilities.

LEGAL & GENERAL ASSURANCE SOCIETY.

Financial highlights £m	H1 2014	H1 2013
Operational cash generation	**237**	231
New business strain	**(31)**	(54)
Net cash generation	**206**	177
Experience variances, assumption changes, tax and non-cash movements	**17**	36
Operating profit	**223**	213

INCREASING SCALE AND EFFICIENCY

Operational cash generation increased by 3% to £237m (H1 2013: £231m) as our Protection and Savings businesses grew their stock of premiums and assets respectively. New business strain of £(31)m (H1 2013: £(54)m) included a £15m improvement in Protection new business strain.

LGAS operating profit increased 5% to £223m (H1 2013: £213m). The operating profit of Protection was £179m (H1 2013: £168m) benefitting from increased contribution of our market leading Retail Protection business. This was partially offset by lower profits from our General Insurance business following adverse weather experience in Q1 2014, which resulted in additional claims of £12m and marginally lower Savings operating profit of £44m (H1 2013: £45m).

PROTECTION

Financial highlights £m	H1 2014	H1 2013
UK Protection new business annual premiums	**123**	105
UK Protection new business EEV margin (%)	**9.3**	6.7
UK Protection gross premiums	**743**	692
General Insurance gross premiums	**178**	183
Total UK gross premiums	**921**	875

Retail Protection continued its strong growth with gross premiums up 6% to £514m (H1 2013: £484m). Premiums continued to benefit from the scale and efficiency established with a digital platform that can automatically underwrite in excess of 80% of applications at point of sale. We continue to be the leading provider of Retail Protection to both Independent Financial Advisers (IFAs) and in the market in total and benefit from being the sole provider of Retail Protection to building society partners covering 85% of the sector. **Direct Retail Protection APE has increased 56%** compared to H1 2013 and now accounts for 16% of new business (H1 2013: 13%) as our business evolves to meet changing consumer purchasing preferences.

Group Protection delivered a 10% increase in gross premiums to £229m (H1 2013: £208m) including a number of large scheme wins, demonstrating the robustness of our market proposition.

UK Protection new business margin increased to 9.3% (H1 2013: 6.7%), benefiting from higher sales and ever increasing operational efficiency.

General Insurance gross premiums were marginally down at £178m (H1 2013: £183m). Operating profit of £28m (H1 2013: £39m) resulted from a strong combined operating ratio to 88% (H1 2013: 81%) and included a £12m impact of the adverse weather experienced at the start of the year.

Legal & General France (LGF) increased APE by 30% to €57m (H1 2013: €44m) demonstrating the strength of our distribution and synergies with our UK Protection business, as we continue to leverage our existing relationships. We continue to see opportunities to grow our business in a large and evolving French Group Protection market.

SAVINGS

Asset movements £bn	Platforms[1]	Work-place	Suffolk Life	Mature Savings	Overseas	Consol Adj	Total LGAS
As at 1 January 2014	**64.1**	**8.7**	**6.6**	**36.3**	**4.5**	**(6.8)**	**113.4**
Gross inflows	4.8	1.3	0.6	0.7	0.2	(0.2)	7.4
Gross outflows	(2.3)	(0.3)	(0.2)	(2.2)	(0.2)	0.4	(4.8)
Net flows	**2.5**	**1.0**	**0.4**	**(1.5)**	**-**	**0.2**	**2.6**
Market movements	0.8	(0.2)	0.2	1.1	-	(0.1)	1.8
As at 30 June 2014	**67.4**	**9.5**	**7.2**	**35.9**	**4.5**	**(6.7)**	**117.8**

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

Growth in LGAS' savings business is based on developing highly scalable and efficient platforms, to offer our straight-forward, low-cost investment products. Savings operating profit was £44m (H1 2013: £45m) with reduced contribution from our mature savings business being offset by better performance in our workplace business as it continues to increase in scale.

Our platform business delivered net flows of £2.5bn (H1 2013: £1.0bn) as assets under administration increased 26% to £67.4bn (H1 2013: £53.7bn) with positive net flows from both our institutional and retail customer base.

The retail savings market is expected to benefit from the greater flexibility in pensions savings, as introduced in the recent budgetary reforms which, coupled with higher ISA limits, is expected to increase retail savings levels. We continue to enhance our existing functionality and improve our operational efficiency to deliver high quality, low cost savings products to existing and potential customers to capitalise on these trends. In June we leveraged our existing Cofunds technology to offer four LGIM index tracker and mixed asset funds to customers of Nationwide Building Society and continue to explore further opportunities to enhance our distribution.

Legal & General expects to have a Direct to Consumer ('D2C') solution available around the end of the year, to complement and capitalise on the platform capabilities and efficiencies already developed with our intermediated Cofunds platform.

We continue to target an annualised cost saving of £11m p.a. by 2015 from integrating our IPS and Cofunds platforms with a total expected cost to the Group of £17m. To date this initiative has delivered £6m of annualised cost savings.

In Workplace, assets have increased 30% to £9.5bn (H1 2013: £7.3bn) with 1.1 million employees and 1,900 schemes now on the platform. This represents a further 180k customers added since the end of 2013.

Our workplace proposition continues to benefit from incremental enrolment into pre-existing schemes and new schemes, where we currently have a market share of c20% of new schemes being enrolled. Participation rates remain high at more than 90%. The defined contribution market, with the expected tripling of DC savings in the UK over the next 10 years, provides a significant opportunity to the Group. We continue to offer our default auto-enrolment funds at 50bps, below the 75bps cap recently prescribed, capitalising on LGIM's scale and passive fund capabilities.

Workplace has delivered a 50% reduction in unit costs over the last two years, as our auto-enrolment proposition moves towards break-even levels of assets under administration. In H1 2014 Workplace operating losses were £9m.

Our SIPP business, Suffolk Life, delivered net inflows of £0.4bn (H1 2013: £0.3bn). The business continues to grow through demand for its bespoke SIPP proposition. As a result the **assets of Suffolk Life have increased 26% in the period to £7.2bn** (H1 2013: £5.7bn)**.** We continue to look at opportunities to leverage Suffolk Life's existing capped and flexible drawdown expertise in conjunction with LGR, to develop consumer focused products in the evolving UK pensions market.

In Mature Savings assets were £35.9bn (H1 2013: £35.7bn). Net outflows of £(1.5)bn (H1 2013: £(1.8)bn) were in-line with our expectations and partially offset by positive market movements of £1.1bn (H1 2013: £1.3bn).

LEGAL & GENERAL CAPITAL.

POSITIVE CONTRIBUTION TO CASH AND PROFITS

Financial highlights £m	H1 2014	H1 2013
Operating profit	**102**	86
Operational cash generation	**82**	68

Legal & General Capital (LGC) increased operating profits by 19% to £102m (H1 2013: £86m) representing the smoothed expected return on LGC assets after expenses, and equates to an assumed annualised investment return of 4.4% (H1 2013: 3.9%) on an average asset base of £4.7bn (H1 2013 £4.6bn). LGC assets at the half year increased 11% to £5.2bn (H1 2013: £4.7bn).

More generally LGC continues to develop three core functions: (1) **direct investments** for the principal balance sheet, (2) implementing the **Group-wide Asset Liability Management (ALM) and investment strategy** and (3) providing **Group Treasury** services.

£1.6BN FURTHER DIRECT INVESTMENT COMPLETED

	H1 2014				FY 2013
£bn	LGR	LGC	LGA & Other	Total	Total
Direct Investments	3.7	0.6	0.3	**4.6**	**2.9**

LGC continues to broaden the asset base of the Group into attractively priced direct investments and is increasingly using the LGC assets to facilitate the widening of investment opportunities, working with LGIM to develop their capabilities and successfully collaborating with investment partners.

LGC continues to invest in housing, investing a further £1.0bn, on behalf of LGC and LGR in the period. This includes a £52m equity injection into CALA Homes to acquire Banner Homes, over £500m of co-purchased property portfolios with LGR and the £252m Places for People deal to acquire 4,000 homes and to help finance 7,000 new homes over 7 years. In addition, **a further £181m of commercial lending and £210m of infrastructure investment** was completed on behalf of the Group in the first 6 months of the year.

These investments underpin the benefits of Legal & General's strong capital position to diversify the revenue opportunities of the Group. LGC has developed a broad range of partners to ensure good access to direct investments and we continue to see a good pipeline of opportunities for the remainder of the year. In the US in particular, LGC has worked with LGA and external managers to build a portfolio of $375m private placements and USD Commercial Real Estate Lending, with further investments planned.

In July we purchased a 40% stake in Pemberton Asset Management, with a commitment to invest €250m into SME loans across LGAS and LGR, developing a European Private Placement capability. Further asset classes are planned for 2014 including working with Legal & General Property to launch investments in the Private Rented Sector.

RESILIENT GROUP-WIDE INVESTMENT STRATEGY

LGC implements the Group-wide ALM and investment strategy for the £48.2bn (H1 2013: £41.9bn) principal balance sheet and £17.1bn (H1 2013: £17.9bn) of with-profits assets of the Group. The principal portfolio is well positioned for the medium term and is predominantly an Investment Grade debt portfolio with low bank sub-debt and peripheral European exposure, closely hedged to liabilities. Over H1, LGC supported LGR in the successful completion of the investment and ALM implementation of the £3bn ICI pension fund bulk purchase deal.

Asset portfolio £bn	H1 2014			
	LGR[1]	LGC	Other	Total
Bonds:	**34.0**	**1.6**	**3.7**	**39.3**
Sovereigns	***6.6***	***0.3***	***1.4***	***8.3***
Banks	***2.0***	***0.4***	***0.2***	***2.6***
Other bonds	***25.4***	***0.9***	***2.1***	***28.4***
Property	**1.7**	**0.3**	**-**	**2.0**
Equities	**0.1**	**1.6**	**-**	**1.7**
Derivatives	**2.2**	**0.1**	**-**	**2.3**
Cash and cash equivalents	**0.6**	**1.6**	**0.6**	**2.8**
Total financial investments	**38.6**	**5.2**	**4.3**	**48.1**
Other assets	**0.1**			**0.1**
Total investments	**38.7**	**5.2**	**4.3**	**48.2**

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

The medium term strategy is to **increase direct investments across LGR, LGC and LGA** as part of one of Legal & General's core themes, and diversify the portfolio by sector and geography. The £48.2bn balance sheet includes £1.7bn equity investment (3.5% of principal assets) held predominantly in the LGC asset portfolio.

The **investment variance across the Group was £26m** (H1 2013: £42m) primarily as a result of changes in LGR's investment portfolio, with greater levels of direct investment, offset by equity returns in LGC asset portfolio which were lower than longer term assumptions.

In LGPL, the Group's main annuity company, **we maintain a provision of £2.0bn (FY 2013: £1.8bn) to provide for the risk of credit default**. We have experienced minimal defaults over the last five years.

EXTENDING THE DEBT MATURITY OF THE GROUP

Legal & General continues to have a strong liquidity position reflecting its requirements for working capital and derivative collateral. In addition the Group's outstanding core borrowings total £3.0bn (FY 2013: £2.5bn). There is also a further £0.7bn (FY 2013: £0.8bn) of operational borrowings including £0.6bn (FY 2013: £0.6bn) of non recourse borrowings. In June 2014 we issued a further £600m of subordinated Tier 2 debt, with a maturity date of 2064 (with a call date of 2044), and coupon rate of 5.5% and **extended the overall average maturity of the group's borrowings significantly**.

Group debt costs of £63m (H1 2013: £64m) reflect an average cost of debt of 5.2% per annum (H1 2013: 4.7% per annum) on average nominal value of debt balances of £2.5bn (H1 2013: £2.7bn).

LEGAL & GENERAL AMERICA.

Financial highlights $m	H1 2014	H1 2013
Operating profit	**72**	81
Operational cash generation	**73**	66
Gross premium income	**553**	503
New business APE	**78**	70

CONTINUED GROWTH IN PREMIUMS AND SALES

In H1 2014 Legal & General America (LGA) continued to grow. **Sales increased 11% to $78m** (H1 2013: $70m), representing a further increase in market share. The growth in sales resulted in a further **increase in gross premiums of 10% to $553m** (H1 2013: $503m) as we continue to benefit from strong relationships with the brokerage general agents (BGAs), who distribute term assurance in the US market. LGA is the 4th largest provider of term life assurance by premium in the US and remains the largest provider through the key distribution channel of BGAs.

Operational cash generation increased by 11% to $73m (H1 2013: $66m). This represents the ordinary dividend paid to the Group, which is received in Q1 each year. New business margin has **increased to 10.8%** (H1 2013: 10.0%) due to mix of business and lower unit costs.

Operating profit was lower at $72m (H1 2013: $81m) due to higher first quarter mortality claims consistent with the general experience across the US life industry. Claims are expected to normalise at expected levels in the second half of the year. Operating profit benefited from a 6% reduction in unit costs for in force management due to the growing number of contracts in force, cost-saving actions and successful negotiations to acquire underwriting data at lower costs.

In May, LGA introduced a more refined pricing model, allowing the pricing of risk at a more granular level. As a consequence prices have been raised at lower margin price points and reduced elsewhere. This has led to a change in business mix and we expect a slight reduction in new business volume in H2 2014 as a result.

CASH GENERATION.

The sources of our cash generation are transparent and the table below highlights the cash generation by segment. Net cash generation increased by 13%, reflecting increased net cash generation across all 5 of our business divisions. This includes the full year ordinary dividend of $73m from LGA which was received in Q1 2014.

£m	H1 2014	H1 2013
LGAS ex. General Insurance	**215**	201
LGR	**146**	130
LGA	**44**	43
Sub total	**405**	**374**
LGIM	**125**	119
LGC	**82**	68
LGAS General Insurance	**22**	30
Total from divisions	**634**	**591**
Group debt and other expenses	**(56)**	(54)
Total operational cash	**578**	**537**
New business strain	**(11)**	(37)
Total net cash	**567**	**500**

The table above is set out in the format of the cash guidance for 2014 given at the time of the 2013 results announcement.

CLEAR VISIBILITY BETWEEN CASH GENERATION AND EARNINGS

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

£m	Op cash	Strain	Net cash	Variances and other	Profit after tax	Tax	Profit before tax
- Protection	166	(8)	158	(20)	138	41	179
- Savings	71	(23)	48	(13)	35	9	44
LGAS	237	(31)	206	(33)	173	50	223
LGR	146	20	166	(18)	148	40	188
LGIM	125	-	125	-	125	34	159
LGC	82	-	82	-	82	20	102
LGA	44	-	44	(17)	27	16	43
Operating profit from divisions	**634**	**(11)**	**623**	**(68)**	**555**	**160**	**715**
Group debt and other costs	(56)	-	(56)	(6)	(62)	(17)	(79)
Operating profit	**578**	**(11)**	**567**	**(74)**	**493**	**143**	**636**
Investment and other variances	-	-	-	14	14	(14)	-
Total	**578**	**(11)**	**567**	**(60)**	**507**	**129**	**636**
Per share	**9.82**		**9.64**		**8.62**		
Dividend per share			**2.90**		**2.90**		

BALANCE SHEET STRENGTH.

IGD CAPITAL RESOURCES

As at 30 June 2014 the Insurance Group's Directive (IGD) surplus was £4.7bn (FY 2013: £4.0bn).

The Group's capital resources totalled £8.2bn, covering the capital resources requirement of £3.5bn by 2.36 times. This capital buffer is in addition to the £2.0bn of LGPL credit default provision. Capital resources have increased following the issuance of £600m of Lower Tier 2 debt in June and benefits from the release of £122m of capital following the Part VII transfer of the Lucida book of business to LGAS. The IGD surplus includes allowance for the interim dividend of £172m (FY 2013: final dividend of £408m).

Capital £bn	H1 2014	FY 2013
Group capital resources	**8.2**	7.3
Group capital resources requirement	**3.5**	3.3
IGD surplus	**4.7**	**4.0**
Coverage ratio %	**236**	**221**

ECONOMIC CAPITAL

For the first time we have included details of the Group's economic capital position, which is outlined in more granular detail on pages 77 to 80. Economic capital is the amount of capital that the Board believes the Group needs to hold, over and above its liabilities, in order to meet the Group's strategic objectives. These numbers do not represent our view of the Solvency II outcome for the Group. Solvency II has elements which L&G considers to be inconsistent with the Group's definition of economic capital, so there will be differences between the two balance sheets. Our Economic Capital model has not been reviewed by the Prudential Regulatory Authority ("PRA"), nor will it be.

As at 31 December 2013 Legal & General Group had an economic capital surplus of £6.9bn, corresponding to an economic capital coverage ratio of 251%. This increased to a surplus of £7.6bn and coverage of 261% as at 30 June 2014, in part reflecting the issuance of £600m of Tier 2 capital during the period. The economic capital position, excluding dividends proposed, is as follows:

Capital £bn	H1 2014	FY 2013
Eligible own funds	**12.3**	11.4
Economic capital requirement	**4.7**	4.5
Economic capital surplus	**7.6**	**6.9**
1-in-200 coverage ratio (%)	**261**	**251**

TAXATION.

GROUP TAX RATES – EFFECTIVE TAX RATE OF 20.3%

Equity holders' effective tax rate %	H1 2014	H1 2013
Total effective tax rate	**20.3**	**21.6**
Annualised rate of UK corporation tax	**21.50**	**23.25**

In H1 2014, the Group's effective tax rate remained slightly below the UK corporation tax rate due to a number of differences between the measurement of accounting profit and taxable profits.

DEFERRED TAX ASSET UTILISATION

The UK has a deferred tax asset of £53m in respect of trading losses carried forward in Group companies (FY 2013: £93m). The movement in the year includes a £35m (H1 2013: £38m) contribution to net cash generation in LGR and LGAS protection from the utilisation of trading losses. It is expected that the trading losses within LGR remain available throughout the remainder of 2014.

SUPPLEMENTARY EEV DISCLOSURE.

EEV highlights Pence	H1 2014	FY 2013
EEV per share including LGIM	**196**	190
EEV per share	**166**	162

Analysis of EEV results £m	H1 2014	H1 2013
Contribution from new business	**421**	257
Expected return from in-force business	**238**	211
Experience variances and assumption changes	**9**	29
Development costs	**(14)**	(18)
Contribution from shareholder net worth	**93**	71
EEV operating profit on covered business	**747**	**550**
Business reported on an IFRS basis	**103**	90
EEV operating profit	**850**	**640**
Economic variances	**8**	264
Gains attributable to non-controlling interests	**6**	7
EEV profit before tax	**864**	**911**
Tax and other	**(145)**	(126)
EEV profit after tax	**719**	**785**

EEV PER SHARE

The Group delivered £719m of EEV profit after tax, which after payment of the 2013 final dividend of £408m and foreign exchange, pension deficit and other adjustments of £(54)m, increased EEV shareholders' equity to £9,843m (FY 2013: £9,586m), equivalent to 166 pence per share (FY 2013: 162 pence per share). Including LGIM's external funds in the calculation increases the EEV per share to 196 pence (FY 2013: 190 pence).

NEW BUSINESS CONTRIBUTION

Contribution from new business increased to £421m (H1 2013: £257m). The increase reflects increases in each of our three divisions reported on a covered basis, with sales increasing on a PVNBP basis by 32% to £7.7bn (H1 2013: £5.9bn). Worldwide EEV new business margin increased to 5.4% (H1 2013: 4.4%). UK Protection business of 9.3% (H1 2013: 6.7%) benefitted from a continuation of higher new business volumes. LGR delivered a strong and sustained margin of 8.4% (H1 2013: 8.4%) on significantly higher volumes following the ICI bulk annuity deal completed in Q1 2014.

EEV OPERATING PROFIT

EEV operating profit increased 33% to £850m (H1 2013: £640m) as the Group benefitted from higher new business contribution which resulted from an 82% increase in single premium business to £5,118m (H1 2013: £2,810), a 11% increase in annual premium to £549m (H1 2013: £494m) and improved new business margins.

EEV PROFIT AFTER TAX

EEV profit after tax was down at £719m (H1 2013: £785m) predominantly as a result of the outperformance in equity markets in H1 2013, not repeated in the first half of 2014, more than offsetting the growth in operating profit.

VALUE IN-FORCE (VIF)

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

Reconciliation of UK long term business VIF £bn	Discounted	Undiscounted[1]
Opening VIF at 1 January 2014	**4.9**	**10.5**
Contribution from new business	0.3	0.8
Unwind of discount rate	0.2	n/a
Expected release from non-profit and with-profits businesses[2]	(0.3)	(0.4)
Experience variances / assumption changes	-	0.2
Investment variance / economic assumption changes	-	(0.4)
Other	-	-
Closing VIF at 30 June 2014	**5.1**	**10.7**

1. Management estimates.
2. Comprises the expected release from non-profit business of £322m and with-profits transfer of £22m.

ADDITIONAL VALUE OF LGIM

Within the calculation of Group embedded value, LGIM profits on internally sourced business are included on a look-through basis at £0.3bn (H1 2013: £0.3bn), equivalent to 5p per share (H1 2013: 5p per share).

The external assets component of LGIM is included at the IFRS net asset value of £0.6bn (H1 2013: £0.5bn), equivalent to 10p per share (H1 2013: 8p per share).

Including the external assets component of LGIM on an embedded value basis would increase the contribution of LGIM to the Group embedded value from £0.9bn (15p per share) to £2.6bn (45p per share). In line with the rest of the Group, the embedded value for LGIM excludes any value for future new business.

Estimated LGIM discounted cash flow valuation	H1 2014 p per share	H1 2014 £bn
Look through value of profits on covered business	**5**	0.3
Net asset value	**10**	0.6
Current value of LGIM in Group embedded value	**15**	**0.9**
LGIM VIF	**30**	1.7
Alternative discounted value of LGIM future cash flows	**45**	**2.6**

Including LGIM, this scenario equates to an indicative valuation per share of 196 pence.

Indicative valuation including LGIM	H1 2014 p per share	H1 2014 £bn
EEV as reported	**166**	9.9
LGIM VIF	**30**	1.7
Total including LGIM	**196**	**11.6**

PRINCIPAL RISKS AND UNCERTAINTIES.

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

RISKS AND UNCERTAINTIES	TREND, OUTLOOK AND MITIGATION
Changes in regulation or legislation may have a detrimental effect on our strategy. Legislation and government fiscal policy influence our product design, the period of retention of products and our required reserves for future liabilities. Regulation defines the overall framework for the design, marketing and distribution of our products; and the prudential capital that we hold. Significant changes in legislation or regulation may reduce our future revenues and profitability or require us to hold more capital. We are particularly exposed to risk where legislative or regulatory change is unanticipated or implemented without prior consultation and engagement with the financial services sector. The nature of long term business can also result in some changes in regulation, and the differing interpretation of regulation by regulators over time, having a retrospective effect on our businesses and in force books of business, impacting the value of embedded future profits implicit in those books of business.	The recent changes in annuity compulsion announced in the UK budget illustrate how the sector can be impacted by sudden changes in legislative or regulatory frameworks. Whilst we believe our Workplace savings products, a comprehensive suite of low cost retail solutions, and the Cofunds platform, position us well for the evolution of a modern pensions market in the UK, we remain vigilant to the risk that future changes may have unintended consequences for the financial service sectors in which we operate. Other areas of uncertainty include Solvency II (SII) and the distribution landscape post the Retail Distribution Review (RDR). With regard to SII, the new capital regulations continue to be targeted for implementation in early 2016. Revised capital calibrations for long term business provide sufficient flexibility to address many of the adverse capital impacts for UK insurance firms. Challenges remain, however, in ensuring that final implementation is proportionate and cost effective for the insurance sector. We continue to 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.
Investment market performance or conditions in the broader economy may adversely impact our earnings and profitability. The performance and liquidity of investment markets, interest rate movements and inflation impact the value of investment assets we hold in shareholders' funds and those to meet the obligations arising from insurance business. Interest rate movement and inflation can also change the value of the obligations. We use a range of techniques to manage mismatches between assets and liabilities. However, financial loss can still arise from adverse investment markets. In addition, significant falls in investment values can reduce the fee income of our investment management business. Broader economic conditions impact the timing of the purchase and the period of retention of retail financial services products, impacting our profitability.	Current macro-economic policies continue to drive record equity markets, bond values and house prices. Whilst we consider the immediate outlook remains positive, a number of factors could result in rapid changes in asset values. These include a toughening of monetary policy and political uncertainty. There is limited resilience in the current investment market environment for such 'shocks' with potential for significant falls in the value of certain asset classes should markets reassess returns. Extreme market shocks may impact our ability to execute hedging strategies that ensure the profile of our asset and liability cash flows is appropriately matched. Economic shocks may also impact consumer attitudes in the markets in which we operate. We continue to model our business plans across a broad range of economic scenarios and take account of alternative economic outlooks within our overall business strategy. Our business plans seek to focus upon those market segments that we expect to be resilient across a range of projected conditions.

In dealing with issuers of debt and other types of counterparty the Group is exposed to the risk of financial loss. A systematic default event within the corporate sector, or a major sovereign debt event, could result in dislocation of bond markets, significantly widening credit spreads, and may result in default of even strongly rated issuers of debt, exposing us to financial loss. We are also exposed to banking, money market and reinsurance counterparties, and settlement, custody and other bespoke business services, a failure of which could expose us to both financial loss and operational disruption of our business processes.	Credit spreads continue to reflect market confidence in the issuers of investment grade bonds, and at Legal & General we have continued to experience low levels of default on our corporate bond portfolio. We also continue to diversify the asset classes backing our annuities business, to include the use of property lending, sale and leaseback and other forms of direct investment. There remains, however, a range of factors that could trigger write downs in our investment assets, leading to reduced profitability or financial loss. These factors include deterioration in market confidence in banks particularly in the euro zone and a financial crisis in emerging markets. Whilst we carefully select and monitor the financial strength of all our counterparties, an economic shock or significant change in the current economic outlook may increase potential for a supplier of business services being unable to meet their obligations to us.
As a UK-based Group, our earnings are influenced by the performance and perception of the UK financial services sector as a whole. The financial crisis, subsequent investment performance and low interest rate environment, together with consumers' perceptions of the robustness of financial institutions, may impact consumer attitudes to long-term savings. Regulatory actions may also adversely impact consumers' perception of the value of insurance products and result in changes to the regulatory and legislative environment in which we operate, adversely impacting our future revenues and profitability.	As a significant participant in the long-term savings markets, we are exposed to changes in consumer sentiment. We are also exposed to increased costs of regulatory compliance through regulatory and legislative responses to events in the broader financial services sector. Recent examples include the EU transaction tax and the central clearing of certain derivative instruments, which would increase the costs associated with pension savings products and annuities, respectively. In mitigation of sector contagion risks we actively manage our brand and seek to differentiate our business model from that of our competitors. To ensure regulation is appropriate and proportionate we also seek to engage with our regulators to support their understanding of the risk drivers in the financial services markets. The nature of the business environment in which we operate, however, means that we cannot remove ourselves from the adverse consequences of market events and we will continue to be exposed to residual contagion risks.
Reserves for long-term business may require revision as a result of changes in experience, regulation or legislation. The writing of long-term insurance business requires the setting of assumptions for long-term trends in factors such as mortality, lapse rates and persistency, valuation interest rates, expenses and credit defaults. Actual experience may result in the need to recalibrate these assumptions reducing profitability. Forced changes in reserves can also be required because of regulatory or legislative intervention in the way that products are priced, reducing profitability.	We regularly appraise the assumptions underpinning the business that we write taking account of demographic trends and long term economic outlook. In our annuities business we are, however, exposed to factors such as improvements in medical science beyond those anticipated leading to unexpected changes in life expectancy. In protection business we remain inherently exposed to loss from events causing widespread mortality/morbidity or significant policy lapse rates. There is also potential for legislative intervention in the pricing of insurance products irrespective of risk factors, such as age or health.
The Group may not maximise opportunities from structural and other changes within the financial services sector. 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, and in turn future revenues and profitability.	Macro trends in the markets in which we operate include an ageing population, the increasing use of digital technologies and significant reform in the provision of state welfare. Within the investment management business asset classes are increasingly homogeneous providing opportunities for businesses with scale such as us. The retrenchment of the banks also provides opportunity for insurance firms to participate in investment and lending activities. Responding to these macro trends potentially creates organisational challenges and management stretch across the range of initiatives. We remain vigilant to these risks and have structure our business to support their practical management.

A material failure in our business processes may result in unanticipated financial loss or reputation damage. We have constructed our framework of internal controls to minimise the risk of unanticipated financial loss or damage to our reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage to our brand. Our plans for growth inherently will also increase the profile of operational risks across our businesses.	We continue to invest in our systems capabilities and business processes so that we meet the expectations of our customers; comply with regulatory, legal and financial reporting requirements; and mitigate the risk of significant financial loss or reputational damage from operational risk events. Our risk governance model seeks to ensure that business management are actively engaged in ensuring an appropriate control environment is in place, with risk oversight and independent assurance of our internal control environment being provided by our Group Risk and Group Internal Audit functions, respectively.
The financial services sector is increasingly becoming a target of 'cyber crime'. As we and our business partners increasingly digitalise our businesses, we are inherently exposed to the risk that third parties may seek to disrupt our on-line business operations, steal customer data or perpetrate acts of fraud using digital media. A significant cyber event could result in reputation damage and financial loss.	Cyber-crime and attempts by third parties to seek and exploit perceived vulnerabilities in IT systems remains a key risk within the financial services sector. Potential threats include denial of service attacks, network intrusions to steal data for the furtherance of financial crime, and the electronic diversion of funds. We continue focus on maintaining a secure IT environment that protects our customer and corporate data and seek to proactively address emerging threats. The nature of cyber threats, however, means residual risk remains.

ENQUIRIES.

INVESTORS:

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

MEDIA:

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

NOTES

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

A presentation to analysts and fund managers will take place at 10.30 GMT today at One Coleman Street, London, EC2R 5AA. There will be a live webcast of the presentation which can be accessed at http://investor.legalandgeneral.com/results.cfm. A replay will be available on this website later today.

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

PARTICIPANT DIAL-IN NUMBERS

LOCATION YOU ARE DIALLING IN FROM	NUMBER YOU SHOULD DIAL
UNITED KINGDOM	0800 368 0649
ALL OTHER LOCATIONS	+ 44 20 3059 8125
CONFERENCE ENTRY VIA QR CODE	

TO GAIN ACCESS TO THE CONFERENCE USING THE QR CODE, PLEASE ENSURE YOU HAVE THE APPROPRIATE SOFTWARE ON YOUR MOBILE DEVICE AND SCAN THE IMAGE.

Financial Calendar	Date
Ex-dividend date	27 August 2014
Record date	29 August 2014
Payment date of 2014 interim dividend	1 October 2014
Q3 Interim Management Statement 2014	4 November 2014
Preliminary Results 2014	4 March 2015

DEFINITIONS

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

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Operating profit

For the six months ended 30 June 2014

	Notes	30.06.14 £m	30.06.13[1] £m	Full year 31.12.13[1] £m
From continuing operations				
Legal & General Assurance Society (LGAS)	2.02	**223**	213	444
Legal & General Retirement (LGR)	2.02	**188**	151	310
Legal & General Investment Management (LGIM)	2.04	**159**	152	304
Legal & General Capital (LGC)	2.05	**102**	86	179
Legal & General America (LGA)		**43**	53	92
Operating profit from divisions		**715**	655	1,329
Group debt costs[2]		**(63)**	(64)	(127)
Group investment projects and expenses		**(16)**	(20)	(44)
Operating profit		**636**	571	1,158
Investment and other variances	2.06	**(6)**	16	(27)
Gains on non-controlling interests		**6**	7	13
Profit before tax		**636**	594	1,144
Tax expense attributable to equity holders of the Company		**(129)**	(128)	(238)
Profit for the period		**507**	466	906
Profit attributable to equity holders of the Company		**501**	459	893
		p	p	p
Earnings per share				
Based on profit attributable to equity holders of the Company		**8.51**	7.82	15.20
Diluted earnings per share				
Based on profit attributable to equity holders of the Company		**8.42**	7.72	15.00

1. Gains on non-controlling interests have been adjusted to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. The impact is to increase gains on non-controlling interests and profit for the period by £2m at H1 13 and £10m at FY 13. The profit attributable to equity holders remains unaffected.
2. Group debt costs exclude interest on non recourse financing.

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

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

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

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

The LGIM segment represents institutional and retail investment management businesses.

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

The LGA segment comprises protection business written in the USA.

2.01 Operational cash generation

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

For the six months ended 30 June 2014	Operational cash generation[1] £m	New business strain £m	Net cash generation £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGAS	**237**	**(31)**	**206**	**(15)**	**14**	**(30)**	**(2)**	**173**	**50**	**223**
- Protection	166	(8)	158	(9)	15	(24)	(2)	138	41	179
- Savings	71	(23)	48	(6)	(1)	(6)	-	35	9	44
LGR	**146**	**20**	**166**	**(2)**	**-**	**(16)**	**-**	**148**	**40**	**188**
LGIM	**125**	**-**	**125**	**-**	**-**	**-**	**-**	**125**	**34**	**159**
LGC	**82**	**-**	**82**	**-**	**-**	**-**	**-**	**82**	**20**	**102**
LGA	**44**	**-**	**44**	**-**	**-**	**-**	**(17)**	**27**	**16**	**43**
Total from divisions	**634**	**(11)**	**623**	**(17)**	**14**	**(46)**	**(19)**	**555**	**160**	**715**
Group debt costs	**(49)**	**-**	**(49)**	**-**	**-**	**-**	**-**	**(49)**	**(14)**	**(63)**
Group investment projects and expenses	**(7)**	**-**	**(7)**	**-**	**-**	**-**	**(6)**	**(13)**	**(3)**	**(16)**
Total	**578**	**(11)**	**567**	**(17)**	**14**	**(46)**	**(25)**	**493**	**143**	**636**

1. Operational cash generation includes dividends remitted from LGF of £1m (H1 13: £1m; FY 13: £2m) and LGN of £14m (H1 13: £nil; FY 13: £14m) within the Protection line and LGA of £44m (H1 13: £43m; FY 13: £44m).

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

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

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

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

The operational cash generation for LGA represents the dividends received.

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

2.01 Operational cash generation (continued)

For the six months ended 30 June 2013	Operational cash generation[1] £m	New business strain £m	Net cash generation £m	Experience variances £m	Changes in valuation assumptions £m	Non-cash items and other £m	International and other £m	Operating profit/ (loss) after tax £m	Tax expense/ (credit) £m	Operating profit/ (loss) before tax £m
LGAS	**231**	**(54)**	**177**	**(2)**	**26**	**(52)**	**14**	**163**	**50**	**213**
- Protection	149	(23)	126	3	15	(30)	15	129	39	168
- Savings	82	(31)	51	(5)	11	(22)	(1)	34	11	45
LGR	**130**	**17**	**147**	**(1)**	**-**	**(30)**	**-**	**116**	**35**	**151**
LGIM	**119**	**-**	**119**	**-**	**-**	**-**	**-**	**119**	**33**	**152**
LGC	**68**	**-**	**68**	**-**	**-**	**-**	**-**	**68**	**18**	**86**
LGA	**43**	**-**	**43**	**-**	**-**	**-**	**(8)**	**35**	**18**	**53**
Total from divisions	**591**	**(37)**	**554**	**(3)**	**26**	**(82)**	**6**	**501**	**154**	**655**
Group debt costs	**(49)**	**-**	**(49)**	**-**	**-**	**-**	**-**	**(49)**	**(15)**	**(64)**
Group investment projects and expenses	**(5)**	**-**	**(5)**	**-**	**-**	**-**	**(10)**	**(15)**	**(5)**	**(20)**
Total	**537**	**(37)**	**500**	**(3)**	**26**	**(82)**	**(4)**	**437**	**134**	**571**

1. Operational cash generation includes dividends remitted from LGF of £1m, LGN of £nil and LGA of £43m.

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

1. Operational cash generation includes dividends remitted from LGF of £2m, LGN of £14m and LGA of £44m.

2.02 Analysis of LGAS and LGR operating profit

	LGAS 30.06.14 £m	**LGR** 30.06.14 £m	LGAS 30.06.13 £m	LGR 30.06.13 £m	LGAS Full year 31.12.13 £m	LGR Full year 31.12.13 £m
Net cash generation	**206**	**166**	177	147	401	293
Experience variances						
Persistency	**1**	**-**	1	-	5	1
Mortality/Morbidity	**(2)**	**5**	3	-	-	14
Expenses	**1**	**-**	1	-	(3)	-
BPA Loading	**-**	**-**	-	2	-	4
Project and development costs	**(7)**	**(8)**	(12)	(5)	(23)	(11)
Other	**(8)**	**1**	5	2	(13)	1
Total experience variances	**(15)**	**(2)**	(2)	(1)	(34)	9
Changes to valuation assumptions						
Persistency	**-**	**-**	-	-	7	-
Mortality/Morbidity[1]	**22**	**-**	11	-	9	(13)
Expenses	**-**	**-**	5	-	8	-
Other	**(8)**	**-**	10	-	7	-
Total valuation assumption changes	**14**	**-**	26	-	31	(13)
Movement in non-cash items						
Deferred tax	**(1)**	**-**	1	-	(4)	-
Utilisation of brought forward trading losses	**(2)**	**(36)**	(3)	(35)	(4)	(70)
Acquisition expense tax relief [2]	**(19)**	**-**	(29)	-	(51)	-
Deferred Acquisition Costs (DAC)[3]	**(29)**	**-**	(28)	-	(54)	-
Deferred Income Liabilities (DIL)[3]	**22**	**-**	24	-	47	-
Other[4]	**(1)**	**20**	(17)	5	(3)	22
Total non-cash movement items	**(30)**	**(16)**	(52)	(30)	(69)	(48)
Other	**(2)**	**-**	14	-	10	-
Operating profit after tax	**173**	**148**	163	116	339	241
Tax gross up	**50**	**40**	50	35	105	69
Operating profit before tax	**223**	**188**	213	151	444	310

1. The mortality/morbidity valuation assumption change for LGAS primarily relates to a reduction in prudence margin in the regulatory reserving assumptions within retail protection.
2. Net cash for LGAS Protection and insured savings recognises tax relief from prior year acquisition expenses, which were spread evenly over seven years under relevant 'I-E' tax legislation, in the period the cash flows actually occur. In contrast, operating profit typically recognised the value of these future cash flows in the same period as the underlying loss or expense as deferred tax amounts. The reconciling amounts arising from these items are included in the table above. Following the removal of new retail protection business from the I-E tax regime, and the removal of commission from new insured savings business under the Retail Distribution Review at the end of 2012, no material deferred tax assets arise on new acquisition expenses. From 2013, the deferred tax asset on prior period acquisition expenses began to unwind, with a significantly smaller replacement asset being created. This resulted in an initially higher level of net cash in 2013, which is reducing over the following 6 years.
3. The DAC in LGAS represents the amortisation charges offset by new acquisition costs deferred in the year. The DIL reflects initial fees on insured savings business which relate to the future provision of services and are deferred and amortised over the anticipated period in which these services are provided.
4. The other non-cash items in LGR primarily relates to the elimination of intra-group future profits arising from the provision of investment management services at market referenced rates.

2.03 General insurance combined operating ratio[1]

	30.06.14 %	30.06.13 %	Full year 31.12.13 %
General insurance combined operating ratio	**88**	81	84

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

2.04 LGIM

	30.06.14 £m	30.06.13 £m	Full year 31.12.13 £m
Revenue	**309**	292	594
Expenses	**(150)**	(140)	(290)
Total LGIM operating profit[1]	**159**	152	304

1. Total LGIM operating profit includes £18m (H1 13: £17m; FY 13: £37m) from LGI.

2.05 LGC

	30.06.14 £m	30.06.13 £m	Full year 31.12.13 £m
Investment return	**109**	89	185
Expenses[1]	**(7)**	(3)	(6)
Total LGC operating profit	**102**	86	179

1. H1 14 LGC expenses include £4m of management expenses previously borne by the Group and allocated as Group expenses.

2.06 Investment and other variances

	30.06.14 £m	30.06.13 £m	Full year 31.12.13 £m
Investment variance[1]	**26**	42	29
M&A related[2]	**(15)**	(11)	(16)
Other[3]	**(17)**	(15)	(40)
Total	**(6)**	16	(27)

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

Consolidated Income Statement

For the six months ended 30 June 2014

	Notes	30.06.14 £m	30.06.13[1] £m	Full year 31.12.13[1] £m
Revenue				
Gross written premiums		**5,291**	3,136	6,162
Outward reinsurance premiums		**(514)**	(388)	(874)
Net change in provision for unearned premiums		**6**	(19)	(18)
Net premiums earned		**4,783**	2,729	5,270
Fees from fund management and investment contracts		**548**	480	1,040
Investment return		**13,481**	15,519	32,234
Operational income		**372**	348	720
Total revenue	2.08	**19,184**	19,076	39,264
Expenses				
Claims and change in insurance liabilities		**6,717**	2,168	5,767
Reinsurance recoveries		**(582)**	(500)	(1,113)
Net claims and change in insurance liabilities		**6,135**	1,668	4,654
Change in provisions for investment contract liabilities		**10,864**	15,286	30,458
Acquisition costs		**436**	399	855
Finance costs		**90**	87	166
Other expenses		**869**	853	1,694
Transfers to unallocated divisible surplus		**50**	4	112
Total expenses		**18,444**	18,297	37,939
Profit before tax		**740**	779	1,325
Tax expense attributable to policyholder returns		**(104)**	(185)	(181)
Profit before tax attributable to equity holders		**636**	594	1,144
Total tax expense		**(233)**	(313)	(419)
Tax expense attributable to policyholder returns		**104**	185	181
Tax expense attributable to equity holders	2.13	**(129)**	(128)	(238)
Profit for the period		**507**	466	906
Attributable to:				
Non-controlling interests		**6**	7	13
Equity holders of the Company		**501**	459	893
Dividend distributions to equity holders of the Company during the period	2.15	**408**	337	479
Dividend distributions to equity holders of the Company proposed after the period end	2.15	**172**	142	408

		p	p	p
Earnings per share				
Based on profit attributable to equity holders of the Company	2.09	**8.51**	7.82	15.20
Diluted earnings per share				
Based on profit attributable to equity holders of the Company	2.09	**8.42**	7.72	15.00

1. The Consolidated Income Statement has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.07. The impact is to increase the profit for the period by £2m at H1 13 and £10m at FY 13.

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2014

	30.06.14 £m	30.06.13[1] £m	Full year 31.12.13[1] £m
Profit for the period	**507**	466	906
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses on defined benefit pension schemes	**(10)**	(7)	(145)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	**4**	3	49
Total items that will not be reclassified to profit or loss subsequently	**(6)**	(4)	(96)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of overseas operations	**(28)**	12	(16)
Net change in financial investments designated as available-for-sale	**20**	(43)	(88)
Total items that may be reclassified to profit or loss subsequently	**(8)**	(31)	(104)
Other comprehensive expense after tax	**(14)**	(35)	(200)
Total comprehensive income for the period	**493**	431	706
Total comprehensive income attributable to:			
Non-controlling interests	**6**	7	13
Equity holders of the Company	**487**	424	693

1. The Consolidated Statement of Comprehensive Income has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.07. The impact is to increase the profit for the period by £2m at H1 13 and £10m at FY 13.

Consolidated Balance Sheet
As at 30 June 2014

	Notes	30.06.14 £m	30.06.13[1] £m	31.12.13[1] £m
Assets				
Goodwill		**73**	65	73
Purchased interest in long term businesses and other intangible assets		**341**	291	308
Deferred acquisition costs		**1,848**	1,979	1,880
Investment in associates and joint ventures		**138**	121	101
Property, plant and equipment		**136**	138	129
Investment property	2.12	**7,352**	5,638	6,377
Financial investments	2.12	**340,170**	327,366	334,540
Reinsurers' share of contract liabilities		**3,025**	2,745	2,897
UK deferred tax asset	2.13	**-**	138	82
Current tax recoverable		**303**	205	310
Other assets		**3,018**	3,512	2,121
Cash and cash equivalents		**21,087**	16,869	17,454
Total assets		**377,491**	359,067	366,272
Equity				
Share capital		**148**	148	148
Share premium		**966**	958	959
Employee scheme treasury shares		**(36)**	(38)	(39)
Capital redemption and other reserves		**54**	84	57
Retained earnings		**4,579**	4,353	4,517
Shareholders' equity		**5,711**	5,505	5,642
Non-controlling interests	2.19	**271**	257	265
Total equity		**5,982**	5,762	5,907
Liabilities				
Participating insurance contracts		**6,596**	7,479	6,972
Participating investment contracts		**7,452**	7,523	7,493
Unallocated divisible surplus		**1,253**	1,163	1,221
Value of in-force non-participating contracts		**(234)**	(235)	(248)
Participating contract liabilities		**15,067**	15,930	15,438
Non-participating insurance contracts		**44,439**	38,021	40,273
Non-participating investment contracts		**279,084**	273,545	278,754
Non-participating contract liabilities		**323,523**	311,566	319,027
Core borrowings	2.17	**2,991**	2,457	2,453
Operational borrowings	2.18	**692**	1,048	775
Provisions		**1,143**	968	1,128
UK deferred tax liabilities	2.13	**28**	-	-
Overseas deferred tax liabilities	2.13	**402**	400	362
Current tax liabilities		**12**	5	14
Payables and other financial liabilities	2.14	**11,281**	8,219	9,305
Other liabilities		**923**	913	1,045
Net asset value attributable to unit holders		**15,447**	11,799	10,818
Total liabilities		**371,509**	353,305	360,365
Total equity and liabilities		**377,491**	359,067	366,272

1. The Consolidated Balance Sheet has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.07. The impact is to increase the total equity by £199m at H1 13 and £207m at FY 13.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
As at 1 January 2014	**148**	**959**	**(39)**	**57**	**4,517**	**5,642**	**265**	**5,907**
Total comprehensive income/(expense) for the period	**-**	**-**	**-**	**(8)**	**495**	**487**	**6**	**493**
Options exercised under share option schemes	**-**	**7**	**-**	**-**	**-**	**7**	**-**	**7**
Net movement in employee scheme treasury shares	**-**	**-**	**3**	**(10)**	**(10)**	**(17)**	**-**	**(17)**
Dividends	**-**	**-**	**-**	**-**	**(408)**	**(408)**	**-**	**(408)**
Currency translation differences	**-**	**-**	**-**	**15**	**(15)**	**-**	**-**	**-**
As at 30 June 2014	**148**	**966**	**(36)**	**54**	**4,579**	**5,711**	**271**	**5,982**

For the six months ended 30 June 2013[1]								
As at 1 January 2013	148	956	(43)	153	4,227	5,441	178	5,619
Total comprehensive income/(expense) for the period	-	-	-	(31)	455	424	7	431
Options exercised under share option schemes	-	2	-	-	-	2	-	2
Net movement in employee scheme treasury shares	-	-	5	(5)	(25)	(25)	-	(25)
Dividends	-	-	-	-	(337)	(337)	-	(337)
Movement in third party interests	-	-	-	-	-	-	72	72
Currency translation differences	-	-	-	(33)	33	-	-	-
As at 30 June 2013	148	958	(38)	84	4,353	5,505	257	5,762

For the year ended 31 December 2013[1]								
As at 1 January 2013	148	956	(43)	153	4,227	5,441	178	5,619
Total comprehensive income/(expense) for the year	-	-	-	(104)	797	693	13	706
Options exercised under share option schemes	-	3	-	-	-	3	-	3
Net movement in employee scheme treasury shares	-	-	4	9	(29)	(16)	-	(16)
Dividends	-	-	-	-	(479)	(479)	-	(479)
Movement in third party interests	-	-	-	-	-	-	74	74
Currency translation differences	-	-	-	(1)	1	-	-	-
As at 31 December 2013	148	959	(39)	57	4,517	5,642	265	5,907

1. The Condensed Consolidated Statement of Changes in Equity has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.07. The impact is to increase the total equity by £199m at H1 13 and £207m at FY 13.

IFRS and Cash

Consolidated Cash Flow Statement

For the six months ended 30 June 2014

	30.06.14 £m	30.06.13[1] £m	Full year 31.12.13[1] £m
Cash flows from operating activities			
Profit for the period	**507**	466	906
Adjustments for non cash movements in net profit for the period			
Realised and unrealised gains on financial investments and investment properties	**(8,705)**	(10,867)	(21,456)
Investment income	**(4,853)**	(5,116)	(9,504)
Interest expense	**90**	87	166
Tax expense	**233**	313	419
Other adjustments	**46**	47	98
Net decrease/(increase) in operational assets			
Investments held for trading or designated as fair value through profit or loss	**2,036**	(2,200)	1,952
Investments designated as available-for-sale	**164**	(5)	60
Other assets	**(857)**	(2,103)	547
Net increase/(decrease) in operational liabilities			
Insurance contracts	**3,923**	(351)	1,384
Transfer from unallocated divisible surplus	**39**	10	63
Investment contracts	**387**	8,584	13,835
Value of in-force non-participating contracts	**14**	7	(6)
Other liabilities	**6,182**	7,219	3,883
Cash used in operations	**(794)**	(3,909)	(7,653)
Interest paid	**(103)**	(75)	(169)
Interest received	**2,430**	2,482	4,981
Tax paid[2]	**(97)**	(199)	(287)
Dividends received	**2,169**	2,399	4,497
Net cash flows from operating activities	**3,605**	698	1,369
Cash flows from investing activities			
Net acquisition of plant, equipment and intangibles	**(12)**	(43)	(48)
Acquisitions (net of cash acquired)[3]	**(18)**	(109)	(97)
Disposal of subsidiaries	**50**	-	-
Investment in joint ventures	**(77)**	(58)	(68)
Net cash flows from investing activities	**(57)**	(210)	(213)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the Company during the period	**(408)**	(337)	(479)
Proceeds from issue of ordinary share capital	**7**	2	3
Purchase of employee scheme shares	**(3)**	(5)	(4)
Proceeds from borrowings	**592**	747	1,231
Repayment of borrowings	**(88)**	(687)	(1,115)
Net cash flows from financing activities	**100**	(280)	(364)
Net increase in cash and cash equivalents	**3,648**	208	792
Exchange (losses) on cash and cash equivalents	**(15)**	(1)	-
Cash and cash equivalents at 1 January	**17,454**	16,662	16,662
Cash and cash equivalents at 30 June / 31 December	**21,087**	16,869	17,454

1. The Consolidated Cash Flow Statement has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.07.
2. Tax comprises of UK corporation tax paid of £1m (H1 13: £101m; FY 13: £133m), overseas corporate taxes of £7m (H1 13: £2m; FY 13: £6m) and withholding tax of £89m (H1 13: £96m; FY 13: £148m).
3. Net cash flows from acquisitions includes cash paid of £18m (H1 13: £131m; FY 13: £287m) less cash and cash equivalents acquired of £nil (H1 13: £22m; FY 13: £190m).

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

2.07 Basis of preparation

The Group's financial information for the period ended 30 June 2014 has been prepared in accordance with the Listing Rules of the Financial Conduct Authority and with IAS 34, 'Interim Financial Reporting'. The Group's financial information has also been prepared in line with the accounting policies and methods of computation which the Group expects to adopt for the 2014 year end. These policies are consistent with the principal accounting policies which were set out in the Group's 2013 consolidated financial statements which were consistent with IFRSs issued by the International Accounting Standards Board as adopted by the European Commission for use in the European Union, except in relation to changes arising from the IASB's consolidation project, as explained below.

The preparation of the interim management report includes the use of estimates and assumptions which affect items reported in the Consolidated Balance Sheet and Income Statement and the disclosure of contingent assets and liabilities at the date of the financial statements. The economic and non-economic actuarial assumptions used to establish the liabilities in relation to insurance and investment contracts are significant. For half-year financial reporting, economic assumptions have been updated to reflect market conditions. Non-economic assumptions are consistent with those used in the 31 December 2013 financial statements except for the changes outlined in Note 2.02. Scheme specific mortality assumptions are used to value bulk purchase annuities.

The results for the six months ended 30 June 2014 are unaudited but have been reviewed by PricewaterhouseCoopers LLP. The interim results do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The results from the full year 2013 have been taken from the Group's 2013 Annual Report and Accounts and have been restated for the adoption of accounting policies noted below. Therefore, these interim accounts should be read in conjunction with the 2013 Annual Report and Accounts that have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and adopted by the European Union. Pricewaterhouse Coopers LLP reported on the 2013 financial statements and their report was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The Group's 2013 Annual Report and Accounts has been filed with the Registrar of Companies.

Changes to accounting policy - IASB consolidation project

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

IFRS 10, 'Consolidated Financial Statements' defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. This states that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The application of IFRS 10 has resulted in the Group consolidating a small number of investment vehicles which were not previously consolidated. There is no material impact on the profit reported for the six months ended 30 June 2013 or the year ended 31 December 2013. The effect on profit and total equity previously reported at 30 June 2013 and 31 December 2013 is shown below. The prior period information in the following Notes 2.08, 2.12, 2.14, 2.18 and 2.21 has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'.

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

2.07 Basis of preparation (continued)

Consolidated Income Statement	As previously reported 30.06.13 £m	IFRS 10 Impact 30.06.13 £m	Restated 30.06.13 £m	As previously reported 31.12.13 £m	IFRS 10 Impact 31.12.13 £m	Restated 31.12.13 £m
Investment return	15,515	4	15,519	32,221	13	32,234
Finance costs	(85)	(2)	(87)	(163)	(3)	(166)
Profit for the period	**464**	**2**	**466**	**896**	**10**	**906**
Attributable to:						
Non-controlling interests	5	2	7	3	10	13
Equity holders of the Company	459	-	459	893	-	893

Consolidated Balance Sheet	As previously reported 30.06.13 £m	IFRS 10 Impact 30.06.13 £m	Restated 30.06.13 £m	As previously reported 31.12.13 £m	IFRS 10 Impact 31.12.13 £m	Restated 31.12.13 £m
Assets						
Investment property	5,377	261	5,638	6,060	317	6,377
Financial investments	326,079	1,287	327,366	331,802	2,738	334,540
Other assets	3,506	6	3,512	2,115	6	2,121
Cash and cash equivalents	16,759	110	16,869	17,407	47	17,454
Shareholders' equity						
Non-controlling interests	58	199	257	58	207	265
Liabilities						
Operational borrowings	958	90	1,048	704	71	775
Payables and other financial liabilities	8,160	59	8,219	8,931	374	9,305
Other liabilities	901	12	913	1,032	13	1,045
Net asset value attributable to unit holders	10,495	1,304	11,799	8,375	2,443	10,818

Key technical terms and definitions

The interim management report refers to various key performance indicators, accounting standards and other technical terms. A comprehensive list of these definitions is contained within the glossary of the Group's 2013 Annual Report and Accounts.

2.08 Segmental analysis

Reportable segments

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

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

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

The LGIM segment represents institutional and retail investment management businesses.

The LGC segment includes shareholders' equity supporting the non profit LGR and LGAS businesses held within Society and Legal & General Pensions Limited (LGPL) and capital held by the Group's treasury function. LGC and group expenses also incorporates inter-segmental eliminations and consolidated unit trusts and property partnerships managed on behalf of clients which do not constitute a separately reportable segment.

The LGA segment represents protection business written in the USA.

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

2.08 Segmental analysis (continued)
(a) Operating profit/(loss)

For the six months ended 30 June 2014	LGAS £m	LGR £m	LGIM £m	LGC £m	LGA £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	223	188	159	102	43	(79)	636
Investment and other variances[1]	(4)	76	(5)	(44)	(3)	(26)	(6)
Gains attributable to non-controlling interests	-	-	-	-	-	6	6
Profit/(loss) from continuing operations before tax	219	264	154	58	40	(99)	636
Tax (expense)/credit attributable to equity holders of the Company[2]	(50)	(56)	(33)	6	(21)	25	(129)
Profit/(loss) for the period after tax	169	208	121	64	19	(74)	507

For the six months ended 30 June 2013	LGAS £m	LGR £m	LGIM £m	LGC £m	LGA £m	Group expenses and debt costs £m	Total £m
Operating profit/(loss)	213	151	152	86	53	(84)	571
Investment and other variances	(51)	55	(2)	45	(1)	(30)	16
Gains attributable to non-controlling interests[3]	-	-	-	-	-	7	7
Profit/(loss) from continuing operations before tax	162	206	150	131	52	(107)	594
Tax (expense)/credit attributable to equity holders of the Company	(63)	(22)	(33)	(15)	(18)	23	(128)
Profit/(loss) for the period after tax	99	184	117	116	34	(84)	466

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

1. Positive investment and other variances for LGR are primarily due to favourable default experience and an increase in exposure to Direct Investments which has enhanced the risk adjusted return. Negative investment and other variances for LGC reflect lower equity returns from shareholder funds.
2. The tax credit for LGC primarily reflects an increase in the deferred tax asset recognised in respect of capital losses.
3. The segmental analysis of operating profit/(loss) has been restated to reflect the adoption by the Group of IFRS 10 ‘Consolidated Financial Statements’. Further details are contained in Note 2.07. The impact is to increase profit for the period by £2m at H1 13 and £10m at FY 13.

2.08 Segmental analysis (continued)
(b) Revenue

For the six months ended 30 June 2014	**LGAS £m**	**LGR £m**	**LGIM £m**	**LGA £m**	**LGC and group expenses £m**	**Total £m**
Internal revenue	**150**	**-**	**69**	**(98)**	**(121)**	**-**
External revenue	**3,156**	**5,300**	**10,264**	**197**	**267**	**19,184**
Total revenue	**3,306**	**5,300**	**10,333**	**99**	**146**	**19,184**

For the six months ended 30 June 2013[1]	LGAS £m	LGR £m	LGIM £m	LGA £m	LGC and group expenses £m	Total £m
Internal revenue	106	-	73	(74)	(105)	-
External revenue	3,462	1,129	13,900	235	350	19,076
Total revenue	3,568	1,129	13,973	161	245	19,076

For the year ended 31 December 2013[1]	LGAS £m	LGR £m	LGIM £m	LGA £m	LGC and group expenses £m	Total £m
Internal revenue	210	-	146	(71)	(285)	-
External revenue	6,600	4,468	27,173	460	563	39,264
Total revenue	6,810	4,468	27,319	389	278	39,264

1. The segmental analysis of revenue has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.07. The impact is to increase the total revenue by £4m at H1 13 and £13m at FY 13.

Total revenue includes investment return of £13,481m (H1 13: £15,519m; FY 13: £32,234m).

2.08 Segmental analysis (continued)
(c) Consolidated balance sheet

As at 30 June 2014	LGAS £m	LGR £m	LGIM £m	LGA £m	LGC and group expenses[1] £m	Total £m
Assets						
Investments	52,430	38,247	249,116	1,944	27,010	368,747
Other assets	11,329	1,118	1,987	2,511	(8,201)	8,744
Total assets	63,759	39,365	251,103	4,455	18,809	377,491
Shareholders' equity	820	-	566	787	3,538	5,711
Non-controlling interests	-	-	-	-	271	271
Total equity	820	-	566	787	3,809	5,982
Liabilities						
Core borrowings	-	-	-	-	2,991	2,991
Operational borrowings[2]	230	1	5	260	196	692
Participating contract liabilities	15,068	-	-	-	(1)	15,067
Non-participating contract liabilities	44,352	36,326	242,034	1,708	(897)	323,523
Other liabilities	3,289	3,038	8,498	1,700	12,711	29,236
Total liabilities	62,939	39,365	250,537	3,668	15,000	371,509
Total equity and liabilities	63,759	39,365	251,103	4,455	18,809	377,491

1. LGC and group expenses includes inter-segmental eliminations and net asset value attributable to unit holders.
2. Includes non recourse financing.

As at 30 June 2013[3]	LGAS £m	LGR £m	LGIM £m	LGA £m	LGC and group expenses[1] £m	Total £m
Assets						
Investments	51,772	32,139	245,327	2,221	18,535	349,994
Other assets	9,243	1,307	2,316	2,499	(6,292)	9,073
Total assets	61,015	33,446	247,643	4,720	12,243	359,067
Shareholders' equity	772	-	522	935	3,276	5,505
Non-controlling interests	-	-	-	-	257	257
Total equity	772	-	522	935	3,533	5,762
Liabilities						
Core borrowings	-	-	-	-	2,457	2,457
Operational borrowings[2]	244	-	10	293	501	1,048
Participating contract liabilities	15,937	-	-	-	(7)	15,930
Non-participating contract liabilities	40,615	29,822	240,091	1,828	(790)	311,566
Other liabilities	3,447	3,624	7,020	1,664	6,549	22,304
Total liabilities	60,243	33,446	247,121	3,785	8,710	353,305
Total equity and liabilities	61,015	33,446	247,643	4,720	12,243	359,067

1. LGC and group expenses include inter-segmental eliminations and net asset value attributable to the unit holders.
2. Includes non recourse financing.
3. The segmental analysis of consolidated balance sheet has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.07. The impact is to increase the total equity by £199m at H1 13 and £207m at FY 13.

2.08 Segmental analysis (continued)
(c) Consolidated balance sheet (continued)

As at 31 December 2013[3]	LGAS £m	LGR £m	LGIM £m	LGA £m	LGC and group expenses[1] £m	Total £m
Assets						
Investments	52,619	33,974	249,396	1,998	20,485	358,472
Other assets	9,891	2,491	1,335	2,393	(8,310)	7,800
Total assets	62,510	36,465	250,731	4,391	12,175	366,272
Shareholders' equity	783	-	421	816	3,622	5,642
Non-controlling interests	-	-	-	-	265	265
Total equity	783	-	421	816	3,887	5,907
Liabilities						
Core borrowings	-	-	-	-	2,453	2,453
Operational borrowings[2]	252	2	8	268	245	775
Participating contract liabilities	15,438	-	-	-	-	15,438
Non-participating contract liabilities	42,939	32,218	243,009	1,708	(847)	319,027
Other liabilities	3,098	4,245	7,293	1,599	6,437	22,672
Total liabilities	61,727	36,465	250,310	3,575	8,288	360,365
Total equity and liabilities	62,510	36,465	250,731	4,391	12,175	366,272

1. LGC and group expenses include inter-segmental eliminations and net asset value attributable to unit holders.
2. Includes non recourse financing.
3. The segmental analysis of consolidated balance sheet has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.07. The impact is to increase the total equity by £199m at H1 13 and £207m at FY 13.

2.09 Earnings per share
(a) Earnings per share

	Profit after tax 30.06.14 £m	Earnings per share[1] 30.06.14 p	Profit after tax 30.06.13 £m	Earnings per share[1] 30.06.13 p
Operating profit	**493**	**8.38**	437	7.44
Investment and other variances	**9**	**0.15**	21	0.36
Impact of change in UK tax rates	**(1)**	**(0.02)**	1	0.02
Earnings per share based on profit attributable to equity holders	**501**	**8.51**	459	7.82

	Profit after tax Full year 31.12.13 £m	Earnings per share[1] Full year 31.12.13 p
Operating profit	883	15.03
Investment and other variances	13	0.22
Impact of change in UK tax rates	(3)	(0.05)
Earnings per share based on profit attributable to equity holders	893	15.20

(b) Diluted earnings per share

	Profit after tax 30.06.14 £m	Number of shares[2] 30.06.14 m	Earnings per share 30.06.14 p	Profit after tax 30.06.13 £m	Number of shares[2] 30.06.13 m	Earnings per share 30.06.13 p
Profit attributable to equity holders of the Company	**501**	**5,884**	**8.51**	459	5,875	7.82
Net shares under options allocable for no further consideration	**-**	**65**	**(0.09)**	-	70	(0.10)
Diluted earnings per share	**501**	**5,949**	**8.42**	459	5,945	7.72

	Profit after tax Full year 31.12.13 £m	Number of shares[2] Full year 31.12.13 m	Earnings per share Full year 31.12.13 p
Profit attributable to equity holders of the Company	893	5,875	15.20
Net shares under options allocable for no further consideration	-	79	(0.20)
Diluted earnings per share	893	5,954	15.00

1. Earnings per share is calculated by dividing profit after tax derived from continuing operations by the weighted average number of ordinary shares in issue during the year, excluding employee scheme treasury shares.
2. For diluted earnings per share, the weighted average number of ordinary shares in issue, excluding employee scheme treasury shares, is adjusted to assume conversion of all potential ordinary shares, such as share options granted to employees.

2.10 Acquisition
Global Index Advisors Inc.

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

	30.06.14 £m
Total cash and deferred contingent consideration for 100% acquisition	**24**
Recognised amounts of identifiable assets transferred and liabilities assumed at fair value	
Intangibles	**38**
Deferred tax liabilities	**(14)**
Net assets attributable to equity holders of the Company	**24**

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

2.11 Disposal

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

2.12 Financial investments and Investment property

	30.06.14 £m	30.06.13[1] £m	Full Year 31.12.13[1] £m
Equities	**161,552**	161,123	166,663
Unit trusts	**7,252**	6,819	7,426
Debt securities[2]	**164,104**	152,720	153,742
Accrued interest	**1,548**	1,575	1,633
Derivative assets[3]	**5,251**	4,768	4,746
Loans and receivables	**463**	361	330
Financial investments	**340,170**	327,366	334,540
Investment property	**7,352**	5,638	6,377
Total financial investments and investment property	**347,522**	333,004	340,917

1. Financial investments and Investment property and fair value hierarchy have been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.07.
2. Detailed analysis of debt securities which shareholders are directly exposed to are disclosed in Note 4.05.
3. Derivatives are used to ensure efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management. Derivative assets are shown gross of derivative liabilities and include £2,888m (H1 13: £2,427m; FY 13: £2,391m) held on behalf of unit linked policyholders.

2.12 Financial investments and Investment property (continued)
(a) Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

These CDOs are valued using an external valuation based on observable market inputs, which include CDX and iTraxx index tranches and CDS spreads on underlying reference entities. This is then validated against the internal valuation. Accordingly, these assets have also been classified in level 2.

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

For the six months ended 30 June 2014	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Shareholder					
Equity securities	**1,445**	**1,268**	**24**	**153**	**-**
Debt securities	**5,135**	**2,124**	**2,846**	**165**	**-**
Accrued interest	**45**	**19**	**24**	**2**	**-**
Derivative assets	**153**	**52**	**101**	**-**	**-**
Loans and receivables	**178**	**-**	**-**	**-**	**178**
Investment property	**328**	**-**	**-**	**328**	**-**
Non profit non-unit linked					
Equity securities	**84**	**72**	**12**	**-**	**-**
Debt securities	**33,330**	**5,343**	**27,115**	**872**	**-**
Accrued interest	**404**	**38**	**359**	**7**	**-**
Derivative assets	**2,184**	**313**	**1,871**	**-**	**-**
Loans and receivables	**-**	**-**	**-**	**-**	**-**
Investment property	**1,692**	**-**	**-**	**1,692**	**-**
With-profits					
Equity securities	**4,206**	**3,674**	**13**	**519**	**-**
Debt securities	**10,619**	**4,377**	**6,225**	**17**	**-**
Accrued interest	**146**	**52**	**94**	**-**	**-**
Derivative assets	**26**	**24**	**2**	**-**	**-**
Loans and receivables	**30**	**-**	**-**	**-**	**30**
Investment property	**961**	**-**	**-**	**961**	**-**
Unit linked					
Equity securities	**163,069**	**160,615**	**2,127**	**327**	**-**
Debt securities	**115,020**	**78,246**	**36,771**	**3**	**-**
Accrued interest	**953**	**343**	**610**	**-**	**-**
Derivative assets	**2,888**	**908**	**1,980**	**-**	**-**
Loans and receivables	**255**	**-**	**-**	**-**	**255**
Investment property	**4,371**	**-**	**-**	**4,371**	**-**
Total financial investments and investment property	**347,522**	**257,468**	**80,174**	**9,417**	**463**

2.12 Financial investments and Investment property (continued)
(a) Fair value hierarchy (continued)

For the six months ended 30 June 2013[1]	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Shareholder					
Equity securities	1,439	1,222	70	147	-
Debt securities	5,959	2,388	3,571	-	-
Accrued interest	53	25	28	-	-
Derivative assets	237	35	202	-	-
Loans and receivables	80	-	-	-	80
Investment property	141	-	-	141	-
Non profit non-unit linked					
Debt securities	28,089	3,736	24,328	25	-
Accrued interest	370	29	341	-	-
Derivative assets	2,077	18	2,059	-	-
Loans and receivables	-	-	-	-	-
Investment property	924	-	-	924	-
With-profits					
Equity securities	4,449	3,933	8	508	-
Debt securities	11,039	4,524	6,510	5	-
Accrued interest	159	59	100	-	-
Derivative assets	27	17	10	-	-
Loans and receivables	26	-	-	-	26
Investment property	1,041	-	-	1,041	-
Unit linked					
Equity securities	162,054	159,690	2,078	286	-
Debt securities	107,633	68,503	39,129	1	-
Accrued interest	993	333	660	-	-
Derivative assets	2,427	168	2,259	-	-
Loans and receivables	255	-	-	-	255
Investment property	3,532	-	-	3,532	-
Total financial investments and investment property	333,004	244,680	81,353	6,610	361

1. This has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.07.

2.12 Financial investments and Investment property (continued)
(a) Fair value hierarchy (continued)

For the year ended 31 December 2013[1]	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Shareholder					
Equity securities	1,609	1,435	28	146	-
Debt securities	5,624	2,071	3,493	60	-
Accrued interest	55	26	29	-	-
Derivative assets	207	62	145	-	-
Loans and receivables	79	-	-	-	79
Investment property	153	-	-	153	-
Non profit non-unit linked					
Equity securities	83	72	-	11	-
Debt securities	29,251	4,371	24,331	549	-
Accrued interest	400	38	358	4	-
Derivative assets	2,100	171	1,929	-	-
Loans and receivables	-	-	-	-	-
Investment property	1,294	-	-	1,294	-
With-profits					
Equity securities	4,506	3,956	19	531	-
Debt securities	10,357	4,155	6,184	18	-
Accrued interest	152	53	99	-	-
Derivative assets	48	43	5	-	-
Loans and receivables	30	-	-	-	30
Investment property	979	-	-	979	-
Unit linked					
Equity securities	167,891	164,917	2,688	286	-
Debt securities	108,510	62,400	46,108	2	-
Accrued interest	1,026	313	713	-	-
Derivative assets	2,391	625	1,766	-	-
Loans and receivables	221	-	-	-	221
Investment property	3,951	-	-	3,951	-
Total financial investments and investment property	340,917	244,708	87,895	7,984	330

1. This has been restated to reflect the adoption by the Group of IFRS 10 'Consolidated Financial Statements'. Further details are contained in Note 2.07.

2.12 Financial investments and Investment property (continued)
(b) Assets measured at fair value based on level 3

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

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

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

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

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

There have been no significant transfers between level 1 and level 2 for the period ended 30 June 2014 (H1 13: £nil; FY 13: £nil).

2.12 Financial investments and Investment property (continued)
(b) Assets measured at fair value based on level 3 (continued)

	Equity securities 30.06.14 £m	Other financial invest-ments[1] 30.06.14 £m	Investment property 30.06.14 £m	Total 30.06.14 £m	Equity securities 30.06.13[3] £m	Other financial invest-ments[1] 30.06.13[3] £m	Investment property 30.06.13[3] £m	Total 30.06.13[3] £m
As at 1 January	**974**	**633**	**6,377**	**7,984**	891	99	5,438	6,428
Total gains or (losses) for the period				**-**				
recognised in profit:								
- in other comprehensive income	**-**	**5**	**-**	**5**	-	-	-	-
- realised gains or (losses)	**(24)**	**2**	**58**	**36**	(60)	(1)	38	(23)
- unrealised gains	**45**	**23**	**179**	**247**	43	-	15	58
Purchases / Additions	**37**	**426**	**863**	**1,326**	258	-	497	755
Improvements	**-**	**-**	**7**	**7**	-	-	-	-
Sales / Disposals	**(50)**	**(125)**	**(132)**	**(307)**	(212)	-	(350)	(562)
Transfers into level 3[2]	**30**	**112**	**-**	**142**	21	1	-	22
Transfers out of level 3[2]	**(13)**	**(10)**	**-**	**(23)**	-	(67)	-	(67)
Other	**-**	**-**	**-**	**-**	-	(1)	-	(1)
As at 30 June	**999**	**1,066**	**7,352**	**9,417**	941	31	5,638	6,610

1. Other financial investments comprise debt securities and derivative assets.
2. The Group holds regular discussion with its pricing providers to determine whether transfers between levels of the fair value hierarchy have occurred. The above transfers occurred as result of this process.
3. This has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.07.

	Equity securities 31.12.13[3] £m	Other financial invest-ments[1] 31.12.13[3] £m	Investment property 31.12.13[3] £m	Total 31.12.13[3] £m
As at 1 January	891	99	5,438	6,428
Total gains or (losses) for the year				
recognised in profit:				
- in other comprehensive income	-	(1)	-	(1)
- realised gains or (losses)	(74)	2	33	(39)
- unrealised gains or (losses)	81	(2)	215	294
Purchases / Additions	365	397	1,306	2,068
Improvements	-	-	23	23
Sales / Disposals	(323)	(4)	(638)	(965)
Transfers into level 3[2]	34	143	-	177
Transfers out of level 3[2]	-	(1)	-	(1)
Other	-	-	-	-
As at 31 December	974	633	6,377	7,984

1. Other financial investments comprise debt securities and derivative assets.
2. The Group holds regular discussion with its pricing providers to determine whether transfers between levels of the fair value hierarchy have occurred. The above transfers occurred as result of this process.
3. This has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.07.

2.12 Financial investments and Investment property (continued)
(c) Effect on changes in significant unobservable inputs to reasonably possible alternative assumptions on level 3 assets

Fair values of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the level 3 financial instruments carried at fair value as at the balance sheet date, the valuation basis, main assumptions used in the valuation of these instruments and reasonably possible increases or decreases in fair value based on reasonably possible alternative assumptions.

For the six months ended 30 June 2014 Financial instruments and investment property	Main assumptions	Current fair value £m	Reasonably possible alternative assumptions Increase in fair value £m	 Decrease in fair value £m
Assets				
Shareholder				
- Unquoted investments in property vehicles[2]	Property yield; occupancy	**153**	**16**	**(16)**
- Untraded debt securities	Cash flows; expected defaults	**167**	**8**	**(8)**
- Investment property[2]	Property yield; occupancy	**328**	**16**	**(16)**
Non profit non-linked				
- Untraded debt securities	Cash flows; expected defaults	**879**	**29**	**(29)**
- Investment property[2]	Property yield; occupancy	**1,692**	**85**	**(85)**
With-profits				
- Private equity investment vehicles[1]	Price earnings multiple	**170**	**9**	**(9)**
- Unquoted investments in property vehicles[2]	Property yield; occupancy	**366**	**19**	**(19)**
- Investment property[2]	Property yield; occupancy	**961**	**48**	**(48)**
Unit linked				
- Unquoted investments in property vehicles[2]	Property yield; occupancy	**321**	**23**	**(23)**
- Suspended securities	Estimated recoverable amount	**6**	**1**	**(1)**
- Asset backed securities	Cash flows; expected defaults	**3**	**-**	**-**
- Investment property[2]	Property yield; occupancy	**4,371**	**210**	**(210)**
Total		**9,417**	**464**	**(464)**

1. Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined using alternative price earnings multiples.

2. Unquoted investments in property vehicles and direct holdings in investment property are valued by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. Reasonably possible alternative valuations have been determined using alternative yield and occupancy assumptions.

2.12 Financial investments and Investment property (continued)
(c) Effect on changes in significant unobservable inputs to reasonably possible alternative assumptions on level 3 assets (continued)

For the six months ended 30 June 2013[1] Financial instruments and investment property	Main assumptions	Current fair value £m	Reasonably possible alternative assumptions Increase in fair value £m	 Decrease in fair value £m
Assets				
Shareholder				
- Private equity investment vehicles[2]	Price earnings multiple	15	1	(1)
- Unquoted investments in property vehicles[3]	Property yield; occupancy	132	8	(8)
- Investment property[3]	Property yield; occupancy	141	7	(7)
Non profit non-linked				
- Unquoted investments in property vehicles[3]	Property yield; occupancy	25	1	(1)
- Investment property[3]	Property yield; occupancy	924	46	(46)
With-profits				
- Private equity investment vehicles[2]	Price earnings multiple	211	14	(14)
- Unquoted investments in property vehicles[3]	Property yield; occupancy	302	15	(15)
- Investment property[3]	Property yield; occupancy	1,041	52	(52)
Unit linked				
- Unquoted investments in property vehicles[3]	Property yield; occupancy	250	12	(12)
- Suspended securities	Estimated recoverable amount	16	6	(6)
- Asset backed securities	Cash flows; expected defaults	21	7	(7)
- Investment property[3]	Property yield; occupancy	3,532	176	(176)
Total		6,610	345	(345)

1. This has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.07.
2. Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined using alternative price earnings multiples.
3. Unquoted investments in property vehicles and direct holdings in investment property are valued by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. Reasonably possible alternative valuations have been determined using alternative yield and occupancy assumptions.

2.12 Financial investments and Investment property (continued)
(c) Effect on changes in significant unobservable inputs to reasonably possible alternative assumptions on level 3 assets (continued)

For the year ended 31 December 2013[1] Financial instruments and investment property	Main assumptions	Current fair value £m	Reasonably possible alternative assumptions Increase in fair value £m	Decrease in fair value £m
Assets				
Shareholder				
- Private equity investment vehicles[2]	Price earnings multiple	24	1	(1)
- Unquoted investments in property vehicles[3]	Property yield; occupancy	131	9	(9)
- Untraded debt securities	Cash flows; expected defaults	51	3	(3)
- Investment property[3]	Property yield; occupancy	153	7	(7)
Non profit non-linked				
- Untraded debt securities	Cash flows; expected defaults	162	1	(1)
- Asset backed securities	Cash flows; expected defaults	402	20	(20)
- Investment property[3]	Property yield; occupancy	1,294	65	(65)
With-profits				
- Private equity investment vehicles[2]	Price earnings multiple	213	14	(14)
- Unquoted investments in property vehicles[3]	Property yield; occupancy	336	17	(17)
- Investment property[3]	Property yield; occupancy	979	49	(49)
Unit linked				
- Unquoted investments in property vehicles[3]	Property yield; occupancy	265	13	(13)
- Suspended securities	Estimated recoverable amount	17	1	(1)
- Untraded debt securities	Cash flows; expected defaults	6	2	(2)
- Investment property[3]	Property yield; occupancy	3,951	198	(198)
Total		7,984	400	(400)

1. This has been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.07.
2. Private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Reasonably possible alternative valuations have been determined using alternative price earnings multiples.
3. Unquoted investments in property vehicles and direct holdings in investment property are valued by independent valuers on the basis of open market value as defined in the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. Reasonably possible alternative valuations have been determined using alternative yield and occupancy assumptions.

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

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

	30.06.14 £m	30.06.13 £m	Full year 31.12.13 £m
Profit before tax attributable to equity holders	**636**	594	1,144
Tax at 21.5% (2013: 23.25%)	**137**	138	266
Effects of:			
Adjustments in respect of prior years, mainly relating to resolution of tax issues with HMRC	**1**	(1)	4
Differences between taxable and accounting investment gains e.g. RPI relief	**(1)**	(3)	(19)
Income not subject to tax, such as dividends	**(2)**	(7)	(6)
Change in valuation of tax losses	**(17)**	(6)	(19)
Higher rate of tax on profits taxed overseas	**15**	7	23
(Additional)/ Non deductible expenses	**(3)**	3	(11)
Impact of reduction in UK corporate tax rate on deferred tax balances	**1**	(1)	3
Other	**(2)**	(2)	(3)
Tax attributable to equity holders	**129**	128	238
Equity holders' effective tax rate[1]	**20.3%**	21.6%	20.8%

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

(b) Deferred Tax

(i) UK deferred tax (liabilities)/ assets	**30.06.14 £m**	30.06.13 £m	Full year 31.12.13 £m
Realised and unrealised (gains)/ losses on investments[1]	**(154)**	(91)	(160)
Excess of depreciation over capital allowances	**21**	42	24
Excess expenses[2]	**145**	189	192
Deferred acquisition expenses	**(66)**	(96)	(72)
Difference between the tax and accounting value of insurance contracts	**(95)**	(76)	(70)
Accounting provisions	**3**	19	8
Trading losses[3]	**53**	97	93
Pension fund deficit	**90**	81	93
Purchased interest in long term business	**(25)**	(27)	(26)
Net UK deferred tax (liabilities)/ assets[4]	**(28)**	138	82
(ii) Overseas deferred tax (liabilities)/ assets			
Realised and unrealised (gains)/ losses on investments	**(48)**	(62)	(33)
Deferred acquisition expenses	**(256)**	(251)	(241)
Difference between the tax and accounting value of insurance contracts	**(216)**	(297)	(229)
Accounting provisions	**(20)**	(7)	(20)
Trading losses	**149**	214	158
Pension fund deficit	**2**	3	3
Purchased interest in long term business	**(13)**	-	-
Net Overseas deferred tax (liabilities)/ assets	**(402)**	(400)	(362)

1. The sustained strength of equity markets resulted in a continued net deferred tax liability on the realised and unrealised capital gains.
2. The reduction in the deferred tax asset on excess expenses reflects the unwind of the spread acquisition expenses relating to changes in the I-E legislation.
3. The reduction in the deferred tax asset is due to utilisation of brought forward trading losses against LGR taxable profits.
4. The move to a net deferred tax liability provision in the UK reflects the continued utilisation of tax losses and corresponding reduction in deferred tax asset while the deferred tax liability on realised and unrealised gains has increased. Therefore the UK deferred tax asset on the Consolidated Balance Sheet is zero.

2.14 Payables and other financial liabilities

	30.06.14 £m	30.06.13[1] £m	Full year 31.12.13[1] £m
Derivative liabilities	**3,469**	4,148	3,119
Collateral received from banks	**16**	-	989
Other[2]	**7,796**	4,071	5,197
Payables and other financial liabilities	**11,281**	8,219	9,305

1. Payables and other financial liabilities and fair value hierarchy have been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.07.
2. Other liabilities include amounts payable to brokers for the settlement of investment trades and obligations under repurchase agreements.

Other includes future commission payments which have contingent settlement provisions of £189m (H1 13: £183m; FY 13: £176m). This liability has been determined using the net present value of the future commission which will be payable on fund values. This valuation technique uses assumptions which are consistent with the Group's effective rate of interest, investment return assumptions and persistency assumptions used in other valuations, but it is not determined by reference to published price quotations.

Fair value hierarchy

As at 30 June 2014	**Total £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Amortised cost £m**
Derivative liabilities	**3,469**	**415**	**3,054**	**-**	**-**
Collateral received from banks	**16**	**-**	**16**	**-**	**-**
Other	**7,796**	**78**	**43**	**194**	**7,481**
Payables and other financial liabilities	**11,281**	**493**	**3,113**	**194**	**7,481**

As at 30 June 2013	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	4,148	394	3,754	-	-
Collateral received from banks	-	-	-	-	-
Other	4,071	233	129	183	3,526
Payables and other financial liabilities	8,219	627	3,883	183	3,526

As at 31 December 2013	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Amortised cost £m
Derivative liabilities	3,119	274	2,845	-	-
Collateral received from banks	989	989	-	-	-
Other	5,197	432	43	176	4,546
Payables and other financial liabilities	9,305	1,695	2,888	176	4,546

Trail commissions are modelled using expected cash flows, incorporating expected future persistency. They have therefore been classified as level 3 liabilities. The entire movement in the balance has been reflected in the income statement during the period. A reasonably possible alternative persistency assumption would have the effect of increasing or decreasing the liability by £6m (H1 13: £5m; FY 13: £5m).

Level 3 'Other' financial liabilities also includes £5m deferred contingent consideration payable on the GIA acquisition.

Significant transfers between levels

There have been no significant transfers between levels 1, 2 and 3 for the period ended 30 June 2014 (H1 13 and FY 13: No significant transfers between levels 1, 2 and 3).

2.15 Dividends

	Dividend 30.06.14 £m	Per share[1] 30.06.14 p	Dividend[1] 30.06.13 £m	Per share[1] 30.06.13 p	Dividend 31.12.13 £m	Per share[1] Full year 31.12.13 p
Ordinary share dividends paid in the period						
- Prior year final dividend	**408**	**6.90**	337	5.69	337	5.69
- Current year interim dividend	**-**	**-**	-	-	142	2.40
	408	**6.90**	337	5.69	479	8.09
Ordinary share dividend proposed[2]	**172**	**2.90**	142	2.40	408	6.90

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

2.16 Ordinary shares

	Number of shares 30.06.14	Number of shares 30.06.13	Number of shares Full year 31.12.13
As at 1 January	**5,917,066,636**	5,912,782,826	5,912,782,826
Options exercised under share option schemes			
- Executive share option scheme[1]	**-**	1,261,956	1,422,327
- Savings related share option scheme	**18,430,871**	1,400,587	2,861,483
As at 30 June / 31 December	**5,935,497,507**	5,915,445,369	5,917,066,636

1. All outstanding Executive share option scheme awards were vested or lapsed in 2013 as there have been no Executive share option scheme awards since 2004.

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

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

2.17 Core Borrowings

	Carrying amount 30.06.14 £m	**Fair value 30.06.14 £m**	Carrying amount 30.06.13 £m	Fair value 30.06.13 £m	Carrying amount Full year 31.12.13 £m	Fair value Full year 31.12.13 £m
Subordinated borrowings						
6.385% Sterling perpetual capital securities (Tier 1)	**669**	**654**	690	620	680	650
5.875% Sterling undated subordinated notes (Tier 2)	**416**	**439**	418	425	418	438
4.0% Euro subordinated notes 2025 (Tier 2)	**474**	**491**	498	523	498	531
10% Sterling subordinated notes 2041 (Tier 2)	**310**	**417**	309	411	309	417
5.5% Sterling subordinated notes 2064 (Tier 2)	**588**	**594**	-	-	-	-
Client fund holdings of Group debt[1]	**(22)**	**(23)**	(11)	(11)	(13)	(13)
Total subordinated borrowings	**2,435**	**2,572**	1,904	1,968	1,892	2,023
Senior borrowings						
Sterling medium term notes 2031-2041	**602**	**728**	602	712	608	721
Client fund holdings of Group debt[1]	**(46)**	**(55)**	(49)	(49)	(47)	(55)
Total senior borrowings	**556**	**673**	553	663	561	666
Total core borrowings	**2,991**	**3,245**	2,457	2,631	2,453	2,689

1. £68m (H1 13: £60m; FY 13: £60m) of the Group's subordinated and senior borrowings are currently held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total core borrowings in the table above.

All of the Group's core borrowings are measured using amortised cost. The presented fair values of the Group's core borrowings reflect quoted prices in active markets and they are classified as level 1 in the fair value hierarchy.

Subordinated borrowings

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

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

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

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

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

2.18 Operational Borrowings

	Carrying amount 30.06.14 £m	**Fair value 30.06.14 £m**	Carrying amount 30.06.13[1] £m	Fair value 30.06.13[1] £m	Carrying amount Full year 31.12.13[1] £m	Fair value Full year 31.12.13[1] £m
Short term operational borrowings						
Euro Commercial paper	**123**	**123**	346	346	173	173
Bank loans/other	**13**	**13**	25	25	16	16
Total short term operational borrowings	**136**	**136**	371	371	189	189
Non recourse borrowings						
US Dollar Triple X securitisation 2037	**260**	**225**	293	293	268	230
Suffolk Life unit linked borrowings	**106**	**106**	109	109	116	116
LGV 6/LGV 7 Private Equity Fund Limited Partnership	**116**	**116**	127	127	131	131
Consolidated Property Limited Partnerships	**129**	**129**	148	148	129	129
Total non recourse borrowings	**611**	**576**	677	677	644	606
Group holding of operational borrowings[2]	**(55)**	**(48)**	-	-	(58)	(49)
Total operational borrowings	**692**	**664**	1,048	1,048	775	746

1. Operational Borrowings have been restated to reflect the adoption by the Group of IFRS 10, 'Consolidated Financial Statements'. Further details are contained in Note 2.07.
2. Group investments in operational borrowings have been eliminated from the Group Consolidated Balance Sheet.

0The presented fair values of the Group's operational borrowings reflect observable market information and have been classified as level 2 in the fair value hierarchy.

Short term operational borrowings

Short term assets available at the holding company level exceeded the amount of short term operational borrowings of £136m (H1 13: £371m; FY 13: £189m). Short term operational borrowings comprise Euro Commercial paper, bank loans and overdrafts.

Non recourse borrowings

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

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

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

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

Syndicated credit facility

As at 30 June 2014, the Group had in place a £1.0bn syndicated committed revolving credit facility provided by a number of its key relationship banks, £0.04bn matures in October 2017 and £0.96bn matures in October 2018. A test drawing was made under this facility during 2013. No amounts were outstanding at 30 June 2014.

2.19 Non-controlling interests

Non-controlling interests represent third party interests in private equity and property investment vehicles which are consolidated in the Group's results. The net increase in the non-controlling interests in 2014 arises from the revaluation of the third party interests in the UK Property Ungeared Fund Limited Partnership and the Leisure Fund Unit Trust.

2.20 Foreign exchange rates

Principal rates of exchange used for translation are:

Period end exchange rates	At 30.06.14	At 30.06.13	At 31.12.13
United States Dollar	**1.71**	1.52	1.66
Euro	**1.25**	1.17	1.20

Average exchange rates	01.01.14 - 30.06.14	01.01.13 - 30.06.13	01.01.13 - 31.12.13
United States Dollar	**1.67**	1.54	1.57
Euro	**1.22**	1.18	1.18

2.21 Related party transactions

There were no material transactions between key management and the Legal & General group of companies. All transactions between the Group and its key management are on commercial terms which are no more favourable than those available to employees in general. Contributions to the post-employment defined benefit plans were £42m (H1 13: £53m; FY 13: £62m) for all employees.

At 30 June 2014, 30 June 2013 and 31 December 2013 there were no loans outstanding to officers of the Company.

Key management personnel compensation

The aggregate compensation for key management personnel, including executive and non-executive directors, is as follows:

	30.06.14 £m	30.06.13 £m	Full year 31.12.13 £m
Salaries	**3**	3	8
Social security costs	**1**	2	3
Post-employment benefits	**1**	1	-
Share-based incentive awards	**2**	2	4
Key management personnel compensation	**7**	8	15
Number of key management personnel	**17**	23	18

The Group UK defined benefit pension schemes have purchased annuity contracts issued by Society for consideration of £12m (H1 13: £27m; FY 13: £68m) during the period, priced on an arm's length basis.

The Group's investment portfolio includes investments in venture capital, property and financial investments which are held via collective investment vehicles. Net investments into associate investment vehicles totalled £2m during the period (H1 13: £8m; FY 13: £21m). The Group has no outstanding loans to these associates (H1 13: £nil; FY 13: £nil) and received investment management fees of £1m during the period (H1 13: £1m; FY 13: £2m). Distributions from these investment vehicles to the Group totalled £1m (H1 13: £13m; FY 13: £19m). The prior period comparatives have been restated to reflect the adoption by Group of IFRS 10, 'Consolidated Financial Statements', which led to the consolidation of investment vehicles previously classified as associates.

During the period, the Group injected cash of £77m into its joint venture investment, CALA, in the form of £43m equity and £34m debt. These payments settled the deferred consideration due and facilitated the growth of the company, including the acquisition of Banner Homes. The loans outstanding from CALA total £52m (including £1m interest payable) (H1 13: £16m; FY 13: £17m).

2.22 Pension cost

The Legal & General Group UK Pension and Assurance Fund and the Legal & General Group UK Senior Pension Scheme are defined benefit pension arrangements and account for all UK and the majority of worldwide assets of, and contributions to, such arrangements. At 30 June 2014, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Society) has been estimated at £366m (H1 13: £269m; FY 13: £374m). These amounts have been recognised in the financial statements with £231m charged against shareholder equity (H1 13: £160m; FY 13: £236m) and £135m against the unallocated divisible surplus (H1 13: £109m; FY 13: £138m).

2.23 Contingent liabilities, guarantees and indemnities

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

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

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

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

Independent review report to Legal & General Group Plc - IFRS

Report on the consolidated interim financial statements

Our conclusion

We have reviewed the consolidated interim financial statements, defined below, in the interim management report of Legal & General Group Plc for the six months ended 30 June 2014. Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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

What we have reviewed

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

- the Consolidated Balance Sheet as at 30 June 2014;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the period then ended;
- the Consolidated Cash Flow Statement for the period then ended;
- the Condensed Consolidated Statement of Changes in Equity for the period then ended; and
- the explanatory notes to the consolidated interim financial statements.

As disclosed in Note 2.07, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The consolidated interim financial statements included in the interim management report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of consolidated interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim management report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the consolidated interim financial statements.

Responsibilities for the consolidated interim financial statements and the review

Our responsibilities and those of the directors

The interim management report, including the consolidated interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim management report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express to the company a conclusion on the consolidated interim financial statements in the half-year report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
5 August 2014
London

Notes:

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

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

3.01 Legal & General investment management assets

For the six months ended 30 June 2014	Index funds £bn	Active fixed interest £bn	Solu-tions[1] £bn	Property & other £bn	Active equities £bn	Total AUM £bn	Overlay assets[2] £bn	GIA advisory assets £bn	Total assets £bn
As at 1 January 2014	**269.8**	**89.4**	**70.4**	**11.3**	**8.6**	**449.5**	**162.1**	**-**	**611.6**
Acquisition of GIA assets	-	-	-	-	-	-	-	13.4	13.4
External inflows	10.5	3.7	4.7	0.6	0.1	19.6			19.6
External outflows	(19.1)	(2.5)	(2.1)	(0.2)	(0.1)	(24.0)			(24.0)
Overlay / GIA advisory net flows	-	-	-	-	-	-	12.3	0.1	12.4
External net flows[3]	**(8.6)**	**1.2**	**2.6**	**0.4**	**-**	**(4.4)**	**12.3**	**0.1**	**8.0**
Internal net flows	0.2	0.7	1.0	0.7	(0.2)	2.4	-	-	2.4
Total net flows	**(8.4)**	**1.9**	**3.6**	**1.1**	**(0.2)**	**(2.0)**	**12.3**	**0.1**	**10.4**
Market and other movements[3]	7.3	5.9	4.2	0.4	(0.2)	17.6	0.5	0.2	18.3
As at 30 June 2014	**268.7**	**97.2**	**78.2**	**12.8**	**8.2**	**465.1**	**174.9**	**13.7**	**653.7**
Assets attributable to:									
External						**381.7**	174.9	13.7	**570.3**
Internal						**83.4**	-	-	**83.4**

1. Solutions includes liability driven investments and multi-asset funds.
2. Overlay assets comprise derivative notionals associated with Solutions business.
3. External net flows exclude movements in overlay assets which have a short maturity period as determined by client agreements (H1 14: £33.3bn; H1 13: £21.9bn; FY 13: £32.8bn), and hence are subject to a higher degree of variability. The movement in these assets is therefore included in market and other movements.

For the six months ended 30 June 2013	Index funds £bn	Active fixed interest £bn	Solu-tions[1] £bn	Property & other £bn	Active equities £bn	Total AUM £bn	Overlay assets[2] £bn	Total assets £bn
As at 1 January 2013	**243.2**	**82.2**	**64.0**	**8.9**	**7.7**	**406.0**	**136.7**	**542.7**
External inflows	17.2	3.5	5.7	0.3	-	26.7		26.7
External outflows	(15.0)	(1.4)	(1.8)	(0.1)	(0.4)	(18.7)		(18.7)
Overlay net flows	-	-	-	-	-	-	5.7	5.7
External net flows[3]	**2.2**	**2.1**	**3.9**	**0.2**	**(0.4)**	**8.0**	**5.7**	**13.7**
Internal net flows	0.5	(1.5)	0.7	-	-	(0.3)	-	(0.3)
Total net flows	**2.7**	**0.6**	**4.6**	**0.2**	**(0.4)**	**7.7**	**5.7**	**13.4**
Market and other movements[3]	16.2	0.1	2.3	0.3	0.4	19.3	3.3	22.6
As at 30 June 2013	**262.1**	**82.9**	**70.9**	**9.4**	**7.7**	**433.0**	**145.7**	**578.7**
Assets attributable to:								
External						**358.5**	145.7	**504.2**
Internal						**74.5**	-	**74.5**

1. Solutions includes liability driven investments and multi-asset funds.
2. Overlay assets comprise derivative notionals associated with Solutions business.
3. External net flows exclude movements in overlay assets which have a short maturity period as determined by client agreements (H1 13: £21.9bn), and hence are subject to a higher degree of variability. The movement in these assets is therefore included in market and other movements.

3.01 Legal & General investment management assets (continued)

	6 months to 30.06.14 £bn	6 months to 30.06.13 £bn	12 months to 31.12.13 £bn
LGIM total assets net flows	**10.4**	13.4	20.3
Attributable to:			
International[1]	**5.9**	7.6	15.8
UK Institutional	**3.0**	7.3	5.8
UK Retail[2]	**0.5**	-	0.4
Annuities[3,4]	**2.9**	0.1	1.4
Mature Savings	**(1.9)**	(1.6)	(3.1)

1. FY 13 International net flows includes £2.9bn of Legal & General France assets.
2. H1 14 UK Retail net flows include £0.7bn of assets previously managed externally.
3. Pension funds already managed by LGIM that switch into LGR annuities are excluded.
4. H1 14 Annuities net flows include £0.3bn of Lucida assets previously managed externally.

3.02 Legal & General investment management assets quarterly progression

For the six months ended 30 June 2014	**Index funds £bn**	**Active fixed interest £bn**	**Solu-tions[1] £bn**	**Property & other £bn**	**Active equities £bn**	**Total AUM £bn**	**Overlay assets[2] £bn**	**GIA advisory assets £bn**	**Total assets £bn**
At 1 January 2014	**269.8**	**89.4**	**70.4**	**11.3**	**8.6**	**449.5**	**162.1**	**-**	**611.6**
External inflows	4.7	1.9	2.1	0.3	-	9.0			9.0
External outflows	(5.7)	(1.0)	(1.2)	(0.1)	-	(8.0)			(8.0)
Overlay net flows	-	-	-	-	-	-	5.2	-	5.2
External net flows[3]	**(1.0)**	**0.9**	**0.9**	**0.2**	**-**	**1.0**	**5.2**	**-**	**6.2**
Internal net flows	0.1	2.0	0.3	0.5	(0.1)	2.8	-	-	2.8
Total net flows	**(0.9)**	**2.9**	**1.2**	**0.7**	**(0.1)**	**3.8**	**5.2**	**-**	**9.0**
Market and other movements[3]	1.5	2.9	4.9	(0.1)	0.1	9.3	1.0	-	10.3
At 31 March 2014	**270.4**	**95.2**	**76.5**	**11.9**	**8.6**	**462.6**	**168.3**	**-**	**630.9**
Acquisition of GIA assets	-	-	-	-	-	-	-	13.4	13.4
External inflows	5.8	1.8	2.6	0.3	0.1	10.6			10.6
External outflows	(13.4)	(1.5)	(0.9)	(0.1)	(0.1)	(16.0)			(16.0)
Overlay / GIA advisory net flows	-	-	-	-	-	-	7.1	0.1	7.2
External net flows[3]	**(7.6)**	**0.3**	**1.7**	**0.2**	**-**	**(5.4)**	**7.1**	**0.1**	**1.8**
Internal net flows	0.1	(1.3)	0.7	0.2	(0.1)	(0.4)	-	-	(0.4)
Total net flows	**(7.5)**	**(1.0)**	**2.4**	**0.4**	**(0.1)**	**(5.8)**	**7.1**	**0.1**	**1.4**
Market and other movements[3]	5.8	3.0	(0.7)	0.5	(0.3)	8.3	(0.5)	0.2	8.0
At 30 June 2014	**268.7**	**97.2**	**78.2**	**12.8**	**8.2**	**465.1**	**174.9**	**13.7**	**653.7**

1. Solutions includes liability driven investments and multi-asset funds.
2. Overlay assets comprise derivative notionals associated with Solutions business.
3. External net flows exclude movements in overlay assets which have a short maturity period as determined by client agreements (Q1 14: £33.8bn; H1 14: £33.3bn), and hence are subject to a higher degree of variability. The movement in these assets is therefore included in market and other movements.

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

For the year ended 31 December 2013	Index funds £bn	Active fixed interest £bn	Solutions[1] £bn	Property & other £bn	Active equities £bn	Total AUM £bn	Overlay assets[2] £bn	Total assets £bn
At 1 January 2013	**243.2**	**82.2**	**64.0**	**8.9**	**7.7**	**406.0**	**136.7**	**542.7**
External inflows	11.0	2.2	1.1	0.1	-	14.4		14.4
External outflows	(7.1)	(0.9)	(1.1)	-	(0.1)	(9.2)		(9.2)
Overlay net flows	-	-	-	-	-	-	2.5	2.5
External net flows[3]	**3.9**	**1.3**	**-**	**0.1**	**(0.1)**	**5.2**	**2.5**	**7.7**
Internal net flows	0.1	(0.7)	0.1	-	-	(0.5)	-	(0.5)
Total net flows	**4.0**	**0.6**	**0.1**	**0.1**	**(0.1)**	**4.7**	**2.5**	**7.2**
Market and other movements[3]	20.1	2.0	7.3	0.3	0.8	30.5	3.8	34.3
At 31 March 2013	**267.3**	**84.8**	**71.4**	**9.3**	**8.4**	**441.2**	**143.0**	**584.2**
External inflows	6.2	1.3	4.6	0.2	-	12.3		12.3
External outflows	(7.9)	(0.5)	(0.7)	(0.1)	(0.3)	(9.5)		(9.5)
Overlay net flows	-	-	-	-	-	-	3.2	3.2
External net flows[3]	**(1.7)**	**0.8**	**3.9**	**0.1**	**(0.3)**	**2.8**	**3.2**	**6.0**
Internal net flows	0.4	(0.8)	0.6	-	-	0.2	-	0.2
Total net flows	**(1.3)**	**-**	**4.5**	**0.1**	**(0.3)**	**3.0**	**3.2**	**6.2**
Market and other movements[3]	(3.9)	(1.9)	(5.0)	-	(0.4)	(11.2)	(0.5)	(11.7)
At 30 June 2013	**262.1**	**82.9**	**70.9**	**9.4**	**7.7**	**433.0**	**145.7**	**578.7**
External inflows[4]	8.0	4.8	2.2	0.4	0.1	15.5		15.5
External outflows	(8.3)	(2.0)	(1.7)	(0.1)	-	(12.1)		(12.1)
Overlay net flows	-	-	-	-	-	-	3.3	3.3
External net flows[3]	**(0.3)**	**2.8**	**0.5**	**0.3**	**0.1**	**3.4**	**3.3**	**6.7**
Internal net flows	-	0.6	-	0.1	(0.1)	0.6	-	0.6
Total net flows	**(0.3)**	**3.4**	**0.5**	**0.4**	**-**	**4.0**	**3.3**	**7.3**
Market and other movements[3]	3.2	1.4	0.1	0.6	0.3	5.6	2.4	8.0
At 30 September 2013	**265.0**	**87.7**	**71.5**	**10.4**	**8.0**	**442.6**	**151.4**	**594.0**
External inflows	6.1	2.7	0.7	0.3	-	9.8		9.8
External outflows	(8.5)	(1.6)	(1.7)	(0.1)	-	(11.9)		(11.9)
Overlay net flows	-	-	-	-	-	-	2.2	2.2
External net flows[3]	**(2.4)**	**1.1**	**(1.0)**	**0.2**	**-**	**(2.1)**	**2.2**	**0.1**
Internal net flows	0.2	(0.8)	0.1	0.1	(0.1)	(0.5)	-	(0.5)
Total net flows	**(2.2)**	**0.3**	**(0.9)**	**0.3**	**(0.1)**	**(2.6)**	**2.2**	**(0.4)**
Market and other movements[3]	7.0	1.4	(0.2)	0.6	0.7	9.5	8.5	18.0
At 31 December 2013	**269.8**	**89.4**	**70.4**	**11.3**	**8.6**	**449.5**	**162.1**	**611.6**
Assets attributable to:								
External						**370.2**	162.1	**532.3**
Internal						**79.3**	-	**79.3**

1. Solutions includes liability driven investments and multi-asset funds.
2. Overlay assets comprise derivative notionals associated with Solutions business.
3. External net flows exclude movements in overlay assets which have a short maturity period as determined by client agreements (Q1 13: £22.4bn; H1 13: £21.9bn; Q3 13: £24.3bn; FY 13: 32.8bn), and hence are subject to a higher degree of variability. The movement in these assets is therefore included in market and other movements.
4. Includes £2.9bn of Legal & General France assets.

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

	3 months to 30.06.14 £bn	3 months to 31.03.14 £bn	3 months to 31.12.13 £bn	3 months to 30.09.13 £bn	3 months to 30.06.13 £bn	3 months to 31.03.13 £bn
LGIM total assets net flows	**1.4**	**9.0**	(0.4)	7.3	6.2	7.2
Attributable to:						
International[1]	**2.5**	**3.4**	1.8	6.4	0.6	7.0
UK Institutional	**-**	**3.0**	(1.6)	0.1	6.1	1.2
UK Retail[2]	**0.2**	**0.3**	0.1	0.3	0.3	(0.3)
Annuities[3,4]	**(0.3)**	**3.2**	(0.1)	1.4	0.1	-
Mature Savings	**(1.0)**	**(0.9)**	(0.6)	(0.9)	(0.9)	(0.7)

1. Q3 13 International net flows include £2.9bn of Legal & General France assets.
2. H1 14 UK Retail net flows include £0.7bn of assets previously managed externally.
3. Pension funds already managed by LGIM that switch into LGR annuities are excluded.
4. Q1 14 Annuities net flows include £0.3bn of Lucida assets previously managed externally.

3.03 Assets under administration

For the six months ended 30 June 2014	Platforms[1] £bn	Mature Retail Savings[2] £bn	Work-place £bn	Suffolk Life £bn	Overseas LGAS Savings £bn	Consol-idation adjust-ment[3] £bn	Total LGAS £bn	Retail Invest-ments[4] £bn	Annuities £bn
As at 1 January 2014	**64.1**	**36.3**	**8.7**	**6.6**	**4.5**	**(6.8)**	**113.4**	**17.3**	**34.4**
Gross inflows[5]	4.8	0.7	1.3	0.6	0.2	(0.2)	7.4	1.9	3.5
Gross outflows	(2.3)	(2.2)	(0.3)	(0.2)	(0.2)	0.4	(4.8)	(2.3)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(1.0)
Net flows	**2.5**	**(1.5)**	**1.0**	**0.4**	**-**	**0.2**	**2.6**	**(0.4)**	**2.5**
Market and other movements	0.8	1.1	(0.2)	0.2	-	(0.1)	1.8	0.5	1.6
As at 30 June 2014	**67.4**	**35.9**	**9.5**	**7.2**	**4.5**	**(6.7)**	**117.8**	**17.4**	**38.5**

For the six months ended 30 June 2013	Platforms[1] £bn	Mature Retail Savings[2] £bn	Work-place £bn	Suffolk Life £bn	Overseas LGAS Savings £bn	Consol-idation adjust-ment[3] £bn	Total LGAS £bn	Retail Invest-ments[4] £bn	Annuities £bn
As at 1 January 2013	**8.6**	**36.2**	**6.0**	**5.1**	**4.5**	**(1.4)**	**59.0**	**15.6**	**32.2**
Gross inflows[5]	1.9	0.8	1.0	0.5	0.1	-	4.3	1.7	1.4
Gross outflows	(0.9)	(2.6)	(0.3)	(0.2)	(0.1)	0.1	(4.0)	(1.9)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.9)
Net flows	**1.0**	**(1.8)**	**0.7**	**0.3**	**-**	**0.1**	**0.3**	**(0.2)**	**0.5**
Cofunds acquisition	45.7	-	-	-	-	(5.4)	40.3	-	-
Market and other movements	(1.6)	1.3	0.6	0.3	-	0.2	0.8	0.7	(0.5)
As at 30 June 2013	**53.7**	**35.7**	**7.3**	**5.7**	**4.5**	**(6.5)**	**100.4**	**16.1**	**32.2**

1. Platforms includes Investor Portfolio Services (IPS) and Cofunds since acquisition.
2. Mature Retail Savings products include with-profits products, bonds and retail pensions.
3. Consolidation adjustment represents Suffolk Life and Mature Retail Savings assets included in the Platforms column.
4. Retail Investments includes unit trust products (both LGIM and externally managed) and structured products (deposits and investments). H1 14 includes £1.5bn (H1 13: £1.3bn; FY 13: £1.5bn) of Cofunds assets.
5. Platforms gross inflows include Cofunds institutional net flows.

Asset and premium flows

3.04 Assets under administration quarterly progression

For the six months ended 30 June 2014	Platforms[1] £bn	Mature Retail Savings[2] £bn	Work-place £bn	Suffolk Life £bn	Overseas LGAS Savings £bn	Consol-idation adjust-ment[3] £bn	Total LGAS £bn	Retail Invest-ments[4] £bn	Annuities £bn
At 1 January 2014	**64.1**	**36.3**	**8.7**	**6.6**	**4.5**	**(6.8)**	**113.4**	**17.3**	**34.4**
Gross inflows[5]	2.6	0.4	0.7	0.3	0.1	(0.1)	4.0	1.0	3.3
Gross outflows	(1.1)	(1.1)	(0.2)	(0.1)	(0.1)	0.2	(2.4)	(0.9)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.5)
Net flows	**1.5**	**(0.7)**	**0.5**	**0.2**	**-**	**0.1**	**1.6**	**0.1**	**2.8**
Market and other movements	-	0.5	(0.1)	0.1	(0.1)	(0.1)	0.3	0.2	1.1
At 31 March 2014	**65.6**	**36.1**	**9.1**	**6.9**	**4.4**	**(6.8)**	**115.3**	**17.6**	**38.3**
Gross inflows[5]	2.2	0.3	0.6	0.3	0.1	(0.1)	3.4	0.9	0.2
Gross outflows	(1.2)	(1.1)	(0.1)	(0.1)	(0.1)	0.2	(2.4)	(1.4)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.5)
Net flows	**1.0**	**(0.8)**	**0.5**	**0.2**	**-**	**0.1**	**1.0**	**(0.5)**	**(0.3)**
Market and other movements	0.8	0.6	(0.1)	0.1	0.1	-	1.5	0.3	0.5
At 30 June 2014	**67.4**	**35.9**	**9.5**	**7.2**	**4.5**	**(6.7)**	**117.8**	**17.4**	**38.5**

1. Platforms includes Investor Portfolio Services (IPS) and Cofunds since acquisition.
2. Mature Retail Savings products include with-profits products, bonds and retail pensions.
3. Consolidation adjustment represents Suffolk Life and Mature Retail Savings assets included in the Platforms column.
4. Retail Investments includes unit trust products (both LGIM and externally managed) and structured products (deposits and investments). H1 14 includes £1.5bn of Cofunds assets.
5. Platforms gross inflows include Cofunds institutional net flows.

3.04 Assets under administration quarterly progression (continued)

For the year ended 31 December 2013	Platforms[1] £bn	Mature Retail Savings[2] £bn	Work-place £bn	Suffolk Life £bn	Overseas LGAS Savings £bn	Consol-idation adjust-ment[3] £bn	Total LGAS £bn	Retail Invest-ments[4] £bn	Annuities £bn
At 1 January 2013	**8.6**	**36.2**	**6.0**	**5.1**	**4.5**	**(1.4)**	**59.0**	**15.6**	**32.2**
Gross inflows	0.2	0.4	0.5	0.2	0.1	-	1.4	0.7	0.8
Gross outflows	(0.2)	(1.2)	(0.2)	(0.1)	(0.1)	0.1	(1.7)	(1.0)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.4)
Net flows	**-**	**(0.8)**	**0.3**	**0.1**	**-**	**0.1**	**(0.3)**	**(0.3)**	**0.4**
Market and other movements	0.5	1.7	0.6	0.3	-	(0.1)	3.0	1.0	0.7
At 31 March 2013	**9.1**	**37.1**	**6.9**	**5.5**	**4.5**	**(1.4)**	**61.7**	**16.3**	**33.3**
Gross inflows[5]	1.7	0.4	0.5	0.3	-	-	2.9	1.0	0.6
Gross outflows	(0.7)	(1.4)	(0.1)	(0.1)	-	-	(2.3)	(0.9)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.5)
Net flows	**1.0**	**(1.0)**	**0.4**	**0.2**	-	-	**0.6**	**0.1**	**0.1**
Cofunds acquisition	45.7	**-**	**-**	**-**	-	(5.4)	40.3	**-**	**-**
Market and other movements	(2.1)	(0.4)	-	-	-	0.3	(2.2)	(0.3)	(1.2)
At 30 June 2013	**53.7**	**35.7**	**7.3**	**5.7**	**4.5**	**(6.5)**	**100.4**	**16.1**	**32.2**
Gross inflows[5]	4.5	0.3	0.5	0.4	-	(0.1)	5.6	0.9	2.3
Gross outflows	(1.2)	(1.4)	(0.1)	(0.1)	-	0.2	(2.6)	(0.8)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.5)
Net flows	**3.3**	**(1.1)**	**0.4**	**0.3**	**-**	**0.1**	**3.0**	**0.1**	**1.8**
Market and other movements	1.3	1.4	0.2	0.1	-	(0.2)	2.8	0.5	0.5
At 30 September 2013	**58.3**	**36.0**	**7.9**	**6.1**	**4.5**	**(6.6)**	**106.2**	**16.7**	**34.5**
Gross inflows[5]	4.6	0.3	0.6	0.4	-	(0.2)	5.7	0.8	0.3
Gross outflows	(1.0)	(1.1)	(0.2)	(0.1)	-	0.2	(2.2)	(0.7)	-
Payments to pensioners	-	-	-	-	-	-	-	-	(0.5)
Net flows	**3.6**	**(0.8)**	**0.4**	**0.3**	**-**	**-**	**3.5**	**0.1**	**(0.2)**
Market and other movements	2.2	1.1	0.4	0.2	-	(0.2)	3.7	0.5	0.1
At 31 December 2013	**64.1**	**36.3**	**8.7**	**6.6**	**4.5**	**(6.8)**	**113.4**	**17.3**	**34.4**

1. Platforms includes Investor Portfolio Services (IPS) and Cofunds since acquisition.
2. Mature Retail Savings products include with-profits products, bonds and retail pensions.
3. Consolidation adjustment represents Suffolk Life and Mature Retail Savings assets included in the Platforms column.
4. Retail Investments includes unit trust products (both LGIM and externally managed) and structured products (deposits and investments). FY 13 includes £1.5bn of Cofunds assets.
5. Platforms gross inflows include Cofunds institutional net flows.

3.05 Annuities single premiums

	Single premiums 30.06.14 £m	Single premiums 30.06.13 £m	Single premiums 31.12.13 £m
Individual Annuities	**383**	754	1,277
Bulk Purchase Annuities	**3,135**	670	2,812
Total Annuities	**3,518**	1,424	4,089

3.06 Annuities single premiums quarterly progression

	3 months to 30.06.14 £m	**3 months to 31.03.14 £m**	3 months to 31.12.13 £m	3 months to 30.09.13 £m	3 months to 30.06.13 £m	3 months to 31.03.13 £m
Individual Annuities	**139**	**244**	200	323	348	406
Bulk Purchase Annuities	**90**	**3,045**	199	1,943	313	357
Total Annuities	**229**	**3,289**	399	2,266	661	763

3.07 Insurance new business

	Annual premiums 30.06.14 £m	Annual premiums 30.06.13 £m	Annual premiums 31.12.13 £m
Group Protection	**40**	40	70
Retail Protection	**83**	65	148
France (LGF) Protection	**33**	21	21
Netherlands (LGN) Protection	**2**	4	7
US Protection	**47**	45	99
Longevity Insurance	**-**	175	270
Total Insurance new business	**205**	350	615

3.08 Insurance new business annual premiums quarterly progression

	3 months to 30.06.14 £m	**3 months to 31.03.14 £m**	3 months to 31.12.13 £m	3 months to 30.09.13 £m	3 months to 30.06.13 £m	3 months to 31.03.13 £m
Group Protection	**20**	**20**	13	17	20	20
Retail Protection	**41**	**42**	43	40	38	27
France (LGF) Protection	**-**	**33**	-	-	-	21
Netherlands (LGN) Protection	**-**	**2**	2	1	2	2
US Protection	**24**	**23**	26	28	23	22
Longevity Insurance	**-**	**-**	95	-	-	175
Total Insurance new business	**85**	**120**	179	86	83	267

Asset and premium flows

3.09 Gross written premiums on Insurance business

	6 months to 30.06.14 £m	6 months to 30.06.13 £m	12 months to 31.12.13 £m
Group Protection	**229**	208	336
Retail Protection	**514**	484	990
General Insurance	**178**	183	375
France (LGF) Protection	**91**	86	168
Netherlands (LGN) Protection	**26**	27	54
US Protection	**332**	326	654
Longevity Insurance	**167**	92	212
Total gross written premiums on Insurance business	**1,537**	1,406	2,789

3.10 Gross written premiums on Insurance business quarterly progression

	3 months to 30.06.14 £m	**3 months to 31.03.14 £m**	3 months to 31.12.13 £m	3 months to 30.09.13 £m	3 months to 30.06.13 £m	3 months to 31.03.13 £m
Group Protection	**130**	**99**	54	74	123	85
Retail Protection	**260**	**254**	256	250	244	240
General Insurance	**94**	**84**	95	97	97	86
France (LGF) Protection	**45**	**46**	41	41	43	43
Netherlands (LGN) Protection	**12**	**14**	13	14	13	14
US Protection	**170**	**162**	172	156	172	154
Longevity Insurance	**83**	**84**	60	60	60	32
Total gross written premiums on Insurance business	**794**	**743**	691	692	752	654

3.11 Overseas new business in local currency

	Annual premiums 30.06.14	**Single premiums 30.06.14**	**APE 30.06.14**	Annual premiums 30.06.13	Single premiums 30.06.13	APE 30.06.13	APE 31.12.13
US Protection (US$m)	**78**	**-**	**78**	70	-	70	155
Netherlands (LGN) (€m)	**4**	**51**	**9**	6	74	13	23
France (LGF) (€m)	**40**	**168**	**57**	30	142	44	57
India (Rs m) - Group's 26% interest	**266**	**2,257**	**492**	374	2,348	609	917
Egypt (Pounds m) - Group's 55% interest	**84**	**-**	**84**	78	-	78	136
Gulf (US$m) - Group's 50% interest	**1**	**1**	**1**	2	3	2	3

3.12 Worldwide new business

	Annual premiums 30.06.14 £m	Single premiums 30.06.14 £m	APE 30.06.14 £m	Annual premiums 30.06.13 £m	Single premiums 30.06.13 £m	APE 30.06.13 £m	APE 31.12.13 £m
Individual Annuities	-	383	38	-	754	75	128
Bulk Purchase Annuities	-	3,135	314	-	670	67	281
Total LGR[1]	-	3,518	352	-	1,424	142	409
Group Protection	40	-	40	40	-	40	70
Retail Protection	83	-	83	65	-	65	148
France (LGF)	33	138	47	25	121	37	48
Netherlands (LGN)	3	42	7	5	62	11	19
Workplace Savings	305	558	361	283	478	329	735
Platforms (Cofunds & IPS)[2]	33	1,837	217	13	801	95	288
Suffolk Life	-	653	65	-	498	50	133
Mature Retail Savings[3]	5	377	43	5	380	44	90
With-profits	31	44	35	26	49	31	61
Total LGAS	533	3,649	898	462	2,389	702	1,592
Retail Investments[4]	7	1,840	191	7	1,721	178	355
US Protection	47	-	47	45	-	45	99
India (26% share)	3	22	5	4	28	7	10
Egypt (55% share)	7	-	7	7	-	7	13
Gulf (50% share)	1	1	1	1	2	1	2
Total Emerging Markets new business	11	23	13	12	30	15	25
Total Worldwide new business	598	9,030	1,501	526	5,564	1,082	2,480

1. Total LGR new business excludes £nil (H1 13: £175m; FY 13: £270m) of APE in relation to longevity insurance transactions. It is not included in the table due to the unpredictable deal flow from this type of business.
2. Platforms APE includes retail business only.
3. Includes bonds and retail pensions.
4. Includes retail unit trusts and structured products only.

3.13 Worldwide new business APE quarterly progression

	3 months to 30.06.14 £m	**3 months to 31.03.14 £m**	3 months to 31.12.13 £m	3 months to 30.09.13 £m	3 months to 30.06.13 £m	3 months to 31.03.13 £m
Individual Annuities	**14**	**24**	20	33	35	40
Bulk Purchase Annuities	**9**	**305**	20	194	31	36
Total LGR[1]	**23**	**329**	40	227	66	76
Group Protection	**20**	**20**	13	17	20	20
Retail Protection	**41**	**42**	43	40	38	27
France (LGF)	**7**	**40**	4	7	6	31
Netherlands (LGN)	**2**	**5**	4	4	4	7
Workplace Savings	**183**	**178**	240	166	127	202
Platforms (Cofunds & IPS)[2]	**114**	**103**	99	94	69	26
Suffolk Life	**30**	**35**	44	39	31	19
Mature Retail Savings[3]	**21**	**22**	25	21	22	22
With-profits	**17**	**18**	17	13	14	17
Total LGAS	**435**	**463**	489	401	331	371
Retail Investments[4]	**91**	**100**	83	94	104	74
US Protection	**24**	**23**	26	28	23	22
India (26% share)	**2**	**3**	1	2	1	6
Egypt (55% share)	**3**	**4**	3	3	3	4
Gulf (50% share)	**-**	**1**	-	1	-	1
Total Emerging Markets new business	**5**	**8**	4	6	4	11
Total Worldwide new business	**578**	**923**	642	756	528	554

1. Total LGR new business excludes £nil (H1 13: £175m; FY 13: £270m) of APE in relation to longevity insurance transactions. It is not included in the table due to the unpredictable deal flow from this type of business.
2. Platforms APE includes retail business only.
3. Includes bonds and retail pensions.
4. Includes retail unit trusts and structured products only.

Asset and premium flows

3.14 Worldwide APE by channel

For the six months ended 30 June 2014	Annual premiums £m	Single premiums £m	APE £m	% of total
Employee benefit consultants	**405**	**3,741**	**779**	**52**
Retail independent and restricted	**123**	**4,384**	**561**	**37**
Tied including bancassurance	**54**	**635**	**118**	**8**
Direct	**16**	**270**	**43**	**3**
Total Worldwide APE by channel	**598**	**9,030**	**1,501**	**100**

For the six months ended 30 June 2013	Annual premiums £m	Single premiums £m	APE £m	% of total
Employee benefit consultants	370	1,171	487	46
Retail independent and restricted	98	3,434	441	41
Tied including bancassurance	46	721	118	10
Direct	12	238	36	3
Total Worldwide APE by channel	526	5,564	1,082	100

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

1. Includes Lucida business since acquisition in Q3 13.

3.15 Worldwide APE by channel quarterly progression

	3 months to 30.06.14 £m	**3 months to 31.03.14 £m**	3 months to 31.12.13 £m	3 months to 30.09.13 £m	3 months to 30.06.13 £m	3 months to 31.03.13 £m
Employee benefit consultants[1]	**225**	**554**	283	386	191	296
Retail independent and restricted	**272**	**289**	279	295	259	182
Tied including bancassurance	**59**	**59**	61	58	59	59
Direct	**22**	**21**	19	17	19	17
Total Worldwide APE by channel	**578**	**923**	642	756	528	554

1. Includes Lucida business since acquisition in Q3 13.

Capital and Investments

4.01 Group regulatory capital
(a) Insurance Group's Directive (IGD)

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

	At 30.06.14 £bn	At 30.06.13 £bn	At 31.12.13 £bn
Core tier 1	**6.7**	6.6	6.3
Innovative tier 1	**0.6**	0.6	0.6
Tier 2[1]	**1.8**	1.2	1.2
Deductions	**(0.9)**	(1.0)	(0.8)
Group capital resources	**8.2**	7.4	7.3
Group capital resources requirement[2]	**3.5**	3.3	3.3
IGD surplus	**4.7**	4.1	4.0
Coverage ratio (Group capital resources / Group capital resources requirement)[3]	**2.36 times**	2.26 times	2.21 times

1. The Group has issued £0.6bn subordinated notes constituting Lower Tier 2 Capital in H1 14.
2. The Group capital resources requirement includes a With-profits Insurance Capital Component (WPICC) of £0.3bn (H1 13: £0.3bn; FY 13: £0.2bn).
3. Coverage ratio is calculated on unrounded values.

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

	At 30.06.14 £bn	At 30.06.13 £bn	At 31.12.13 £bn
Capital and reserves attributable to equity holders on an IFRS basis	**5.7**	5.5	5.6
Innovative tier 1	**0.6**	0.6	0.6
Tier 2	**1.8**	1.2	1.2
UK unallocated divisible surplus	**1.0**	1.0	1.1
Proposed dividends	**(0.2)**	(0.1)	(0.4)
Intangibles	**(0.4)**	(0.4)	(0.4)
Other regulatory adjustments[1]	**(0.3)**	(0.4)	(0.4)
Group capital resources	**8.2**	7.4	7.3

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

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

	At 30.06.14 £bn
IGD surplus at 1 January	**4.0**
Net cash generation	**0.6**
New subordinated debt issued	**0.6**
Dividends	**(0.2)**
New business capital required	**(0.3)**
Existing business capital release	**0.1**
Capital impact of acquisitions	**0.1**
Other variances and regulatory adjustments	**(0.2)**
IGD surplus at 30 June	**4.7**

1. All IGD amounts are estimated, unaudited and after accrual of the interim dividend of £172m.

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

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

	At 30.06.14 Long term business £bn	**At 30.06.14 General insu-rance £bn**	At 30.06.13 Long term business £bn	At 30.06.13 General insu-rance £bn	At 31.12.13 Long term business £bn	At 31.12.13 General insu-rance £bn
Available capital resources - Tier 1	**6.1**	**0.2**	6.1	0.2	5.8	0.1
Insurance capital requirement	**2.8**	**0.1**	2.5	0.1	2.6	0.1
Capital requirements of regulated related undertakings	**0.2**	**-**	0.2	-	0.3	-
With-profits Insurance Capital Component	**0.3**	**-**	0.3	-	0.2	-
Capital resources requirement	**3.3**	**0.1**	3.0	0.1	3.1	0.1
Regulatory capital surplus	**2.8**	**0.1**	3.1	0.1	2.7	-

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

Pillar 1 capital requirement	**At 30.06.14 £bn**	At 30.06.13 £bn	At 31.12.13 £bn
Protection	**0.8**	0.7	0.7
LGR	**1.4**	1.2	1.2
Non profit pensions and unit linked bonds	**0.1**	0.1	0.1
Non profit	**2.3**	2.0	2.0
With-profits	**0.5**	0.5	0.6
Long term insurance capital requirement	**2.8**	2.5	2.6

On a regulatory basis (Peak 1), Society long term business regulatory capital surplus of £2.8bn (H1 13: £3.1bn; FY 13: £2.7bn) comprises capital resources within the long term fund of £3.0bn (H1 13: £2.9bn; FY 13: £3.0bn) and capital resources outside the long term fund of £3.1bn (H1 13: £3.2bn; FY 13: £2.8bn) less the capital resources requirement of £3.3bn (H1 13: £3.0bn; FY 13: £3.1bn).

The With-profits Insurance Capital Component (WPICC) is an additional capital requirement calculated if the surplus in the with-profits fund on a Peak 2 basis is lower than on a Peak 1 basis and represents the difference in the surplus between the two bases. It is calculated based on the most onerous risk capital margin stress referred to in 4.01(c).

(c) With-profits realistic balance sheet

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

	At 30.06.14 £bn	At 30.06.13 £bn	At 31.12.13 £bn
With-profits surplus	**0.7**	0.7	0.8
Risk capital margin	**(0.1)**	(0.1)	(0.1)
Surplus	**0.6**	0.6	0.7

Legal & General Assurance Society Limited is required to maintain a surplus in the with-profits part of the fund on a realistic basis (Peak 2). The risk capital margin is calculated based on the most onerous capital requirement calculated after performing five stresses specified by the PRA. The surplus includes the present value of future shareholder transfers of £0.3bn (H1 13: £0.3bn; FY 13: £0.3bn) as a liability in the calculation.

4.02 Group Economic Capital

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

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

The economic capital numbers presented here do not represent our view of the Solvency II outcome for the Group. Solvency II has elements which are considered to be inconsistent with the Group's definition of economic capital, so there will be differences between the two balance sheets.

The Group has been discussing progress on Solvency II with the PRA and in 2015 it will make a formal application for approval of an internal model. As yet the Group's Solvency II internal model has not been reviewed or approved by the PRA.

(a) Capital position

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

	At 31.12.13 £bn
Eligible own funds	11.4
Economic capital requirement	4.5
Surplus/ (deficit)	6.9
1-in-200 coverage ratio (%)[1]	251

1. Coverage ratio is calculated on unrounded values.

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

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

(b) Methodology

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

Assets are valued at IFRS fair value with certain elements adjusted to move to an economic capital basis. Liabilities are valued on a best estimate market consistent basis, with the application of an economic matching adjustment for valuing annuity liabilities.

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

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

All material insurance subsidiaries, including Legal & General Assurance Society Limited, Legal & General Pensions Management Limited and LGA operating subsidiaries are incorporated into the Group's economic capital model assessment of required capital, assuming diversification of the risks between those subsidiaries.

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

The allowance for the Group's defined benefit pension scheme in the base balance sheet is made on the scheme's funding basis, and the allowance within the capital requirement is made by stressing the funding position using the same economic capital basis as for the insurance subsidiaries.

The results and the model are unaudited but certain elements of the methodology, assumptions and processes have been reviewed for the Group by PricewaterhouseCoopers LLP. As stated previously this model has not been reviewed by the PRA.

4.02 Group Economic Capital (continued)
(c) Assumptions

The calculation of the economic balance sheet and associated capital requirement requires a significant number of assumptions, including:

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

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

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

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

As stated above, for annuities the liability discount rate includes an economic matching adjustment. This uses the same approach as the Solvency II matching adjustment but any constraints the Group considers economically artificial, such as capping the yield on assets with a credit rating below BBB and any ineligibility of certain assets, have not been applied.

The other key assumption relating to the annuity business is the modelling of stresses to longevity. As for IFRS and EEV, the Group models base mortality and future improvements separately. For the Group's economic capital assessment, the Group believes it is appropriate to ensure that the balance sheet makes sufficient allowance to meet the 1-in-200 stress to longevity over the run off of the liabilities rather than just over a 1 year timeframe as required by Solvency II.

(d) Sensitivity analysis

The following sensitivities are provided to give an indication of how the Group's economic capital surplus as at 31 December 2013 would have changed in a variety of adverse events. These are all independent stresses to a single risk. In practice the balance sheet is impacted by combinations of stresses and the combined impact can be larger than adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse stresses will happen together.

	Impact on net of capital surplus 31.12.13 £bn	Impact on economic capital coverage ratio 31.12.13 %
Credit spread widens by 100bps with no change in long term default expectations	(0.3)	(8)
A 3 notch downgrade, e.g. AA- to A-, of 20% of the corporate bond portfolio backing annuity business, with no change to the assumed spread sensitivity or long term default expectations	(0.5)	(11)
20% fall in equity market	(0.3)	(3)
40% fall in equity markets	(0.6)	(6)
15% fall in property markets	(0.2)	(4)
100bps increase in risk free rates	(0.3)	1
100bps fall in risk free rates	0.1	-
1% reduction in annuitant base mortality	(0.1)	(3)

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

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

	At 31.12.13 £bn
IFRS shareholders' equity at 31 December 2013	**5.6**
Remove DAC, goodwill and other intangible assets and liabilities	(1.7)
Add subordinated debt treated as economic available capital	1.9
Insurance contract valuation differences	6.2
Add value of shareholder transfers	0.3
Increase in value of net deferred tax liabilities (resulting from valuation differences)	(0.7)
Other	0.4
Adjustment - Basic own funds to Eligible own funds	(0.6)
Eligible own funds at 31 December 2013	**11.4**

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

(f) Analysis of Group Economic Capital Requirement

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

	At 31.12.13 %
Interest Rate	5
Equity	16
Credit	44
Property	8
Currency	(3)
Inflation	(1)
Total Market Risk	**69**
Counterparty Risk	**1**
Life Mortality & Life Catastrophe	5
Life Longevity	12
Life Lapse	7
Non-life underwriting	2
Health underwriting	-
Total Insurance Risk	**26**
Operational Risk	4
Total Economic Capital Requirement	**100**

- Credit risk is the Group's most significant exposure, predominantly arising from corporate bond exposure backing the Group's annuity portfolio.
- The Group also has significant exposure to other market risks, predominantly due to the investment holdings within the shareholder funds but also the risk to fee income from assets backing unit linked and with-profit Savings businesses.
- Longevity risk is the Group's most significant insurance risk exposure, again arising from the annuity book on which the majority of the longevity risk is retained.
- Lapse risk arises through the risk of mass lapse on investment management and savings businesses and the risk of non-renewal on the Group's protection businesses.

4.02 Group Economic Capital (continued)
(g) Solvency II

As indicated above, the economic capital results set out above do not reflect the Solvency II regime. They have been derived using the same modelling framework that the Group intends to use for Solvency II. The Solvency II internal model has not, as yet, been reviewed or approved by the PRA. The Group intends to submit its internal model to the PRA in 2015 to gain approval to use the model from Solvency II go live on 1 January 2016. The Group expects the final outcome on Solvency II to result in a lower Group solvency ratio than the economic capital coverage ratio shown above.

(h) Half-Year 2014 surplus

The economic capital surplus as at 30 June 2014 has increased from 31 December 2013 to a surplus of £7.6bn (FY 13: £6.9bn) and coverage ratio of 261% (FY 13: 251%), with the increase in surplus supported by the raising of £0.6bn of subordinated debt in June 2014.

4.03 Investment portfolio

	Market value At 30.06.14 £m	Market value[1] At 30.06.13 £m	Market value[1] At 31.12.13 £m
Worldwide assets under management	**467,176**	440,152	452,260
Client and policyholder assets	**(401,874)**	(380,388)	(391,151)
Non-unit linked with-profits assets[2]	**(17,061)**	(17,906)	(17,391)
Investments to which shareholders are directly exposed	**48,241**	41,858	43,718

1. Comparatives have been restated following the adoption of IFRS 10.
2. Includes assets backing participating business in LGF of £2,378m (H1 13: £2,434m; FY 13: £2,347m).

Analysed by investment class:

	Note	LGR investments[1] At 30.06.14 £m	Other non profit insurance investments At 30.06.14 £m	LGC investments At 30.06.14 £m	Other shareholder investments At 30.06.14 £m	Total At 30.06.14 £m	Total At 30.06.13 £m	Total At 31.12.13 £m
Equities[2]		**84**	**-**	**1,592**	**9**	**1,685**	1,507	1,760
Bonds	4.05	**34,062**	**2,401**	**1,538**	**1,241**	**39,242**	34,647	35,697
Derivative assets[3]		**2,184**	**28**	**125**	**-**	**2,337**	2,314	2,307
Property		**1,692**	**-**	**324**	**4**	**2,020**	1,065	1,447
Cash (including cash equivalents), loans & receivables		**582**	**252**	**1,602**	**366**	**2,802**	2,184	2,331
Financial investments		**38,604**	**2,681**	**5,181**	**1,620**	**48,086**	41,717	43,542
Other assets[4]		**155**	**-**	**-**	**-**	**155**	141	176
Total investments		**38,759**	**2,681**	**5,181**	**1,620**	**48,241**	41,858	43,718

1. LGR Investments includes all business written in LGPL and excludes with-profits non-participating business.
2. Includes equity investment in CALA Group Limited.
3. Derivative assets are shown gross of derivative liabilities. Exposures arise from the use of derivatives for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management.
4. Other assets include finance lease debtors and properties under construction.

4.04 Direct Investments[1]
(a) Analysed by asset class

	Direct[1] Investments At 30.06.14 £m	**Traded[2] securities At 30.06.14 £m**	**Total At 30.06.14 £m**	Direct[1] Investments At 31.12.13 £m	Traded[2] securities At 31.12.13 £m	Total At 31.12.13 £m
Equities	**298**	**1,387**	**1,685**	202	1,558	1,760
Bonds	**2,036**	**37,206**	**39,242**	1,048	34,649	35,697
Derivative assets	**-**	**2,337**	**2,337**	-	2,307	2,307
Property	**2,020**	**-**	**2,020**	1,447	-	1,447
Cash (including cash equivalents), loans & receivables	**75**	**2,727**	**2,802**	6	2,325	2,331
Other assets	**155**	**-**	**155**	176	-	176
	4,584	**43,657**	**48,241**	2,879	40,839	43,718

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

(b) Analysed by segment

	LGR At 30.06.14 £m	**LGC At 30.06.14 £m**	**LGA At 30.06.14 £m**	**LGAS At 30.06.14 £m**	**Total At 30.06.14 £m**
Equities	**-**	**298**	**-**	**-**	**298**
Bonds	**1,885**	**-**	**151**	**-**	**2,036**
Property	**1,692**	**324**	**-**	**4**	**2,020**
Cash (including cash equivalents), loans & receivables	**-**	**-**	**75**	**-**	**75**
Other assets	**155**	**-**	**-**	**-**	**155**
	3,732	**622**	**226**	**4**	**4,584**

	LGR At 31.12.13 £m	LGC At 31.12.13 £m	LGA At 31.12.13 £m	LGAS At 31.12.13 £m	Total At 31.12.13 £m
Equities	-	202	-	-	202
Bonds	997	-	51	-	1,048
Property	1,294	149	-	4	1,447
Cash (including cash equivalents), loans & receivables	-	-	6	-	6
Other assets	176	-	-	-	176
	2,467	351	57	4	2,879

4.05 Bond portfolio summary
(a) Analysed by sector

	Note	LGR At 30.06.14 £m	LGR At 30.06.14 %	**Total At 30.06.14 £m**	**Total At 30.06.14 %**
Sovereigns, Supras and Sub-Sovereigns	4.05(b)	6,578	19	**8,257**	**21**
Banks:					
- Tier 1		60	-	**66**	**-**
- Tier 2 and other subordinated		590	2	**649**	**2**
- Senior		1,359	4	**1,901**	**5**
Financial Services:					
- Tier 1		4	-	**6**	**-**
- Tier 2 and other subordinated		136	-	**174**	**1**
- Senior		882	3	**1,153**	**3**
Insurance:					
- Tier 1		146	-	**156**	**-**
- Tier 2 and other subordinated		544	2	**581**	**2**
- Senior		493	2	**565**	**2**
Utilities		4,456	13	**4,764**	**12**
Consumer Services and Goods & Health Care		3,246	10	**3,795**	**10**
Technology and Telecoms		2,099	6	**2,382**	**6**
Industrials & Oil and Gas		3,333	10	**3,879**	**10**
Property		998	3	**1,073**	**3**
Asset backed securities:[1]					
- Traditional		703	2	**1,222**	**3**
- Securitisations and debentures		7,337	21	**7,521**	**18**
CDOs[2]		1,098	3	**1,098**	**2**
Total		34,062	100	**39,242**	**100**

1. Traditional asset backed securities are securities, often with variable expected redemption profiles issued by Special Purpose Vehicles and typically backed by pools of receivables from loans or personal credit. Securitisations are securities with fixed redemption profiles that are issued by Special Purpose Vehicles and secured on revenues from specific assets or operating companies and Debentures are securities with fixed redemption profiles issued by firms typically secured on property.

2. The underlying reference portfolio has had no reference entity defaults during the period ended 30 June 2014. The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the reference portfolio, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses. The CDOs are valued using an external valuation which is based on observable market inputs. This is then validated against the market valuation.

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

	Note	LGR At 30.06.13 £m	LGR At 30.06.13 %	Total At 30.06.13 £m	Total At 30.06.13 %
Sovereigns, Supras and Sub-Sovereigns	4.05(b)	4,292	15	6,573	19
Banks:					
- Tier 1		180	1	189	1
- Tier 2 and other subordinated		482	2	549	2
- Senior		1,508	5	2,304	7
Financial Services:					
- Tier 1		1	-	2	-
- Tier 2 and other subordinated		40	-	69	-
- Senior		925	3	1,137	3
Insurance:					
- Tier 1		128	-	132	1
- Tier 2 and other subordinated		319	1	345	1
- Senior		726	3	804	2
Utilities		3,902	14	4,155	12
Consumer Services and Goods & Health Care		3,177	11	3,674	10
Technology and Telecoms		1,961	7	2,301	6
Industrials & Oil and Gas		3,160	11	3,659	11
Property		636	2	703	2
Asset backed securities:[1]					
- Traditional		754	3	1,451	4
- Securitisations and debentures		5,325	18	5,481	16
CDOs[2]		1,119	4	1,119	3
Total		28,635	100	34,647	100

1. Traditional asset backed securities are securities, often with variable expected redemption profiles issued by Special Purpose Vehicles and typically backed by pools of receivables from loans or personal credit. Securitisations are securities with fixed redemption profiles that are issued by Special Purpose Vehicles and secured on revenues from specific assets or operating companies and Debentures are securities with fixed redemption profiles issued by firms typically secured on property.

2. The underlying reference portfolio has had no reference entity defaults during the period ended 30 June 2013. The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the reference portfolio, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses.The CDO's are valued using an external valuation which is based on observable market inputs. This is then validated against the market valuation.

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

	Note	LGR At 31.12.13 £m	LGR At 31.12.13 %	Total At 31.12.13 £m	Total At 31.12.13 %
Sovereigns, Supras and Sub-Sovereigns	4.05(b)	4,772	16	6,502	18
Banks:					
- Tier 1		100	-	105	-
- Tier 2 and other subordinated		637	2	698	2
- Senior		1,406	5	2,169	6
Financial Services:					
- Tier 1		2	-	5	-
- Tier 2 and other subordinated		206	1	251	1
- Senior		800	3	1,041	3
Insurance:					
- Tier 1		144	1	152	-
- Tier 2 and other subordinated		579	2	625	2
- Senior		481	2	552	2
Utilities		4,013	13	4,329	12
Consumer Services and Goods & Health Care		3,128	10	3,716	10
Technology and Telecoms		1,995	7	2,333	7
Industrials & Oil and Gas		3,074	10	3,626	10
Property		981	3	1,053	3
Asset backed securities:[1]					
- Traditional		763	3	1,395	4
- Securitisations and debentures		5,839	19	6,047	17
CDOs[2]		1,098	3	1,098	3
Total		30,018	100	35,697	100

1. Traditional asset backed securities are securities, often with variable expected redemption profiles issued by Special Purpose Vehicles and typically backed by pools of receivables from loans or personal credit. Securitisations are securities with fixed redemption profiles that are issued by Special Purpose Vehicles and secured on revenues from specific assets or operating companies and Debentures are securities with fixed redemption profiles issued by firms typically secured on property.

2. The underlying reference portfolio has had no reference entity defaults in 2013. The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, on average across the reference portfolio, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses.The CDO's are valued using an external valuation which is based on observable market inputs. This is then validated against the market valuation.

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

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

	LGR 30.06.14 £m	**Total 30.06.14 £m**	LGR 30.06.13 £m	Total 30.06.13 £m	LGR 31.12.13 £m	Total 31.12.13 £m
Market value by region:						
United Kingdom	16,299	**17,224**	11,696	12,708	13,099	14,178
USA	7,747	**10,034**	7,834	10,555	7,237	9,779
Netherlands	1,778	**2,119**	1,671	2,289	1,736	2,164
France	1,289	**1,642**	1,190	1,581	1,382	1,681
Germany	378	**737**	337	650	411	791
GIIPS:						
- Greece	-	**5**	-	3	-	-
- Ireland[1]	225	**264**	249	287	234	271
- Italy	485	**636**	644	792	636	786
- Portugal	3	**14**	15	28	15	31
- Spain	158	**224**	195	290	178	263
Rest of Europe	1,643	**2,013**	1,175	1,583	1,299	1,721
Rest of World	2,959	**3,232**	2,510	2,762	2,693	2,934
CDOs	1,098	**1,098**	1,119	1,119	1,098	1,098
Total	34,062	**39,242**	28,635	34,647	30,018	35,697

1. Within LGR, out of the £225m of bonds domiciled in Ireland, £223m relate to financing vehicles where the underlying exposure lies outside Ireland.

Additional analysis of sovereign debt exposures

	Sovereigns, Supras and Sub-Sovereigns					
	LGR 30.06.14 £m	**Total 30.06.14 £m**	LGR 30.06.13 £m	Total 30.06.13 £m	LGR 31.12.13 £m	Total 31.12.13 £m
Market value by region:						
United Kingdom	4,768	**5,102**	2,884	3,279	3,340	3,725
USA	407	**830**	325	889	282	664
Netherlands	13	**167**	1	387	10	194
France	118	**246**	89	312	90	220
Germany	195	**437**	189	382	212	472
GIIPS:						
- Greece	-	**5**	-	3	-	-
- Ireland	-	**12**	-	14	-	7
- Italy	109	**192**	253	368	236	323
- Portugal	-	**6**	-	12	-	16
- Spain	-	**6**	1	58	-	14
Rest of Europe	793	**989**	453	691	474	661
Rest of World	175	**265**	97	178	128	206
Total	6,578	**8,257**	4,292	6,573	4,772	6,502

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

	LGR At 30.06.14 £m	LGR At 30.06.14 %	**Total At 30.06.14 £m**	**Total At 30.06.14 %**
AAA	1,711	5	**3,376**	**9**
AA	8,471	25	**9,217**	**23**
A	11,082	32	**12,333**	**31**
BBB	8,716	26	**9,891**	**25**
BB or below	566	2	**761**	**2**
Unrated: Bespoke CDOs[2]	983	3	**983**	**3**
Other[3]	2,533	7	**2,681**	**7**
	34,062	100	**39,242**	**100**

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

	LGR At 31.12.13 £m	LGR At 31.12.13 %	Total At 31.12.13 £m	Total At 31.12.13 %
AAA[1]	1,378	5	3,144	9
AA	6,743	22	7,599	21
A	10,236	34	11,703	34
BBB	8,326	28	9,456	26
BB or below	603	2	874	2
Unrated: Bespoke CDOs[2]	983	3	983	3
Other[3]	1,749	6	1,938	5
	30,018	100	35,697	100

1. During 2013, UK sovereign debt was downgraded from AAA to AA+.
2. The CDOs are termed as super senior since default losses have to exceed 27.5%, on average across the reference portfolio, before the CDOs incur any default losses. The underlying reference portfolio has had no reference entity defaults in 2013 or 2014. Losses are limited under the terms off the CDOs to assets and collateral invested.
3. Other unrated bonds have been assessed and rated internally. Over £1.5bn at H1 14 (H1 13: £0.6bn; FY 13: £0.7bn) relates to secured asset backed securities.

4.06 Value of policyholder assets held in Society and LGPL

	At 30.06.14 £m	At 30.06.13 £m	At 31.12.13 £m
With-profits business	**23,475**	24,027	23,959
Non profit business	**54,272**	47,150	49,949
	77,747	71,177	73,908

European Embedded Value

Group embedded value - summary

For the six months ended 30 June 2014	Covered business UK business £m	Covered business LGAS overseas business £m	Covered business LGA £m	Non-covered business £m	Total £m
At 1 January 2014					
Value of in-force business (VIF)	**4,693**	**197**	**699**	**-**	**5,589**
Shareholder net worth (SNW)	**3,249**	**315**	**234**	**199**	**3,997**
Embedded value at 1 January 2014	**7,942**	**512**	**933**	**199**	**9,586**
Exchange rate movements	**-**	**(19)**	**(30)**	**12**	**(37)**
Operating profit after tax for the period	**539**	**11**	**47**	**68**	**665**
Non-operating profit/(loss) for the period	**59**	**3**	**(1)**	**(7)**	**54**
Profit for the period	**598**	**14**	**46**	**61**	**719**
Intra-group distributions[1]	**18**	**(15)**	**(44)**	**41**	**-**
Dividends to equity holders of the Company	**-**	**-**	**-**	**(408)**	**(408)**
Transfer to non-covered business[2]	**(15)**	**-**	**-**	**15**	**-**
Other reserve movements including pension deficit[3]	**12**	**-**	**-**	**(29)**	**(17)**
Embedded value at 30 June 2014	**8,555**	**492**	**905**	**(109)**	**9,843**
Value of in-force business	**4,928**	**167**	**717**	**-**	**5,812**
Shareholder net worth	**3,627**	**325**	**188**	**(109)**	**4,031**
Embedded value per share (p)[4]					**166**

1. UK intra-group distributions primarily reflect €18m (H1 13: €nil; FY 13: €16m) dividend from LGN and £4m dividend from Nationwide Life (H1 13: £10m; FY 13: £10m) paid to Society. Dividends of $73m (H1 13: $66m; FY 13: $69m) from LGA and €2m (H1 13: €1m; FY 13: €2m) from LGF were paid to the group.
2. The transfer to non-covered business represents the IFRS profits arising in the period from the provisions of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.
3. The other reserve movements of UK covered business primarily reflects the effect of reinsurance arrangement transactions between UK and US covered business. Non-covered business mainly reflects the movement in the savings related share options scheme and the actuarial loss on the pension deficit movement.
4. The number of shares in issue at 30 June 2014 was 5,935,497,507 (30 June 2013: 5,915,445,369; 31 December 2013: 5,917,066,636).

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

Group embedded value - summary (continued)

For the six months ended 30 June 2013	Covered business UK business £m	LGAS overseas business £m	LGA £m	Non-covered business £m	Total £m
At 1 January 2013					
Value of in-force business (VIF)	4,402	146	735	-	5,283
Shareholder net worth (SNW)	3,178	296	239	(96)	3,617
Embedded value at 1 January 2013	7,580	442	974	(96)	8,900
Exchange rate movements	-	23	72	(74)	21
Operating profit after tax for the period	392	4	35	73	504
Non-operating profit/(loss) for the period	282	34	(31)	(4)	281
Profit for the period	674	38	4	69	785
Intra-group distributions[1]	10	(1)	(43)	34	-
Dividends to equity holders of the Company	-	-	-	(337)	(337)
Transfer to non-covered business[2]	(12)	-	-	12	-
Other reserve movements including pension deficit[3]	(44)	-	-	4	(40)
Embedded value at 30 June 2013	8,208	502	1,007	(388)	9,329
Value of in-force business	4,570	178	890	-	5,638
Shareholder net worth	3,638	324	117	(388)	3,691
Embedded value per share (p)[4]					158

1. UK intragroup distributions reflect dividends of £10m paid to Society from subsidiaries (primarily Nationwide Life). Dividends of $66m from LGA, €nil from LGN and €1m from LGF were also paid to the group.
2. The transfer to non-covered business represents the IFRS profits arising in the period from the provisions of investment management services by 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.
3. The other reserve movements reflect the pension deficit movement, the movement of investment project costs from covered to non-covered business and the effect of reinsurance arrangement transactions between UK and US covered business.
4. The number of shares in issue at 30 June 2013 was 5,915,445,369.

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

Group embedded value - summary (continued)

For the year ended 31 December 2013	Covered business UK business £m	Covered business LGAS overseas business £m	Covered business LGA £m	Non-covered business £m	Total £m
At 1 January 2013					
Value of in-force business (VIF)	4,402	146	735	-	5,283
Shareholder net worth (SNW)	3,178	296	239	(96)	3,617
Embedded value at 1 January 2013	7,580	442	974	(96)	8,900
Exchange rate movements	-	9	(14)	(10)	(15)
Operating profit after tax for the year	804	16	70	168	1,058
Non-operating profit/(loss) for the year	222	60	(24)	(17)	241
Profit for the year	1,026	76	46	151	1,299
Intra-group distributions[1]	(602)	(15)	(44)	661	-
Dividends to equity holders of the Company	-	-	-	(479)	(479)
Transfer to non-covered business[2]	(27)	-	-	27	-
Other reserve movements including pension deficit[3]	(35)	-	(29)	(55)	(119)
Embedded value at 31 December 2013	7,942	512	933	199	9,586
Value of in-force business	4,693	197	699	-	5,589
Shareholder net worth	3,249	315	234	199	3,997
Embedded value per share (p)[4]					162

1. UK intra-group distributions reflect a £625m dividend paid from Society to Group, and dividends of £10m paid to Society from subsidiaries (primarily Nationwide Life). Dividends of €16m from LGN are also paid to Society. Dividends of $69m from LGA and €2m from LGF were paid to the group.

2. The transfer to non-covered business represents the IFRS profits arising in the period from the provisions of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.

3. The other reserve movements reflect the pension deficit movement, the movement of investment project costs from covered to non-covered business and the effect of reinsurance arrangement transactions between UK and US covered business.

4. The number of shares in issue at 31 December 2013 was 5,917,066,636.

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

European Embedded Value

5.01 LGAS and LGR embedded value reconciliation

For the six months ended 30 June 2014	Shareholder net worth Free surplus £m	Shareholder net worth Required capital £m	Shareholder net worth Total £m	Value of in-force £m	Total embedded value £m
At 1 January 2014[1]	1,174	2,390	3,564	4,890	8,454
Exchange movement	(15)	4	(11)	(8)	(19)
Operating profit/(loss) after tax - UK business:					
- New business contribution[2]	(195)	184	(11)	305	294
- Expected return on VIF	-	-	-	157	157
- Expected transfer from VIF to SNW[3]	457	(113)	344	(344)	-
- Expected return on SNW	26	62	88	-	88
Generation of embedded value	288	133	421	118	539
- Experience variances	(6)	3	(3)	34	31
- Operating assumption changes	11	-	11	(31)	(20)
- Development costs	(11)	-	(11)	-	(11)
Variances	(6)	3	(3)	3	-
Operating profit/(loss) after tax - LGAS overseas	12	4	16	(5)	11
Operating profit after tax - LGAS & LGR	294	140	434	116	550
Non-operating profit/(loss) after tax - UK business:					
- Economic variances	(30)	42	12	26	38
- Other taxation impacts[4]	(12)	-	(12)	33	21
Non-operating profit/(loss) after tax - LGAS overseas	13	8	21	(18)	3
Non-operating profit/(loss) after tax - LGAS & LGR	(29)	50	21	41	62
Profit for the period - LGAS & LGR	265	190	455	157	612
Intra-group distributions[5]	3	-	3	-	3
Transfer to non-covered business[6]	(15)	-	(15)	-	(15)
Other reserve movements including pension deficit[7]	(44)	-	(44)	56	12
Embedded value at 30 June 2014	**1,368**	**2,584**	**3,952**	**5,095**	**9,047**

1. Opening balances at 1 January 2014 include LGF and LGN.
2. The UK free surplus reduction of £195m to finance new business includes £11m new business strain and £184m additional required capital.
3. The increase in UK free surplus of £457m from the expected transfer from the in-force non profit business includes £344m of operational cash generation and a £113m reduction in required capital.The £383m operational cash generation from LGAS and LGR per Note 2.01 also includes £14m dividend from LGN, £1m dividend from LGF and £24m primarily reflecting profit from non-covered business.
4. Reflects the impact of change in treatment in deferred tax to align with IFRS by removing the effect of discounting.
5. Intra-group distributions primarily reflect £4m dividend from the non-covered subsidiary, Nationwide Life, to Society.
6. The transfer to non-covered business represents the IFRS profits arising in the period from the provisions of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.
7. The other reserve movements reflects the pension deficit movement and the effect of reinsurance arrangement transactions between UK and US covered business.

The value of in-force business of £5,095m is comprised of £4,676m of non profit business and £419m of with-profits business.

5.01 LGAS and LGR embedded value reconciliation (continued)

For the six months ended 30 June 2013[1]	Shareholder net worth Free surplus £m	Required capital £m	Total £m	Value of in-force £m	Total embedded value £m
At 1 January 2013	1,259	2,215	3,474	4,548	8,022
Exchange movement	9	6	15	8	23
Operating profit/(loss) after tax - UK business:					
- New business contribution[2]	(132)	95	(37)	205	168
- Expected return on VIF	-	-	-	132	132
- Expected transfer from VIF to SNW[3]	429	(89)	340	(340)	-
- Expected return on SNW	22	36	58	-	58
Generation of embedded value	319	42	361	(3)	358
- Experience variances	(2)	3	1	35	36
- Operating assumption changes	21	-	21	(9)	12
- Development costs	(14)	-	(14)	-	(14)
Variances	5	3	8	26	34
Operating profit/(loss) after tax - LGAS overseas	6	2	8	(4)	4
Operating profit after tax - LGAS & LGR	330	47	377	19	396
Non-operating profit/(loss) after tax - UK business:					
- Economic variances	166	(34)	132	109	241
- Effect of tax rate changes and other taxation impacts[4]	-	-	-	41	41
Non-operating profit/(loss) after tax - LGAS overseas	8	(2)	6	28	34
Non-operating profit/(loss) after tax - LGAS & LGR	174	(36)	138	178	316
Profit for the period - LGAS & LGR	504	11	515	197	712
Intra-group distributions[5]	9	-	9	-	9
Transfer to non-covered business[6]	(12)	-	(12)	-	(12)
Other reserve movements including pension deficit[7]	(39)	-	(39)	(5)	(44)
Embedded value at 30 June 2013	1,730	2,232	3,962	4,748	8,710

1. Opening balances at 1 January 2013 include LGF and LGN.
2. The free surplus reduction of £132m to finance new business includes £37m new business strain and £95m additional required capital.
3. The increase in free surplus of £429m from the expected transfer from the in-force covered business includes £340m of operational cash generation and a £89m reduction in required capital. The £361m operational cash generation from LGAS and LGR per Note 2.01 also includes £1m dividend from LGF and £20m primarily reflecting IFRS profit from non covered business.
4. Reflects the implementation of the UK planned future reductions in corporation tax to 20% on 1 April 2015.
5. UK intra-group dividends reflect dividends of £10m paid to Society from subsidiaries (primarily Nationwide Life) and €1m from LGF paid to Group.
6. 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.
7. The other reserve movements reflects the pension deficit movement, the movement of investment project costs from covered to non-covered business and the effect of reinsurance arrangement transactions between UK and US covered business.

The UK value of in-force business of £4,748m is comprised of £4,330m of non profit business and £418m of with-profits business.

5.01 LGAS and LGR embedded value reconciliation (continued)

For the year ended 31 December 2013	Shareholder net worth Free surplus £m	Required capital £m	Total £m	Value of in-force £m	Total embedded value £m
At 1 January 2013[1]	1,259	2,215	3,474	4,548	8,022
Exchange movement	3	3	6	3	9
Operating profit/(loss) after tax - UK business:					
- New business contribution[2]	(324)	284	(40)	484	444
- Expected return on VIF	-	-	-	266	266
- Expected transfer from VIF to SNW[3]	869	(181)	688	(688)	-
- Expected return on SNW	40	76	116	-	116
Generation of embedded value	585	179	764	62	826
- Experience variances	5	(9)	(4)	14	10
- Operating assumption changes	(24)	2	(22)	21	(1)
- Development costs	(31)	-	(31)	-	(31)
Variances	(50)	(7)	(57)	35	(22)
Operating profit after tax - LGAS overseas	7	1	8	8	16
Operating profit after tax - LGAS & LGR	542	173	715	105	820
Non-operating profit/(loss) after tax - UK business:					
- Economic variances	109	(8)	101	80	181
- Effect of tax rate changes and other taxation impacts[4]	-	-	-	41	41
Non-operating profit after tax - LGAS overseas	20	-	20	40	60
Non-operating profit/(loss) after tax - LGAS & LGR	129	(8)	121	161	282
Profit for the year - LGAS & LGR	671	165	836	266	1,102
Intra-group distributions[5]	(617)	-	(617)	-	(617)
Transfer to non-covered business[6]	(27)	-	(27)	-	(27)
Other reserve movements including pension deficit[7]	(115)	7	(108)	73	(35)
Embedded value at 31 December 2013	1,174	2,390	3,564	4,890	8,454

1. Opening balances at 1 January 2013 include LGF and LGN.
2. The UK free surplus reduction of £324m to finance new business includes £40m new business strain and £284m additional required capital.
3. The increase in UK free surplus of £869m from the expected transfer from the in-force covered business includes £688m of operational cash generation and a £181m reduction in required capital. The £734m operational cash from LGAS and LGR per Note 2.01 also includes £2m and £14m remitted from LGF and LGN respectively, and £30m primarily reflecting IFRS profit from non covered business.
4. Reflects the implementation of the UK planned future reductions in corporation tax to 20% on 1 April 2015.
5. UK intra-group dividends reflect a £625m dividend paid from Society to Group and dividends of £10m paid to Society from subsidiaries (primarily Nationwide Life). Dividends of €16m from LGN were also paid to Society.
6. The transfer to non-covered business represents the IFRS profits arising in the period from the provisions of investment management services by LGIM to the UK covered business, which have been included in the operating profit of the covered business on the look through basis.
7. The other reserve movements reflects the pension deficit movement, the movement of investment project costs from covered to non-covered business and the effect of reinsurance arrangement transactions between UK and US covered business.

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

5.02 Analysis of shareholders' equity

As at 30 June 2014	**LGAS and LGR £m**	**LGIM £m**	**LGC and group expenses £m**	**LGA £m**	**Total £m**
Analysed as:					
IFRS basis shareholders' equity[1]	**820**	**566**	**3,538**	**787**	**5,711**
Additional retained profit/(loss) on an EEV basis	**5,041**	**-**	**(1,027)**	**118**	**4,132**
Shareholders' equity on an EEV basis	**5,861**	**566**	**2,511**	**905**	**9,843**
Comprising:					
Business reported on an IFRS basis	**441**	**566**	**(1,116)**	**-**	**(109)**
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus[2]	**74**		**1,294**	**139**	**1,507**
- Required capital to cover solvency margin	**251**		**2,333**	**49**	**2,633**
Value of in-force					
- Value of in-force business[3]	**5,611**			**729**	**6,340**
- Cost of capital	**(516)**			**(12)**	**(528)**

As at 30 June 2013	LGAS and LGR £m	LGIM £m	LGC and group expenses £m	LGA £m	Total £m
Analysed as:					
IFRS basis shareholders' equity[1]	772	522	3,276	935	5,505
Additional retained profit/(loss) on an EEV basis	4,672	-	(920)	72	3,824
Shareholders' equity on an EEV basis	5,444	522	2,356	1,007	9,329
Comprising:					
Business reported on an IFRS basis	372	522	(1,282)	-	(388)
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus[2]	71		1,659	64	1,794
- Required capital to cover solvency margin	253		1,979	53	2,285
Value of in-force					
- Value of in-force business[3]	5,228			903	6,131
- Cost of capital	(480)			(13)	(493)

1. Shareholders' equity supporting the UK non profit LGAS and LGR businesses is held within Legal & General Assurance Society Limited and Legal & General Pensions Limited and is managed on a groupwide basis within the LGC and group expenses segment.
2. Free surplus is the value of any capital and surplus allocated to, but not required to support, the in-force covered business at the valuation date.
3. Value of in-force business includes a deduction for the time value of options and guarantees of £14m (H1 13: £27m; FY13: £23m).

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

5.02 Analysis of shareholders' equity (continued)

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

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

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

5.03 Segmental analysis of shareholders' equity

	Covered business EEV basis 30.06.14 £m	**Other business IFRS basis 30.06.14 £m**	**Total 30.06.14 £m**	Covered business EEV basis 30.06.13 £m	Other business IFRS basis 30.06.13 £m	Total 30.06.13 £m
LGAS						
- LGAS UK Protection and Savings	**2,290**	**-**	**2,290**	2,268	-	2,268
- LGAS overseas business	**492**	**-**	**492**	502	-	502
- General insurance and other	**-**	**441**	**441**	-	372	372
Total LGAS	**2,782**	**441**	**3,223**	2,770	372	3,142
LGR	**2,638**	**-**	**2,638**	2,302	-	2,302
LGIM	**-**	**566**	**566**	-	522	522
LGC and group expenses	**3,627**	**(1,116)**	**2,511**	3,638	(1,282)	2,356
LGA	**905**	**-**	**905**	1,007	-	1,007
Total	**9,952**	**(109)**	**9,843**	9,717	(388)	9,329

	Covered business EEV basis 31.12.13 £m	Other business IFRS basis 31.12.13 £m	Total 31.12.13 £m
LGAS			
- LGAS UK Protection and Savings	2,331	-	2,331
- LGAS overseas business	512	-	512
- General insurance and other	-	408	408
Total LGAS	2,843	408	3,251
LGR	2,362	-	2,362
LGIM	-	421	421
LGC and group expenses	3,249	(630)	2,619
LGA	933	-	933
Total	9,387	199	9,586

5.04 Reconciliation of shareholder net worth

	UK covered business 30.06.14 £m	**Total 30.06.14 £m**	UK covered business 30.06.13 £m	Total 30.06.13 £m	UK covered business 31.12.13 £m	Total 31.12.13 £m
SNW of long term operations (IFRS basis)	**4,645**	**5,820**	4,603	5,893	4,291	5,443
Other (liabilities)/assets (IFRS basis)	**-**	**(109)**	-	(388)	-	199
Shareholders' equity on the IFRS basis	**4,645**	**5,711**	4,603	5,505	4,291	5,642
Purchased interest in long term business	**(51)**	**(54)**	(58)	(60)	(52)	(59)
Deferred acquisition costs/deferred income liabilities	**(212)**	**(1,140)**	(267)	(1,213)	(223)	(1,129)
Deferred tax[1]	**(123)**	**282**	(165)	195	(162)	232
Other[2]	**(632)**	**(768)**	(475)	(736)	(605)	(689)
Shareholder net worth on the EEV basis	**3,627**	**4,031**	3,638	3,691	3,249	3,997

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

5.05 Profit/(loss) for the period

For the six months ended 30 June 2014	Note	LGAS and LGR £m	LGIM £m	LGC and group expenses £m	LGA £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.06	**370**			**51**	**421**
Contribution from in-force business:						
- expected return[1]		**210**			**28**	**238**
- experience variances [2]		**42**			**(10)**	**32**
- operating assumption changes[3]		**(23)**			**-**	**(23)**
Development costs		**(14)**			**-**	**(14)**
Contribution from shareholder net worth		**3**		**87**	**3**	**93**
Operating profit on covered business		**588**	**-**	**87**	**72**	**747**
Business reported on an IFRS basis[4,5,6]		**27**	**140**	**(64)**	**-**	**103**
Total operating profit		**615**	**140**	**23**	**72**	**850**
Economic variances[7]		**97**	**(5)**	**(82)**	**(2)**	**8**
Gains on non-controlling interests		**-**	**-**	**6**	**-**	**6**
Profit/(loss) before tax		**712**	**135**	**(53)**	**70**	**864**
Tax (expense)/credit on profit from ordinary activities		**(145)**	**(30)**	**33**	**(24)**	**(166)**
Other taxation impacts[8]		**21**	**-**	**-**	**-**	**21**
Profit/(loss) for the period		**588**	**105**	**(20)**	**46**	**719**

Operating profit attributable to:	
LGAS	**185**
LGR	**430**

	p
Earnings per share	
Based on profit attributable to equity holders of the Company	**12.12**
Diluted earnings per share	
Based on profit attributable to equity holders of the Company	**11.99**

1. The expected return on in-force for LGAS and LGR is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the UK LGAS and LGR business was £4,693m in 2014 (£4,402m in 2013). This is adjusted for the effects of opening model changes of £4m (H1 13: £50m; FY 13: £27m) to give an adjusted opening base VIF of £4,697m (H1 13: £4,452m; FY 13: £4,429m). This is then multiplied by the opening risk discount rate of 6.8% (H1 13: 6.0%; FY 13: 6.0%) and the result grossed up at the notional attributed tax rate of 20% (H1 13: 20%; FY 13: 20%) to give a return of £196m (H1 13: £165m; FY 13: £331m). The same approach has been applied for the LGAS overseas businesses.
2. LGAS and LGR variance primarily reflects UK cost of capital unwind, bulk purchase annuity data loading and fewer retail protection lapses. LGA experience variance primarily relates to adverse mortality experience within term assurance and universal life products.
3. LGAS and LGR assumption changes primarily reflect mortality reserves strengthening partly offset by a reduction in prudence margin in the regulatory morbidity reserves within retail protection.
4. LGAS and LGR non-covered business primarily reflects GI operating profit of £28m (H1 13: £39m; FY 13: £69m).
5. LGIM operating profit includes Retail Investments and excludes £19m (H1 13: £15m; FY 13: £34m) of profits arising from the provision of investment management services at market referenced rates to the covered business on a look through basis and as a consequence are included in the LGAS and LGR covered business on an EEV basis.
6. LGC and group expenses non-covered business primarily reflects Group debt costs and investment projects and expenses, partly offset by investment returns from non-covered shareholder assets.
7. The LGAS and LGR positive variance has resulted from a number of factors including lower risk discount rate and enhanced yield on annuity assets offset by a lower risk free rate and a narrowing credit spread. LGC and group expenses primarily reflects lower equity return from shareholder funds.
8. Other taxation impacts reflects the change in the treatment of deferred tax on in-force business to align with IFRS by removing the effect of discounting.

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

For the six months ended 30 June 2013	Note	LGAS and LGR £m	LGIM £m	LGC and group expenses £m	LGA £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.06	213			44	257
Contribution from in-force business:						
- expected return[1]		178			33	211
- experience variances [2]		42			(27)	15
- operating assumption changes[3]		14			-	14
Development costs		(18)			-	(18)
Contribution from shareholder net worth		2		65	4	71
Operating profit on covered business		431	-	65	54	550
Business reported on an IFRS basis[4,5,6]		18	137	(65)	-	90
Total operating profit		449	137	-	54	640
Economic variances[7]		302	(2)	11	(47)	264
Gains on non-controlling interests		-	-	7	-	7
Profit before tax		751	135	18	7	911
Tax (expense)/credit on profit from ordinary activities		(152)	(28)	16	(3)	(167)
Effect of tax rate changes and other taxation impacts[8]		41	-	-	-	41
Profit for the period		640	107	34	4	785
Operating profit attributable to:						
LGAS		167				
LGR		282				

	p
Earnings per share	
Based on profit attributable to equity holders of the Company	13.24
Diluted earnings per share	
Based on profit attributable to equity holders of the Company	13.09

1. The expected return on in-force is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the UK LGAS and LGR business was £4,402m. This is adjusted for the effects of opening model changes of £50m to give an adjusted opening base VIF of £4,452m. This is then multiplied by the opening risk discount rate of 6.0% and the result grossed up at the notional attributed tax rate of 20% to give a return of £165m. The same approach has been applied for the LGAS overseas business.
2. LGAS and LGR reflects UK cost of capital unwind and bulk purchase annuity data loading and model changes. LGA reflects a higher than anticipated lapses in the period.
3. LGAS and LGR primarily reflects mortality assumption changes in retail protection.
4. LGAS and LGR non-covered business primarily reflects GI operating profit of £39m.
5. LGIM operating profit excludes £15m of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis and as a consequence are included in the LGAS and LGR covered business on an EEV basis.
6. LGC and group expenses non-covered business primarily reflects Group debt costs and investment projects and expenses, partly offset by investment returns from non-covered shareholder assets.
7. LGAS and LGR positive variance primarily reflects equity market outperformance, actions to improve the yield on annuities assets and a lower risk margin.
8. Primarily reflects the implementation of the UK planned future reductions in the corporation tax rate to 20% on 1 April 2015.

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

For the year ended 31 December 2013	Note	LGAS and LGR £m	LGIM £m	LGC and group expenses £m	LGA £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.06	544			107	651
Contribution from in-force business:						
- expected return[1]		358			68	426
- experience variances [2]		52			(23)	29
- operating assumption changes[3]		(9)			(52)	(61)
Development costs		(40)			-	(40)
Contribution from shareholder net worth		5		113	7	125
Operating profit on covered business		910	-	113	107	1,130
Business reported on an IFRS basis[4,5,6]		47	270	(106)	-	211
Total operating profit		957	270	7	107	1,341
Economic variances[7]		250	(6)	8	(37)	215
Gains on non-controlling interests		-	-	13	-	13
Profit before tax		1,207	264	28	70	1,569
Tax (expense)/credit on profit from ordinary activities		(251)	(57)	21	(24)	(311)
Effect of tax rate changes and other taxation impacts[8]		41	-	-	-	41
Profit for the year		997	207	49	46	1,299

Operating profit attributable to:						
LGAS		360				
LGR		597				

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

1. The expected return on in-force is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the UK LGAS and LGR business was £4,402m in 2013. This is adjusted for the effects of opening model changes of £27m to give an adjusted opening base VIF of £4,429m. This is then multiplied by the opening risk discount rate of 6.0% and the result grossed up at the notional attributed tax rate of 20% to give a return of £331m. The same approach has been applied for the LGAS overseas businesses.
2. LGAS and LGR variance primarily reflects UK cost of capital unwind, bulk purchase annuity data loading, fewer retail protection lapses and better longevity experience. LGA experience variance primarily relates to adverse persistency experience and mortality experience within term assurance and universal life products respectively.
3. LGAS and LGR assumption changes primarily reflects mortality assumption changes in LGR. LGA assumption changes primarily relate to improved modelling of term business in the period after the end of the guaranteed level premium period.
4. LGAS and LGR non-covered business primarily reflects GI operating profit of £69m.
5. LGIM operating profit includes Retail Investments and excludes £34m of profits arising from the provision of investment management services at market referenced rates to the covered business on a look through basis and as a consequence are included in the LGAS and LGR covered business on an EEV basis.
6. LGC and group expenses non-covered business primarily reflects Group debt costs and investment projects and expenses, partly offset by investment returns from non-covered shareholder assets.
7. The LGAS and LGR positive variance has resulted from a number of factors including equity market outperformance, favourable default experience, actions to improve the yield on annuity assets and a lower risk margin offset by a higher risk free rate. The higher risk free rate has contributed to a negative variance in LGA.
8. Primarily reflects the implementation of the UK planned future reductions in the corporation tax rate to 20% on 1 April 2015.

5.06 New business by product[1]

For the six months ended 30 June 2014	Annual premiums £m	Present value of annual premiums £m	Capital-isation factor[2]	Single premiums £m	PVNBP £m	Contri-bution from new business[3] £m	Margin %
UK Protection	**123**	**668**	**5.4**	**-**	**668**	**62**	**9.3**
Overseas business	**38**	**266**	**7.0**	**180**	**446**	**2**	**0.4**
UK Savings	**341**	**1,212**	**3.6**	**1,420**	**2,632**	**11**	**0.4**
Total LGAS	**502**	**2,146**	**4.3**	**1,600**	**3,746**	**75**	**2.0**
LGR	**n/a**	**-**	**n/a**	**3,518**	**3,518**	**295**	**8.4**
LGA	**47**	**474**	**10.1**	**-**	**474**	**51**	**10.8**
Total new business	**549**	**2,620**	**4.8**	**5,118**	**7,738**	**421**	**5.4**
Cost of capital						**82**	
Contribution from new business before cost of capital						**503**	

For the six months ended 30 June 2013	Annual premiums £m	Present value of annual premiums £m	Capital-isation factor[2]	Single premiums £m	PVNBP £m	Contri-bution from new business[3] £m	Margin %
UK Protection	105	528	5.0	-	528	35	6.7
Overseas business	30	230	7.7	183	413	3	0.8
UK Savings	314	1,162	3.7	1,203	2,365	(2)	(0.1)
Total LGAS	449	1,920	4.3	1,386	3,306	36	1.1
LGR[4]	n/a	692	n/a	1,424	2,116	177	8.4
LGA	45	440	9.7	-	440	44	10.0
Total new business	494	3,052	6.2	2,810	5,862	257	4.4
Cost of capital						30	
Contribution from new business before cost of capital						287	

1. Covered business only.
2. The capitalisation factor is the present value of annual premiums divided by the amount of annual premiums.
3. The contribution from new business is defined as the present value at the point of sale of assumed profits from new business written in the period and then rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.
4. LGR for H1 13 and FY 13 includes present value of annual premiums for longevity insurance on a net of reinsurance basis to enable a more representative margin figure. The gross of reinsurance longevity insurance annual premium for H1 13 is £175m; FY 13: £270m. The LGR PVNBP contribution from new business and margin for H1 13 and FY 13 are also inclusive of longevity insurance. There has been no longevity insurance sales during H1 14.

5.06 New business by product (continued)[1]

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

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

5.07 Assumptions

UK assumptions

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

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

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

ii. Where interest rate swaps are used to reduce risk, it is assumed that these swaps will be sold before expiry and the proceeds reinvested in corporate bonds with a redemption yield 0.70% p.a. (0.70% p.a. at 30 June 2013; 0.70% p.a. at 31 December 2013) greater than the swap rate at that time (i.e. the long term credit rate).

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

The returns on fixed and index-linked securities are calculated net of an allowance for default risk which takes account of the credit rating, outstanding term of the securities, and increase in the expectation of credit defaults over the economic cycle. The allowance for corporate securities expressed as a level rate deduction from the expected returns for annuities was 26bps at 30 June 2014 (26bps at 30 June 2013; 27bps at 31 December 2013).

UK covered business

i. Assets are valued at market value.

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

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

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

   An allowance is made for future mortality improvement. For new business, mortality assumptions may be modified to take certain scheme specific features into account.

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

Overseas covered business

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

5.07 Assumptions (continued)

Economic assumptions

	As at 30.06.14 % p.a.	As at 30.06.13 % p.a.	As at 31.12.13 % p.a.
Risk margin	**3.3**	**3.5**	3.4
Risk free rate[1]			
- UK	**3.2**	**3.0**	3.4
- Europe	**1.4**	**2.1**	2.2
- US	**2.5**	**2.6**	3.1
Risk discount rate (net of tax)			
- UK	**6.5**	**6.5**	6.8
- Europe	**4.7**	**5.6**	5.6
- US	**5.8**	**6.1**	6.5
Reinvestment rate (US)	**5.0**	**5.1**	5.8
Other UK business assumptions			
Equity risk premium	**3.3**	**3.3**	3.3
Property risk premium	**2.0**	**2.0**	2.0
Investment return (excluding annuities in LGR)			
- Gilts:			
- Fixed interest	**2.5 – 3.2**	**2.5 - 3.0**	2.7 – 3.4
- RPI linked	**3.2**	**3.1**	3.6
- Non gilts:			
- Fixed interest	**2.2 – 3.3**	**1.9 – 3.4**	2.2 – 3.6
- Equities	**6.5**	**6.3**	6.7
- Property	**5.2**	**5.0**	5.4
Long-term rate of return on non profit annuities in LGR	**4.3**	**4.7**	4.6
Inflation			
- Expenses/earnings	**3.9**	**3.8**	4.1
- Indexation	**3.4**	**3.3**	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 21.5% and the subsequent enacted future reduction in corporation tax to 20% from 1 April 2015. The tax rate used for grossing up is the long term corporate tax rate in the territory concerned, which for the UK is 20% (30 June 2013: 20%; 31 December 2013: 20%) taking into account the expected further rate reduction to 20% by 1 April 2015. The profits on the Society shareholder capital held outside the long term fund are calculated before tax and therefore tax is calculated on an actual basis.

US, Netherlands and France covered business profits are also grossed up using the long term corporate tax rates of the respective territories i.e. US is 35% (30 June 2013: 35%; 31 December 2013: 35%), France is 34.43% (30 June 2013: 34.43%; 31 December 2013: 34.43%) and Netherlands is 25% (30 June 2013: 25%; 31 December 2013: 25%).

5.07 Assumptions (continued)

Stochastic calculations

viii. The time value of options and guarantees is calculated using economic and non-economic assumptions consistent with those used for the deterministic embedded value calculations.

A single model has been used for UK and international business, with different economic assumptions for each territory reflecting the significant asset classes in each territory.

Government nominal interest rates are generated using a LIBOR Market Model projecting full yield curves at annual intervals. The model provides a good fit to the initial yield curve.

The total annual returns on equities and property are calculated as the return on 1 year bonds plus an excess return. The excess return is assumed to have a lognormal distribution. Corporate bonds are modelled separately by credit rating using stochastic credit spreads over the risk free rates, transition matrices and default recovery rates. The real yield curve model assumes that the real short rate follows a mean-reverting process subject to two normally distributed random shocks.

The significant asset classes are:
– UK with-profits business – equities, property and fixed rate bonds of various durations;
– UK annuity business – fixed rate and index-linked bonds of various durations; and
– International business – fixed rate bonds of various durations.

The risk discount rate is scenario dependent within the stochastic projection. It is calculated by applying the deterministic risk margin to the risk free rate in each stochastic projection.

5.08 Methodology

Basis of preparation

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

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

Changes to accounting policy - IASB consolidation project

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

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

As a result, the prior period disclosure in the Group embedded value summary and Note 5.05 have been restated to reflect the adoption by the Group of IFRS 10, ‘Consolidated Financial Statements’. The effect on amounts previously reported at 30 June 2013 and 31 December 2013 is shown below. Embedded value at 30 June 2013 and 31 December 2013 remains unaffected by the adoption.

	30.06.13 £m	31.12.13 £m
Profit for the period as previously reported	783	1,289
Gains on non-controlling interest		
IFRS 10 ‘Consolidated Financial Statements’ amendment	2	10
Revised profit for the period (after tax)	**785**	**1,299**

Covered business

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

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

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

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

5.08 Methodology (continued)

Description of methodology

The objective of EEV is to provide shareholders with realistic information on the financial position and current performance of the Group.

The methodology requires assets of an insurance company, as reported in the primary financial statements, to be attributed between those supporting the covered business and the remainder. The method accounts for assets in the covered business on an EEV basis and the remainder of the Group's assets on the IFRS basis adopted in the primary financial statements.

The EEV methodology recognises profit from the covered business as the total of:

i. cash transfers during the relevant period from the covered business to the remainder of the Group's assets; and

ii. the movement in the present value of future distributable profits to shareholders arising from the covered business over the relevant reporting period.

Embedded value

Shareholders' equity on the EEV basis comprises the embedded value of the covered business plus the shareholders' equity of other businesses, less the value included for purchased interests in long term business.

The embedded value is the sum of the shareholder net worth (SNW) and the value of the in-force business (VIF). SNW is defined as those amounts, within covered business (both within the long term fund and held outside the long term fund but used to support long term business), which are regarded either as required capital or which represent free surplus.

The VIF is the present value of future shareholder profits arising from the covered business, projected using best estimate assumptions, less an appropriate deduction for the cost of holding the required level of capital and the time value of financial options and guarantees (FOGs).

Service companies

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

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

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

New business

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

In-force business comprises previously written single premium, regular premium, recurrent single premium contracts and payments in relation to existing longevity insurance. Longevity insurance product comprises the exchange of a stream of fixed leg payments for a stream of floating payments, with the value of the income stream being the difference between the two legs. New business annual premiums have been excluded for longevity insurance due to the unpredictable deal flow from this type of business.

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

The present value of future new business premiums (PVNBP) has been calculated and expressed at the point of sale. The PVNBP is equivalent to total single premiums plus the discounted value of regular premiums expected to be received over the term of the contracts using the same economic and operating assumptions used for the embedded value at the end of the financial period. The discounted value of longevity insurance regular premiums is calculated on a net of reinsurance basis to enable a more representative margin figure.

The new business margin is defined as new business contribution at the end of the reporting period divided by the PVNBP. The premium volumes and projection assumptions used to calculate the PVNBP are the same as those used to calculate new business contribution.

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

5.08 Methodology (continued)

Projection assumptions

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

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

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

Tax

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

Allowance for risk

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

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

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

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

Required capital and free surplus

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

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

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

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

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

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

For LGN, required capital has been set at 100% of EU minimum solvency margin for all products without FOGs. For those products with FOGs, capital of between 100% and 425% of the EU minimum solvency margin has been used. At total level a check is made to ensure the total requirement meets the 160% Solvency I (both EEV and NBVA) from the capital policy. The level of capital has been determined using risk based capital techniques.

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

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

5.08 Methodology (continued)

Financial options and guarantees

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

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

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

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

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

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

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

For LGF, FOGs which have been separately provided for relate to guaranteed minimum crediting rates and surrender values on a range of contracts. The guaranteed surrender value of the contract is the accumulated value of the contract including accrued bonuses. The bonuses are based on the accounting income for the amortising bond portfolios plus income and releases from realised gains on any equity type investments. Policy liabilities equal guaranteed surrender values. In general, the guaranteed annual bonus rates are between 0% and 4.5%.

Risk free rate

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

5.08 Methodology (continued)

Risk discount rate

The risk discount rate (RDR) is a combination of the risk free rate and a risk margin, which reflects the residual risks inherent in the Group's covered businesses, after taking account of prudential margins in the statutory provisions, the required capital and the specific allowance for FOGs.

The risk margin has been determined based on an assessment of the Group's weighted average cost of capital (WACC). This assessment incorporates a beta for the Group, which measures the correlation of movements in the Group's share price to movements in a relevant index. Beta values therefore allow for the market's assessment of the risks inherent in the business relative to other companies in the chosen index.

The WACC is derived from the Group's cost of equity and debt, and the proportion of equity to debt in the Group's capital structure measured using market values. Each of these three parameters is forward looking, although informed by historic information and appropriate judgements where necessary. The cost of equity is calculated as the risk free rate plus the equity risk premium for the chosen index multiplied by the Company's beta. Forward-looking or adjusted betas make allowance for the observed tendency for betas to revert to 1 and therefore a weighted average of the historic beta and 1 tends to be a better estimate of the Company's beta for the future period. We have computed the WACC using an arithmetical average of forward-looking betas against the FTSE 100 index.

The cost of debt used in the WACC calculations takes account of the actual locked-in rates for our senior and subordinated long term debt. All debt interest attracts tax relief at a rate of 20.1%.

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

Analysis of profit

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

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

i. new business;

ii. the management of in-force business;

iii. development costs; and

iv. return on shareholder net worth.

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

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

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

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

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

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

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

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

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

Economic variances represent:

i. the effect of actual investment performance and changes to investment policy on SNW and VIF business from that assumed at the beginning of the period; and

ii. the effect of changes in economic variables on SNW and VIF business from that assumed at the beginning of the period, which are beyond the control of management, including associated changes to valuation bases to the extent that they are reflected in revised assumptions.

Independent review report to Legal & General Group Plc – EEV

Report on the supplementary interim financial information

Our conclusion

We have reviewed the supplementary interim financial information, defined below, in the interim management report of Legal & General Group Plc for the six months ended 30 June 2014. Based on our review, nothing has come to our attention that causes us to believe that the supplementary interim financial information is not prepared, in all material respects, in accordance with the EEV basis set out in Note 5.08.

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

What we have reviewed

The supplementary interim financial information, which is prepared by Legal & General Group Plc, comprises:

- the Group embedded value summary as at 30 June 2014; and
- the explanatory notes to the supplementary interim financial information.

As disclosed in Note 5.08 the supplementary interim financial information has been prepared on the European Embedded Value ("EEV") basis.

What a review of supplementary interim financial information involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of supplementary interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim management report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the supplementary interim financial information.

Responsibilities for the supplementary interim financial information and the review

Our responsibilities and those of the directors

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

Our responsibility is to express to the company a conclusion on the supplementary interim financial information in the interim management report based on our review. This report, including the conclusion, has been prepared for and only for the company and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
5 August 2014
London

Notes:

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

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

GOING CONCERN STATEMENT

The Group's business activities, together with the factors likely to affect its future development, performance and position in the current economic climate are set out in this Interim Management Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Results. Principal risks and uncertainties are detailed on pages 19 to 21. In addition, the financial statements include, amongst other things, notes on the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

While the economy is improving, the general climate remains, to a degree, uncertain. However, based on the available information on the future, the directors consider that the Group has the plans and resources to manage its business risks successfully as it has a diverse range of businesses and remains financially strong.

After making enquiries, the directors have a reasonable expectation that the company and the Group have adequate resources to continue their operations for the foreseeable future. For that reason, they continue to adopt the going concern.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge that:

i. The consolidated interim financial statements have been prepared in accordance with IAS 34 as adopted by the European Union;

ii. The interim management report includes a fair review of the information required by DTR 4.2.7, namely an indication of important events that have occurred during the first six months of the financial period and their impact on the consolidated interim financial statements, as well as a description of the principal risks and uncertainties faced by the company and the undertakings included in the consolidation taken as a whole for the remaining six months of the financial year;

iii. The interim management report includes, as required by DTR 4.2.8, a fair review of material related party transactions that have taken place in the first six months of the financial period and any material changes in the related party transactions described in the last Annual Report;

iv. The group embedded value summary and explanatory notes to the supplementary interim financial information have been prepared on the European Embedded Value basis as set out in Note 5.08; and

v. The directors of Legal & General Group Plc are listed in the Legal & General Group Plc Annual Report for 31 December 2013, with the exception of Mike Fairey who stood down as non-executive director of the company on 21 May 2014 and Olaf Swantee who joined the Board as a non-executive director on 1 August 2014. A list of current directors is maintained on the Legal & General Group Plc website: legalandgeneralgroup.com.

By order of the Board

N. D. Wilson	M. J. Gregory
Group Chief Executive	Group Chief Financial Officer
5 August 2014	5 August 2014