

6 August 2012

Half-year report

2012

Legal & General Group Plc Analyst Pack

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New Business

Stock Exchange Release
07 August 2012

LEGAL & GENERAL: DIVIDENDS UP 18% TO 1.96P AND EARNINGS PER SHARE UP 14% TO 6.96P

FINANCIAL HIGHLIGHTS:

- **INTERIM DIVIDEND UP 18% TO 1.96P PER SHARE (H1 2011: 1.66P PER SHARE)
EARNINGS PER SHARE UP 14% TO 6.96P (H1 2011: 6.13P)**
- **OPERATING PROFIT UP 5% TO £518M (H1 2011: £493M)
RISK, SAVINGS AND INVESTMENT MANAGEMENT ALL IMPROVED OPERATING PROFIT
IFRS PROFIT BEFORE TAX UP 11% £525M (H1 2011: £471M)**
- **IFRS RETURN ON EQUITY¹ 15.9% (H1 2011: 15.0%)**
- **OPERATIONAL CASH GENERATION £471M (H1 2011: £477M)
NET CASH GENERATION £407M (H1 2011: £406M)**
- **IGD SURPLUS £3.8BN AFTER INTERIM DIVIDEND (FY 2011: £3.8BN)**

OPERATIONAL HIGHLIGHTS:

- **LGIM NET FLOWS UP 33% TO £4.0BN (H1 2011: £3.0BN) AND AUM £381BN (FY 2011: £371BN)**
- **PROTECTION GROSS PREMIUMS UP 9% TO £672M (H1 2011: £614M)
US GROSS PREMIUMS UP 13% TO \$456M (H1 2011: \$403M)**

Nigel Wilson, Group Chief Executive, said:

“These results evidence the quality of our model. We have delivered operating profit of £518m, profit before tax of £525m, operational cash of £471m and increased earnings per share by 14%, to 6.96p. Our confidence in the sustainability of Legal & General’s performance has enabled us to progress the interim dividend to 1.96p, an increase of 18%.

Our financial and strategic discipline creates confidence in complex and chaotic markets. In spite of economic conditions, we continue to grow. LGIM achieved strong net flows of £4bn, UK protection gross premiums grew by 9% to £672m, and we also achieved 13% growth in US gross premiums to \$456m.

We have strong businesses, and social and economic challenges bring opportunities which we intend to pursue at a faster pace. We maintain shareholder assets of over £6bn, and a strong capital surplus of £3.8bn. Our balance sheet strength and robust financial discipline provides Legal & General with options to accelerate our evolution, delivering further value for customers and shareholders.”

Financials	H1 2012	H1 2011
Pence per share		
IFRS earnings per share (basic)	6.96	6.13
Operating profit earnings after tax per share (basic)	6.72	6.30
Operational cash generation per share	8.08	8.18
Net cash generation per share	6.98	6.97
Interim dividend per share	1.96	1.66
Average number of shares (m)	5,832	5,828

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

FINANCIAL SUMMARY

OPERATIONAL CASH GENERATION¹ £471M, NET CASH GENERATION £407M

H1 2012 £m	Risk	Inv mgmt	Savings	Inter- national	Group capital & financing ²	Investment projects	H1 2012
Operational cash generation	235	97	88	39	12	-	471
New business strain	(32)	-	(32)	-	-	-	(64)
Net cash generation	203	97	56	39	12	-	407
Operating profit							
	272	119	73	64	13	(23)	518
APE							
	168		614	107			889
H1 2011 £m	Risk	Inv mgmt	Savings	Inter- national	Group capital & financing ²	Investment projects	H1 2011
Operational cash generation	233	91	89	35	29	-	477
New business strain	(40)	-	(31)	-	-	-	(71)
Net cash generation	193	91	58	35	29	-	406
Operating profit							
	236	117	68	64	33	(25)	493
APE							
	170		662	86			918

ASSETS - £381BN IN LGIM, £67BN IN SAVINGS, £29BN IN ANNUITIES

Assets £bn	H1 2012	FY 2011
LGIM ³	381	371
Savings	67	65
Annuities	29	28

EEV RESULTS - EMBEDDED VALUE PER SHARE 165P INCLUDING LGIM

EEV highlights	H1 2012	H1 2011
Worldwide new business margin (%)	4.2	3.5
	H1 2012	FY 2011
Equity per share (pence)	145	147
Equity per share including LGIM (pence)	165	167

1. Operational cash generation is defined as the post-tax operating profit on our Investment Management, General insurance and Savings Investments businesses together with the Group capital and financing segment, the sustainable dividends remitted from our International businesses, the expected release from in-force business for the UK non profit Risk and Savings businesses, and the shareholders' share of bonuses on with-profits business. Net cash generation is defined as operational cash generation less new business strain for the UK non profit Risk and Savings businesses. A reconciliation of net cash generation to IFRS profit after tax is provided in note 3.01.

2. Operating profit and operational cash generation for the Group capital and financing segment includes lower assumed returns on cash and LIBOR benchmarked bonds as reported at the 2011 FY. This has been applied to the H1 2011 operating profit and cash generation comparatives as if these changes had been in effect since 1 January 2011. The impact was to reduce H1 2011 operating profit by £28m and operational cash generation by £21m. There is no impact on IFRS profit before tax from these changes.

3. LGIM assets include those assets managed on behalf of Risk and Savings divisions including £29bn for Annuities and £49bn for Savings.

GROUP RESULTS

Financial highlights £m	H1 2012	H1 2011
Operational cash generation	471	477
New business strain	(64)	(71)
Net cash generation	407	406
Analysis of operating profit		
Risk	272	236
Investment Management	119	117
Savings	73	68
International	64	64
Group capital and financing	13	33
Investment projects	(23)	(25)
Operating profit	518	493
Asset related investment variances	15	(1)
Other investment variances	(9)	(20)
Property gains / (losses) attributable to non-controlling interests	1	(1)
Profit before tax	525	471

INTERIM DIVIDEND INCREASED BY 18% TO 1.96 PENCE PER SHARE

The Board's confidence in the strength of Legal & General's financial performance, as demonstrated by both continuing substantial cash generation and a strong balance sheet, underpins the decision to recommend an increase of 18% in the interim dividend to 1.96p (H1 2011: 1.66p) per share at a cost of £116m (H1 2011: £97m).

RESILIENT CASH GENERATION – Cash Growth from Business Divisions

Operational cash generation from our operating business divisions was up 2% to £459m (H1 2011: £448m), highlighting the resilience of these businesses to the current economic conditions. However, contribution from Group capital and financing was down by £17m, predominantly due to a fall in the assumed returns on equities to 5.8% (H1 2011: 7.5%) and a higher proportion of Group capital and financing assets held in cash during H1. Net cash generation is broadly flat at £407m (H1 2011: £406m), reflecting 5% growth from business units to £395m (H1 2011: £377m) which includes the benefit of lower new business strain despite higher sales in Protection and Insured Savings.

BUSINESS HIGHLIGHTS – Strong Operational Results

Risk delivered another strong performance and operating profit of £272m (H1 2011: £236m). This benefited from growth in Protection and Housing gross premiums of 10% to £838m as a result of individual protection's leading market position and a record quarter for group protection sales. Operational cash generation increased to £235m (H1 2011: £233m) and net cash generation to £203m (H1 2011: £193m). Sales of individual annuities continued to be resilient at £52m (H1 2011: £52m). In bulk purchase annuities, activity was lower at £7m (H1 2011: £24m). Our expertise has supported good quote activity and we continue with the discipline of writing schemes in this market providing they meet our target return on economic capital. Following the end of the reporting period, Annuities has secured schemes worth approximately £300m, which met our criteria and will be reported in H2 2012. The General Insurance business delivered an operating profit of £8m (H1 2011: £17m) which includes the impact of freezing weather and storms in the early months of the year, and flood claims in June.

LGIM gained net new business of £4.0bn (H1 2011: £3.0bn) and assets under management of £381bn (FY 2011: £371bn) and delivered operating profit of £119m (H1 2011: £117m). LGIM has continued to deliver on its strategy of geographic diversification with £3.1bn of gross inflows from international clients in the first half of the year. This momentum continued into July when we secured a significant mandate from the Gulf and our first Asian mandate.

Liability Driven Investments (LDI) and Active Fixed Income gross inflows were up 42% to £6.8bn (H1 2011: £4.8bn) and accounted for 45% of LGIM's gross new business. LGIM's capability in these areas continues to attract flows, as the trend for de-risking of defined benefit pension schemes continues.

Savings operating profit of £73m was up 7% (H1 2011: £68m) and net cash generation was resilient at £56m (H1 2011: £58m). Positive flows in Savings Investments and Insured savings were £0.7bn whilst with-profits maturities experienced net outflows of £0.8bn.

Savings continues to deliver against the strategy of securing large employer schemes ahead of auto enrolment and will have access to approaching half a million potential auto enrolees and a further 114,000 existing members. Since June we have received £160m of assets from members of these schemes.

International sales APE was up 24% to £107m (H1 2011: £86m) due to the continued growth in sales in the US. The operating profit is in line with prior year at £64m (H1 2011: £64m).

Group capital and financing operating profit was impacted by the fall in the expected return on assets to 3.8% p.a. (FY 2011: 4.7%). This reflects the reduction in the assumed returns on equities to 5.8% (H1 2011: 7.5%) and a higher proportion of assets held in cash during H1. As a result operating profit reduced to £13m (H1 2011: £33m). Group capital and financing assets continued to grow with invested assets up to £4.5bn (FY 2011: £4.3bn).

ROBUST BALANCE SHEET – Managed with Financial Discipline

The Group's balance sheet, managed with financial discipline, remains robust with an IGD surplus of £3.8bn (FY 2011: £3.8bn), after allowing for the accrual of the interim dividend, and a coverage ratio of 224% (FY 2011: 220%).

The LGPL credit default provision of £1.6bn (FY 2011: £1.6bn) remains in place to fund against the risk of credit defaults and is equivalent to 60bps (FY 2011: 61bps) of defaults over the life of the portfolio. We have had another six months of no defaults.

STRATEGY AND OUTLOOK – Resilience Plus Opportunities Equals Growth

Our financial and operational strength gives us:

- resilience against negative external events
- a range of options to accelerate growth
- the sustained ability to deliver attractive returns to shareholders.

Therefore despite the current political, economic, regulatory and financial uncertainty, we are able to provide relevant and value added solutions and services to our customers in our chosen markets.

We expect that the industry will continue to face challenging economic headwinds and continue to plan accordingly. The UK economy is likely to perform poorly and we expect further macro shocks across the world, particularly in the Eurozone. The negative combination of fiscal regulatory and banking austerity will act as a brake on economic growth in the UK. Meanwhile, corporates appear to lack the confidence to invest for growth, notwithstanding their strong balance sheets and cash positions.

Legal & General has demonstrated resilience in volatile financial markets, and we remain confident that in spite of economic conditions we will continue to grow. Business momentum from the first half year has continued in July, with several BPA schemes completed and investment management mandates gained.

Our business model is proving resilient due to:

- our strong market position in our chosen markets
- our focus on metrics that matter, particularly cash
- our financial and strategic discipline, including operational efficiency gains and asset de-risking.

This combination has enabled us to deliver sector-leading returns to investors while building a strong balance sheet.

Numerous macro and industry trends are creating opportunities for growth, including:

- (1) The decline in state spending will increase the UK “pension gap” and the “protection gap”, and as a consequence we expect growth from auto enrolment, group protection and individual annuities.
- (2) Pension de-risking across the corporate world will allow us to pool risk and use our economies of scale. Our LDI business is already over £60bn and we are also achieving substantial progress in our fixed income business with AUM at H1 at £77bn and high activity in the larger bulk purchase annuities market both in and outside of the UK.
- (3) The deleveraging of banks and its impact on bank lending creates a “funding gap” which enables us to expand investment in some areas where we already had a presence, such as commercial property lending and social housing finance, and potentially to enter some new areas including infrastructure and trade finance.
- (4) The globalisation of asset markets is allowing LGIM to expand rapidly in international markets, particularly with sovereign wealth funds and corporates, including in the Gulf (circa \$10bn AUM), the US (27 mandate wins, AUM around \$28bn), as well as securing our first mandate in China.
- (5) Regulatory changes including Retail Distribution Review (RDR), Auto enrolment, and Solvency II are producing further competitive opportunities. For example our “RDR distribution partnerships” mean we have secured access to around 80% of the building society branches in the UK, providing access to over 75% of building society customers.

PRINCIPAL RISKS AND UNCERTAINTIES – Continuing To Plan for Difficult Scenarios

We operate strong governance of risk with a framework and controls, which are embedded across all our businesses, and which include clear limits for our material risk exposures. We recognise the increased uncertainty of the macro economy and the need to review regularly the effectiveness of our responses to regulatory and social change.

We benefit from a high degree of diversification in products and distribution channels. We have avoided products with un-hedged interest rate guarantees and our liabilities are well matched. These factors increase our resilience to changing regulatory, economic and market dynamics. Our IGD surplus at 224% of solvency capital provides strong capability to mitigate any impacts from possible economic scenarios.

The Group uses the expertise of LGIM to regularly assess its asset exposures, making forward looking assessments of economic and company specific risks and ensuring a high degree of diversification both globally and in asset classes. The Group will reflect these views in the management actions on the portfolio. The Group had another six months of no defaults and continues to hold a £1.6bn default provision within the main UK annuity subsidiary. Legal & General has minimal direct exposure to the Eurozone with two relatively small European operations (LGN and LGF) and low holdings of sovereign and corporate debt issued from the GIIPS economies (£1.1bn out of a total portfolio of £40.1bn).

The direction of travel on Solvency II is broadly positive, with a broad consensus now emerging about the application of a Matching Adjustment to categories of long-dated liabilities including UK pension annuities. Debate continues in Europe and Legal & General remains heavily engaged in discussion about the detail of rules and we expect implementation could be later than 2014. There also remains uncertainty about the final approach to how required capital is determined and the transition from the current capital regime. We have allocated sufficient skilled resources to developing capital modelling under Solvency II and we are on track to submit our internal model application to the FSA by the end of 2012.

We have secured sole provider access to the UK’s leading building societies and therefore in relation to the RDR we are well placed with diversified sources of distribution for Savings products. We have developed a platform strategy to ensure we can reach all parts of the market. We also benefit from scale in Protection. However, in the short term there may be disruption in the market as advisers manage the transition. Legal & General is delivering a comprehensive programme with strong executive governance to ensure compliance with RDR and to support our partners to trade effectively under the new regime.

We are ensuring operational readiness for the start of auto enrolment in Q4 2012. Transfers of some existing schemes have started in July 2012 and we have planned phased loading of large numbers of new members in line with employer staging dates.

A detailed list of the Group’s Principal Risks and Uncertainties can be found on page 29.

BUSINESS REVIEW - RISK.

Financial highlights £m	H1 2012	H1 2011
Operational cash generation	235	233
New business strain	(32)	(40)
Net cash generation	203	193
Experience variances, assumption changes, tax and other variances	69	43
Operating profit	272	236
Asset related investment variances	5	15
IFRS profit before tax	277	251
New Business APE	168	170

DIVISIONAL OVERVIEW – Very Strong Performance

Protection and Housing increased gross premiums by 10% to £838m (H1 2011: £760m) and delivered 16% growth in APE to £109m (H1 2011: £94m). This resulted from the benefits of our automatic underwriting technology, continued product innovation and success in attracting new employer schemes. Market share has extended further.

Annuities assets under management increased to £28.9bn (FY 2011: £28.4bn). Sales of individual annuities have been stable with £52m APE written, but H1 has seen less activity on bulk purchase annuity (BPA) volumes. Market volumes from period to period are characteristically uneven and sales were £7m in H1 2012 (H1 2011: £24m); however we secured schemes worth circa £300m in July which will be reported in H2 2012. We remain committed to all parts of the market whilst continuing to exercise strong disciplines in pricing.

Operational cash generation increased to £235m (H1 2011: £233m) due to the growth in scale of both the Annuities and Protection and Housing businesses, offset by higher weather related claims for General Insurance. Net cash generation increased to £203m (H1 2011: £193m) with lower new business strain in Protection despite higher volumes, and new business surplus in Annuities of £1m (H1 2011: £1m).

Operating profit increased by 15% to £272m (H1 2011: £236m) aided by the growth in net cash generation and the improvement of group protection claims experience in H1 2012. The Risk division again delivered positive experience and assumption changes reflecting the strong understanding of the business and robust assumption setting.

PROTECTION AND HOUSING – Building on Momentum from 2011

Financial highlights £m	H1 2012	H1 2011
Operational cash generation	114	121
New business strain	(33)	(41)
Net cash generation	81	80
Protection new business APE	109	94
Protection new business EEV margin (%)	10.8	6.4
Protection gross premiums	672	614
General Insurance gross premiums	166	146
Total gross premiums	838	760
General Insurance new business premiums	65	54
General Insurance combined operating ratio (%)	99	93

Individual protection continues to deliver an outstanding performance in 2012. New business APE was up 11% to £72m (H1 2011: £65m) providing cover for over 200,000 new customers. Gross premiums grew 5% to £468m (H1 2011: £447m) and we maintain our market leading position.

Protection New business strain has decreased to £33m (H1 2011: £41m), which represents 30% of new business APE (H1 2011: 44%). This reduction reflects the benefits of our largely automated underwriting model and reinsurance management. The Protection & Housing continues to grow in scale with a 10% increase in gross premiums to £838m (H1 2011: £760m).

Higher weather related claims in General Insurance reduced Operational cash generation to £114m (H1 2011: £121m) against the previous year. For FY 2011, we reported significantly improved Protection new business margin of 9.3%, as a result of strong cost management and innovation in underwriting. The latter enabled us to evidence improved certainty of claims and as a result to gain improved reinsurance terms. Continuing cost discipline, efficiency from high volumes and more profitable mix, have enabled further progression of the new business margin to 10.8% (H1 2011 6.4%). For FY 2012, we expect the margin to be at similar levels to FY 2011.

We have grown sales from protection products targeted at specialist needs such as protecting against loss of a bread winner, loss of a business partner or the financial impact of serious illness. Protection benefits from diversified distribution through IFAs, employee broker consultants, tied relationships with banks and building societies, L&G Direct and the L&G Network. In the period, we successfully renewed our tied partnership with Nationwide Building Society, broadened our tied distribution agreement with Yorkshire Building Society and agreed new tied partnerships with Leeds Building Society and First Trust Bank. We have access to both mortgage and family protection sales in these channels.

The L&G Network increased share of the intermediated mortgage market to a 25% share in H1 2012 (H1 2011: 19%), and with £9bn of intermediated lending **retains a strong position in the intermediated mortgage market**. L&G Network's appointed representatives achieved a good rate of 1.6 protection and general insurance policy applications per mortgage application.

Group Protection increased sales 28% to £37m APE (H1 2011: £29m), through increased focus on sales of group income protection and the acquisition of schemes from several employers who were previously self-insured and who wanted to reduce their exposure to open ended liabilities.

General Insurance gross written premiums increased by 14% to £166m (H1 2011: £146m). We have continued to develop our share of the direct market, with new business premiums through this distribution increasing by 135%. Growth has also been achieved through broker distribution, where we have been successful in developing existing and new partner relationships. The business now has in excess of one and a half million policyholders.

The benefits of the growing book size were offset by freezing weather and storms in the early months of the year, and heavy rainfall with associated flooding in June. As a result of higher claims, the combined operating ratio increased to 99% (H1 2011: 93%) and operating profit was lower at £8m (H1 2011: £17m).

ANNUITIES – Resilient Individual Annuity Volumes

Financial highlights £m	H1 2012	H1 2011
Operational cash generation	121	112
New business surplus	1	1
Net cash generation	122	113
Individual annuity new business APE	52	52
Bulk annuity new business APE	7	24
Total annuity new business APE	59	76
Annuities new business EEV margin (%)	8.5	8.4

Operational cash generation was up 8% to £121m (H1 2011: £112m) reflecting increasing scale of the portfolio. Net cash generation of £122m includes new business surplus of £1m (H1 2011: £1m). The Annuities division now pays 675,000 annuitants, up from 624,000 a year earlier.

Individual annuity new business APE has been maintained at £52m (H1 2011: £52m) as we continue to benefit from a steady flow of annuitants from our own pensions business as well as our strong distribution arrangements. We continue to see some evidence of people deferring their retirement in the current low interest rate environment. However, through our disciplined approach to writing new business, we are providing competitive levels of retirement income to our customers whilst achieving our target return on economic capital.

In the BPA market, we wrote 28 schemes worth £7m APE (H1 2011: 45 schemes worth £24m). BPA volumes are inherently uneven, and there can be large fluctuations from period to period. Pension deficits continue to build and trustees of pension schemes of all sizes remain interested in options to reduce risk and remove balance sheet risk. However, timing of execution depends on individual scheme factors, strength of ongoing funding and market pricing.

Legal & General benefits from strong capability to quote and structure BPA deals which includes having expertise in longevity science, processes to handle large scheme transfers and LGIM's expertise in asset liability matching.

OUTLOOK – BPA Volumes of c£300m Premiums Secured in July

Overall, individual annuity volumes continue to be resilient. The trend of growing numbers of customers in defined contribution pension savings products creates an increasing opportunity for the individual annuity market. However, we see evidence that some consumers are delaying their retirement in the current climate of economic uncertainty. Our distribution of annuities is well diversified across IFAs, internal vesting, direct and distribution partnerships, and we believe the direct market will become more active after the implementation of RDR. We have developed our pricing and operational capabilities to be well positioned for the new gender discrimination rules that apply to new business from 21 December 2012.

In July we secured BPA schemes with premiums of approximately £300m which will be reported in H2 2012. With a potential market of over £1,000bn and a deal flow of on average £9bn per annum the BPA market remains a key focus. The pattern of BPA deals will remain uneven, but market volatility has exposed the impact of pension liabilities on companies' balance sheets such that businesses are increasingly likely to look to mitigate risks. Legal & General offers a range of de-risking solutions across the full spectrum of scheme sizes.

We continue to increase our family protection sales and have grown sales from protection targeted at specialist needs such as protecting against loss of a bread winner, loss of a business partner or the financial impact of serious illness. We see no sign of a recovery in housing activity, but our continuous refinement of our consumer standalone

application has gained share from the growing volumes of online and telephone direct brokers and supported growth in our direct operation.

It is possible there will be some short term disruption at the end of 2012 to the market from regulatory change (gender neutral pricing, RDR, I-E tax changes). This brings both risks which we are taking steps to mitigate, and potential opportunities, from which if they emerge, we are well placed to benefit.

Our outlook for Group Protection in H2 2012 remains positive. Our product proposition gives us a strong position to drive growth from private and public sector employers. When funding of auto enrolment schemes start, employers may scale back other employee benefits as a consequence of providing pension contributions to a higher number of employees. However, this may be offset by a corresponding growth in pension life cover membership.

We have continued to grow our General Insurance business in H1 2012, with gross premiums growing by 14% both through increasing our presence in the direct market and developing new and existing broker relationships. We anticipate growth in these distribution channels to continue into the second half of the year.

BUSINESS REVIEW - INVESTMENT MANAGEMENT

Financial highlights £m	H1 2012	H1 2011
Operating profit	119	117
Total revenue	219	205
Total costs	(100)	(88)
Net cash generation	97	91
Average ad valorem fee margin (bps)	10.9	10.9
Average expense margin (bps)	5.5	5.2
Gross inflows (£bn)	15.0	17.9
Net inflows (£bn)	4.0	3.0
	H1 2012	FY 2011
Closing assets under management (£bn)	381	371

DIVISIONAL OVERVIEW – Pension De-risking Driving Strong Flows

LGIM's total revenue for the first half of the year was up 7% to £219m (H1 2011: £205m) and the half-year operating profit increased to £119m (H1 2011: £117m). The expense margin increased slightly to 5.5bps (H1 2011: 5.2bps). LGIM is reinvesting revenue in business resources, which will support the future growth in scale and profit from international expansion and acquisition of further LDI and Active Fixed Income mandates. Assets under management (AUM) grew 3% to £381bn (FY 2011: £371bn) and net inflows were £4.0bn, an increase of 33% compared to H1 2011.

LDI gross inflows were up 22% to £3.3bn (H1 2011: £2.7bn) and accounted for 22% of LGIM's gross new business. LGIM has seen increased interest in its LDI and Active Fixed Income capabilities as the de-risking of defined benefit (DB) pension schemes continues.

LGIM's Active Fixed Income gross inflows were up 67% to £3.5bn, (H1 2011: £2.1bn) accounting for 23% of total gross new business, as these strategies experienced a significant amount of interest.

LGIM's International AUM is up 17% to £21.5bn (FY 2011: £18.3bn) and geographic diversification continues to result in strong inflows from international clients. LGIMA (LGIM America), our US operation, has continued to experience positive momentum, with 10 new clients added during the first half of 2012.

Asset movements £bn	Index	Active	Total
Assets under management (at 1 January 2012)	224.2	147.0	371.2
Gross inflows	8.2	6.8	15.0
Gross outflows	(8.7)	(2.3)	(11.0)
Net flows	(0.5)	4.5	4.0
Market and other movements	3.3	2.8	6.1
Assets under management (at 30 June 2012)	227.0	154.3	381.3

INDEX ASSETS – Broader Range Supporting Resilience

The Index business continues to be an important source of revenue generation. Index assets remain core to the LGIM business model with 60% of LGIM's AUM being invested in index funds.

Defined contribution (DC) asset inflows brought LGIM's total DC book of business to £23.0bn at the end of June 2012 (FY 2011: £21.3bn).

LGIM's expanded range of alternatively weighted equity index funds is generating growing interest. Additionally, during the first half of 2012, LGIM and Workplace Savings launched a facility for DC clients to create products consisting of LGIM funds and those of external managers.

Asset movements £bn	UK equities	Int'l equities	Fixed interest	Total
Assets under management (at 1 January 2012)	63.3	82.2	78.7	224.2
Gross inflows	1.9	3.5	2.8	8.2
Gross outflows	(2.7)	(3.1)	(2.9)	(8.7)
Net flows	(0.8)	0.4	(0.1)	(0.5)
Market and other movements	(0.4)	5.8	(2.1)	3.3
Assets under management (at 30 June 2012)	62.1	88.4	76.5	227.0

LDI AND ACTIVE ASSETS – Strong Demand for De-risking Solutions

As DB pension schemes de-risk, LGIM continues to experience strong demand for LDI solutions both within the UK and targeted international markets with gross inflows 22% higher at £3.3bn (H1 2011: £2.7bn). We continue to work closely with pension schemes and their advisors to establish optimal de-risking strategies.

LGIM has seen increased demand for its Active Fixed Income capability. Gross inflows have increased by 67% to £3.5bn (H1 2011: £2.1bn). LGIM's focus on developing products which embrace global diversification and continued strong fund performance has driven interest from both domestic and international clients. LGIMA has played a particularly strong part in this and continues to show positive growth.

LGIM's Sterling Liquidity Fund has experienced good inflows. Its diversification strategy has resonated with clients in the current economic environment.

Asset movements £bn	Equities	Fixed interest	Property & other	LDI	Total
Assets under management (at 1 January 2012)	7.2	72.4	9.0	58.4	147.0
Gross inflows	-	3.5	-	3.3	6.8
Gross outflows	-	(1.0)	-	(1.3)	(2.3)
Net flows	-	2.5	-	2.0	4.5
Market and other movements	(0.2)	2.3	(0.1)	0.8	2.8
Assets under management (at 30 June 2012)	7.0	77.2	8.9	61.2	154.3

OUTLOOK – Momentum in the International Business to Continue

The rapid development of the UK pension industry continues to be driven by market conditions and regulatory changes. For UK DB schemes, we expect the focus to remain on de-risking solutions, which is likely to result in declining equity allocations. At the same time we expect to gain more fixed income and LDI mandates, as existing clients de-risk and new clients are attracted to these capabilities.

LGIM continues to expect demand for more innovative index mandates, as well as its growing array of passively managed strategies and core competencies in transition management, currency hedging and dynamic asset allocation services.

LGIM expects the international business to continue the momentum from the first half of 2012. LGIMA has made a very strong start to 2012 and is well placed to build on this. We have seen ongoing positive momentum in Active Fixed Income and LDI and further new business inflows are expected before the end of the year.

In July 2012, we gained an index mandate from a new Gulf client. In the Gulf region investors are sitting on healthy cash surpluses, and although they remain cautious due to global economic conditions, we expect to see a number of additional mandates this year.

In July we won our first Asian mandate and LGIM's planned geographic expansion into the Asian market is making good progress. An office in the region is scheduled to be operational before the end of 2012.

The unresolved Eurozone sovereign debt situation will remain a major influence on the financial services industry. There continues to be significant uncertainty about scenarios including the impact of potential Eurozone failure. Nevertheless, we have undertaken contingency planning at an operational and a business level with the aim of limiting the negative impact across a number of scenarios.

In the current environment, clients are becoming increasingly aware of risks. We expect this to drive demand for our full complement of index, active and LDI strategies as we work with clients to implement solutions to meet their long-term objectives.

BUSINESS REVIEW – SAVINGS

Financial highlights £m	H1 2012	H1 2011
Operational cash	88	89
New business strain	(32)	(31)
Net cash generation	56	58
Experience variances, assumption changes, tax and other variances	17	10
Operating profit	73	68
Asset related and other investment variances	(6)	(2)
IFRS profit before tax	67	66
New business APE	614	662
Net flows (£bn)	(0.1)	1.1
New business strain % PVNBP ¹	2.4	2.6
In-force costs to funds (bps)	24	26
	H1 2012	FY 2011
Assets under administration (£bn)	67	65

1. UK Insured Savings business.

DIVISIONAL OVERVIEW – Strong Operating Profit in Challenging Market

Savings Operating profit grew by 7% to £73m (H1 2011: £68m), a robust operating result against the backdrop of continuing investment market weakness. Operational cash generation was also resilient at £88m (H1 2011: £89m). Net cash generation of £56m (H1 2011: £58m), also reflects new business strain of £32m (H1 2011: £31m). We have again written new business more efficiently, with strain as a % of PVNBP reduced to 2.4% (H1 2011: 2.6%; FY 2011: 2.7%) after allowing for increased strain to support 10% higher new business sales in Insured Savings. The Investment Savings and Insured Savings business delivered net inflows of £0.7bn; maturing endowment policies resulted in net outflows from With-profits of £0.8bn.

We have secured distribution and customer access ahead of RDR during the first half of 2012. We have agreed a continuation and extension of our long standing relationship with Yorkshire Building Society (now including the Chelsea and Norwich & Peterborough building societies), together with further new relationships with Leeds Building Society and First Trust Bank of Northern Ireland. We now have sole tie distribution relationships with over 75% of the UK building society sector in terms of customers, across over 1,100 branches. In addition, during H1 2012 our Workplace Savings business secured 57 new schemes with 41,000 existing pension saving employees and almost 108,000 potential new auto enrolees.

We continually invest in evolving our business and developing our operating model. In recent periods, this development has been focused on strategic responses to RDR and auto enrolment. Our RDR development is delivering an effective restricted advice solution to meet the needs of our key distribution partners. In Workplace Savings, in response to the opportunities created by auto enrolment, we have developed a market-leading proposition to meet the needs of employees and employers alike, as well as ensuring our model is both efficient and scalable.

Asset movements £bn	Savings Investments	Insured Savings	With-profits	Total
Assets under administration (at 1 January 2012)	25.3	19.1	20.5	64.9
Gross inflows	2.9	1.4	0.5	4.8
Gross outflows	(2.3)	(1.3)	(1.3)	(4.9)
Net flows	0.6	0.1	(0.8)	(0.1)
Market movements	0.6	0.8	0.4	1.8
Assets under administration (at 30 June 2012)	26.5	20.0	20.1	66.6

INSURED SAVINGS – Continuing Momentum in Workplace Savings

Insured Savings operating profit grew by 45% to £29m (H1 2011: £20m). Net cash generation remained resilient at £21m (H1 2011: £20m), underpinned by operational cash generation of £53m (H1 2011: £51m) as the book grows in scale. Assets under administration increased by 5% during the first half of the year to £20.0bn (FY 2011: £19.1bn).

We have secured a further 57 new workplace pension schemes during the first half of 2012 (FY 2011: 133). This is expected to generate the transfer of over 41,000 existing members (FY 2011: 94,000), as well as additional opportunities from their auto enrolment populations, when these schemes come on-stream. In total over the last 18 months, we have secured a total of 135,000 transferring existing members; 21,000 of these have already been loaded onto Legal & General systems and the majority of the remaining 114,000 will transfer over the next 9 months, together with 458,000 potential auto enrollees.

Workplace pension non profit net flows for business in the first half of 2012 grew by 133% to £0.7bn (H1 2011: £0.3bn). As a result, non profit assets increased by 21% during the first half of the year to £4.6bn (FY 2011: £3.8bn), and in-force non profit scheme members now number almost 227,000 (FY 2011: 211,000).

SAVINGS INVESTMENTS – Positive Net Flows Despite Macro Economic Impacts

Operating profit in our Savings Investment businesses was £9m (H1 2011: £13m), while net cash generation was £9m (H1 2011: £12m). Results in this segment were primarily impacted by a reduction in volumes and therefore profits from structured products as macro economic conditions impacted product pricing.

Total Savings Investment assets under administration as at the end of June were £26.5bn (FY 2011: £25.3bn), a 5% increase over the end 2011 level as strong sales of collectives on our Investor Portfolio Services (IPS) platform contributed to net inflows of £0.6bn (H1 2011: £1.7bn).

Total Savings Investment gross flows were £2.9bn (H1 2011: £3.5bn), underpinned by new business APE of £314m (H1 2011: £371m).

Sales on our open architecture platform, IPS, increased by 25% to £133m (H1 2011: £106m). Sales of our own manufactured Unit Trusts and ISAs were £121m APE (H1 2011: £157m). These have been impacted by low market confidence, although we have seen some signs of recovery with Q2 APE of £66m, a 20% increase on Q1 2012. We have sold fewer structured products, as low interest rates impact pricing and hence the relative attractiveness of these products to customers. Uninsured SIPP business was broadly flat at £44m (H1 2011: £45m).

WITH-PROFITS SAVINGS – Maturing Endowments Resulting in Outflows

With-profits Savings operating profit, representing the shareholders' share of the with-profits bonus, was in-line with the prior year at £35m (H1 2011: £35m), as was net cash generation at £26m (H1 2011: £26m). Assets under administration reduced by 2% to £20.1bn (FY 2011: £20.5bn). Net outflows of £0.8bn reflect maturing endowment policies sold in the 1980s.

OUTLOOK – Regulatory Change Driving Opportunities Despite Difficult Retail Market

In the short term we expect retail investment conditions to remain challenging. It is likely that low levels of retail investor confidence in the market, together with constraints on consumers' disposable incomes will continue into H2.

We have a strong pipeline of workplace schemes. Our Workplace Savings strategy is to focus on large schemes with our highly automated low cost employer solutions. Employers are revisiting their existing pension provision in light of the upcoming new auto enrolment regulations and we remain well placed to take advantage of the opportunities this brings.

We have secured 6 of what we believe are the 12 largest employers with auto enrolling staging dates in 2012. We announced our appointment as administrators of the Co-operative Group's new trust based scheme at the beginning of July. This scheme brings over 4,000 existing employees, together with an estimated 40,000 employees who will meet auto enrolment criteria and a further 30,000 employees who could opt into the scheme. Subject to final agreement of timing with individual employers, we expect to load the existing members' assets for all six of these schemes during the second half of this year, together with the auto enrolment populations for two of the schemes to align with their staging preference. We started this process with circa 10,000 existing Marks and Spencer scheme members transferred in July. Our total population of potential auto enrolees is now approaching half a million (FY 2011: 350,000) and we continue to see significant interest in our workplace proposition, with a strong pipeline of new business enquiries leading into the second half of 2012.

We now have access to over 70% of UK building society branches, which service over 75% of customers within the sector. We believe that building societies are well placed for the efficient provision of financial advice following the implementation of RDR. Our expertise and services in fund assembly and panel construction are valued by these and other partners. We are confident that these services can be extended to a wider restricted advice market which is likely to grow post-RDR. We also believe that RDR will increase customer demand for low cost funds. We expect an increase in flows into retail passive funds, attracted by our low cost capability in passive management.

Savings has developed an integrated platform strategy which will provide access to our products through IPS for our bancassurance partners and restricted advisers and through Cofunds for independent financial advisers. In addition to these two core gateways, our products are now available on seven of the leading platforms in the UK market. For our own IPS platform, we have focussed on meeting the needs of our partners' customers for simple saving and investment solutions. We have restricted the choice of product to the key four which the majority of customers require; ISAs, onshore bonds, Self Invested Pension Plans (SIPPs) and unit trust general investment accounts. This strategy facilitates lower platform charges and lower future development costs. IPS, which is the third largest platform in the UK by customer numbers, continues to attract business, growing by 12% in the first half of 2012 to £7.6bn (FY 2011: £6.8bn) of combined mutual fund and insured assets. Our products are also offered on the largest UK platform, Cofunds, which holds £41bn of assets under administration, and of which we have a 25% shareholding.

BUSINESS REVIEW – INTERNATIONAL

Financial highlights £m	H1 2012	H1 2011
USA	51	48
Europe (Netherlands and France)	17	18
Egypt, the Gulf and India	(4)	(2)
Operating profit	64	64
Net cash generation	39	35
New Business APE	107	86

DIVISIONAL OVERVIEW – Strong Sales Growth in L&G America

International sales were up 24% at £107m APE, driven by strong Legal & General America (LGA) sales growth, up 31% to £42m (H1 2011 £32m).

Operational cash generation by the International division of £39m (H1 2011: £35m) includes the \$60m (H1 2011: \$55m) dividend from LGA. We expect dividends from Europe in the second half of the year to increase the operational cash generation to £55m for the full year (FY 2011: £51m), subject to exchange fluctuations. International operating profit of £64m (H1 2011: £64m) is in line with the prior year.

LEGAL & GENERAL AMERICA (LGA)¹ – Capital Release increases Capacity for New Business

Financial highlights \$m	H1 2012	H1 2011
Operating profit	81	78
IFRS profit before tax	81	77
New business APE	66	52
Gross premium income	456	403
Net cash generation	60	55
New business margin (%)	10.9	9.8
	H1 2012	FY 2011
Embedded value	1,608	1,647

1. In 2012, the Group applied the new US accounting policy on the recognition of Deferred Acquisition Costs (DAC) which changed the rules on capitalising costs incurred in acquiring insurance business. Applying this retrospectively reduced the opening 2012 shareholders' equity of the Group (and LGA) by \$216m and lowered H1 2012 operating profit by \$9m (H1 2011: \$3m). This has no effect on EEV or IGD surplus. Details of the adjustment are outlined in note 2.08.

LGA has delivered 27% growth in H1 sales to \$66m (H1 2011 \$52m) and improved the new business margin, which increased to 10.9% (H1 2011: 9.8%). LGA writes individual protection policies in the USA. It competes in this market by being a low cost operator and delivering expert, medical-based underwriting on high sum assured policies. This increase in sales resulted from working closely with its distributors and with increased capacity for new business afforded by the capital restructuring programme.

The resulting 13% growth in gross premiums to \$456m (H1 2011: \$403m) led to an increase in operating profit in the year. LGA experienced a higher number of claims than expected during the first quarter of the year, but this has trended back towards assumptions in the second quarter. This resulted in adverse experience of \$15m for the half-year.

LEGAL & GENERAL EUROPE (LGN & LGF) – Progress in Protection

Financial highlights €m	H1 2012	H1 2011
Operating profit	21	21
IFRS profit before tax	35	27
New business APE	60	52
Gross premium income	362	369
Net cash generation	2	1
New business margin (%)	1.0	0.6
	H1 2012	FY 2011
Embedded value	548	556

European APE growth of 15% to €60m (H1 2011: €52m) reflects the market re-launch of the Legal & General Netherlands (LGN) individual protection product in November 2011, which increased protection APE to €7m (H1 2011: €1m). LGN's share of the Dutch term insurance market has risen from 3% to 14%.

In Legal & General France (LGF) the retail Savings operation targets high net worth clients, serviced by a direct sales force, while group protection sells life, disability and medical expense cover to small and medium sized businesses. LGF achieved growth in both retail savings and group protection with APE of €47m (H1 2011: €43m).

Operating profit of €21m (H1 2011: €21m) remained in line with prior year.

EMERGING MARKETS – Growth in APE

In Emerging markets we grew sales to £16m (H1 2011: £8m). This growth in APE primarily reflects the recovery of sales in Egypt from more stable political conditions. We also continue to make progress with our joint ventures in India, and the Gulf.

OUTLOOK– Further Opportunities in LGA

We have a promising pipeline for US sales and in LGA we continue to explore new protection product and distribution opportunities. Given strong application levels in LGA, we are confident of continuing to deliver sales growth for the remainder of the year.

Opportunities remain to free up excess capital held as a result of the XXX/AXXX reserving regime in the US. We anticipate transacting another phase of our US capital management programme to release further capital in LGA in the second half of 2012 and a capital efficient structuring for new business in 2013. Further phases are likely to follow.

In Europe, we continue to progress our efforts to optimise our capital structure. In this regard, we are monitoring closely the stance of regulators which could be influenced by a number of political and economic factors including the Eurozone crisis, a new government in France, and elections in the Netherlands which are due in September.

BUSINESS REVIEW – GROUP BUSINESS UNIT

GROUP CAPITAL AND FINANCING – Lower Assumed Returns

Financial highlights £m	H1 2012	H1 2011
Investment return	84	102
Interest expense	(63)	(62)
Investment expenses and unallocated corporate expenses	(8)	(7)
Group capital and financing operating profit	13	33
Operational cash generation	12	29
	H1 2012	FY 2011
Closing Group capital and financing assets	4,529	4,344
Closing outstanding debt balances	2,769	2,732

The smoothed investment return of £84m (H1 2011: £102m) is calculated asset class by asset class and equates to an annualised average smoothed investment return of 3.8% (FY 2011: 4.7%) on the average balance of invested assets of £4.4bn (H1 2011: £3.8bn). The fall in the average investment return is predominantly due to a fall in the assumed returns on equities to 5.8% (H1 2011: 7.5%) and a higher proportion of Group capital and financing assets held in cash during H1.

After equity markets rose in the first quarter of the year we took the decision to reduce our equity exposure and protect some of the holdings against a fall in equity markets. We regularly, with the benefit of LGIM's expertise, reassess our portfolio allocations against our risk appetite.

Interest expense of £63m (H1 2011: £62m) reflects the average cost of debt of 4.8% per annum (H1 2011: 4.8%) on average debt balance of £2.6bn (H1 2011: £2.6bn).

GROUP TAX RATES – Benefiting from Lower Effective Rate

Equity holders' effective tax rate	H1 2012 %	FY 2011 %	H1 2011 %	FY 2010 %
UK	20.3	23.1	22.4	24.3
Overseas - blended	34.5	33.6	36.6	28.7
Total Effective Tax Rate	22.5	24.4	24.3	24.9
Annualised rate of UK corporation tax	24.5	26.5	26.5	28.0

In H1 2012, the Group's effective tax rate continues to be approximately 2% lower than the UK's standard rate of tax, continuing the trend that has extended for several reporting periods. The effective tax rate falls below the headline rate due to a number of standard differences between the measurement of accounting profit and taxable profit, such as non-taxable dividends. In addition, there are some current period adjustments such as previously unrecognised deferred tax assets which have been brought into account.

We expect the effective tax rate at H1 2012 of 22.5% to be similar for the full year.

CHANGES TO THE UK CORPORATION TAX REGIME FOR LIFE INSURERS

There have been fundamental changes to life assurance tax law which will come into effect on 1 January 2013. We do not anticipate any material impact on EEV or IFRS profit from these changes.

DEFERRED TAX ASSET UTILISATION

Deferred tax £m	H1 2012	FY 2011	H1 2011
Excess and deferred expenses (XSE)	212	209	274
Capital losses	156	147	31
Trading losses	118	159	209
Other	(8)	(22)	(37)
UK net deferred tax asset	478	493	477
Overseas net deferred tax liability¹	(359)	(327)	(300)

1. In 2012, the Group applied the new US accounting policy on the recognition of Deferred Acquisition Costs (DAC) which changed the rules on capitalising costs incurred in acquiring insurance business. Applying this retrospectively reduced the opening deferred tax liability on LGA DAC by £76m and the 2011 comparables have been restated accordingly. Details of the adjustment are outlined in note 2.08.

The utilisation of trading losses is partly reflected within the Annuities business where it has contributed £30m in H1 2012 (H1 2011: £33m) to net cash generation. It is expected that trading losses will continue to be available until 2014.

ASSET EXPOSURES AND INVESTMENT VARIANCE – Reflects Diversified Portfolio

Investment variances £m	H1 2012	H1 2011
Risk	5	15
Savings	4	4
Investment Management	(2)	(3)
International	13	4
Group capital and financing	(5)	(21)
Asset related investment variances	15	(1)

The Risk investment variance continues to reflect the well matched, diversified nature of the UK annuity portfolio. The Group has undertaken a number of actions since 2008 to reduce the exposure to bank debt and to increase the exposure to sovereign debt, details of which are provided on the following page.

Asset portfolio £bn	H1 2012		FY 2011	
	LGPL	Total	LGPL	Total
Bonds:	26.9	33.0	26.3	32.2
Sovereigns:				
UK and US	3.0	3.9	3.1	4.0
GIIPS ¹	0.2	0.3	0.2	0.3
Other countries	0.8	1.8	0.8	1.9
Banks:				
UK and US	1.9	2.5	2.2	2.8
GIIPS ¹	0.1	0.1	0.1	0.1
Other countries	0.6	1.1	0.6	0.9
Other bonds				
UK and US	13.7	16.2	13.1	15.6
GIIPS ¹	0.6	0.7	0.7	0.7
Other countries	6.0	6.4	5.5	5.9
Property	0.6	0.7	0.5	0.6
Equities	-	0.9	-	0.9
Derivatives	2.9	3.1	2.9	3.4
Cash and cash equivalents	0.3	2.4	0.3	2.3
Total Asset Portfolio	30.7	40.1	30.0	39.4

1. GIIPS represents Greece, Italy, Ireland, Portugal and Spain.

The Group has a minimal exposure to GIIPS sovereign debt at £313m (2011 FY: £317m) representing only 0.8% (2011 FY: 0.8%) of the total assets to which shareholders are directly exposed. The majority of the Group's sovereign debt is UK and US holdings representing nearly 65% of the sovereign debt portfolio.

The corporate bond portfolio within Legal & General Pensions Limited (LGPL), the Group's main UK annuity subsidiary, is a geographically diversified portfolio consisting of over 2,000 debt instruments from over 500 issuers. Non-sterling denominated holdings within LGPL are currency hedged to sterling to minimise any foreign exchange risk.

The portfolio is managed based on a forward looking assessment of economic and company specific risks, giving particular consideration to current banking and Eurozone risks, as discussed within the section on the Group's principal risks and uncertainties.

Bank debt now represents only 8.4% of LGPL assets (FY 2011: 9.6%), a significant reduction on the 20.8% held in 2008. Within our bank debt holdings only £78m represents GIIPS bank debt. Whilst bank debt exposures have been reducing, UK sovereign debt exposure has increased to 8.7% (FY 2011: 9.0%) of the portfolio from 2.0% in 2008.

The portfolio continues to diversify into high quality property and commercial lending assets with the aim of improving the risk adjusted yield on the portfolio. These assets now contribute 1.9% (FY 2011: 1.6%) of the total LGPL portfolio, whereas there were no holdings in 2008.

The LGPL credit default provision of £1.6bn (FY 2011: £1.6bn) is equivalent to 60bps (FY 2011: 61bps) of defaults over the life of the portfolio and remains in place to fund against the risk of credit defaults. We have had another six months of no defaults.

Since 2008 we have taken a number of steps to de-risk the Group capital and financing assets to provide more surety over the investment returns. This has resulted in the equity component of the Group capital and financing assets reducing from 30% in 2008 to 20% by H1 2012.

BUSINESS REVIEW – CASH GENERATION

PREDICTABILITY OF CASH GENERATION - Net Cash from Operating Divisions +5%

Sources of the Group's cash generation are transparent and we have used the format below to demonstrate the predictability of these cash flows since 2009. Operational cash generation from operating divisions (i.e. net of Group capital and financing), remains substantial at £459m (H1 2011: £448m) and net cash from business lines has increased by 5% to £395m (H1 2011: £377m). LGIM represents 24% of the total business net cash generation, further increasing diversification between insurance and asset management. Operational cash generation from the in-force UK Risk and Savings businesses is forecast to grow to c£590m in 2012. In addition we expect With-profits operational cash generation to be c£50m and dividends from our International businesses to be £55m, subject to exchange fluctuations.

£m	H1 2011			H1 2012			FY 2011	FY 2012
	Op cash	Strain	Net cash	Op cash	Strain	Net cash	Op cash	Op cash
Annuities	112	1	113	121	1	122	227	
Protection	109	(41)	68	107	(33)	74	232	
Insured Savings	53	(31)	22	53	(32)	21	101	
In-force cash generation	274	(71)	203	281	(64)	217	560	c.590
With-profits	26		26	26		26	51	c.50
Savings Investments and Other Savings	10		10	9		9	22	
GI and Other risk	12		12	7		7	23	
LGIM	91		91	97		97	189	
International dividends	35		35	39		39	51	c.55
GCF	29		29	12		12	44	
Total	477	(71)	406	471	(64)	407	940	
Variances and other			(46)			(16)		
International (excl. dividends)			7			1		
Tax gross up			126			126		
Operating profit			493			518		

The monetisation of the Group's VIF will form the basis of the future profits and operational cash generation of the UK long-term Risk and Savings businesses. There is no significant change in the ageing profile of the VIF monetisation profile compared to the 2011 year end, with around 33% of the VIF expected to monetise in the next 5 years.

Reconciliation of UK long term Risk and Savings VIF £bn	Discounted	Undiscounted ¹
Opening VIF at 1 January 2012	4.25	8.4
Contribution from new business	0.16	0.3
Unwind of discount rate	0.13	-
Expected release from non profit and with-profits businesses ²	(0.31)	(0.3)
Closing operational VIF at 30 June 2012	4.23	8.4
Experience variances / assumption changes ³	(0.03)	(0.1)
Investment variance / economic assumption changes ³	(0.06)	(0.2)
Other	0.04	0.1
Closing VIF at 30 June 2012	4.18	8.2

1. Management estimates. 2. Comprises the expected release from non profit business of £281m and with-profits transfer of £26m.
3. Explanation of the EEV results is provided in the Supplementary EEV Disclosure section.

CASH GENERATION TO SHAREHOLDER ASSETS

Total shareholder assets which include Group capital and financing assets and other shareholder assets increased by £0.1bn to £6.0bn (FY 2011: £5.9bn), demonstrating the strong link between our cash metric and shareholder assets in our balance sheet.

Shareholder Assets £m	
<i>Opening Group capital and financing assets (including shareholder assets in LGAS and LGPL)</i>	4,344
<i>Opening shareholder assets in other subsidiaries</i>	1,588
Opening shareholder assets at 31 December 2011	5,932
Group operational cash generation	471
New business strain	(64)
Net cash generation	407
External dividend payments in the year	(278)
Other	(23)
<i>Closing Group capital and financing assets (including shareholder assets in LGAS and LGPL)</i>	4,529
<i>Closing shareholder assets in other subsidiaries</i>	1,509
Closing shareholder assets at 30 June 2012	6,038

BUSINESS REVIEW – BALANCE SHEET

CAPITAL RESOURCES – Stable and Strong Balance Sheet

As at 30 June 2012 the Insurance Group's Directive (IGD) surplus was £3.8bn.

The Group's capital resources totalled £6.9bn, covering the capital resources requirement of £3.1bn by 2.24 times. This capital buffer is in addition to the £1.6bn of LGPL credit default provision.

Capital £bn	H1 2012	FY 2011
Group capital resources	6.9	6.9
Group capital resources requirement	3.1	3.1
IGD surplus¹	3.8	3.8
Coverage ratio %	224	220

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

IGD Surplus ¹ £m	
At 1 January 2012	3,769
Operational cash	471
New business strain	(64)
2012 Interim dividend	(116)
Experience variances, assumption changes and other variances	7
Group investment projects	(17)
Investment variance	17
Increase in UK operational regulatory capital requirement	(34)
Release of capital from US capital management programme	-
US temporary capital usage (internal Triple X financing)	(74)
Differences between IFRS and International regulatory reporting	(33)
Other ²	(117)
At 30 June 2012	3,809

1. All IGD amounts are estimated, unaudited and after accrual of the interim dividend of £116m (FY 2011: after accrual of the final dividend of £278m).

2. Includes £(30)m resulting from the utilisation of trading losses included in net cash.

CAPITAL REQUIREMENT

Solvency capital is analysed in two components:

1. **Changes to operational capital requirements.** This is the result of increases to required capital from new business written in the period less decreases in required capital from in-force business running off.
2. **Changes to technical capital requirements.** This is the result of the mechanical calculation of the capital required in the With-profits fund on the regulatory (Peak 1) and realistic (Peak 2) bases. The interaction between the two bases will give rise, under certain market conditions, to a technical capital requirement called the With-profits insurance capital requirement (WPICC).

Pillar 1 capital requirement £bn	H1 2012	FY 2011
Risk	1.7	1.7
Savings	0.1	0.1
With-profits – operational	0.6	0.6
Other subsidiaries	0.4	0.3
Operational group capital resources requirement	2.8	2.7
With-profits insurance capital component (WPICC)	0.3	0.4
Group capital resources requirement	3.1	3.1

GROUP LIQUIDITY – Prudent Approach

Legal & General has a limited appetite for liquidity risk and seeks to maintain at Group level sufficient liquid assets and standby facilities to meet a prudent estimate of the Group's cash outflows over a period of two years. The predicted cash flows are identified through the annual planning processes and take into account the provision of facilities to operational businesses to accommodate their liquidity requirements in extreme stressed scenarios e.g. pandemic and adverse weather events.

Our liquidity position is strong. Cash, including cash equivalents, within the Group's shareholder backed funds was £2.4bn at H1 2012. (H1 2011: £2.3bn).

In 2011 we renewed our £1bn revolving credit facility provided by a diversified syndicate of 21 of the Group's key relationship banks, with the maximum individual commitment ranging from £40m to £51m. We actively monitor the banks participating in the facility based on robust counterparty selection criteria and exposure limits. The facility will mature in 2016 with the option to extend through to 2018. No drawings have been made under this facility to date.

In addition the Group has had in place for over 20 years a Commercial Paper programme, providing the Group with access to short term funds from the domestic sterling and Euro capital markets as and when required.

The Group has no outstanding bonds with maturity or call dates before 2015. There are no restrictive covenants and no credit rating or share price triggers in respect of Group debt or liquidity positions.

SUPPLEMENTARY EEV DISCLOSURE

Analysis of EEV results - covered business £m	PVNBP		Margin (%)		Contribution	
	H1 2012	H1 2011	H1 2012	H1 2011	H1 2012	H1 2011
Risk	1,135	1,222	9.6	7.6	109	93
Savings	2,082	2,032	0.6	0.8	12	16
International	794	645	5.8	4.3	46	28
Total	4,011	3,899	4.2	3.5		
Contribution from new business					167	137
Expected return from in-force business					223	244
<i>UK Persistency</i>					(1)	2
<i>UK Mortality / morbidity</i>					(11)	(35)
<i>UK Expenses</i>					(28)	37
<i>Other UK experience</i>					45	114
<i>International experience</i>					(43)	(6)
Experience variances and assumption changes					(38)	112
Development costs					(9)	(7)
Contribution from shareholder net worth					72	95
Operating profit on covered business					415	581
Business reported on an IFRS basis					41	53
Operating profit					456	634

Analysis of EEV results – worldwide business £m	H1 2012	H1 2011
Risk	263	344
Investment Management	106	104
Savings	41	94
International	58	87
Group capital and financing	11	30
Investment projects	(23)	(25)
Operating profit	456	634
Variation from longer term investment return	(13)	(31)
Effect of economic assumption changes	(126)	(13)
Property gains/(losses) attributable to non-controlling interests	1	(1)
Profit from ordinary activities before tax	318	589
Tax and other	(2)	17
Profit from ordinary activities after tax	316	606
Earnings per share (p)	5.40	10.42
	H1 2012	FY 2011
Shareholders' equity	8,581	8,608
Number of shares (m)	5,906	5,872

OPERATING PROFIT

The reduction in EEV operating profit to £456m (H1 2011: £634m) reflects significant positive one-offs in the prior year. In 2011 experience and assumption changes were £112m with £(38)m in 2012. The negatives in 2012 include £(13)m from a small number of high value mortality claims in the US and £(24)m from one-off modelling changes. New business contribution increased to £167m (H1 2011: £137m) and there were reduced expected returns on the VIF and SNW from the lower opening risk free rate in the year of 2.5% (H1 2011: 4.0%).

NEW BUSINESS CONTRIBUTION

Contribution from new business increased by 22% to £167m (H1 2011: £137m) as a result of higher sales and better margins, which improved to 4.2% (H1 2011: 3.5%) benefitting from improved protection margins in both the UK and US.

NEW BUSINESS MARGINS

RISK

New business margin %	H1 2012	H1 2011
Protection	10.8	6.4
Annuities	8.5	8.4
Risk	9.6	7.6

For the FY 2011, we reported a significantly improved protection new business margin of 9.3%. Strong cost management and our largely automated underwriting model have enabled further progression of the new business margin to 10.8% (H1 2011 6.4%).

The Annuities new business margin remained in line with the previous year at 8.5% (H1 2011: 8.4%). Given positive strain on this business, Annuities had an immediate IFRS payback and an infinite IRR at both H1 2012 and H1 2011. The IRR on protection new business was greater than 15% (H1 2011: greater than 15%) with an improved payback period of 3 years (H1 2011: 4 years).

SAVINGS

New business margin %	H1 2012	H1 2011
Unit linked bonds	0.8	1.6
Non profit pensions	0.4	0.2
With-profits	1.2	1.8
Savings	0.6	0.8

The unit linked bond margin of 0.8% (H1 2011: 1.6%) reflects lower sales in on-shore bonds and a shift in fund mix to lower margin fund choices. This translates into an IRR of 8% (H1 2011: 13%) and a payback period of 8 years (H1 2011: 6 years).

The non profit pensions margin of 0.4% (H1 2011: 0.2%) reflects the delivery of higher sales and unit cost efficiencies. This equates to an IRR of 8% (H1 2011: 8%) and a payback period of 11 years (H1 2011: 12 years).

The With-profits margin has reduced to 1.2% (H1 2011: 1.8%), reflecting lower assumed investment returns compared to the previous year.

INTERNATIONAL

New business margin %	H1 2012	H1 2011
USA	10.9	9.8
Netherlands	0.9	-
France	1.0	0.8
International	5.8	4.3

The increase in International margin reflects the improvement in the USA and Netherlands margins in the period. In the USA the margin is in line with the 2011 full year margin of 10.7%, whilst the Netherlands margin has benefited from increased individual protection sales in the year.

EEV EXPERIENCE VARIANCES AND ASSUMPTION CHANGES

Overall experience and assumption changes are £(38)m compared to £112m in the previous year. The negatives in 2012 include £(13)m from a small number of high value mortality claims in the US and £(24)m from one-off modelling changes.

INVESTMENT MANAGEMENT

The Investment Management business is reported on an IFRS basis; operating profit of £106m (H1 2011: £104m) excludes £13m (H1 2011: £13m) of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a "look through" basis and as a consequence are included in the Risk and Savings covered businesses on an EEV basis.

GROUP CAPITAL AND FINANCING

The Group capital and financing operating profit primarily reflects the smoothed investment return on the shareholder net worth and shareholder assets held at Group level less interest charges on Group debt. The profit from Group capital and financing reduced to £11m in 2012 (H1 2011: £30m) due to a fall in the assumed returns on equities to 5.8% (H1 2011: 7.5%) and a higher proportion of Group capital and financing assets held in cash during H1.

INVESTMENT VARIANCES AND ECONOMIC ASSUMPTION CHANGES

The variation from the longer term investment return was small during the period at £(13)m (H1 2011: £(31)m). The Group continues to operate a well matched and diversified annuity portfolio. Differences arise between the EEV and IFRS investment variances for a number of reasons including EEV presenting the impact of economic assumption changes separately from investment variances and also due to the annuity portfolio being matched on an IFRS basis.

The effect of economic assumption changes of £(126)m (H1 2011: £(13)m) reflects the impact of the fall in interest rates on assumed returns, changes to the shape of the LIBOR swap curve and the increase in the EEV risk margin from 3.7% to 3.8%. This is only partially offset by the reduction in the risk discount rate from 6.2% to 6.1%.

EEV PER SHARE

The Group has delivered £316m (H1 2011: £606m) of EEV profit after tax, which after external dividend payments of £278m and foreign exchange, pension deficit and other adjustments of £(65)m, marginally reduced EEV shareholders' equity to £8,581m (FY 2011: £8,608m).

The number of shares increased to 5,906m (FY 2011: 5,872m) from the vesting of 3 year Save As You Earn (SAYE) options. These options were granted to our employees in 2009 at 36p.

This movement in equity coupled with the increase in the number of shares equates to a shareholder's equity per share of 145 pence (FY 2011: 147 pence).

ADDITIONAL VALUE OF LGIM

Within the calculation of Group embedded value, Investment Management profits on internally sourced business, are included in Group embedded value on a look through basis at £0.2bn (FY 2011: £0.2bn) equivalent to 4p per share (FY 2011: 4p per share).

The external assets element of the Investment Management business is included at the IFRS net asset value of £0.4bn (FY 2011: £0.4bn), equivalent to 7p per share (FY 2011: 6p per share).

Calculating the external assets element of LGIM on an embedded value basis, using assumptions detailed below, would increase the contribution of LGIM to Group embedded value from £0.6bn (11p per share) to £1.8bn (31p per share). This excludes any value for LGIM's new business franchise.

Estimated LGIM discounted cash flow valuation	H1 2012 (p per share)	H1 2012 £bn
Look through value of profits on covered business	4	0.2
Net asset value	7	0.4
Current value of LGIM in Group embedded value	11	0.6
LGIM VIF	20	1.2
Alternative discounted value of LGIM future cash flows	31	1.8

Including LGIM this scenario equates to an indicative valuation per share of 165 pence.

Indicative valuation including LGIM	H1 2012 (p per share)	H1 2012 £bn
EEV as reported	145	8.6
LGIM VIF	20	1.2
Total including LGIM	165	9.8

PRINCIPAL RISKS AND UNCERTAINTIES

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

REGULATORY AND LEGISLATION

PRINCIPAL UNCERTAINTY AND POTENTIAL IMPACT

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

Legislation and government fiscal policy can influence our product design, the retention of existing business and our required reserves for future liabilities. Regulation defines the overall framework for the design, marketing and distribution of our products and the prudential capital that we hold. The nature of long-term business can result in certain regulatory changes having a retrospective effect.

MITIGATION

We base our business strategy upon prevailing regulation and legislation, and known or anticipated change. To mitigate the risk that changes in legislation or regulation may have adverse or unintended impacts, we seek to engage with regulatory and legislative authorities to assist in the evaluation of change, and develop outcomes that meet the needs of all stakeholders. Current areas of uncertainty include: the regulatory implementation of Solvency II; the timetable and form of changes arising from International Financial Reporting Standards (IFRS) 4 Phase 2; and the transition of the FSA into the Prudential Regulatory Authority and Financial Conduct Authority. We also continue to work with our business partners in their transition to the Retail Distribution Review regime.

FINANCIAL MARKET AND ECONOMIC CONDITIONS

Investment market performance or broader economic conditions may adversely impact our earnings and profitability.

The performance and liquidity of investment markets, interest rate movements and inflation can impact the value of investment assets we hold to meet the obligations arising from insurance business as well as the value of the obligations themselves, resulting in mismatches in the profile of cash flows of our assets and liabilities. Significant falls in investment values can also impact the fee income of our Investment Management business. Broader economic conditions can impact the timing of the purchase and retention of retail financial services products

The outlook for the UK economy continues to remain uncertain. Economic growth has been subdued with no sign of a sustained recovery. As well as impacting domestic economic conditions, ongoing concerns for the stability of the Eurozone continue to drive volatility in investment markets. Until Eurozone governments are able to find a definitive solution to Euro stability issues, it is likely these conditions will continue, with the potential for shock events, such as bank defaults or countries exiting the Euro. We continue to actively monitor the impact of the Eurozone crisis on our businesses and the adequacy of our contingency plans. More broadly, our business plans have been structured to take account of alternative projected economic conditions with focus on markets that will be resilient in the projected conditions.

INDUSTRY CHANGE

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

The financial services sector continues to go through a period of change. This presents a range of challenges as well as opportunities to providers of sufficient scale such as Legal & General.

Significant changes in the markets in which we operate may require the review and realignment of elements of our business strategy. A failure to be sufficiently responsive to potential change and understand the implication to our businesses, or the incorrect execution of change may impact the achievement of our strategic objectives. We seek to ensure we have market leading expertise in the core fields in which we operate, and actively focus on retaining the best personnel with the knowledge to design and support our products, and to manage their evolution as market and consumer requirements change.

COUNTERPARTY AND THIRD PARTY RISKS

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

As part of our strategies to match long-term assets and liabilities, exposures arise to the issuers of corporate debt and other financial instruments. We also have exposures to banking, money market and reinsurance counterparties, and the providers of settlement, custody and IT services.

We actively manage our exposure to default risk, setting robust counterparty selection criteria and exposure limits. However, market reaction to a significant default event could result in the short term reduction in the market value of corporate bond assets held in respect of our Annuities business and in extreme circumstances may require an increase in default provisions for potential or actual defaults. A failure by a key service provider may result in short term operational disruption of our business processes.

UK FINANCIAL SERVICES SECTOR CONTAGION RISKS

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

Investment market performance, actions by regulators against organisations operating in the financial services sector and shock events can impact the confidence of customers in the sector as a whole. Such events may also result in changes to the regulatory and legislative environment in which we operate.

We manage our brand and reputation and seek to differentiate our business model from that of our competitors, focusing on our customers' needs through a diversified portfolio of Risk, Savings and Investment Management businesses. In addition, we continue to focus on developing our International businesses. Where events lead to proposals to change the environments in which we operate, we seek to engage with regulators and legislators at a UK and European level to assist in the evaluation of change and influence the development of outcomes that meet the needs of all stakeholders.

MORTALITY, CATASTROPHE AND OTHER ASSUMPTION UNCERTAINTIES

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

The writing of long-term insurance business necessarily requires the setting of assumptions for long-term trends in factors such as mortality, persistency, valuation interest rates, expenses and credit defaults. Extreme events may require recalibration of these assumptions. Changes in reserves can also be necessary as a result of changes in regulation or legislation.

Our product pricing assumptions for Annuities, protection and other insurance business reflect our assessment of the risks to which we consider we are exposed. We undertake significant analysis of longevity and mortality risks to ensure that an appropriate premium is charged for the risks we accept, and that our reserves remain appropriate. We also seek continually to improve our understanding and processes for evaluating the risks from writing insurance business. We continue to highlight to legislators the benefits to consumers of insurers being able to price insurance products on the risks implicit in that business.

BUSINESS PROCESS RISKS

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

Our business processes can be complex, with significant reliance placed upon IT systems and processes to support the administration of our products, the modelling of liabilities and capital requirements, and the reporting of our financial performance.

We have constructed our framework of internal controls to minimise the risk of unanticipated loss or damage to our reputation, with continual review as part of our operational risk management processes. Our internal audit function also provides independent assurance on the adequacy and effectiveness of our controls. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage.

ENQUIRIES**INVESTORS:**

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

MEDIA:

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

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

A presentation to analysts and fund managers will take place at 09.30 BST today at One Coleman Street, London, EC2R 5AA. There will be a live webcast of the presentation which can be accessed at

<http://investor.legalandgeneral.com/results.cfm>. A replay will be available on this website later today.

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

Country You Are Dialling In From	Number You Should Dial
United Kingdom	020 3059 8125
All other locations	+44 20 3059 8125
Conference Entry via QR Code	 <p>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.</p>

A replay will be available on this website later today.

United Kingdom	0121 2604 861
All other locations	+ 44 121 2604 861

PARTICIPANT PIN: 2495500 FOLLOWED BY #

Financial Calendar 2012	Date
Ex dividend date	29 August 2012
Record date	31 August 2012
Payment date of 2012 interim dividend	1 October 2012
Q3 Interim Management Statement 2012	1 November 2012
Preliminary Results 2012	6 March 2013

FORWARD LOOKING STATEMENTS

This document may contain certain forward-looking statements relating to Legal & General Group, 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 Group'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 document or any other forward-looking statement it may make.

GOING CONCERN STATEMENT

The Group's business activities, together with the factors likely to affect its future development, performance and position in the current economic climate are set out in this Interim Management Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Results. Principal risks are detailed on page 24. 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.

The 2012 economic climate remains uncertain. However, based on the available information on the future, the directors consider that the Group has the plans and resources to manage its business risks successfully as it has a diverse range of businesses and remains financially strong.

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

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge that:

- i. The condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union;
- ii. The interim management report includes a fair review of the information required by DTR 4.2.7, namely an indication of important events that have occurred during the first six months of the financial period and their impact on the condensed set of financial statements, as well as a description of the principal risks and uncertainties faced by the company and the undertakings included in the consolidation taken as a whole for the remaining six months of the financial year;
- iii. The interim management report includes, as required by DTR 4.2.8, a fair review of material related party transactions that have taken place in the first six months of the financial period and any material changes in the related party transactions described in the last Annual Report;
- iv. The European Embedded Value basis consolidated income statement, the consolidated statement of comprehensive income and the consolidated balance sheet and associated notes have been prepared on the European Embedded Value basis as set out in Note 5.21; and
- v. The directors of Legal & General Group Plc are listed in the Legal & General Group Plc Annual Report for 31 December 2011, except Tim Breedon who ceased to be an executive director of the company on 30 June 2012. A list of current directors is maintained on the Legal & General Group Plc website: legalandgeneralgroup.com.

By order of the Board
N. D. Wilson
Group Chief Executive

J.B Pollock
Chief Executive Officer (Risk)

6 August 2012

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International Financial Reporting Standards

Supplementary operating profit information

For the six months ended 30 June 2012

	Notes	30.06.12 £m	30.06.11 ¹ £m	Full year 31.12.11 ¹ £m
From continuing operations				
Risk	2.01(a)	272	236	561
Savings	2.02(a)	73	68	128
Investment management	2.03	119	117	234
International	2.04	64	64	134
Group capital and financing ²	2.05	13	33	52
Investment projects ³		(23)	(25)	(56)
Operating profit		518	493	1,053
Asset related investment variances		15	(1)	(2)
Other investment variances		(9)	(20)	(95)
Variation from longer term investment return	2.06	6	(21)	(97)
Property gains/(losses) attributable to non-controlling interests		1	(1)	(3)
Profit before income tax attributable to equity holders of the Company		525	471	953
Tax expense attributable to equity holders of the Company	2.07	(118)	(115)	(232)
Profit for the period		407	356	721
Attributable to:				
Non-controlling interests		1	(1)	(3)
Equity holders of the Company		406	357	724
		p	p ¹	p ¹
Earnings per share	2.11			
Based on operating profit from continuing operations after tax attributable to equity holders of the Company		6.72	6.30	13.47
Based on profit attributable to equity holders of the Company		6.96	6.13	12.42
Diluted earnings per share	2.11			
Based on operating profit from continuing operations after tax attributable to equity holders of the Company		6.61	6.19	13.25
Based on profit attributable to equity holders of the Company		6.85	6.03	12.22

1. Supplementary operating profit has been adjusted to reflect the retrospective adoption of ASU 2010-26, issued by the FASB, which specifies the accounting for deferred acquisition costs under US GAAP. Details of this adjustment are outlined in Note 2.08. The impact is to reduce International operating profit by £2m at H1 11 and £3m at FY 11.

2. As announced in our FY 11 results, the rate used to calculate the smoothed investment return on cash and LIBOR benchmarked bonds has reduced. H1 11 has been amended to reflect this change, as outlined in Note 2.05.

3. Investment projects predominantly relates to Solvency II and other strategic investments.

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

Operating profit for the Risk segment represents the profit from the annuities business (individual and bulk purchase annuities and longevity insurance) and the profit from the housing and protection businesses (general insurance, and individual and group protection business). Operating profit reflects the investment returns that the business expects to make on the financial investments that back this business and on shareholder funds retained within our general insurance business.

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

Operating profit for the Investment management segment includes a longer term expected investment return on the shareholders' funds within the segment. For the International segment, LGN operating profit reflects a longer term expected return on shareholders' funds and index linked policies.

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

International Financial Reporting Standards

Supplementary operating profit information

2.01 Risk

(a) Risk operating profit

	Notes	30.06.12 £m	30.06.11 £m	Full year 31.12.11 £m
Annuities		139	145	287
Protection ¹		124	75	242
General insurance ²	2.01(f)	8	17	42
Other		1	(1)	(10)
Total Housing and Protection		133	91	274
Total Risk operating profit	2.01(b)	272	236	561

1. The protection prior year result was impacted by adverse mortality experience in group protection (H1 11: £27m; FY 11: £35m). This continues to trend back to normal levels with the current period impact being adverse £11m (see Note 2.01(c)).

2. The general insurance half-year result has been impacted by higher weather related claims.

(b) Analysis of Risk operating profit

	Notes	Annui- ties 30.06.12 £m	Housing and Protec- tion 30.06.12 £m	Total 30.06.12 £m	Annui- ties 30.06.11 £m	Housing and Protec- tion 30.06.11 £m	Total 30.06.11 £m
Risk business segment operating profit comprises:							
Operational cash generation		121	114	235	112	121	233
New business strain		1	(33)	(32)	1	(41)	(40)
Net cash generation		122	81	203	113	80	193
Experience variances	2.01(c)			6			(7)
Changes to valuation assumptions	2.01(d)			18			30
Movements in non-cash items	2.01(e)			(22)			(43)
Other				-			-
				205			173
Tax gross up				67			63
Total Risk operating profit				272			236

	Notes	Annui- ties Full year 31.12.11 £m	Housing and Protec- tion Full year 31.12.11 £m	Total Full year 31.12.11 £m
Risk business segment operating profit comprises:				
Operational cash generation		227	255	482
New business strain		35	(66)	(31)
Net cash generation		262	189	451
Experience variances	2.01(c)			22
Changes to valuation assumptions	2.01(d)			24
Movements in non-cash items	2.01(e)			(86)
Other				-
				411
Tax gross up				150
Total Risk operating profit				561

International Financial Reporting Standards

Supplementary operating profit information

2.01 Risk (continued)

(b) Analysis of Risk operating profit (continued)

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

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

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

(c) Experience variances

	30.06.12	30.06.11	Full year 31.12.11
	£m	£m	£m
Persistency	(1)	(3)	(4)
Mortality/morbidity ¹	(10)	(32)	(32)
Expenses	-	-	(2)
Bulk purchase annuity data loading	16	19	42
Project and development costs	(3)	(5)	(7)
Tax ²	(6)	16	33
Other	10	(2)	(8)
	6	(7)	22

1. Mortality/morbidity primarily relates to adverse experience in group protection. This continues to trend back to assumptions with the current period impact being £11m (H1 11: £27m; FY 11 £35m).

2. Due to lower forecast investment yields, less taxable income was available to relieve protection expenses causing further excess expenses to be carried forward. In 2011, the higher level of taxable income produced a net reduction in excess expenses. This is fully offset within the movement in non-cash items.

(d) Changes to valuation assumptions

	30.06.12	30.06.11	Full year 31.12.11
	£m	£m	£m
Persistency	-	-	(1)
Mortality/morbidity	-	-	(1)
Expenses ¹	-	18	28
Other ²	18	12	(2)
	18	30	24

1. The prior year positive expense assumption reflects the lower unit costs in individual protection.

2. Other assumption changes in H1 12 relate to a decrease of £8m to the reinsurer default reserve due to an improvement in reinsurer credit ratings. There was also an additional benefit due to continued enhancement to data quality.

(e) Movements in non-cash items

	30.06.12	30.06.11	Full year 31.12.11
	£m	£m	£m
Deferred tax ¹	(21)	(38)	(77)
Other	(1)	(5)	(9)
	(22)	(43)	(86)

1. This amount includes £(30)m (H1 11: £(33)m; FY 11: £(80)m) for the utilisation of trading losses within net cash generation. The offsetting items comprise movements in deferred tax from creation of excess expenses carried forward as explained in experience variances (see note 2.01 (c)).

International Financial Reporting Standards

Supplementary operating profit information

2.01 Risk (continued)

(f) General insurance operating profit

	Net cash generation 30.06.12 £m	Tax 30.06.12 £m	Operating profit 30.06.12 £m	Net cash generation 30.06.11 £m	Tax 30.06.11 £m	Operating profit 30.06.11 £m
Household ¹	5	2	7	9	4	13
Other business	1	-	1	3	1	4
	6	2	8	12	5	17

1. The half-year household general insurance result reflects higher weather related claims.

	Net cash generation Full year 31.12.11 £m	Tax Full year 31.12.11 £m	Operating profit Full year 31.12.11 £m
Household	27	10	37
Other business	4	1	5
	31	11	42

(g) General insurance underwriting result

	30.06.12 £m	30.06.11 £m	Full year 31.12.11 £m
Household	-	6	23
Other business	1	3	4
	1	9	27

(h) General insurance combined operating ratio¹

	30.06.12 %	30.06.11 %	Full year 31.12.11 %
Household	100	95	91
Other business	95	72	78
	99	93	90

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

International Financial Reporting Standards

Supplementary operating profit information

2.02 Savings

(a) Savings operating profit

	Note	30.06.12 £m	30.06.11 £m	Full year 31.12.11 £m
Savings investments ¹		9	13	23
Insured savings ²		29	20	36
With-profits ³		35	35	69
Total Savings operating profit	2.02(b)	73	68	128

1. Savings investments operating profit includes retail and institutional unit trusts and Suffolk Life.

2. Insured savings includes non profit investment bonds and pensions (including SIPPs), Nationwide Life Savings business and International (Ireland).

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

(b) Analysis of Savings operating profit

	Notes	Insured savings 30.06.12 £m	With- profits 30.06.12 £m	Savings invest- ments 30.06.12 £m	Total 30.06.12 £m
Savings business segment operating profit comprises:					
Operational cash generation		53	26	9	88
New business strain		(32)	-	-	(32)
Net cash generation		21	26	9	56
Insured savings					
Experience variances	2.02(c)				(15)
Changes to valuation assumptions	2.02(d)				2
Movements in non-cash items	2.02(e)				16
Other					(1)
Savings investments					
Movements in non-cash items and other					(3)
					55
Tax gross up					18
Total Savings operating profit					73

International Financial Reporting Standards

Supplementary operating profit information

2.02 Savings (continued)

(b) Analysis of Savings operating profit (continued)

	Notes	Insured savings 30.06.11 £m	With- profits 30.06.11 £m	Savings invest- ments 30.06.11 £m	Total 30.06.11 £m
Savings business segment operating profit comprises:					
Operational cash generation		51	26	12	89
New business strain		(31)	-	-	(31)
Net cash generation		20	26	12	58
Insured savings					
Experience variances	2.02(c)				(3)
Changes to valuation assumptions	2.02(d)				3
Movements in non-cash items	2.02(e)				(8)
Other					4
Savings investments					
Movements in non-cash items and other					(4)
					50
Tax gross up					18
Total Savings operating profit					68

	Notes	Insured savings Full year 31.12.11 £m	With- profits Full year 31.12.11 £m	Savings invest- ments Full year 31.12.11 £m	Total Full year 31.12.11 £m
Savings business segment operating profit comprises:					
Operational cash generation		101	51	22	174
New business strain		(63)	-	-	(63)
Net cash generation		38	51	22	111
Insured savings					
Experience variances	2.02(c)				(12)
Changes to valuation assumptions	2.02(d)				(5)
Movements in non-cash items	2.02(e)				6
Other					-
Savings investments					
Movements in non-cash items and other					(6)
					94
Tax gross up					34
Total Savings operating profit					128

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

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

International Financial Reporting Standards

Supplementary operating profit information

2.02 Savings (continued)

(c) Experience variances

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

	30.06.12 £m	30.06.11 £m	Full year 31.12.11 £m
Persistency	-	-	(1)
Mortality/morbidity	-	-	2
Expenses	(1)	1	1
Project and development costs ¹	(10)	(4)	(12)
Tax	1	(1)	(4)
Other	(5)	1	2
	(15)	(3)	(12)

1. The H1 12 project and development costs related to auto-enrolment £3m (H1 11: £2m; FY 11: £7m), expenditure on distribution channel enhancements £4m (H1 11: £nil; FY 11: £2m) and other costs of £3m (H1 11: £2m; FY 11: £3m).

(d) Changes to valuation assumptions

	30.06.12 £m	30.06.11 £m	Full year 31.12.11 £m
Persistency	-	-	(2)
Mortality/morbidity	-	-	1
Expenses	-	1	(2)
Other	2	2	(2)
	2	3	(5)

(e) Movements in non-cash items

	Notes	30.06.12 £m	30.06.11 £m	Full year 31.12.11 £m
Deferred tax		6	(9)	(6)
Deferred acquisition costs (DAC) ¹	2.02(f)	(5)	(25)	(20)
Deferred income liabilities (DIL) ¹		7	28	27
Other		8	(2)	5
		16	(8)	6

1. Fluctuations to the DAC and DIL movement are caused by changes to economic assumptions and the associated impact on the trail commission asset within the DAC balance and the trail commission liability in the DIL balance.

International Financial Reporting Standards

Supplementary operating profit information

2.02 Savings (continued)

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

	30.06.12	30.06.11	Full year 31.12.11
	£m	£m	£m
As at 1 January	592	612	612
Amortisation through income ¹	(36)	(50)	(74)
Acquisition costs deferred	31	25	54
As at 30 June / 31 December	587	587	592

1. Variations to the level of amortisation of the DAC are caused by changes to economic assumptions and the associated impact on the trail commission asset. This is offset by a similar movement in the DIL liability.

The Group's balance sheet deferred acquisition costs of £1.9bn (H1 11: £1.8bn; FY11: £1.8bn) is presented gross of associated deferred tax. The main contributors to the balance are LGA £0.8bn (H1 11: £0.8bn; FY 11: £0.7bn), non profit savings of £0.7bn (H1 11: £0.7bn; FY 11: £0.7bn), retail investments £0.1bn (H1 11: £0.1bn; FY 11: £0.1bn), savings with-profit £0.1bn (H1 11: £0.1bn; FY 11: £0.1bn) and other business totalling £0.2bn (H1 11: £0.1bn; FY 11: £0.2bn).

Expected amortisation profile:

	30.06.12	30.06.11	Full year 31.12.11
	£m	£m	£m
Expected to be amortised within one year	68	66	65
Expected to be amortised between one year and five years	286	273	271
Expected to be amortised in over five years	233	248	256
	587	587	592

2.03 Investment management

	30.06.12	30.06.11	Full year 31.12.11
	£m	£m	£m
Pension funds (managed and segregated)	89	87	172
Other non-pension ¹	11	12	25
Investment management services for internal funds	19	18	37
Total investment management operating profit	119	117	234

1. Other non-pension includes institutional segregated mandates, private equity and property (both in the UK and overseas). Interest income on shareholder funds of £3m (H1 11: £5m; FY 11: £9m) on an average asset balance of £0.4bn (H1 11: £0.4bn; FY 11: £0.4bn) has been included within other non-pension operating profit.

International Financial Reporting Standards

Supplementary operating profit information

2.04 International

	30.06.12	30.06.11	Full year
	£m	Restated ¹	31.12.11
		£m	Restated ¹
			£m
USA (LGA)	51	48	101
Netherlands (LGN)	9	6	21
France (LGF)	8	12	20
Total Europe operating profit	17	18	41
Other ²	(4)	(2)	(8)
Total International operating profit³	64	64	134

1. LGA operating profit has been restated to reflect the retrospective adoption of ASU 2010-26, issued by the FASB, which specifies the accounting for deferred acquisition costs under US GAAP. Details of this restatement are outlined in Note 2.08.

2. Other includes our joint venture operations in Egypt, the Gulf, India and divisional overhead costs of £3m (H1 11: £2m; FY 11: £5m).

3. In the period, the International division paid £39m (H1 11: £35m; FY 11: £51m) of sustainable dividends to the Group, which has been included in net cash generation.

Exchange rates are provided in Note 2.18.

2.05 Group capital and financing

	30.06.12	30.06.11	Full year
	£m	£m	31.12.11
			£m
Investment return ¹	84	102	191
Interest expense ²	(63)	(62)	(123)
Investment expenses	(3)	(2)	(5)
Unallocated corporate expenses	(5)	(5)	(11)
Total Group capital and financing operating profit	13	33	52

1. Operating profit and operational cash generation for the group capital and financing segment includes lower assumed returns on cash and LIBOR benchmarked bonds as reported in the FY 11 results. This has been applied to the H1 11 operating profit and cash generation comparatives as if these changes had been in effect since 1 January 2011. The impact was to reduce H1 11 operating profit by £28m and operational cash generation by £21m. There is no impact on IFRS profit before tax from these changes.

2. Interest expense excludes interest on non recourse financing (see Note 2.16).

International Financial Reporting Standards

Supplementary operating profit information

2.06 Variation from longer term investment return

	30.06.12 £m	30.06.11 £m	Full year 31.12.11 £m
Risk ¹	5	15	172
Savings	4	4	13
Investment management	(2)	(3)	(7)
International ²	13	4	(21)
GCF asset related ³	(5)	(21)	(159)
Asset related investment variances	15	(1)	(2)
Savings other investment variance	(10)	(6)	(47)
Treasury related	(9)	(17)	(68)
Defined benefit pension scheme ⁴	10	3	20
Other investment variances	(9)	(20)	(95)
Total variation from longer term investment return	6	(21)	(97)

1. The risk investment variance continues to reflect our asset management expertise which focuses on enhancing the risk adjusted yield on the annuity portfolio. There were no defaults during the period and the assets and liabilities continue to be well matched.

2. The current year international investment variance of £13m principally arose in LGN, and partially reverses the £(21)m adverse variance in 2011, which was caused by temporary timing differences in the valuation of the assets against the liabilities on the index linked margin business and fluctuations in the value of assets backing shareholder funds. The variance is broadly neutral over the longer term.

3. The H1 11 comparative for GCF investment variance has been amended to reflect the reduction in the smoothed return for cash and LIBOR benchmarked bonds.

4. The defined benefit pension scheme investment variance includes the actuarial gains and losses and valuation difference arising on annuity assets held by the defined benefit pension schemes that have been purchased from Legal & General Assurance Society Limited.

2.07 Analysis of tax attributable to equity holders

	Profit/ (loss) before tax	Tax (exp- ense)/ credit	Profit/ (loss) before tax	Tax (exp- ense)/ credit	Profit/ (loss) before tax	Tax (exp- ense)/ credit
	30.06.12	30.06.12	30.06.11 Restated ¹	30.06.11 Restated ¹	Full year 31.12.11 Restated ¹	Full year 31.12.11 Restated ¹
	£m	£m	£m	£m	£m	£m
Risk	272	(67)	236	(63)	561	(150)
Savings	73	(18)	68	(18)	128	(34)
Investment management	119	(22)	117	(26)	234	(45)
International	64	(24)	64	(22)	134	(46)
Group capital and financing	13	(1)	33	(4)	52	(8)
Investment projects	(23)	6	(25)	7	(56)	15
Operating profit/Tax expense	518	(126)	493	(126)	1,053	(268)
Variation from longer term investment return	6	11	(21)	15	(97)	42
Impact of change in UK tax rates	-	(3)	-	(4)	-	(6)
Property gains/(losses) attributable to non-controlling interests	1	-	(1)	-	(3)	-
Profit for the period/Tax expense for the period	525	(118)	471	(115)	953	(232)

1. Operating profit/tax expense has been restated to reflect the retrospective adoption of ASU 2010-26, issued by the FASB, which specifies the accounting for deferred acquisition costs under US GAAP. Details of this restatement are outlined in Note 2.08. As announced in our FY 11 results, the rate used to calculate the smoothed investment return on cash and LIBOR benchmarked bonds has reduced. H1 11 has been amended to reflect this change, as outlined in Note 2.05.

The equity holders' effective tax rate for the period is 22.5% (H1 11: 24.4%; FY 11: 24.3%). This is mainly due to a number of standard differences between the measurement of accounting profit and taxable profit, such as non-taxable dividends. In addition, there are some current period issues such as previously unrecognised deferred tax assets which have been brought into account.

International Financial Reporting Standards

Consolidated Income Statement

For the six months ended 30 June 2012

	Notes	30.06.12 £m	30.06.11 Restated £m	Full year 31.12.11 Restated £m
Revenue				
Gross written premiums	2.10	2,321	2,382	5,719
Outward reinsurance premiums		(352)	(291)	(620)
Net change in provision for unearned premiums		(16)	(13)	(18)
Net premiums earned		1,953	2,078	5,081
Fees from fund management and investment contracts		433	463	897
Investment return		9,468	7,738	12,143
Operational income		135	88	196
Total revenue		11,989	10,367	18,317
Expenses				
Claims and change in insurance liabilities		3,310	2,607	7,173
Reinsurance recoveries		(482)	(275)	(493)
Net claims and change in insurance liabilities		2,828	2,332	6,680
Change in provisions for investment contract liabilities		7,597	6,729	9,306
Acquisition costs		405	395	783
Finance costs		75	77	165
Other expenses		507	462	1,010
Transfers from unallocated divisible surplus		(23)	(137)	(402)
Total expenses		11,389	9,858	17,542
Profit before tax		600	509	775
Tax (expense)/income attributable to policyholder returns		(75)	(38)	178
Profit before tax attributable to equity holders of the Company		525	471	953
Total tax expense		(193)	(153)	(54)
Tax expense/(income) attributable to policyholder returns		75	38	(178)
Tax expense attributable to equity holders	2.07	(118)	(115)	(232)
Profit for the period		407	356	721
Attributable to:				
Non-controlling interests		1	(1)	(3)
Equity holders of the Company		406	357	724
Dividend distributions to equity holders of the Company during the period	2.14	278	201	298
Dividend distributions to equity holders of the Company proposed after the period end	2.14	116	97	279
		p	Restated p	Restated p
Earnings per share				
Based on profit attributable to equity holders of the Company	2.11	6.96	6.13	12.42
Diluted earnings per share				
Based on profit attributable to equity holders of the Company	2.11	6.85	6.03	12.22

This financial information was approved by the Board on 6 August 2012.

The results for the six months to 30 June 2012 and 30 June 2011 are unaudited, but have been subject to a review by the Group's independent auditors and constitute non-statutory accounts within the meaning of Section 434 of the Companies Act 2006. They have been prepared on a basis which is consistent with the consolidated Group financial statements approved on 13 March 2012 which have been filed with the Registrar of Companies, except in relation to US deferred acquisition costs, as outlined in Note 2.08. The published full year 2011 consolidated Group financial statements prepared under IFRS included an independent auditors' report which was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under Chapter 3 of Part 16 of the Companies Act 2006.

International Financial Reporting Standards

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	30.06.12	30.06.11	Full year
	£m	Restated £m	31.12.11 Restated £m
Profit for the period	407	356	721
Other comprehensive income after tax			
Exchange differences on translation of overseas operations	(9)	(3)	-
Actuarial (losses) on defined benefit pension schemes	(71)	(3)	(121)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	29	1	48
Net change in financial investments designated as available-for-sale	15	14	15
Total comprehensive income for the period	371	365	663
Total comprehensive income/(expense) attributable to:			
Non-controlling interests	1	(1)	(3)
Equity holders of the Company	370	366	666

International Financial Reporting Standards

Consolidated Balance Sheet

As at 30 June 2012

	Notes	30.06.12 £m	30.06.11 Restated £m	31.12.11 Restated £m	31.12.10 Restated £m
Assets					
Purchased interest in long term businesses and other intangible assets		150	145	148	157
Deferred acquisition costs		1,864	1,771	1,833	1,775
Investment in associates		60	57	60	57
Plant and equipment		77	66	78	64
Investment property		5,087	4,758	4,894	4,571
Financial investments	2.13	303,272	302,303	300,604	299,570
Reinsurers' share of contract liabilities		2,474	2,359	2,289	2,336
Deferred tax asset		478	477	493	495
Current tax recoverable		80	-	94	-
Other assets		2,565	2,655	1,893	1,587
Cash and cash equivalents		16,757	12,358	14,113	13,036
Total assets		332,864	326,949	326,499	323,648
Equity					
Share capital		148	147	147	147
Share premium		953	940	941	938
Employee scheme treasury shares		(44)	(45)	(48)	(41)
Capital redemption and other reserves		130	103	117	91
Retained earnings		3,970	3,703	3,899	3,546
Shareholders' equity		5,157	4,848	5,056	4,681
Non-controlling interests		67	49	66	47
Total equity		5,224	4,897	5,122	4,728
Liabilities					
Subordinated borrowings	2.16	1,886	1,915	1,921	1,897
Participating insurance contracts		8,506	9,131	8,750	9,383
Participating investment contracts		7,229	7,471	7,276	7,323
Unallocated divisible surplus		966	1,330	1,038	1,469
Value of in-force non-participating contracts		(206)	(345)	(242)	(377)
Participating contract liabilities		16,495	17,587	16,822	17,798
Non-participating insurance contracts		34,786	31,897	34,006	31,325
Non-participating investment contracts		254,768	255,721	251,345	253,426
Non-participating contract liabilities		289,554	287,618	285,351	284,751
Senior borrowings	2.16	1,376	1,324	1,329	1,435
Provisions		968	737	891	761
Deferred tax liabilities		359	300	327	277
Current tax liabilities		1	78	1	111
Payables and other financial liabilities		8,335	6,126	7,643	5,473
Other liabilities		857	830	933	954
Net asset value attributable to unit holders		7,809	5,537	6,159	5,463
Total liabilities		327,640	322,052	321,377	318,920
Total equity and liabilities		332,864	326,949	326,499	323,648

International Financial Reporting Standards

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012	Share capital £m	Share premium £m	Employee scheme treasury shares £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
As at 1 January 2012	147	941	(48)	117	3,899	5,056	66	5,122
Total comprehensive income for the period	-	-	-	6	364	370	1	371
Options exercised under share option schemes:	1	12	-	-	-	13	-	13
Net movement in employee scheme treasury shares	-	-	4	(3)	(5)	(4)	-	(4)
Dividends	-	-	-	-	(278)	(278)	-	(278)
Currency translation differences	-	-	-	10	(10)	-	-	-
As at 30 June 2012	148	953	(44)	130	3,970	5,157	67	5,224
For the six months ended 30 June 2011 (Restated)								
As at 1 January 2011	147	938	(41)	91	3,546	4,681	47	4,728
Total comprehensive income/(expense) for the period	-	-	-	11	355	366	(1)	365
Options exercised under share option schemes	-	2	-	-	-	2	-	2
Net movement in employee scheme treasury shares	-	-	(4)	2	2	-	-	-
Dividends	-	-	-	-	(201)	(201)	-	(201)
Movement in third party interests	-	-	-	-	-	-	3	3
Currency translation differences	-	-	-	(1)	1	-	-	-
As at 30 June 2011	147	940	(45)	103	3,703	4,848	49	4,897
For the year ended 31 December 2011 (Restated)								
As at 1 January 2011	147	938	(41)	91	3,546	4,681	47	4,728
Total comprehensive income/(expense) for the year	-	-	-	15	651	666	(3)	663
Options exercised under share option schemes	-	3	-	-	-	3	-	3
Net movement in employee scheme treasury shares	-	-	(7)	8	3	4	-	4
Dividends	-	-	-	-	(298)	(298)	-	(298)
Movement in third party interests	-	-	-	-	-	-	22	22
Currency translation differences	-	-	-	3	(3)	-	-	-
As at 31 December 2011	147	941	(48)	117	3,899	5,056	66	5,122

International Financial Reporting Standards

Consolidated Cash Flow Statement

For the six months ended 30 June 2012

	30.06.12	30.06.11 Restated	Full year 31.12.11 Restated
	£m	£m	£m
Cash flows from operating activities			
Profit for the period	407	356	721
Adjustments for non cash movements in net profit for the period			
Realised and unrealised gains on financial investments and investment properties	(3,904)	(3,023)	(3,014)
Investment income	(5,135)	(4,604)	(8,971)
Interest expense	75	77	165
Tax expense	193	153	54
Other adjustments	30	31	68
Net (increase)/decrease in operational assets			
Investments held for trading or designated as fair value through profit or loss	(882)	(2,004)	3,736
Investments designated as available-for-sale	(28)	45	(29)
Other assets	108	(679)	(1,678)
Net increase in operational liabilities			
Insurance contracts	623	245	2,075
Transfer from unallocated divisible surplus	(71)	(139)	(431)
Investment contracts	3,450	4,269	(2,068)
Value of in-force non-participating contracts	36	32	135
Other liabilities	3,127	672	2,243
Cash used in operations	(1,971)	(4,569)	(6,994)
Interest paid	(74)	(77)	(164)
Interest received	2,529	2,498	5,021
Tax paid ¹	(115)	(140)	(193)
Dividends received	2,477	1,937	3,872
Net cash flows from operating activities	2,846	(351)	1,542
Cash flows from investing activities			
Net acquisition of plant and equipment	(4)	(9)	(26)
Acquisitions (net of cash acquired) ²	-	-	(11)
Capital injection into overseas joint ventures	-	-	(5)
Net cash flows from investing activities	(4)	(9)	(42)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the Company during the period	(278)	(201)	(298)
Proceeds from issue of ordinary share capital	13	2	3
Purchase of employee scheme shares	(4)	(9)	(15)
Proceeds from borrowings	639	713	1,327
Repayment of borrowings	(560)	(819)	(1,428)
Net cash flows from financing activities	(190)	(314)	(411)
Net increase in cash and cash equivalents	2,652	(674)	1,089
Exchange losses on cash and cash equivalents	(8)	(4)	(12)
Cash and cash equivalents at 1 January	14,113	13,036	13,036
Cash and cash equivalents at 30 June / 31 December	16,757	12,358	14,113

1. Tax comprises UK corporation tax paid of £24m (H1 11: £45m; FY 11: £80m) and overseas withholding tax of £91m (H1 11: £95m; FY 11: £113m).

2. Net cash flows from acquisitions include total net identifiable assets acquired of £nil (H1 11: £nil; FY 11: £15m) less cash and cash equivalents acquired of £nil (H1 11: £nil; FY 11: £4m).

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

International Financial Reporting Standards

Notes to the Financial Statements

2.08 Basis of Preparation

The Group's financial information for the period ended 30 June 2012 has been prepared in accordance with the Listing Rules of the Financial Services Authority. The 2012 Half-year report has also been prepared in accordance with IAS 34, 'Interim Financial Reporting'. The Group's financial information has been prepared in accordance with the accounting policies and methods of computation which the Group expects to adopt for the 2012 year end. These policies are consistent with the principal accounting policies which were set out in the Group's 2011 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 US deferred acquisition costs, as explained below.

The preparation of the Half-year report includes the use of estimates and assumptions which affect items reported in the consolidated balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. The economic and non-economic actuarial assumptions used to establish the liabilities in relation to insurance and investment contracts are significant. For half-year financial reporting, economic assumptions have been updated to reflect market conditions. Non-economic assumptions are consistent with those used in the 31 December 2011 financial statements except for the changes outlined in sections 2.01(d) and 2.02(d).

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

Change to accounting policy - US Deferred Acquisition Costs

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

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

We currently apply US GAAP to value the insurance assets and liabilities of our US operations, as allowed under IFRS 4 'Insurance Contracts'. As a result of the FASB's pronouncement we are applying the change in deferral methodology for our US business for Deferred Acquisition Costs retrospectively, restating the comparatives as required under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'.

The impact of this change upon the 2011 interim and annual income statements and statements of comprehensive income, together with the balance sheet at 30 June 2011, 31 December 2011 and 31 December 2010 is shown below.

	Change in US			Change in US		
	As reported	DAC treatment	Restated	As reported	DAC treatment	Restated
	30.06.11	30.06.11	30.06.11	31.12.11	31.12.11	31.12.11
	£m	£m	£m	£m	£m	£m
Consolidated Income Statement						
Acquisition costs	393	2	395	780	3	783
Profit before tax	511	(2)	509	778	(3)	775
Tax expense	(153)	-	(153)	(55)	1	(54)
Profit for the period	358	(2)	356	723	(2)	721
Consolidated Statement of Comprehensive Income						
Exchange differences on translation of overseas operations	(7)	4	(3)	1	(1)	-
Net change in financial investments designated as available-for-sale	9	5	14	10	5	15
Total comprehensive income for the period	358	7	365	661	2	663

The restatement of US DAC reduces operating profit by £2m for the 6 months ended 30 June 2011 and £3m for the 12 months ended 31 December 2011.

	Change in US			Change in US		
	As reported	DAC treatment	Restated	As reported	DAC treatment	Restated
	30.06.11	30.06.11	30.06.11	31.12.11	31.12.11	31.12.11
	£m	£m	£m	£m	£m	£m
Balance Sheet						
Assets						
Deferred acquisition costs	1,983	(212)	1,771	2,053	(220)	1,833
Equity						
Capital redemption and other reserves	88	15	103	101	16	117
Retained earnings	3,857	(154)	3,703	4,059	(160)	3,899
Liabilities						
Deferred tax liabilities	373	(73)	300	403	(76)	327

International Financial Reporting Standards

Notes to the Financial Statements

2.08 Basis of Preparation (continued)

	As reported	Change in US DAC treatment	Restated
	31.12.10	31.12.10	31.12.10
	£m	£m	£m
Balance Sheet			
Assets			
Deferred acquisition costs	2,000	(225)	1,775
Equity			
Capital redemption and other reserves	79	12	91
Retained earnings	3,704	(158)	3,546
Liabilities			
Deferred tax liabilities	356	(79)	277

2.09 Segmental Analysis

Reportable segments

The Group has five reporting segments comprising Risk, Savings, Investment management, International, and Group capital and financing.

The Risk segment comprises individual and group protection, individual and bulk purchase annuities, longevity and general insurance, together with estate agencies and the housing related business conducted through our regulated mortgage network.

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

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

The International segment comprises Legal & General America (LGA), Legal & General France (LGF), Legal & General Netherlands (LGN) as well as our joint ventures in emerging markets.

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

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

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

International Financial Reporting Standards

Notes to the Financial Statements 2.09 Segmental analysis (continued) (a) Operating profit/(loss)

	Risk £m	Savings £m	Invest- ment manage- ment £m	Inter- national £m	Group capital and finan- cing ¹ £m	Total £m
For the six months ended 30 June 2012						
Operating profit/(loss)	272	73	119	64	(10)	518
Variation from longer term investment return ²	5	(6)	(2)	13	(4)	6
Property gains attributable to non-controlling interests	-	-	-	-	1	1
Profit/(loss) from continuing operations before tax	277	67	117	77	(13)	525
Tax (expense)/credit attributable to equity holders of the Company	(68)	(15)	(22)	(27)	14	(118)
Profit for the period after tax	209	52	95	50	1	407

1. For segmental purposes, Investment projects of £23m (H1 11: £25m; FY 11: £56m) have been included in Group capital and financing.
2. Additional information concerning the Variation from longer term investment return is provided in Note 2.06.

	Risk £m	Savings £m	Invest- ment manage- ment £m	Inter- national £m	Group capital and finan- cing ¹ £m	Total £m
For the six months ended 30 June 2011 (Restated)						
Operating profit	236	68	117	64	8	493
Variation from longer term investment return	15	(2)	(3)	4	(35)	(21)
Property losses attributable to non-controlling interests	-	-	-	-	(1)	(1)
Profit/(loss) from continuing operations before tax	251	66	114	68	(28)	471
Tax (expense)/credit attributable to equity holders of the Company	(65)	(16)	(25)	(24)	15	(115)
Profit/(loss) for the period after tax	186	50	89	44	(13)	356

	Risk £m	Savings £m	Invest- ment manage- ment £m	Inter- national £m	Group capital and finan- cing ¹ £m	Total £m
For the year ended 31 December 2011 (Restated)						
Operating profit/(loss)	561	128	234	134	(4)	1,053
Variation from longer term investment return	172	(34)	(7)	(21)	(207)	(97)
Property losses attributable to non-controlling interests	-	-	-	-	(3)	(3)
Profit/(loss) from continuing operations before tax	733	94	227	113	(214)	953
Tax (expense)/credit attributable to equity holders of the Company	(193)	(22)	(44)	(40)	67	(232)
Profit/(loss) for the year after tax	540	72	183	73	(147)	721

International Financial Reporting Standards

Notes to the Financial Statements 2.09 Segmental analysis (continued) (b) Revenue

	Risk £m	Savings £m	Invest- ment manage- ment £m	Inter- national £m	Group capital and finan- cing £m	Total £m
For the six months ended 30 June 2012						
Internal revenue	37	-	75	(20)	(92)	-
External revenue	2,219	2,190	6,695	770	115	11,989
Total revenue	2,256	2,190	6,770	750	23	11,989

For the six months ended 30 June 2011

Internal revenue ¹	28	-	70	(13)	(85)	-
External revenue	1,864	1,616	6,195	596	96	10,367
Total revenue	1,892	1,616	6,265	583	11	10,367

For the year ended 31 December 2011

Internal revenue ¹	78	-	145	(50)	(173)	-
External revenue	5,967	1,569	9,447	1,079	255	18,317
Total revenue	6,045	1,569	9,592	1,029	82	18,317

1. The presentation of the LGA Internal Reinsurance Arrangement has been amended to better reflect the actual cash flows between the divisions. This has impacted the Risk and International segments. The intra-segment revenue within the Savings division has been removed from previously reported numbers.

Total revenue includes investment return of £9,468m (H1 11: £7,738m; FY 11: £12,143m).

(c) Consolidated balance sheet

	Risk £m	Savings £m	Invest- ment manage- ment £m	Inter- national £m	Group capital and finan- cing ² £m	Total £m
As at 30 June 2012						
Assets						
Investments	31,117	45,943	229,134	6,904	12,078	325,176
Other assets	3,390	3,869	1,428	2,729	(3,728)	7,688
Total assets	34,507	49,812	230,562	9,633	8,350	332,864
Shareholders' equity						
Shareholders' equity	168	163	439	1,271	3,116	5,157
Non-controlling interests	-	-	-	-	67	67
Total equity	168	163	439	1,271	3,183	5,224
Liabilities						
Subordinated borrowings	-	-	-	-	1,886	1,886
Participating contract liabilities	-	14,032	-	2,463	-	16,495
Non-participating contract liabilities	28,759	33,264	224,813	3,491	(773)	289,554
Senior borrowings ¹	-	218	5	283	870	1,376
Other liabilities	5,580	2,135	5,305	2,125	3,184	18,329
Total liabilities	34,339	49,649	230,123	8,362	5,167	327,640
Total equity and liabilities	34,507	49,812	230,562	9,633	8,350	332,864

1. Includes non recourse financing.

2. Group capital and financing includes inter-segmental eliminations.

International Financial Reporting Standards

Notes to the Financial Statements

2.09 Segmental analysis (continued)

(c) Consolidated balance sheet (continued)

As at 30 June 2011 (Restated)	Risk £m	Savings £m	Invest- ment manage- ment £m	Inter- national £m	Group capital and finan- cing £m	Total £m
Assets						
Investments	25,930	47,706	228,788	7,168	9,884	319,476
Other assets	3,048	3,479	1,516	2,675	(3,245)	7,473
Total assets	28,978	51,185	230,304	9,843	6,639	326,949
Shareholders' equity						
Shareholders' equity	138	144	409	1,261	2,896	4,848
Non-controlling interests	-	-	-	-	49	49
Total equity	138	144	409	1,261	2,945	4,897
Liabilities						
Subordinated borrowings	-	-	-	-	1,915	1,915
Participating contract liabilities	-	14,968	-	2,619	-	17,587
Non-participating contract liabilities	25,444	33,399	225,717	3,710	(652)	287,618
Senior borrowings ¹	13	278	1	276	756	1,324
Other liabilities	3,383	2,396	4,177	1,977	1,675	13,608
Total liabilities	28,840	51,041	229,895	8,582	3,694	322,052
Total equity and liabilities	28,978	51,185	230,304	9,843	6,639	326,949

1. Includes non recourse financing.

2. Group capital and financing includes inter-segmental eliminations.

As at 31 December 2011 (Restated)	Risk £m	Savings £m	Invest- ment manage- ment £m	Inter- national £m	Group capital and finan- cing ² £m	Total £m
Assets						
Investments	30,513	45,605	226,236	6,879	10,438	319,671
Other assets	3,111	3,263	1,115	2,867	(3,528)	6,828
Total assets	33,624	48,868	227,351	9,746	6,910	326,499
Shareholders' equity						
Shareholders' equity	154	155	351	1,263	3,133	5,056
Non-controlling interests	-	-	-	-	66	66
Total equity	154	155	351	1,263	3,199	5,122
Liabilities						
Subordinated borrowings	-	-	-	-	1,921	1,921
Participating contract liabilities	-	14,402	-	2,421	-	16,823
Non-participating contract liabilities	27,892	32,311	222,342	3,548	(742)	285,351
Senior borrowings ¹	-	240	-	286	803	1,329
Other liabilities	5,578	1,760	4,658	2,228	1,729	15,953
Total liabilities	33,470	48,713	227,000	8,483	3,711	321,377
Total equity and liabilities	33,624	48,868	227,351	9,746	6,910	326,499

1. Includes non recourse financing.

2. Group capital and financing includes inter-segmental eliminations.

International Financial Reporting Standards

Notes to the Financial Statements

2.10 Gross written premiums on insurance contracts

	30.06.12 £m	30.06.11 £m	Full year 31.12.11 £m
From continuing operations			
Risk			
Non-participating Risk business	1,344	1,404	3,778
General insurance			
- Household	156	135	283
- Other business	10	11	21
Total Risk	1,510	1,550	4,082
Savings			
Non-participating Savings business	21	21	40
Participating business	205	241	488
Total Savings	226	262	528
International			
USA (LGA)	288	249	522
Netherlands (LGN)	95	116	194
France (LGF)	202	205	393
Total International	585	570	1,109
Total gross written premiums	2,321	2,382	5,719

2.11 Earnings per share

(a) Earnings per share

	Profit before tax 30.06.12 £m	Tax expense 30.06.12 £m	Profit after tax 30.06.12 £m	Earnings per share 30.06.12 p	Profit before tax 30.06.11 Restated £m	Tax expense 30.06.11 Restated £m	Profit after tax 30.06.11 Restated £m	Earnings per share 30.06.11 Restated p
Operating profit	518	(126)	392	6.72	493	(126)	367	6.30
Variation from longer term investment return	6	11	17	0.29	(21)	15	(6)	(0.10)
Impact of change in UK tax rates	-	(3)	(3)	(0.05)	-	(4)	(4)	(0.07)
Earnings per share based on profit attributable to equity holders	524	(118)	406	6.96	472	(115)	357	6.13

	Profit before tax Full year 31.12.11 Restated £m	Tax expense Full year 31.12.11 Restated £m	Profit after tax Full year 31.12.11 Restated £m	Earnings per share Full year 31.12.11 Restated p
Operating profit	1,053	(268)	785	13.47
Variation from longer term investment return	(97)	42	(55)	(0.94)
Impact of change in UK tax rates	-	(6)	(6)	(0.11)
Earnings per share based on profit attributable to equity holders	956	(232)	724	12.42

International Financial Reporting Standards

Notes to the Financial Statements

2.11 Earnings per share (continued)

(b) Diluted earnings per share

(i) Based on operating profit after tax

	Profit after tax 30.06.12	Number of shares ¹ 30.06.12	Earnings per share 30.06.12	Profit after tax 30.06.11 Restated	Number of shares ¹ 30.06.11	Earnings per share 30.06.11 Restated
	£m	m	p	£m	m	p
Operating profit after tax	392	5,832	6.72	367	5,828	6.30
Net shares under options allocable for no further consideration	-	96	(0.11)	-	97	(0.11)
Diluted earnings per share	392	5,928	6.61	367	5,925	6.19

	Profit after tax Full year 31.12.11 Restated	Number of shares ¹ Full year 31.12.11	Earnings per share Full year 31.12.11 Restated
	£m	m	p
Operating profit after tax	785	5,828	13.47
Net shares under options allocable for no further consideration	-	97	(0.22)
Diluted earnings per share	785	5,925	13.25

International Financial Reporting Standards

Notes to the Financial Statements

2.11 Earnings per share (continued)

(b) Diluted earnings per share (continued)

(ii) Based on profit attributable to equity holders

	Profit after tax 30.06.12	Number of shares ¹ 30.06.12	Earnings per share 30.06.12	Profit after tax 30.06.11 Restated	Number of shares ¹ 30.06.11	Earnings per share 30.06.11 Restated
	£m	m	p	£m	m	p
Profit attributable to equity holders of the Company	406	5,832	6.96	357	5,828	6.13
Net shares under options allocable for no further consideration	-	96	(0.11)	-	97	(0.10)
Diluted earnings per share	406	5,928	6.85	357	5,925	6.03

	Profit after tax Full year 31.12.11 Restated	Number of shares ¹ Full year 31.12.11	Earnings per share Full year 31.12.11 Restated
	£m	m	p
Profit attributable to equity holders of the Company	724	5,828	12.42
Net shares under options allocable for no further consideration	-	97	(0.20)
Diluted earnings per share	724	5,925	12.22

1. Weighted average number of shares.

The number of shares in issue at 30 June 2012 was 5,905,704,992 (30 June 2011: 5,870,748,796; 31 December 2011: 5,872,166,893).

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

	Before tax 30.06.12	Tax credited/ (charg- ed) 30.06.12	After tax 30.06.12	Before tax 30.06.11 Restated	Tax credited/ (charg- ed) 30.06.11 Restated	After tax 30.06.11 Restated
	£m	£m	£m	£m	£m	£m
Exchange differences on translation of overseas operations	(9)	-	(9)	(3)	-	(3)
Actuarial (losses)/gains on defined benefit pension schemes	(87)	16	(71)	(5)	2	(3)
Actuarial losses/(gains) on defined benefit pension schemes transferred to unallocated divisible surplus	35	(6)	29	2	(1)	1
Net change in financial investments designated as available-for-sale	22	(7)	15	18	(4)	14
Other comprehensive income	(39)	3	(36)	12	(3)	9

	Before tax Full year 31.12.11 Restated	Tax credited/ (charg- ed) Full year 31.12.11 Restated	After tax Full year 31.12.11 Restated
	£m	£m	£m
Exchange differences on translation of overseas operations	-	-	-
Actuarial (losses)/gains on defined benefit pension schemes	(136)	15	(121)
Actuarial losses/(gains) on defined benefit pension schemes transferred to unallocated divisible surplus	54	(6)	48
Net change in financial investments designated as available-for-sale	21	(6)	15
Other comprehensive income	(61)	3	(58)

International Financial Reporting Standards

Notes to the Financial Statements

2.13 Financial investments

	30.06.12 £m	30.06.11 £m	Full Year 31.12.11 £m
Equities	138,443	146,711	134,594
Unit trusts	6,876	7,782	7,487
Debt securities ¹	149,544	142,124	149,711
Accrued interest	1,595	1,636	1,705
Derivative assets ²	6,475	3,753	6,756
Loans and receivables	339	297	351
	303,272	302,303	300,604

There have been no significant transfers between levels 1, 2 and 3 of the fair value hierarchy (as prescribed in IFRS 7 'Financial Instruments: Disclosures') for the six months ended 30 June 2012. Further details are provided in Note 4.07.

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

2. Derivative exposures arise from efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps, foreign exchange forward contracts for asset and liability management and the matching of Guaranteed Equity Bonds within the Nationwide portfolio. Derivative assets are shown gross of derivative liabilities and include £3,128m (H1 11: £2,112m; FY 11: £3,174m) held on behalf of unit linked policyholders.

2.14 Dividends

	Per share	Total	Per share	Total	Per share	Total
	30.06.12 p	30.06.12 £m	30.06.11 p	30.06.11 £m	Full year 31.12.11 p	Full year 31.12.11 £m
Ordinary share dividends paid in the period						
- Prior year final dividend	4.74	278	3.42	201	3.42	201
- Current year interim dividend	-	-	-	-	1.66	97
	4.74	278	3.42	201	5.08	298
Ordinary share dividend proposed ¹	1.96	116	1.66	97	4.74	279

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

2.15 Ordinary shares

	Number of shares	Number of shares	Number of shares
	30.06.12	30.06.11	Full year 31.12.11
As at 1 January	5,872,166,893	5,866,669,323	5,866,669,323
Options exercised under share option schemes			
- Executive share option scheme	1,077,517	1,181,589	1,736,890
- Savings related share option scheme	32,460,582	2,897,884	3,760,680
As at 30 June / 31 December	5,905,704,992	5,870,748,796	5,872,166,893

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.

International Financial Reporting Standards

Notes to the Financial Statements

2.16 Borrowings

	30.06.12 £m	30.06.11 £m	Full year 31.12.11 £m
Subordinated borrowings			
6.385% Sterling perpetual capital securities (Tier 1)	711	691	721
5.875% Sterling undated subordinated notes (Tier 2)	420	422	421
4.0% Euro subordinated notes 2025 (Tier 2)	462	508	483
10% Sterling subordinated notes 2041 (Tier 2)	309	308	309
Client fund holdings of Group debt ¹	(16)	(14)	(13)
Total subordinated borrowings	1,886	1,915	1,921
Senior borrowings			
Sterling medium term notes 2031-2041	602	602	608
Euro Commercial paper	320	204	246
Bank loans/other	13	72	8
Client fund holdings of Group debt ¹	(52)	(51)	(51)
Total senior borrowings (excluding non recourse)	883	827	811
Total borrowings (excluding non recourse)	2,769	2,742	2,732
Non recourse			
- US Dollar Triple X securitisation 2037	283	276	286
- Suffolk Life unit linked borrowings	123	136	136
- LGV 6/LGV 7 Private Equity Fund Limited Partnership	87	85	96
Total senior borrowings (including non recourse)	1,376	1,324	1,329
Total borrowings	3,262	3,239	3,250

1. £68m (H1 11: £65m; FY 11: £64m) of the Group's subordinated and senior debt is currently held by Legal & General customers through unit linked products. These borrowings are shown as a deduction from total borrowings in the tables above.

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Notes to the Financial Statements

2.16 Borrowings (continued)

Subordinated borrowings

6.385% Sterling perpetual capital securities

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

5.875% Sterling undated subordinated notes

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

4.0% Euro subordinated notes 2025

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

10% Sterling subordinated notes 2041

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

Non recourse financing

US Dollar Triple X securitisation 2037

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

Suffolk Life unit linked borrowings

These borrowings relate solely to client investments.

LGV6/LGV7 Private Equity Fund Limited Partnership

These borrowings are non recourse bank borrowings.

Syndicated credit facility

As at 30 June 2012, the Group had in place a £1.00bn syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in October 2016. This facility which was entered into in October 2011 replaces syndicated and bilateral facilities totalling £1.02bn which had been due to expire in December 2012. No drawings were made under this facility in 2012 to date.

Holding company short term assets

Short term assets available at the holding company level exceeded the amount of short term borrowings of £333m (H1 11: £276m; FY 11: £254m). They comprise Euro Commercial Paper and Bank Loans.

2.17 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 increase in the non-controlling interests in 2012 arises from investment by third party interests in the UK Property Ungeared Fund Limited Partnership. The Group's ownership remains above 50%.

International Financial Reporting Standards

Notes to the Financial Statements

2.18 Foreign exchange rates

Principal rates of exchange used for translation are:

Period end exchange rates	At 30.06.12	At 30.06.11	At 31.12.11
United States Dollar	1.57	1.61	1.55
Euro	1.24	1.11	1.20

Average exchange rates	01.01.12 - 30.06.12	01.01.11 - 30.06.11	01.01.11 - 31.12.11
United States Dollar	1.58	1.62	1.60
Euro	1.22	1.15	1.15

2.19 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 £30m (H1 11: £54m; FY 11: £60m), for all employees.

At 30 June 2012, 30 June 2011 and 31 December 2011 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:

	30.06.12	30.06.11	Full year 31.12.11
	£m	£m	£m
Salaries	3	2	7
Social security costs	1	-	1
Post-employment benefits	-	1	1
Share-based incentive awards	2	1	4
Key management personnel compensation	6	4	13
Number of key management personnel	18	17	18

The UK defined benefit pension schemes have purchased annuity contracts issued by Society for consideration of £19m (H1 11: £14m; FY 11: £58m) 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 £578m during the period (H1 11: £1,161m; FY 11: £1,286m). The Group has outstanding loans to these associates of £1m (H1 11: £7m; FY 11: £5m) and received investment management fees of £13m during the year (H1 11: £15m; FY 11: £29m). Distributions from these investment vehicles to the Group totalled £28m (H1 11: £29m; FY 11: £58m).

During the period, the Group paid platform hosting fees to Cofunds (Holdings) Limited, a 25% owned associate, of £8m (H1 11: £4m; FY 11: £10m). Creditors outstanding at the end of the period were £3m (H1 11: £3m; FY 11: £3m).

International Financial Reporting Standards

Notes to the Financial Statements

2.20 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 2012, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Society) has been estimated at £258m (H1 11: £153m; FY 11: £215m). These amounts have been recognised in the financial statements with £153m charged against shareholder equity (H1 11: £91m; FY 11: £128m) and £105m against the unallocated divisible surplus (H1 11: £62m; FY 11: £87m).

2.21 Contingent liabilities, guarantees and indemnities

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

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

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

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

International Financial Reporting Standards

Notes to the Financial Statements

Independent review report to Legal & General Group plc - IFRS

Introduction

We have been engaged by the company to review the consolidated interim financial information in the Half-year report for the six months ended 30 June 2012, which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Condensed Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and related notes on pages 47 to 64. We have read the other information contained in the Half-year report and considered whether it contains any apparent misstatements or material inconsistencies with the consolidated interim financial information.

Directors' responsibilities

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

As disclosed in note 2.08, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The consolidated interim financial information included in this Half-year report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial information in the Half-year report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 August 2012

Notes:

(a) The consolidated interim financial information is published on the website of Legal & General Group Plc, legalandgeneralgroup.com. The maintenance and integrity of the Legal & General Group Plc web site 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 Half-year report since it was initially presented on the web site.

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

International Financial Reporting Standards

Notes to the Financial Statements

Net Cash and Capital

3.01 Operational cash generation

Operating profit and operational cash generation for the group capital and financing segment includes lower assumed returns on cash and LIBOR benchmarked bonds as reported in the FY 11 results. This has been applied to the H1 11 operating profit and cash generation comparatives as if these changes had been in effect since 1 January 2011. The impact was to reduce H1 11 operating profit by £28m and operational cash generation by £21m.

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

For the six months ended	Operational cash generation	New business strain	Net cash	Experience variances	Changes in valuation assumptions	Non-cash items	Investment gains and losses, international and other	IFRS profit/(loss) after tax	Tax expense/(credit)	IFRS profit/(loss) before tax
30 June 2012	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total Risk operating profit	235	(32)	203	6	18	(22)	-	205	67	272
Total Savings										
operating profit	88	(32)	56	(15)	2	16	(4)	55	18	73
Investment management										
operating profit	97	-	97	-	-	-	-	97	22	119
International	39	-	39	-	-	-	1	40	24	64
Group capital and financing	12	-	12	-	-	-	-	12	1	13
Investment projects	-	-	-	-	-	-	(17)	(17)	(6)	(23)
Operating profit	471	(64)	407	(9)	20	(6)	(20)	392	126	518
Investment variance	-	-	-	-	-	-	17	17	(11)	6
Impact of change in UK tax rates	-	-	-	-	-	-	(3)	(3)	3	-
Property gains attributable to non-controlling interests	-	-	-	-	-	-	1	1	-	1
Total	471	(64)	407	(9)	20	(6)	(5)	407	118	525
For the six months ended 30 June 2011 (Restated)										
Total Risk operating profit	233	(40)	193	(7)	30	(43)	-	173	63	236
Total Savings										
operating profit	89	(31)	58	(3)	3	(8)	-	50	18	68
Investment management										
operating profit	91	-	91	-	-	-	-	91	26	117
International	35	-	35	-	-	-	7	42	22	64
Group capital and financing	29	-	29	-	-	-	-	29	4	33
Investment projects	-	-	-	-	-	-	(18)	(18)	(7)	(25)
Operating profit	477	(71)	406	(10)	33	(51)	(11)	367	126	493
Investment variance	-	-	-	-	-	-	(6)	(6)	(15)	(21)
Impact of change in UK tax rates	-	-	-	-	-	-	(4)	(4)	4	-
Property losses attributable to non-controlling interests	-	-	-	-	-	-	(1)	(1)	-	(1)
Total	477	(71)	406	(10)	33	(51)	(22)	356	115	471

Net Cash and Capital

3.01 Operational cash generation (continued)

For the year ended 31 December 2011 (Restated)	Operational cash generation £m	New business strain £m	Net cash £m	Exper- ience var- iances £m	Changes in valuation assump- tions £m	Non- cash items £m	Investment gains and losses, inter- national and other £m	IFRS profit/ (loss) after tax £m	Tax exp- ense/ (credit) £m	IFRS profit/ (loss) before tax £m
Total Risk operating profit	482	(31)	451	22	24	(86)	-	411	150	561
Total Savings operating profit	174	(63)	111	(12)	(5)	6	(6)	94	34	128
Investment management operating profit	189	-	189	-	-	-	-	189	45	234
International	51	-	51	-	-	-	37	88	46	134
Group capital and financing	44	-	44	-	-	-	-	44	8	52
Investment projects	-	-	-	-	-	-	(41)	(41)	(15)	(56)
Operating profit	940	(94)	846	10	19	(80)	(10)	785	268	1,053
Investment variance	-	-	-	-	-	-	(55)	(55)	(42)	(97)
Impact of change in UK tax rates	-	-	-	-	-	-	(6)	(6)	6	-
Property losses attributable to non-controlling interests	-	-	-	-	-	-	(3)	(3)	-	(3)
Total	940	(94)	846	10	19	(80)	(74)	721	232	953

Net Cash and Capital

3.02 Regulatory capital resources

(a) Insurance Group's Directive (IGD)

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

	At 30.06.12 £bn	At 30.06.11 Restated ¹ £bn	At 31.12.11 Restated ¹ £bn
Core tier 1	5.9	6.0	5.9
Innovative tier 1	0.6	0.6	0.6
Upper tier 2	0.4	0.4	0.4
Lower tier 2	0.8	0.8	0.8
Deductions ²	(0.8)	(0.9)	(0.8)
Group capital resources	6.9	6.9	6.9
Group capital resources requirement³	3.1	2.9	3.1
IGD surplus	3.8	4.0	3.8
Coverage ratio (Group capital resources / Group capital resources requirement)⁴	2.24 times	2.38 times	2.20 times

1. Group capital resources has been restated to reflect the retrospective adoption of ASU 2010-26, issued by the FASB, which specifies the accounting for deferred acquisition costs under US GAAP. Details of this restatement are outlined in Note 2.08. There is no impact on total Group capital resources as a result of this change.

2. Deductions comprises inadmissible assets in LGA of £0.5bn (H1 11: £0.6bn; FY 11: £0.6bn), in Society of £0.1bn (H1 11: £0.1bn; FY 11: £0.1bn) and in other Group companies of £0.2bn (H1 11: £0.2bn; FY 11: 0.1bn).

3. The Group capital resources requirement includes a With-profits Insurance Capital Component (WPICC) of £0.3bn (H1 11: £0.2bn; FY 11: £0.4bn).

4. Coverage ratio is calculated on unrounded values.

A segmental analysis is given below.

	At 30.06.12 £bn	At 30.06.11 £bn	At 31.12.11 £bn
Society long term fund ¹	2.6	2.5	2.8
Society shareholder capital	2.7	2.7	2.4
General insurance	0.1	0.1	0.1
France (LGF)	0.3	0.2	0.2
Netherlands (LGN)	0.1	0.2	0.1
Nationwide Life	-	0.1	0.1
USA (LGA)	0.1	0.2	0.2
Investment management	0.4	0.4	0.3
Other ²	1.5	1.4	1.5
Innovative tier 1	0.6	0.6	0.6
Tier 2	1.2	1.2	1.2
Debt	(2.7)	(2.7)	(2.6)
Group capital resources	6.9	6.9	6.9
Society long term fund ¹	2.7	2.5	2.8
Other	0.4	0.4	0.3
Group capital resources requirement	3.1	2.9	3.1

1. The Society LTF capital requirement of £2.7bn (H1 11: £2.5bn; FY 11: £2.8bn) is met by £2.6bn H1 11: £2.8bn; FY 11: £2.8bn) of capital resources in the LTF and £0.1bn (H1 11: £nil; FY 11: £nil) of capital outside the LTF.

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

Net Cash and Capital

3.02 Regulatory capital resources (continued)

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

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

	At 30.06.12 £bn	At 30.06.11 Restated £bn	At 31.12.11 Restated £bn
Capital and reserves attributable to equity holders on an IFRS basis	5.2	4.8	5.1
Innovative tier 1	0.6	0.6	0.6
Tier 2	1.2	1.2	1.2
Proposed dividends	(0.1)	(0.1)	(0.3)
Additional capital available from Society	0.6	1.0	0.9
Adjustment to reflect regulatory value of the LGA operation	(0.5)	(0.6)	(0.6)
Other regulatory adjustments	(0.1)	-	-
Group capital resources	6.9	6.9	6.9

(b) With-profits realistic balance sheet

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

	At 30.06.12 £bn	At 30.06.11 £bn	At 31.12.11 £bn
With-profits surplus	0.7	0.8	0.7
Risk capital margin	0.1	0.1	0.1
Surplus	0.6	0.7	0.6

Society is required to maintain a surplus in the with-profits part of the fund on a realistic basis (Peak 2). The risk capital margin is calculated based on the most onerous capital requirement calculated after performing five stresses specified by the FSA. The surplus includes the present value of future shareholder transfers of £0.2bn (H1 11: £0.4bn; FY 11: £0.2bn) as a liability in the calculation.

(c) Society capital surplus

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

	At 30.06.12 Long term business £bn	At 30.06.12 General insu- rance £bn	At 30.06.11 Long term business £bn	At 30.06.11 General insu- rance £bn	At 31.12.11 Long term business £bn	At 31.12.11 General insu- rance £bn
Available capital resources - Tier 1	5.7	0.1	5.7	0.1	5.6	0.1
Insurance capital requirement	2.4	0.1	2.3	0.1	2.4	0.1
Capital requirements of regulated related undertakings	0.2	-	0.2	-	0.2	-
With-profits Insurance Capital Component	0.3	-	0.2	-	0.4	-
Capital resources requirement	2.9	0.1	2.7	0.1	3.0	0.1
Regulatory capital surplus	2.8	-	3.0	-	2.6	-

Net Cash and Capital

3.02 Regulatory capital resources (continued)

(c) Society capital surplus (continued)

Movement in Society long term insurance capital requirement

	At 30.06.12 £bn	At 30.06.11 £bn	At 31.12.11 £bn
Pillar 1 capital requirement			
Protection	0.7	0.7	0.7
Annuities	1.0	0.9	1.0
Non profit pensions and unit linked bonds	0.1	0.1	0.1
Non profit	1.8	1.7	1.8
With-profits	0.6	0.6	0.6
Long term insurance capital requirement	2.4	2.3	2.4

On a regulatory basis (Peak 1), Society long term business regulatory capital surplus of £2.8bn (H1 11: £3.0bn; FY 11: £2.6bn) comprises capital resources within the long term fund of £2.6bn (H1 11: £2.5bn; FY 11: £2.8bn) and capital resources outside the long term fund of £3.1bn (H1 11: £3.2bn; FY 11: £2.8bn) less the capital resources requirement of £2.9bn (H1 11: £2.7bn; FY 11: £3.0bn).

The With-profits Insurance Capital Component (WPICC) is an additional capital requirement calculated if the surplus in the with-profits fund on a Peak 2 basis is lower than on a Peak 1 basis and represents the difference in the surplus between the two bases. It is calculated based on the most onerous risk capital margin stress referred to in 3.02 (b). A further adjustment is made to the Peak 2 surplus to remove the present value of future shareholder transfers which is treated as a liability in Society's with-profits realistic surplus. At 30 June 2012, this adjustment amounted to £0.2bn (H1 11: £0.4bn; FY 11: £0.2bn).

Net Cash and Capital

Asset Disclosures

4.01 Investment portfolio

	Market value At 30.06.12 £m	Market value At 30.06.11 £m	Market value At 31.12.11 £m
Worldwide assets under management	388,412	370,338	378,573
Client and policyholder assets	(329,536)	(315,528)	(320,228)
Non-unit linked with-profits assets ¹	(18,749)	(19,732)	(18,927)
Assets to which shareholders are directly exposed	40,127	35,078	39,418

Comprising:

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

Legal & General Pensions Limited (LGPL)²

Other UK non profit insurance business

30,670	25,528	30,029
237	552	285

30,907 26,080 30,314

Assets held to back other insurance businesses (including Triple-X reserves)

3,182 3,105 3,172

Group capital and financing assets

4,529 4,369 4,344

Other shareholder assets

1,509 1,524 1,588

40,127 35,078 39,418

1. Includes assets backing participating business in LGF of £2,297m (H1 11: £2,468m; FY 11: £2,277m).

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

Analysed by asset class:

		LGPL At 30.06.12 £m	Other UK non profit insurance business At 30.06.12 £m	Other insurance business At 30.06.12 £m	Group capital and financing assets At 30.06.12 £m	Other share- holder assets At 30.06.12 £m	Total At 30.06.12 £m	Total At 30.06.11 £m	Total At 31.12.11 £m
Equities		-	-	-	909	10	919	999	913
Bonds	4.02	26,901	-	2,994	1,990	1,073	32,958	29,905	32,228
Derivative assets ¹		2,899	105	18	161	-	3,183	1,560	3,415
Property		568	-	-	103	13	684	333	606
Cash (including cash equivalents)		302	132	170	1,366	413	2,383	2,281	2,256
		30,670	237	3,182	4,529	1,509	40,127	35,078	39,418

1. Derivative assets are shown gross of derivative liabilities. Exposures arise from:

a. The use of derivatives for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management.

b. Derivatives matching guaranteed equity bonds within the Nationwide Life portfolio.

Asset Disclosures

4.02 Bond portfolio summary

(a) Analysed by sector

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

	Notes	LGPL At 30.06.11 £m	LGPL At 30.06.11 %	Total At 30.06.11 £m	Total At 30.06.11 %
Sovereigns, Supras and Sub-Sovereigns	4.02(b)	3,255	14	5,257	18
Banks:					
- Tier 1 ¹	4.04	366	2	398	1
- Tier 2 and other subordinated	4.04	1,414	6	1,602	5
- Senior		1,521	6	2,558	9
Utilities		2,980	13	3,217	11
Consumer Services and Goods		2,123	9	2,458	8
Financial Services		762	3	1,013	3
Technology and Telecoms		1,574	7	1,845	6
Insurance		1,026	4	1,192	4
Industrials		1,235	5	1,462	5
Oil and Gas		1,309	6	1,513	5
Health Care		558	2	615	2
Property		550	2	617	2
Traditional and secured asset backed securities	4.03	4,113	17	5,105	17
CDO	4.02(d)	1,048	4	1,053	4
Total		23,834	100	29,905	100

Asset Disclosures

4.02 Bond portfolio summary (continued)

(a) Analysed by sector (continued)

	Notes	LGPL At 31.12.11 £m	LGPL At 31.12.11 %	Total At 31.12.11 £m	Total At 31.12.11 %
Sovereigns, Supras and Sub-Sovereigns	4.02(b)	4,072	15	6,188	19
Banks:					
- Tier 1 ¹	4.04	236	1	259	1
- Tier 2 and other subordinated	4.04	1,177	4	1,338	4
- Senior		1,463	5	2,234	7
Utilities		3,457	13	3,722	12
Consumer Services and Goods		2,557	10	2,928	9
Financial Services		941	4	1,179	4
Technology and Telecoms		1,902	7	2,209	7
Insurance		968	4	1,120	3
Industrials		1,265	5	1,515	5
Oil and Gas		1,614	6	1,837	6
Health Care		748	3	786	2
Property		577	2	640	2
Traditional and secured asset backed securities	4.03	4,344	17	5,275	16
CDO	4.02(d)	998	4	998	3
Total		26,319	100	32,228	100

1. Tier 1 holdings include £56m (H1 11: £55m; FY 11: £49m) of preference shares.

Asset Disclosures

4.02 Bond portfolio summary (continued)

(b) Analysed by domicile

	Note	LGPL	Total	LGPL	Total	LGPL	Total
		At 30.06.12 £m	At 30.06.12 £m	At 30.06.11 £m	At 30.06.11 £m	At 31.12.11 £m	At 31.12.11 £m
Market value by region							
United Kingdom		10,422	11,696	9,367	10,766	10,387	11,758
USA		8,268	10,926	6,999	9,365	8,040	10,548
Netherlands		1,303	1,975	950	1,674	1,226	1,830
France		1,100	1,485	1,109	1,522	1,124	1,523
Italy		507	612	603	752	543	652
Germany		428	687	390	732	445	761
Ireland ¹		215	227	293	310	213	225
Spain		164	208	191	250	187	236
Belgium		31	81	29	83	23	79
Portugal		10	10	60	68	41	45
Greece		-	-	-	1	-	-
Europe - Other		1,109	1,508	1,145	1,530	994	1,324
Rest of World		2,348	2,547	1,761	1,915	2,098	2,249
CDO	4.02(d)	996	996	937	937	998	998
Total		26,901	32,958	23,834	29,905	26,319	32,228

1. Within LGPL, out of the £215m of bonds domiciled in Ireland, £188m relate to financing vehicles where the underlying exposure lies outside Ireland.

The table above is based on the legal domicile of the security.

Additional analysis of sovereign debt exposures

	Sovereigns, Supras and Sub-Sovereigns					
	LGPL At 30.06.12 £m	Total At 30.06.12 £m	LGPL At 30.06.11 £m	Total At 30.06.11 £m	LGPL At 31.12.11 £m	Total At 31.12.11 £m
Market value by region						
United Kingdom ¹	2,675	3,160	1,972	2,383	2,694	3,205
USA	359	748	283	574	380	782
Netherlands	-	432	28	552	15	468
France	77	284	121	325	119	317
Italy	198	279	207	301	201	281
Germany	143	330	132	365	143	386
Ireland	-	5	-	4	-	4
Spain	-	29	-	32	-	29
Belgium	-	40	-	35	-	40
Portugal	-	-	-	6	-	3
Greece	-	-	-	1	-	-
Europe - Other	445	624	427	576	448	602
Rest of World	114	114	85	103	72	71
Total	4,011	6,045	3,255	5,257	4,072	6,188

1. LGPL holds liquidity in the form of cash and cash equivalents of £302m (H1 11: £494m; FY 11: £285m) and gilts of £2,675m (H1 11: £1,972m; FY 11: £2,694m).

Asset Disclosures

4.02 Bond portfolio summary (continued)

(c) Analysed by credit rating

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

	LGPL At 30.06.11 £m	LGPL At 30.06.11 %	Total At 30.06.11 £m	Total At 30.06.11 %
AAA	4,317	18	7,209	24
AA	2,695	11	3,686	12
A	8,773	38	10,104	34
BBB	5,974	25	6,735	23
BB or below	347	1	415	1
Unrated: Bespoke CDOs	936	4	936	3
Other ¹	792	3	820	3
	23,834	100	29,905	100

	LGPL At 31.12.11 £m	LGPL At 31.12.11 %	Total At 31.12.11 £m	Total At 31.12.11 %
AAA	4,685	18	7,328	23
AA	2,896	11	3,657	11
A	9,710	37	11,290	35
BBB	6,876	26	7,721	24
BB or below	417	2	481	1
Unrated: Bespoke CDOs	872	3	872	3
Other ¹	863	3	879	3
	26,319	100	32,228	100

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

Asset Disclosures

4.02 Bond portfolio summary (continued)

(d) CDOs

The Group holds collateralised debt obligations (CDOs) with a market value of £996m at 30 June 2012 (H1 11: £1,053m; FY 11: £998m).

These holdings include £848m (H1 11: £899m; FY 11: £846m) relating to four CDOs that were constructed in 2007 and 2008 in accordance with terms specified by Legal & General as part of a strategic review of the assets backing the annuity portfolio. These CDOs mature in 2017 and 2018. The Group selected at outset and manages the reference portfolios underlying the CDOs to give exposure to globally diversified portfolios of investment grade corporate bonds. The Group is able to substitute the constituents of the original reference portfolios with new reference assets, allowing the management of the underlying credit risk although substitutions in 2011 were limited and there have been no substitutions in 2012. A breakdown of the underlying CDO reference portfolio by sector is provided below:

Sector	At 30.06.12 %	At 30.06.11 %	At 31.12.11 %
Banks	14	14	14
Utilities	10	10	10
Consumer Services & Goods	25	26	25
Financial Services	6	6	6
Technology & Telecoms	9	9	9
Insurance	6	6	6
Industrials	20	20	20
Oil & Gas	6	6	6
Health Care	4	3	4
	100	100	100

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

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

The underlying reference portfolio has had no reference entity defaults in 2011 or for the six months ended 30 June 2012.

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

These CDOs also incorporate features under which, in certain circumstances, the Group can choose either to post additional cash collateral or to allow wind up of the structures. These features are dependant on the portfolios' weighted average spreads, default experience to date and time to maturity. No additional collateral was posted to any of the CDOs during the six months ended 30 June 2012 (H1 11: £nil; FY 11: £nil). During the period, the Group received £nil (H1 11: £nil; FY 11: £nil) of previously posted collateral.

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

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

The balance of £148m (H1 11: £154m; FY 11: £152m) of CDO holdings includes a £26m (H1 11: £37m; FY 11: £26m) exposure to an equity tranche of a bespoke CDO.

Asset Disclosures

4.03 Traditional and secured asset backed securities summary

(a) By security

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

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

	LGPL At 30.06.11 £m	LGPL At 30.06.11 %	Total At 30.06.11 £m	Total At 30.06.11 %
Traditional asset backed securities:				
Residential Mortgage-Backed Securities- Prime ¹	469	12	830	16
Residential Mortgage-Backed Securities- Sub-prime ²	-	-	25	-
Commercial Mortgage-Backed Securities	250	6	461	9
Credit Card	6	-	196	4
Auto	10	-	76	2
Consumer Loans	42	1	44	1
Student Loans	20	-	53	1
	797	19	1,685	33
Securitisations and debentures:				
Secured Bond	1,743	43	1,784	35
Commercial Property Backed Bonds	224	5	224	5
Infrastructure / Private Finance Initiative / Social housing	1,025	25	1,029	20
Whole Business Securitisation	269	7	272	5
Other secured holdings ³	55	1	111	2
	3,316	81	3,420	67
Total traditional and secured asset backed securities	4,113	100	5,105	100

Asset Disclosures

4.03 Traditional and secured asset backed securities summary (continued)

(a) By security (continued)

	LGPL At 31.12.11 £m	LGPL At 31.12.11 %	Total At 31.12.11 £m	Total At 31.12.11 %
Traditional asset backed securities:				
Residential Mortgage-Backed Securities - Prime ¹	416	10	680	13
Residential Mortgage-Backed Securities - Sub-prime ²	-	-	20	-
Commercial Mortgage-Backed Securities	245	6	450	9
Credit Card	2	-	134	3
Auto	11	-	113	2
Consumer Loans	37	1	40	1
Student Loans	20	-	26	-
	731	17	1,463	28
Securitisations and debentures:				
Secured Bond	1,935	45	1,975	37
Commercial Property Backed Bonds	236	5	236	5
Infrastructure / Private Finance Initiative / Social housing	1,104	25	1,168	22
Whole Business Securitisation	299	7	302	6
Other secured holdings ³	39	1	131	2
	3,613	83	3,812	72
Total traditional and secured asset backed securities	4,344	100	5,275	100

1. 53% (H1 11: 57%; FY 11: 56%) of Prime RMBS holdings relate to UK mortgages.

2. 54% (H1 11: 51%; FY 11: 55%) of Sub-prime RMBS holdings have a credit rating of AAA and 76% (H1 11: 70%; FY 11: 71%) relate to the UK.

3. Other secured holdings in LGPL include covered bonds of £143m (H1 11: £20m; FY 11: £29m).

Asset Disclosures

4.03 Traditional and secured asset backed securities summary (continued)

(b) By credit rating

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

	LGPL At 30.06.11 £m	LGPL At 30.06.11 %	Total At 30.06.11 £m	Total At 30.06.11 %
AAA	1,072	26	1,831	36
AA	825	20	891	17
A	1,453	36	1,510	30
BBB	595	14	663	13
BB or below	30	1	70	1
Unrated	138	3	140	3
Total	4,113	100	5,105	100

	LGPL At 31.12.11 £m	LGPL At 31.12.11 %	Total At 31.12.11 £m	Total At 31.12.11 %
AAA	802	18	1,411	27
AA	1,077	25	1,202	23
A	1,604	37	1,661	31
BBB	634	15	739	14
BB or below	81	2	114	2
Unrated	146	3	148	3
Total	4,344	100	5,275	100

Of the £816m (H1 11: £888m; FY 11: £733m) of traditional ABS holdings held outside of LGPL, 70% are rated AAA (H1 11: 76%; FY 11: 65%).

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

Asset Disclosures

4.04 Group subordinated bank exposures

	Total At 30.06.12 £m	Total At 30.06.12 %	Total At 30.06.11 £m	Total At 30.06.11 %	Total At 31.12.11 £m	Total At 31.12.11 %
Tier 1						
United Kingdom ¹	139	11	169	8	139	9
USA	29	2	84	4	47	3
Europe	60	5	115	6	61	4
Others	12	1	30	2	12	1
Total tier 1	240	19	398	20	259	17
Lower tier 2						
United Kingdom	423	33	704	34	586	36
USA	333	26	430	22	394	25
Europe	113	9	193	10	142	9
Others	67	5	74	4	68	4
Upper tier 2						
United Kingdom	58	5	75	4	63	4
USA	2	-	19	1	1	-
Europe	-	-	57	3	39	2
Others	-	-	3	-	2	-
Other subordinated						
United Kingdom	1	-	-	-	-	-
USA	39	3	47	2	43	3
Europe	3	-	-	-	-	-
Others	-	-	-	-	-	-
Total tier 2 and other subordinated	1,039	81	1,602	80	1,338	83
Total	1,279	100	2,000	100	1,597	100

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

4.05 Value of policyholder assets held in Society and LGPL

	At 30.06.12 £m	At 30.06.11 £m	At 31.12.11 £m
With-profits business	24,652	25,987	24,862
Non profit business	43,437	40,864	42,516
	68,089	66,851	67,378

Asset Disclosures

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

	Investment return %	UK with-profits asset share %	UK with-profits non par %	UK with-profits other %
As at 30 June 2012				
Equities	4	40	2	(46)
Bonds	4	44	83	136
Property	1	13	-	-
Cash	-	3	15	10
		100	100	100
Investment return (% pa)	4	4	5	2
Invested assets (£bn):				
Net of derivative liabilities		12.0	2.5	1.9
Gross of derivative liabilities		12.1	2.5	1.9
As at 30 June 2011				
Equities	2	41	3	(63)
Bonds	3	40	87	150
Property	4	14	-	-
Cash	-	5	10	13
		100	100	100
Investment return (% pa)	2	3	3	-
Invested assets (£bn):				
Net of derivative liabilities		13.4	2.4	1.4
Gross of derivative liabilities		13.5	2.4	1.4
As at 31 December 2011				
Equities	(8)	38	3	(47)
Bonds	9	40	88	139
Property	5	15	-	-
Cash	1	7	9	8
		100	100	100
Investment return (% pa)	4	2	8	19
Invested assets (£bn):				
Net of derivative liabilities		12.4	2.4	1.8
Gross of derivative liabilities		12.5	2.4	1.8

All investment return percentages reflect actual investment returns on average asset holdings for the period.

Asset Disclosures

4.07 Analysis of fair value measurement bases

As at 30 June 2012	Fair value measurement at the end of the reporting period based on:			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Group capital and other insurance business				
Equities	607	192	120	919
Bonds ¹	2,071	3,981	5	6,057
Derivative assets	28	151	-	179
	2,706	4,324	125	7,155
Non profit non-unit linked				
Bonds ¹	3,404	23,497	-	26,901
Derivative assets	56	2,923	25	3,004
	3,460	26,420	25	29,905
As at 30 June 2011				
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Group capital and other insurance business				
Equities	657	206	136	999
Bonds ¹	2,210	3,646	8	5,864
Derivative assets	31	279	-	310
	2,898	4,131	144	7,173
Non profit non-unit linked				
Bonds ¹	2,674	21,351	-	24,025
Derivative assets	30	1,220	-	1,250
	2,704	22,571	-	25,275
As at 31 December 2011				
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Group capital and other insurance business				
Equities	564	221	128	913
Bonds ¹	2,058	3,783	6	5,847
Derivative assets	13	295	-	308
	2,635	4,299	134	7,068
Non profit non-unit linked				
Bonds ¹	3,440	22,941	-	26,381
Derivative assets	255	2,820	32	3,107
	3,695	25,761	32	29,488

1. Consolidated CDO holdings have been presented on a net basis within level 2. The analysis excludes cash, loans and receivables and property investments of £3,067m (H1 11: £2,614m; FY 11: £2,862m), as disclosed in Note 4.01.

Asset Disclosures

4.07 Analysis of fair value measurement bases (continued)

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

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

The levels of fair value measurement bases are defined as follows:

Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair values measured using valuation techniques for all inputs significant to the measurement other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: fair values measured using valuation techniques for any input for the asset or liability significant to the measurement that is not based on observable market data (unobservable inputs).

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

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

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

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

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

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

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

Significant transfers between levels

There have been no significant transfers between levels 1, 2 and 3 for the six months ended 30 June 2012 (H1 11 and FY 11: No significant transfers between levels 1, 2 and 3).

Asset Disclosures

European Embedded Value

Consolidated Income Statement

For the six months ended 30 June 2012

	Notes	30.06.12 £m	30.06.11 £m	Full year 31.12.11 £m
From continuing operations				
Risk	5.01	263	344	801
Savings	5.01	41	94	228
Investment management	5.08	106	104	210
International	5.09	58	87	242
Group capital and financing ¹	5.10	11	30	44
Investment projects ²		(23)	(25)	(56)
Operating profit		456	634	1,469
Variation from longer term investment return	5.11	(13)	(31)	(111)
Effect of economic assumption changes	5.12	(126)	(13)	(21)
Property gains/(losses) attributable to non-controlling interests		1	(1)	(3)
Profit before tax		318	589	1,334
Tax expense attributable to equity holders of the Company	5.14	(50)	(139)	(259)
Effect of tax rate changes	5.14	48	156	156
Profit for the period		316	606	1,231
(Gain)/loss attributable to non-controlling interests		(1)	1	3
Profit attributable to equity holders of the Company		315	607	1,234
		p	p	p
Earnings per share	5.15			
Based on operating profit after tax attributable to equity holders of the Company		6.09	8.30	19.08
Based on profit attributable to equity holders of the Company		5.40	10.42	21.17
Diluted earnings per share	5.15			
Based on operating profit after tax attributable to equity holders of the Company		5.99	8.16	18.77
Based on profit attributable to equity holders of the Company		5.31	10.24	20.83

1. As announced in our FY 11 results, the rate used to calculate the smoothed investment return on cash and LIBOR benchmarked bonds has reduced. H1 11 has been amended to reflect this change, as outlined in Note 5.10.

2. Investment projects predominately relates to Solvency II and other strategic investments.

European Embedded Value

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	30.06.12 £m	30.06.11 £m	Full year 31.12.11 £m
Profit for the year	316	606	1,231
Other comprehensive income after tax			
Exchange differences on translation of overseas operations	(21)	10	(1)
Actuarial (losses) on defined benefit pension schemes	(42)	(2)	(70)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	29	1	48
Total comprehensive income for the year	282	615	1,208
Total comprehensive income/(expense) attributable to:			
Non-controlling interests	1	(1)	(3)
Equity holders of the Company	281	616	1,211

Consolidated Balance Sheet

As at 30 June 2012

	Notes	30.06.12 £m	30.06.11 Restated ¹ £m	31.12.11 Restated ¹ £m
Assets				
Investments		325,176	319,476	319,671
Long term in-force business asset		3,574	3,444	3,700
Other assets		7,538	7,328	6,680
Total assets		336,288	330,248	330,051
Equity				
Shareholders' equity	5.17/5.18	8,581	8,147	8,608
Non-controlling interests		67	49	66
Total equity		8,648	8,196	8,674
Liabilities				
Subordinated borrowings	2.16	1,886	1,915	1,921
Unallocated divisible surplus		966	1,330	1,038
Participating contract liabilities		15,529	16,257	15,784
Non-participating contract liabilities		289,554	287,618	285,351
Senior borrowings	2.16	1,376	1,324	1,329
Other liabilities and provisions		18,329	13,608	15,954
Total liabilities		327,640	322,052	321,377
Total equity and liabilities		336,288	330,248	330,051

1. The Consolidated Balance Sheet has been restated to reflect the retrospective adoption of ASU 2010-26, issued by the FASB, which specifies the accounting for deferred acquisition costs under US GAAP. Details of this restatement are outlined in note 5.21.

European Embedded Value Notes to the Financial Statements

5.01 Profit/(loss) for the period

For the six months ended 30 June 2012	Notes	Risk and Savings £m	Invest- ment manage- ment £m	Inter- national £m	Group capital and financing £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.03/5.05	121		46		167
Contribution from in-force business:						
- expected return ¹		169		54		223
- experience variances	5.07	13		(42)		(29)
- operating assumption changes	5.07	(8)		(1)		(9)
Development costs		(9)		-		(9)
Contribution from shareholder net worth				5	67	72
Operating profit on covered business		286	-	62	67	415
Business reported on an IFRS basis:						
Risk non-covered business ²		10				10
Savings non-covered business ³		8				8
Investment management ⁴	5.08		106			106
Group capital and financing	5.10				(56)	(56)
Investment projects ⁵					(23)	(23)
International non-covered business ⁶				(4)		(4)
Total operating profit		304	106	58	(12)	456
Variation from longer term investment return	5.11	(2)	(2)	6	(15)	(13)
Effect of economic assumption changes	5.12	(73)	-	(53)	-	(126)
Property losses attributable to non-controlling interests		-	-	-	1	1
Profit/(loss) before tax		229	104	11	(26)	318
Tax (expense)/credit on profit from ordinary activities	5.14	(50)	(19)	(6)	25	(50)
Effect of tax rate changes ⁷	5.14	48	-	-	-	48
Profit/(loss) for the period		227	85	5	(1)	316
Operating profit attributable to:						
Risk		263				
Savings		41				

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 Risk and Savings business was £4,247m in 2012 (H1 11: £3,886m; FY 11: £3,886m). This is adjusted for the effects of opening model changes of £45m (H1 11: £193m; FY 11: £200m) to give an adjusted opening base VIF of £4,292m (H1 11: £4,079m; FY 11: £4,086m). This is then multiplied by the opening risk discount rate of 6.2% (H1 11: 7.3%; FY 11: 7.3%) and the result grossed up at the notional attributed tax rate of 22% (H1 11: 23%; FY 11: 23%) to give a return of £169m (H1 11: £190m; FY 11: £387m).

2. Risk non-covered business primarily reflects GI operating profit of £8m (H1 11: £17m; FY 11: £42m). See Note 2.01(f).

3. Savings non-covered business mainly comprises Savings investments on an IFRS basis, adjusted for Suffolk Life, International (Ireland) and Nationwide.

4. Investment management operating profit excludes £13m (H1 11: £13m; FY 11: £24m) of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis and as a consequence are included in the Risk, Savings and Group capital and financing covered business on an EEV basis.

5. Investment projects predominately relates to Solvency II and other strategic investments.

6. International non-covered business includes our joint venture operations in Egypt, the Gulf, India and business unit costs of £3m (H1 11: £2m; FY 11: £5m) allocated to the International segment.

7. Primarily reflects the implementation of the UK planned future reductions in corporation tax to 22% on 1 April 2014.

European Embedded Value

Notes to the Financial Statements

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

For the six months ended 30 June 2011	Notes	Risk and Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.03/5.05	109		28		137
Contribution from in-force business:						
- expected return ¹		190		54		244
- experience variances	5.07	70		(4)		66
- operating assumption changes	5.07	48		(2)		46
Development costs		(7)		-		(7)
Contribution from shareholder net worth				13	82	95
Operating profit on covered business		410	-	89	82	581
Business reported on an IFRS basis:						
Risk non-covered business ²		18				18
Savings non-covered business ³		10				10
Investment management ⁴	5.08		104			104
Group capital and financing	5.10				(52)	(52)
Investment projects ⁵					(25)	(25)
International non-covered business ⁶				(2)		(2)
Total operating profit		438	104	87	5	634
Variation from longer term investment return	5.11	16	(3)	(6)	(38)	(31)
Effect of economic assumption changes	5.12	(42)	-	29	-	(13)
Property losses attributable to non-controlling interests		-	-	-	(1)	(1)
Profit/(loss) before tax		412	101	110	(34)	589
Tax (expense)/credit on profit from ordinary activities	5.14	(96)	(22)	(37)	16	(139)
Effect of tax rate changes ⁷	5.14	155	-	1	-	156
Profit/(loss) for the period		471	79	74	(18)	606
Operating profit attributable to:						
Risk		344				
Savings		94				

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 Risk and Savings business was £3,886m. This is adjusted for the effects of opening model changes of £193m to give an adjusted opening base VIF of £4,079m. This is then multiplied by the opening risk discount rate of 7.3% and the result grossed up at the notional attributed tax rate of 23% to give a return of £190m.

2. Risk non-covered business primarily reflects GI operating profit of £17m (see Note 2.01(f)).

3. Savings non-covered business mainly comprises Savings investments on an IFRS basis, adjusted for Suffolk Life, International (Ireland) and Nationwide.

4. Investment management operating profit excludes £13m of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis and as a consequence are included in the Risk, Savings and Group capital and financing covered business on an EEV basis.

5. Investment projects predominately relates to Solvency II and other strategic investments.

6. International non-covered business includes our joint venture operations in Egypt, the Gulf, India and business unit costs of £2m allocated to the International segment.

7. Primarily reflects the implementation of the UK planned future reductions in corporation tax to 23% on 1 April 2014.

European Embedded Value

Notes to the Financial Statements

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

For the year ended 31 December 2011	Notes	Risk and Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.03/5.05	376		65		441
Contribution from in-force business:						
- expected return ¹		387		107		494
- experience variances	5.07	112		125		237
- operating assumption changes	5.07	101		(68)		33
Development costs		(10)		-		(10)
Contribution from shareholder net worth				21	157	178
Operating profit on covered business		966	-	250	157	1,373
Business reported on an IFRS basis:						
Risk non-covered business ²		36				36
Savings non-covered business ³		27				27
Investment management ⁴	5.08		210			210
Group capital and financing	5.10				(113)	(113)
Investment projects ⁵					(56)	(56)
International non-covered business ⁶				(8)		(8)
Total operating profit		1,029	210	242	(12)	1,469
Variation from longer term investment return	5.11	124	(7)	(6)	(222)	(111)
Effect of economic assumption changes	5.12	43	-	(64)	-	(21)
Property losses attributable to non-controlling interests		-	-	-	(3)	(3)
Profit/(loss) before tax		1,196	203	172	(237)	1,334
Tax (expense)/credit on profit from ordinary activities	5.14	(279)	(38)	(63)	121	(259)
Effect of tax rate changes ⁷	5.14	155	-	1	-	156
Profit/(loss) for the year		1,072	165	110	(116)	1,231

Operating profit attributable to:

Risk	801
Savings	228

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 Risk and Savings business was £3,886m in 2011. This is adjusted for the effects of opening model changes of £200m to give an adjusted opening base VIF of £4,086m. This is then multiplied by the opening risk discount rate of 7.3% and the result grossed up at the notional attributed tax rate of 23% to give a return of £387m.

2. Risk non-covered business primarily reflects GI operating profit of £42m (see note 2.01(f)).

3. Savings non-covered business mainly comprises Savings investments on an IFRS basis, adjusted for Suffolk Life, International (Ireland) and Nationwide.

4. Investment management operating profit excludes £24m of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis and as a consequence are included in the Risk, Savings and Group capital and financing covered business on an EEV basis.

5. Investment projects predominately relates to Solvency II and other strategic investments.

6. International non-covered business includes our joint venture operations in Egypt, the Gulf, India and business unit costs of £5m allocated to the International segment.

7. Primarily reflects the segmentation of the UK planned future reductions in corporation tax to 23% on 1 April 2014.

European Embedded Value

Notes to the Financial Statements

5.02 New business summary¹

	Notes	APE ² 30.06.12 £m	PVNBP ³ 30.06.12 £m	Margin ⁴ 30.06.12 %	APE 30.06.11 £m	PVNBP 30.06.11 £m	Margin 30.06.11 %
Risk ⁵	5.03	168	1,135	9.6	170	1,222	7.6
Savings	5.03	320	2,082	0.6	303	2,032	0.8
International	5.05	91	794	5.8	76	645	4.3
		579	4,011	4.2	549	3,899	3.5

	Notes	APE Full year 31.12.11 £m	PVNBP Full year 31.12.11 £m	Margin Full year 31.12.11 %
Risk ⁵	5.03	498	3,446	9.8
Savings	5.03	590	3,896	0.8
International	5.05	131	1,174	5.5
		1,219	8,516	5.1

1. Covered business only.

2. Annual Premium Equivalent (APE) comprises the new annual premiums together with 10% of single premiums.

3. The present value of new business premiums (PVNBP) on the EEV basis is defined as the present value of annual premiums plus single premiums for any given period. It is calculated using the same assumptions as for the contribution from new business but determined as at the point of sale.

4. The new business margin is defined as the contribution from new business (including the cost of solvency capital) divided by the PVNBP.

5. Longevity insurance has been excluded from the Risk PVNBP and new business margin measures.

European Embedded Value

Notes to the Financial Statements

5.03 Risk and Savings¹ new business by product

	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 %
For the six months ended 30 June 2012							
Protection	109	546	5.0	-	546	59	10.8
Annuities	-	-	-	589	589	50	8.5
Longevity insurance ⁴	-	n/a	n/a	-	n/a	-	n/a
Total Risk	109	546	5.0	589	1,135	109	9.6
Unit linked bonds	-	-	-	266	266	2	0.8
Pensions, stakeholder and other non profit	139	512	3.7	967	1,479	6	0.4
With-profits savings	35	110	3.1	227	337	4	1.2
Total Savings	174	622	3.6	1,460	2,082	12	0.6
Total Risk and Savings	283	1,168	4.1	2,049	3,217	121	3.8
Cost of capital						17	
Contribution from new business before cost of capital						138	

	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 %
For the six months ended 30 June 2011							
Protection	94	466	5.0	-	466	30	6.4
Annuities	-	-	-	756	756	63	8.4
Longevity insurance ⁴	-	n/a	n/a	-	n/a	-	n/a
Total Risk	94	466	5.0	756	1,222	93	7.6
Unit linked bonds	-	-	-	320	320	5	1.6
Pensions, stakeholder and other non profit	120	469	3.9	808	1,277	3	0.2
With-profits savings	39	118	3.0	317	435	8	1.8
Total Savings	159	587	3.7	1,445	2,032	16	0.8
Total Risk and Savings	253	1,053	4.2	2,201	3,254	109	3.3
Cost of capital						14	
Contribution from new business before cost of capital						123	

1. Covered business only.

2. The capitalisation factor is the present value of annual premiums divided by the amount of annual premiums.

3. The contribution from new business is defined as the present value at point of sale of assumed profits from new business written in the period and then rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.

4. The PVNBP measure is not applicable.

European Embedded Value

Notes to the Financial Statements

5.03 Risk and Savings¹ new business by product (continued)

For the year ended 31 December 2011	Annual premiums £m	Present value of annual premiums £m	Capitalisation factor ²	Single premiums £m	PVNBP £m	Contribution from new business ³ £m	Margin %
Protection	177	931	5.3	-	931	86	9.3
Annuities	-	-	-	2,515	2,515	252	10.0
Longevity insurance ⁴	70	n/a	n/a	-	n/a	7	n/a
Total Risk	247	931	5.3	2,515	3,446	345	9.8
Unit linked bonds	-	-	-	623	623	8	1.3
Pensions, stakeholder and other non profit	244	902	3.7	1,620	2,522	10	0.4
With-profits savings	69	226	3.3	525	751	13	1.8
Total Savings	313	1,128	3.6	2,768	3,896	31	0.8
Total Risk and Savings	560	2,059	4.2	5,283	7,342	376	5.0
Cost of capital						49	
Contribution from new business before cost of capital						425	

1. Covered business only.

2. The capitalisation factor is the present value of annual premiums divided by the amount of annual premiums.

3. The contribution from new business is defined as the present value at point of sale of assumed profits from new business written in the period and then rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.

4. The PVNBP measure is not applicable.

5.04 Non profit internal rate of return (IRR) and payback period¹ by product

	IRR 30.06.12 %	Payback period 30.06.12 years	IRR 30.06.11 %	Payback period 30.06.11 years	IRR 31.12.11 %	Payback period 31.12.11 years
Protection	>15	3	>15	4	>15	4
Annuities ²	>30	<0	>30	<0	>30	<0
Unit linked bonds	8	8	13	6	10	7
Pensions, stakeholder and other non profit	8	11	8	12	8	12

1. The payback period is calculated on an undiscounted basis.

2. Given negative strain on annuity business and an immediate IFRS payback, the IRR calculation is infinite. The IRRs and payback period for FY 11 includes longevity insurance.

European Embedded Value

Notes to the Financial Statements

5.05 International¹ new business

	APE £m	PVNBP £m	Contri- bution from new business ² £m	Cost of capital £m	Margin %
For the six months ended 30 June 2012					
USA (LGA) ³	42	384	42	1	10.9
Netherlands (LGN)	11	88	1	2	0.9
France (LGF)	38	322	3	4	1.0
Total	91	794	46	7	5.8

	APE £m	PVNBP £m	Contri- bution from new business ² £m	Cost of capital £m	Margin %
For the six months ended 30 June 2011					
USA (LGA)	32	261	25	2	9.8
Netherlands (LGN)	8	69	-	1	-
France (LGF)	36	315	3	3	0.8
Total	76	645	28	6	4.3

	APE £m	PVNBP £m	Contri- bution from new business ² £m	Cost of capital £m	Margin %
For the year ended 31 December 2011					
USA (LGA)	69	637	69	2	10.7
Netherlands (LGN)	15	130	(2)	2	(1.3)
France (LGF)	47	407	(2)	6	(0.4)
Total	131	1,174	65	10	5.5

1. Excludes core retail investments in LGF and new business from joint operations in Egypt, India and Gulf which are reported on an IFRS basis.

2. Contribution from new business is reported after the cost of capital.

3. The increased new business contribution in the USA compared to the first half of 2011 reflects the increase in new business volumes. The results for LGA include the groupwide impact of US new business including the expected impact of internal reinsurance arrangements with the UK.

European Embedded Value

Notes to the Financial Statements

5.06 International¹ new business in local currency

	Annual premiums m	Present value of annual premiums m	Capital- isation factor	Single premiums m	PVNBP m	Contri- bution from new business ² m	Cost of capital m	Margin %
For the six months ended 30 June 2012								
USA (LGA) ³	\$66	\$606	9.2	-	\$606	\$66	\$2	10.9
Netherlands (LGN)	€8	€60	7.5	€54	€114	€1	€2	0.9
France (LGF)	€32	€243	7.6	€150	€393	€4	€5	1.0

	Annual premiums m	Present value of annual premiums m	Capital- isation factor	Single premiums m	PVNBP m	Contri- bution from new business ² m	Cost of capital m	Margin %
For the six months ended 30 June 2011								
USA (LGA)	\$52	\$422	8.1	-	\$422	\$41	\$3	9.8
Netherlands (LGN)	€2	€13	6.4	€67	€80	-	€1	-
France (LGF)	€27	€219	8.1	€143	€362	€3	€4	0.8

	Annual premiums m	Present value of annual premiums m	Capital- isation factor	Single premiums m	PVNBP m	Contri- bution from new business ² m	Cost of capital m	Margin %
For the year ended 31 December 2011								
USA (LGA)	\$111	\$1,028	9.3	-	\$1,028	\$110	\$3	10.7
Netherlands (LGN)	€6	€40	6.7	€109	€149	(€2)	€2	(1.3)
France (LGF)	€27	€201	7.5	€267	€468	(€2)	€7	(0.4)

1. Excludes core retail investments in LGF and new business from joint operations in Egypt, India and Gulf which are reported on an IFRS basis.

2. Contribution from new business is reported after the cost of capital.

3. The increased new business contribution in the USA compared to the first half of 2011 reflects the increase in new business volumes. The results for LGA include the groupwide impact of US new business including the expected impact of internal reinsurance arrangements with the UK.

European Embedded Value

Notes to the Financial Statements

5.07 Analysis of experience variances and operating assumption changes

	Risk and Savings			International		
	Experience variances £m	Operating assumption changes £m	Total £m	Experience variances £m	Operating assumption changes £m	Total £m
For the six months ended 30 June 2012						
Persistency	(1)	-	(1)	(13)	-	(13)
Mortality/morbidity	(11)	-	(11)	(13)	-	(13)
Expenses	(10)	(18)	(28)	(2)	-	(2)
Other						
- US capital restructure	-			-		
- Bulk purchase annuity data loading	17			-		
- UK cost of capital unwind	28			-		
- Modelling changes and other experience variances	(10)			(14)		
	35	10	45	(14)	(1)	(15)
	13	(8)	5	(42)	(1)	(43)

Full experience investigations are not undertaken at the half-year. An estimate is made of both positive and negative variances.

H1 12 Risk and Savings mortality experience variances primarily relates to adverse experience in group protection. This continues to trend back to assumptions.

H1 12 Risk and Savings operating assumption changes reflect higher investment expenses during the period driven by a change in the investment mix in the underlying funds.

Adverse International mortality experience variances mainly relate to the higher number of LGA term assurance claims during the period. Persistency variance relates to higher lapses on existing term business in the Netherlands and in the USA.

The H1 12 UK cost of capital unwind includes the impact of the release of capital relating to the in-force book of £14m. The balance also includes the reversal of the cost of capital impact from the unwind of the discount rate on opening adjusted VIF. This is calculated as the opening cost of capital of £372m, multiplied by the opening risk discount rate of 6.2% for half a year, and grossed up for the notional attributed tax rate of 22% to give £14m.

	Risk and Savings			International		
	Experience variances £m	Operating assumption changes £m	Total £m	Experience variances £m	Operating assumption changes £m	Total £m
For the six months ended 30 June 2011						
Persistency	2	-	2	5	-	5
Mortality/morbidity	(35)	-	(35)	(13)	-	(13)
Expenses	7	30	37	-	(1)	(1)
Other						
- US capital restructure	-			-		
- Bulk purchase annuity data loading	19			-		
- UK cost of capital unwind	27			-		
- Modelling changes and other experience variances	50			4		
	96	18	114	4	(1)	3
	70	48	118	(4)	(2)	(6)

H1 11 Risk and Savings mortality experience variance includes £27m relating to the group protection business, of which half is due to a small number of high value claims.

H1 11 Risk and Savings expense operating assumption changes reflects the lower unit costs in individual protection.

The H1 11 UK cost of capital unwind includes the impact of the release of capital relating to the in-force book of £11m. The balance also includes the reversal of the cost of capital impact from the unwind of the risk discount rate on opening adjusted VIF. This is calculated as the opening cost of capital of £334m, multiplied by the opening risk discount rate of 7.3% for half a year, and grossed up for the notional attributed tax rate of 23% to give £16m.

European Embedded Value

Notes to the Financial Statements

5.07 Analysis of experience variances and operating assumption changes (continued)

	Risk and Savings			International		
	Experience variances £m	Operating assumption changes £m	Total £m	Experience variances £m	Operating assumption changes £m	Total £m
For the year ended 31 December 2011						
Persistency	5	9	14	3	(24)	(21)
Mortality/morbidity	(25)	(7)	(32)	(27)	(55)	(82)
Expenses	-	55	55	(7)	1	(6)
Other						
- US capital restructure	15			163		
- Bulk purchase annuity data loading	42			-		
- UK cost of capital unwind	54			-		
- Modelling changes and other experience variances	21			(7)		
	132	44	176	156	10	166
	112	101	213	125	(68)	57

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

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

Adverse International persistency and mortality operating assumptions changes mainly relate to LGA term assurances in the period after the end of the ordinary level premium period when policyholders may choose to continue their policies at reviewable rates.

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

European Embedded Value

Notes to the Financial Statements

5.08 Investment management operating profit

	30.06.12 £m	30.06.11 £m	Full year 31.12.11 £m
Pension funds (managed and segregated) ¹	89	87	172
Other non-pension ²	11	12	25
Investment management services for internal funds ³	6	5	13
Total Investment management operating profit	106	104	210

1. The managed pension funds business within Investment management has been reported on an IFRS basis as is consistent with prior years.
2. Other non-pension includes institutional segregated mandates, private equity and property (both in the UK and overseas). Interest income on shareholder funds of £3m (H1 11: £5m; FY 11: £9m) on an average asset balance of £0.4bn (H1 11: £0.4bn; FY 11: £0.4bn) has been included within other non-pension operating profit.
3. Investment management services for internal funds excludes £13m (H1 11: £13m; FY 11: £24m) of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis within the Risk and Savings covered business on an EEV basis.

5.09 International operating profit

	30.06.12 £m	30.06.11 £m	Full year 31.12.11 £m
USA (LGA)¹	50	75	242
Netherlands (LGN)	2	11	6
France (LGF)	10	3	2
Total Europe operating profit²	12	14	8
Other ³	(4)	(2)	(8)
Total International operating profit	58	87	242

1. FY 11 US operating profit reflected improved new business contribution and the impact of the captive reinsurance structure, which was moved from Bermuda to Vermont during 2011. The H1 12 reduction in US operating profit reflects adverse persistency and mortality variances in H1 12, partially compensated by improved new business contribution.
2. The Netherlands operating profit has been affected by adverse persistency. In France, the adverse mortality variance experienced by the group risk business in H1 11 did not recur in 2012 therefore giving an improved result.
3. Other includes our joint venture operations in Egypt, the Gulf, India and business unit costs of £3m (H1 11: £2m; FY 11: £5m) allocated to the International segment.

5.10 Group capital and financing operating profit¹

	30.06.12 £m	30.06.11 £m	Full year 31.12.11 £m
Investment return	84	102	191
Interest expense ²	(63)	(62)	(123)
Investment expenses	(3)	(2)	(5)
Unallocated corporate expenses	(5)	(5)	(11)
Other	(2)	(3)	(8)
Total Group capital and financing operating profit	11	30	44
Analysed as:			
On an EEV basis	67	82	157
On an IFRS basis	(56)	(52)	(113)

1. Group capital and financing represents operating profit on the shareholder assets held within the covered business, reported on an embedded value basis, and operating profit on the shareholder assets held outside the covered business reported on an IFRS basis. Operating profit for the group capital and financing segment includes lower assumed returns on cash and LIBOR benchmarked bonds as reported in the FY 11 results. This has been applied to the H1 11 operating profit comparatives as if these changes had been in effect since 1 January 2011. The impact was to reduce H1 11 operating profit by £28m. There is no impact on EEV profit before tax from these changes.
2. Interest expense excludes non recourse financing (see Note 2.16).

European Embedded Value

Notes to the Financial Statements

5.11 Variation from longer term investment return

	30.06.12 £m	30.06.11 £m	Full year 31.12.11 £m
Business reported on an EEV basis:			
Risk and Savings	(7)	12	124
International	6	(6)	(6)
Group capital and financing ¹	(11)	(16)	(152)
	(12)	(10)	(34)
Business reported on an IFRS basis:			
Risk and Savings	5	4	-
Investment management	(2)	(3)	(7)
Group capital and financing ¹	(4)	(22)	(70)
	(13)	(31)	(111)

1. Group capital and financing investment returns primarily consists of negative equity and debt related investment variance. (See Note 2.06).

5.12 Effect of economic assumption changes

	30.06.12 £m	30.06.11 £m	Full year 31.12.11 £m
Business reported on an EEV basis:			
Risk and Savings ¹	(73)	(42)	43
International ²	(53)	29	(64)
	(126)	(13)	(21)

1. The Risk and Savings economic assumptions primarily reflects the impact of changes in LIBOR on reinvestment and disinvestment rates and lower future expected investment returns which are partially offset by a lower risk discount rate.

2. Includes the impact of the increase in risk margin from 3.7% to 3.8% and the impact of lower interest rates on future investment returns and investment margins.

5.13 Time value of financial options and guarantees

	30.06.12 £m	30.06.11 £m	Full year 31.12.11 £m
Risk and Savings ¹	24	15	21
International	5	13	10
	29	28	31

1. Includes £19m (H1 11: £10m; FY 11: £16m) relating to UK with-profits business, and £5m (H1 11: £5m; FY 11: £5m) relating to UK non profit business.

European Embedded Value Notes to the Financial Statements

5.14 Tax

	Profit/ (loss) before tax	Tax (exp- ense)/ credit	Profit/ (loss) before tax	Tax (exp- ense)/ credit	Profit/ (loss) before tax	Tax (exp- ense)/ credit
	30.06.12 £m	30.06.12 £m	30.06.11 £m	30.06.11 £m	Full year 31.12.11 £m	Full year 31.12.11 £m
From continuing operations						
Risk	263	(58)	344	(79)	801	(187)
Savings	41	(9)	94	(22)	228	(54)
Investment management	106	(19)	104	(23)	210	(40)
International	58	(20)	87	(30)	242	(85)
Group capital and financing	11	(1)	30	(3)	44	(6)
Investment projects	(23)	6	(25)	7	(56)	15
Operating profit	456	(101)	634	(150)	1,469	(357)
Variation from longer term investment return	(13)	19	(31)	11	(111)	87
Effect of economic assumption changes	(126)	32	(13)	-	(21)	11
Property losses attributable to non-controlling interests	1	-	(1)	-	(3)	-
Effect of tax rate changes	-	48	-	156	-	156
Profit/(loss) before tax / Tax	318	(2)	589	17	1,334	(103)

The UK EEV calculations assume a tax basis which reflects the annualised current tax rate of 24.5% and the planned future reductions in corporation tax to 24% from 1 April 2012, 23% from 1 April 2013, and 22% from 1 April 2014. The tax rate used for grossing up in the income statement is based on a UK corporation tax rate of 22% (H1 11: 23%; FY 11: 23%).

European Embedded Value

Notes to the Financial Statements

5.15 Earnings per share

(a) Earnings per share

	Profit before tax 30.06.12 £m	Tax (exp- ense)/ credit 30.06.12 £m	Profit after tax 30.06.12 £m	Per share 30.06.12 p	Profit before tax 30.06.11 £m	Tax (exp- ense)/ credit 30.06.11 £m	Profit after tax 30.06.11 £m	Per share 30.06.11 p
Operating profit	456	(101)	355	6.09	634	(150)	484	8.30
Variation from longer term investment return	(13)	19	6	0.10	(31)	11	(20)	(0.34)
Effect of economic assumption changes	(126)	32	(94)	(1.61)	(13)	-	(13)	(0.22)
Effect of tax rate changes	-	48	48	0.82	-	156	156	2.68
Earnings per share based on profit attributable to equity holders	317	(2)	315	5.40	590	17	607	10.42

	Profit before tax Full year 31.12.11 £m	Tax (exp- ense)/ credit Full year 31.12.11 £m	Profit after tax Full year 31.12.11 £m	Per share Full year 31.12.11 p
Operating profit	1,469	(357)	1,112	19.08
Variation from longer term investment return	(111)	87	(24)	(0.41)
Effect of economic assumption changes	(21)	11	(10)	(0.17)
Effect of tax rate changes	-	156	156	2.67
Earnings per share based on profit attributable to equity holders	1,337	(103)	1,234	21.17

(b) Diluted earnings per share

(i) Based on operating profit after tax

	Profit after tax 30.06.12 £m	Number of shares ¹ 30.06.12 m	Per share 30.06.12 p	Profit after tax 30.06.11 £m	Number of shares ¹ 30.06.11 m	Per share 30.06.11 p
Operating profit after tax	355	5,832	6.09	484	5,828	8.30
Net shares under options allocable for no further consideration	-	96	(0.10)	-	97	(0.14)
Diluted earnings per share	355	5,928	5.99	484	5,925	8.16

	Profit after tax Full year 31.12.11 £m	Number of shares ¹ Full year 31.12.11 m	Per share Full year 31.12.11 p
Operating profit after tax	1,112	5,828	19.08
Net shares under options allocable for no further consideration	-	97	(0.31)
Diluted earnings per share	1,112	5,925	18.77

European Embedded Value Notes to the Financial Statements

5.15 Earnings per share (continued)

(b) Diluted earnings per share (continued)

(ii) Based on profit attributable to equity holders of the Company

	Profit after tax 30.06.12 £m	Number of shares ¹ 30.06.12 m	Per share 30.06.12 p	Profit after tax 30.06.11 £m	Number of shares ¹ 30.06.11 m	Per share 30.06.11 p
Profit attributable to equity holders of the Company	315	5,832	5.40	607	5,828	10.42
Net shares under options allocable for no further consideration	-	96	(0.09)	-	97	(0.18)
Diluted earnings per share	315	5,928	5.31	607	5,925	10.24

	Profit after tax Full year 31.12.11 £m	Number of shares ¹ Full year 31.12.11 m	Per share Full year 31.12.11 p
Profit attributable to equity holders of the Company	1,234	5,828	21.17
Net shares under options allocable for no further consideration	-	97	(0.34)
Diluted earnings per share	1,234	5,925	20.83

1. Weighted average number of shares.

The number of shares in issue at 30 June 2012 was 5,905,704,992 (30 June 2011: 5,870,748,796; 31 December 2011: 5,872,166,893).

European Embedded Value

Notes to the Financial Statements

5.16 Group embedded value reconciliation

	Covered business			Total UK £m	Inter-national £m	Non-covered business £m	Total £m
	UK free surplus £m	UK required capital £m	UK value of in-force £m				
For the six months ended 30 June 2012							
At 1 January							
Value of in-force business (VIF)	-	-	4,247	4,247	1,130	-	5,377
Shareholder net worth (SNW)	1,461	1,757	-	3,218	401	(388)	3,231
	1,461	1,757	4,247	7,465	1,531	(388)	8,608
Exchange rate movements	-	-	-	-	(29)	8	(21)
	1,461	1,757	4,247	7,465	1,502	(380)	8,587
Operating profit/(loss) for the period:							
- New business contribution ¹	(117)	54	158	95			
- Expected return on VIF	-	-	132	132			
- Expected transfer from Non profit VIF to SNW ²	364	(83)	(281)	-			
- With-profits transfer	26	-	(26)	-			
- Expected return on SNW	26	32	-	58			
Generation of embedded value	299	3	(17)	285			
- Experience variances	(6)	4	4	2			
- Operating assumption changes	29	-	(35)	(6)			
- Development costs	(7)	-	-	(7)			
Variations	16	4	(31)	(11)			
Operating profit after tax for the period	315	7	(48)	274	41	40	355
Non-operating profit/(loss) for the period:							
- Investment variances	16	-	(12)	4			
- Economic assumption changes	(33)	18	(43)	(58)			
- Effect of UK Budget tax changes	-	-	48	48			
Non-operating (loss)/profit for the period:	(17)	18	(7)	(6)	(33)	-	(39)
Profit for the period	298	25	(55)	268	8	40	316
Capital movements	-	-	-	-	-	-	-
Intra-group distributions ³	30	-	-	30	(39)	9	-
Dividends to equity holders of the Company	-	-	-	-	-	(278)	(278)
Net movements in employee share schemes	-	-	-	-	-	(4)	(4)
Loss attributable to non-controlling interests	-	-	-	-	-	(1)	(1)
Transfer to non-covered business ⁴	(10)	-	-	(10)	-	10	-
Other reserve movements including pension deficit	(32)	-	(8)	(40)	-	1	(39)
Embedded value	1,747	1,782	4,184	7,713	1,471	(603)	8,581
Represented by:							
- Non profit			3,773				
- With-profits			411				
Value of in-force business	-	-	4,184	4,184	1,135	-	5,319
Shareholder net worth	1,747	1,782	-	3,529	336	(603)	3,262

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

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

3. Dividends of \$60m from LGA and €2m from LGF were also paid to the group.

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

European Embedded Value

Notes to the Financial Statements

5.16 Group embedded value reconciliation (continued)

	Covered business						Total
	UK free surplus	UK required capital	UK value of in-force	Total UK	International	Non-covered business	
For the six months ended 30 June 2011	£m	£m	£m	£m	£m	£m	£m
At 1 January							
Value of in-force business (VIF)	-	-	3,886	3,886	1,015	-	4,901
Shareholder net worth (SNW)	1,395	1,640	-	3,035	748	(954)	2,829
	1,395	1,640	3,886	6,921	1,763	(954)	7,730
Exchange rate movements	-	-	-	-	(2)	12	10
	1,395	1,640	3,886	6,921	1,761	(942)	7,740
Operating profit/(loss) for the period:							
- New business contribution ¹	(150)	79	155	84			
- Expected return on VIF	-	-	146	146			
- Expected transfer from Non profit VIF to SNW ²	372	(98)	(274)	-			
- With-profits transfer	26	-	(26)	-			
- Expected return on SNW	35	39	-	74			
Generation of embedded value	283	20	1	304			
- Experience variances	(9)	1	53	45			
- Operating assumption changes	33	-	4	37			
- Development costs	(5)	-	-	(5)			
Variances	19	1	57	77			
Operating profit/(loss) after tax for the period	302	21	58	381	59	44	484
Non-operating profit/(loss) for the period:							
- Investment variances	(26)	16	9	(1)			
- Economic assumption changes	-	-	(32)	(32)			
- Effect of UK Budget tax changes	-	-	155	155			
Non-operating profit/(loss) for the period:	(26)	16	132	122	16	(16)	122
Profit/(loss) for the period	276	37	190	503	75	28	606
Capital movements ³	-	-	-	-	(271)	271	-
Intra-group distributions ⁴	20	-	-	20	(35)	15	-
Dividends to equity holders of the Company	-	-	-	-	-	(201)	(201)
Loss attributable to non-controlling interests	-	-	-	-	-	1	1
Transfer to non-covered business ⁵	(10)	-	-	(10)	-	10	-
Other reserve movements including pension deficit	(22)	-	-	(22)	-	23	1
Embedded value	1,659	1,677	4,076	7,412	1,530	(795)	8,147
Represented by:							
- Non profit			3,560				
- With-profits			516				
Value of in-force business	-	-	4,076	4,076	1,075	-	5,151
Shareholder net worth	1,659	1,677	-	3,336	455	(795)	2,996

1. The free surplus reduction of £150m to finance new business includes £71m IFRS new business strain and £79m additional required capital.

2. The increase in free surplus of £372m from the expected transfer from the in-force non profit business includes £274m of IFRS operational cash generation and a £98m reduction in required capital.

3. The capital movement of £(271)m reflects the capital contribution made to the US to enable the repurchase of Potomac securities.

4. UK intra-group distributions reflect a £20m dividend paid from Nationwide Life to Society. Dividends of \$55m from the USA were also received.

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

European Embedded Value

Notes to the Financial Statements

5.16 Group embedded value reconciliation (continued)

	Covered business			Total UK	International	Non-covered business	Total
	UK free surplus	UK required capital	UK value of in-force				
	£m	£m	£m	£m	£m	£m	£m
For the year ended 31 December 2011							
At 1 January							
Value of in-force business (VIF)	-	-	3,886	3,886	1,015	-	4,901
Shareholder net worth (SNW)	1,395	1,640	-	3,035	748	(954)	2,829
	1,395	1,640	3,886	6,921	1,763	(954)	7,730
Exchange rate movements	-	-	-	-	(4)	3	(1)
	1,395	1,640	3,886	6,921	1,759	(951)	7,729
Operating profit/(loss) for the year:							
- New business contribution ¹	(258)	167	381	290			
- Expected return on VIF	-	-	298	298			
- Expected transfer from Non profit VIF to SNW ²	745	(185)	(560)	-			
- With-profits transfer	51	-	(51)	-			
- Expected return on SNW	58	67	-	125			
Generation of embedded value	596	49	68	713			
- Experience variances	(52)	20	108	76			
- Operating assumption changes	34	3	41	78			
- Development costs	(8)	-	-	(8)			
Variances	(26)	23	149	146			
Operating profit after tax for the year	570	72	217	859	164	89	1,112
Non-operating profit/(loss) for the year:							
- Investment variances	81	-	(47)	34			
- Economic assumption changes	(65)	45	53	33			
- Effect of UK Budget tax changes	-	-	155	155			
Non-operating profit/(loss) for the year:	16	45	161	222	(48)	(55)	119
Profit for the year	586	117	378	1,081	116	34	1,231
Capital movements ³	-	-	-	-	(262)	262	-
Intra-group distributions ⁴	(437)	-	-	(437)	(82)	519	-
Dividends to equity holders of the Company	-	-	-	-	-	(298)	(298)
Net movements in employee share schemes	-	-	-	-	-	4	4
Loss attributable to non-controlling interests	-	-	-	-	-	3	3
Transfer to non-covered business ⁵	(19)	-	-	(19)	-	19	-
Other reserve movements including pension deficit	(64)	-	(17)	(81)	-	20	(61)
Embedded value	1,461	1,757	4,247	7,465	1,531	(388)	8,608
Represented by:							
- Non profit			3,808				
- With-profits			439				
Value of in-force business	-	-	4,247	4,247	1,130	-	5,377
Shareholder net worth	1,461	1,757	-	3,218	401	(388)	3,231

1. The free surplus reduction of £258m to finance new business includes £94m IFRS new business strain and £167m additional required capital. Other items have a net negative impact of £3m.

2. The increase in free surplus of £745m from the expected transfer from the in-force non profit business includes £560m of IFRS operational cash generation and a £185m reduction in required capital.

3. The capital movement of £262m reflects the capital contribution made to LGA to enable the repurchase of Potomac securities of £271m.

4. UK intra-group distributions reflect a £500m dividend paid from Society to Group and dividends of £20m paid to Society from subsidiaries (primarily Nationwide Life). Dividends of \$57m from LGA, €50m from LGN and €2m from LGF were also paid to the group.

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

European Embedded Value

Notes to the Financial Statements

5.17 Analysis of shareholders' equity

	Risk and Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
As at 30 June 2012					
Analysed as:					
IFRS basis shareholders' equity ¹	331	439	1,271	3,116	5,157
Additional retained profit/(loss) on an EEV basis	4,184	-	238	(998)	3,424
Shareholders' equity on an EEV basis	4,515	439	1,509	2,118	8,581
Comprising:					
Business reported on an IFRS basis	331	439	38	(1,411)	(603)
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus ²			72	1,747	1,819
- Required capital to cover solvency margin			264	1,782	2,046
Value of in-force					
- Value of in-force business	4,573		1,219		5,792
- Cost of capital	(389)		(84)		(473)

	Risk and Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
As at 30 June 2011 (Restated)					
Analysed as:					
IFRS basis shareholders' equity ¹	282	409	1,261	2,896	4,848
Additional retained profit/(loss) on an EEV basis	4,076	-	304	(1,081)	3,299
Shareholders' equity on an EEV basis	4,358	409	1,565	1,815	8,147
Comprising:					
Business reported on an IFRS basis	282	409	35	(1,521)	(795)
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus ²			187	1,659	1,846
- Required capital to cover solvency margin			268	1,677	1,945
Value of in-force					
- Value of in-force business	4,391		1,158		5,549
- Cost of capital	(315)		(83)		(398)

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

2. Free surplus is the value of any capital and surplus allocated to, but not required to support, the in-force covered business at the valuation date.

Further analysis of shareholders' equity is included in Note 5.18.

European Embedded Value

Notes to the Financial Statements

5.17 Analysis of shareholders' equity (continued)

As at 31 December 2011 (Restated)	Risk and Savings £m	Invest- ment manage- ment £m	Inter- national £m	Group capital and financing £m	Total £m
Analysed as:					
IFRS basis shareholders' equity ¹	309	351	1,263	3,133	5,056
Additional retained profit/(loss) on an EEV basis	4,247	-	307	(1,002)	3,552
Shareholders' equity on an EEV basis	4,556	351	1,570	2,131	8,608
Comprising:					
Business reported on an IFRS basis	309	351	39	(1,087)	(388)
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus ²			148	1,461	1,609
- Required capital to cover solvency margin			253	1,757	2,010
Value of in-force					
- Value of in-force business	4,620		1,211		5,831
- Cost of capital	(373)		(81)		(454)

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

2. Free surplus is the value of any capital and surplus allocated to, but not required to support, the in-force covered business at the valuation date.

Further analysis of shareholders' equity is included in Note 5.18.

European Embedded Value Notes to the Financial Statements

5.18 Segmental analysis of shareholders' equity

	Covered business EEV basis 30.06.12 £m	Other business IFRS basis 30.06.12 £m	Total 30.06.12 £m	Covered business EEV basis 30.06.11 £m	Other business IFRS basis 30.06.11 £m	Total 30.06.11 £m
Risk						
- Risk reported on an EEV basis	2,947	-	2,947	2,743	-	2,743
- General insurance	-	156	156	-	133	133
- Other	-	12	12	-	5	5
Total Risk	2,947	168	3,115	2,743	138	2,881
Savings						
- Savings reported on an EEV basis	1,237	-	1,237	1,333	-	1,333
- Savings investments	-	137	137	-	126	126
- Other	-	26	26	-	18	18
Total Savings	1,237	163	1,400	1,333	144	1,477
Investment management	-	439	439	-	409	409
International						
- USA (LGA)	1,024	-	1,024	940	-	940
- Netherlands (LGN)	248	-	248	364	-	364
- France (LGF)	199	-	199	226	-	226
- Emerging markets	-	38	38	-	35	35
Total International	1,471	38	1,509	1,530	35	1,565
Group capital and financing	3,529	(1,411)	2,118	3,336	(1,521)	1,815
	9,184	(603)	8,581	8,942	(795)	8,147

European Embedded Value

Notes to the Financial Statements

5.18 Segmental analysis of shareholders' equity (continued)

	Covered business EEV basis At 31.12.11 £m	Other business IFRS basis At 31.12.11 £m	Total 31.12.11 £m
Risk			
- Risk reported on an EEV basis	2,995	-	2,995
- General insurance	-	148	148
- Other	-	6	6
Total Risk	2,995	154	3,149
Savings			
- Savings reported on an EEV basis	1,252	-	1,252
- Savings investments	-	136	136
- Other	-	19	19
Total Savings	1,252	155	1,407
Investment management	-	351	351
International			
- USA (LGA)	1,062	-	1,062
- Netherlands (LGN)	271	-	271
- France (LGF)	198	-	198
- Emerging markets	-	39	39
Total International	1,531	39	1,570
Group capital and financing	3,218	(1,087)	2,131
	8,996	(388)	8,608

5.19 Reconciliation of shareholder net worth

	UK covered business 30.06.12 £m	Total 30.06.12 £m	UK covered business 30.06.11 £m	Total 30.06.11 Restated £m	UK covered business 31.12.11 £m	Total 31.12.11 Restated £m
SNW of long term operations (IFRS basis)	4,548	5,760	4,416	5,643	4,209	5,444
Other liabilities (IFRS basis)	-	(603)	-	(795)	-	(388)
Shareholders' equity on the IFRS basis	4,548	5,157	4,416	4,848	4,209	5,056
Purchased interest in long term business	(69)	(70)	(80)	(82)	(76)	(77)
Deferred acquisition costs/deferred income liabilities	(205)	(1,028)	(253)	(1,019)	(252)	(1,071)
Contingent loan ¹	-	-	(212)	(212)	(210)	(210)
Deferred tax ²	(200)	119	(227)	57	(235)	87
Other ³	(545)	(916)	(308)	(596)	(218)	(554)
Shareholder net worth on the EEV basis	3,529	3,262	3,336	2,996	3,218	3,231

1. During H1 12, the contingent loan was settled between Society and LGPL. On an EEV basis, the contingent loan was modelled within the VIF. On an IFRS basis, the contingent loan asset was included within the Group capital and financing net assets.

2. Deferred tax represents all tax which is expected to be paid under current legislation.

3. Other in the UK covered business relates primarily to the different treatment of annuities and non profit pension results under EEV compared with IFRS. Other total business also includes the different treatment of the LGA Triple X securitisation on an EEV and IFRS basis.

European Embedded Value

Notes to the Financial Statements

5.20 Assumptions

UK assumptions

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

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

- i. Where cash balances are held at the reporting date in excess of, or below strategic investment guidelines, then it is assumed that these cash balances 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 2011; 0.70% p.a. at 31 December 2011) greater than the swap rate at that time (i.e. the long term credit rate).
- iii. Where reinvestment or disinvestment is necessary to rebalance the asset portfolio in line with projected outgo, this is also assumed to take place at the long term credit rate above the swap rate at that time.

The returns on fixed and index-linked securities are calculated net of an allowance for default risk which takes account of the credit rating, outstanding term of the securities, and increase in the expectation of credit defaults over the economic cycle. The allowance for corporate securities expressed as a level rate deduction from the expected returns for annuities was 26bps at 30 June 2012 (27bps at 30 June 2011; 26bps at 31 December 2011).

Economic assumptions

	As at 30.06.12 % p.a.	As at 30.06.11 % p.a.	As at 31.12.11 % p.a.	As at 31.12.10 % p.a.
Equity risk premium	3.3	3.3	3.3	3.5
Property risk premium	2.0	2.0	2.0	2.0
Investment return (excluding annuities in LGPL)				
- Gilts:				
- Fixed interest	1.6 – 2.3	3.3 – 4.0	1.8 – 2.5	3.4 – 4.0
- RPI linked	2.5	4.1	2.6	4.1
- Non gilts:				
- Fixed interest	3.0 – 4.1	3.6 – 5.1	3.0 – 4.6	3.6 – 5.0
- Equities	5.6	7.3	5.8	7.5
- Property	4.3	6.0	4.5	6.0
Long-term rate of return on non profit annuities in LGPL	4.8	5.6	5.0	5.5
Risk free rate ¹	2.3	4.0	2.5	4.0
Risk margin	3.8	3.3	3.7	3.3
Risk discount rate (net of tax)	6.1	7.3	6.2	7.3
Inflation				
- Expenses/earnings	3.3	4.2	3.5	4.1
- Indexation	2.8	3.7	3.0	3.6

1. The risk free rate is the gross redemption yield on the 15 year gilt index.

European Embedded Value

Notes to the Financial Statements

5.20 Assumptions (continued)

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. The proportion of profits derived from with-profits business allocated to shareholders has been assumed to be 10% throughout.
- 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 improvements in annuitant mortality based on experience and externally published data. Male annuitant mortality is assumed to improve in accordance with 100% of CMI2009 Working Paper 41, with a Long Term Rate of improvement of 1.5% for future experience, and 2.0% for statutory reserving. Female annuitant mortality is assumed to improve in accordance with 100% of CMI2009, with a Long Term Rate of improvement of 1.0% for future experience and 1.5% for statutory reserving. In each case, the annual improvement is assumed to reduce linearly after age 85 to zero at age 120.

On this basis, the best estimate of the expectation of life for a new 65 year old Male CPA annuitant is 24.2 years (30 June 2011: 24.4 years; 31 December 2011: 24.2 years). The expectation of life on the regulatory reserving basis is 25.9 years (30 June 2011: 26 years; 31 December 2011: 25.8 years).

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

International

- vi. Key assumptions:

	As at 30.06.12 % p.a.	As at 30.06.11 % p.a.	As at 31.12.11 % p.a.	As at 31.12.10 % p.a.
LGA				
Reinvestment rate	4.0	5.5	4.2	5.5
Risk free rate ¹	1.7	3.1	1.9	3.3
Risk margin	3.8	3.3	3.7	3.3
Risk discount rate (net of tax)	5.5	6.4	5.6	6.6
Europe				
Risk free rate ¹	2.2	3.3	2.6	3.2
Risk margin	3.8	3.3	3.7	3.3
Risk discount rate (net of tax)	6.0	6.6	6.3	6.5

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

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

Tax

- viii. The profits on the covered business, except for the profits on the Society shareholder capital held outside the long term fund, are calculated on an after tax basis and are grossed up by the notional attributed tax rate for presentation in the income statement. For the UK, the after tax basis assumes the annualised current tax rate of 24.5% and the subsequent planned future reductions in corporation tax to 24% from 1 April 2012, 23% from 1 April 2013, and 22% from 1 April 2014. The tax rate used for grossing up is the long term corporate tax rate in the territory concerned, which for the UK is 22% (30 June 2011: 23%; 31 December 2011: 23%) taking into account the expected further rate reductions to 22% by 1 April 2014. The profits on the Society shareholder capital held outside the long term fund are calculated before tax and therefore tax is calculated on an actual basis.

European Embedded Value

Notes to the Financial Statements

5.20 Assumptions (continued)

Stochastic calculations

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

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

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

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

Asset classes

The significant asset classes are:

- UK with-profits business – equities, property and fixed rate bonds of various durations;
- UK annuity business – fixed rate and index-linked bonds of various durations; and
- International business – fixed rate bonds of various durations.

Summary statistics:

The following table sets out means and standard deviations (StDev) of future returns as at 30 June 2012 for the most significant asset classes. Correlations between asset classes have been set based on an internal assessment of historical data.

	10-year return		20-year return	
	Mean ¹	StDev ²	Mean ¹	StDev ²
UK Business (Sterling)				
Government bonds	1.9%	3.3%	3.3%	3.6%
Corporate bonds	3.9%	3.8%	4.9%	4.1%
Property (excess returns)	2.0%	15.1%	2.0%	15.0%
Equities (excess returns)	3.4%	20.7%	3.4%	20.5%
European Business (Euro)				
Long Government bonds ³	2.4%	3.6%	3.0%	3.6%
Short Government bonds ⁴	2.4%	2.9%	3.0%	5.7%
US Business (US Dollar)				
Long Government bonds ³	1.8%	4.0%	2.8%	4.3%

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

Risk discount rate:

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

European Embedded Value

Notes to the Financial Statements

5.21 Methodology

Basis of preparation

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

The supplementary financial statements have been reviewed under ISRE 2410 by PricewaterhouseCoopers LLP and prepared with assistance from our consulting actuaries; Towers Watson in the UK and Milliman in the USA.

Change to accounting policy - US deferred acquisition costs

During 2012 the Group has changed its accounting policy for deferred acquisition costs in the US, details of which can be found within Note 2.08. There is no impact on European embedded value reported profit in either the 2011 interim and annual income statements resulting from this change. The impact on the consolidated balance sheet in each of these periods is outlined below:

	As reported 30.06.11 £m	Change in US DAC treatment 30.06.11 £m	Restated 30.06.11 £m	As reported 31.12.11 £m	Change in US DAC treatment 31.12.11 £m	Restated 31.12.11 £m
Consolidated Balance Sheet						
Assets						
Long term in-force business asset	3,305	139	3,444	3,556	144	3,700
Other assets (Deferred acquisition costs)	7,540	(212)	7,328	6,900	(220)	6,680
Liabilities						
Other liabilities and provisions (Deferred tax)	13,681	(73)	13,608	16,030	(76)	15,954
Total equity	8,196	-	8,196	8,674	-	8,674

Covered business

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

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

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

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

Description of methodology

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

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

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

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

European Embedded Value

Notes to the Financial Statements

5.21 Methodology (continued)

Service companies

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

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

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

New business

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

In-force business comprises previously written single premium, regular premium and recurrent single premium contracts. Department of Work and Pensions rebates have not been treated as recurring and are included in single premium new business when received. Longevity insurance fixed leg payments have been treated as regular premiums.

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

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

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

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

Projection assumptions

Cash flow projections are determined using best estimate assumptions for each component of cash flow and for each policy group. Future economic and investment return assumptions are based on conditions at the end of the financial period. Future investment returns are projected by one of two methods. The first method is based on an assumed investment return attributed to assets at their market value. The second, which is used by 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. The impact of the changes to the taxation regime for life assurance companies has been estimated as immaterial and therefore no amendment is considered necessary.

European Embedded Value

Notes to the Financial Statements

5.21 Methodology (continued)

Allowance for risk

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

- i. setting required capital levels with reference to both the Group's internal risk based capital models, and an assessment of the strength of regulatory reserves in the covered business;
- ii. allowing explicitly for the time value of financial options and guarantees within the Group's products; and
- iii. setting risk discount rates by deriving a Group level risk margin to be applied consistently to local risk free rates.

Required capital and free surplus

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

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

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

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

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

For 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 275% of the EU minimum solvency margin has been used. The level of capital has been determined using risk based capital techniques.

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

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

Financial options and guarantees

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

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

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

European Embedded Value

Notes to the Financial Statements

5.21 Methodology (continued)

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

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

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

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

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

Risk free rate

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

Risk discount rate

The risk discount rate (RDR) is a combination of the risk free rate and a risk margin, which reflects the residual risks inherent in the Group's covered businesses, after taking account of prudential margins in the statutory provisions, the required capital and the specific allowance for FOGs. The Group's 2011 Annual Report and Accounts provides sensitivities for a plus or minus one percent change in the risk discount rate as at 31 December 2011.

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.

European Embedded Value

Notes to the Financial Statements

5.21 Methodology (continued)

The cost of debt used in the WACC calculations takes account of the actual locked-in rates for our senior and subordinated long term debt. All debt interest attracts tax relief at a rate of 22.5%.

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

Analysis of profit

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

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

- i. new business;
- ii. the management of in-force business;
- iii. development costs; and
- iv. return on shareholder net worth.

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

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

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

- i. expected return - the discount earned from the value of business in-force at the start of the year;
- ii. experience variances - the variance in the actual experience over the reporting period from that assumed in the value of business in-force as at the start of the year; and
- iii. operating assumption changes - the effects of changes in future assumptions, other than changes in economic assumptions from those used in valuing the business at the start of the year. These changes are made prospectively from the end of the year.

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

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

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

Investment return variances represent the effect of actual investment performance and changes to investment policy on SNW and VIF business from that assumed at the beginning of the period.

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

European Embedded Value

Notes to the Financial Statements

Independent review report to Legal & General Group Plc – EEV

Introduction

We have been engaged by the company to review the supplementary interim financial information in the Half-year report for the six months ended 30 June 2012, which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet as at 30 June 2012 and related notes prepared on the European Embedded Value (“EEV”) basis on pages 87 to 118. We have read the other information contained in the Half-year report and considered whether it contains any apparent misstatements or material inconsistencies with the supplementary interim financial information.

Directors’ responsibilities

The Half-year report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the supplementary interim financial information in accordance with the EEV basis set out in note 5.21.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the supplementary interim financial information in the Half-year report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with the EEV basis set out in note 5.21.

PricewaterhouseCoopers LLP
Chartered Accountants
London
6 August 2012

Notes:

(a) The supplementary interim financial information is published on the website of Legal & General Group Plc, legalandgeneralgroup.com. The maintenance and integrity of the Legal & General Group Plc web site 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 Half-year report since it was initially presented on the web site.

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

European Embedded Value
Notes to the Financial Statements

New Business

6.01 Investment management new business

	30.06.12 £m	30.06.11 £m	Full year 31.12.11 £m
Managed pension funds¹			
Pooled funds	9,017	12,791	22,094
Segregated funds	2,853	1,893	4,676
Total managed pension funds	11,870	14,684	26,770
Other funds ²	3,207	3,573	6,711
Total new funds	15,077	18,257	33,481
Attributable to:			
Legal & General Investment Management	14,966	17,852	32,844
Legal & General Retail Investments	111	405	637
LGIM net flows	3,963	3,004	2,983

1. New monies from pension fund clients of Legal & General Assurance (Pension Management) exclude £1.6bn held through the year on a temporary basis, generally as part of portfolio reconstructions.

2. Includes segregated property, property partnerships, private equity partnerships and institutional clients funds managed by Legal & General Investment Management and institutional investments in unit trust funds managed by Legal & General Retail Investments.

6.02 Investment management new business quarterly progression

	3 months to 30.06.12 £m	3 months to 31.03.12 £m	3 months to 31.12.11 £m	3 months to 30.09.11 £m	3 months to 30.06.11 £m	3 months to 31.03.11 £m
Managed pension funds¹						
Pooled funds	4,596	4,421	4,084	5,219	6,712	6,079
Segregated funds	1,193	1,660	973	1,810	255	1,638
Total managed pension funds	5,789	6,081	5,057	7,029	6,967	7,717
Other funds	1,708	1,499	2,807	331	920	2,653
Total new funds	7,497	7,580	7,864	7,360	7,887	10,370
Attributable to:						
Legal & General Investment Management	7,449	7,517	7,741	7,251	7,764	10,088
Legal & General Retail Investments	48	63	123	109	123	282
LGIM net flows	1,376	2,587	(607)	586	1,005	1,999

1. New monies from pension fund clients of Legal & General Assurance (Pension Management) exclude £1.6bn held through the year on a temporary basis, generally as part of portfolio reconstructions.

6.03 Legal & General Investment Management new business by investment approach

	30.06.12 %	30.06.11 %	31.12.11 %
Indexed equities	36	43	44
Indexed bonds (including index linked funds and cash)	19	26	23
Active bonds (including index linked funds and cash)	23	15	14
Liability driven investments	22	15	18
Property	-	1	1
Total	100	100	100

New Business

6.04 Assets under management

	At 30.06.12 £m	At 30.06.11 £m	At 31.12.11 £m
Legal & General Investment Management assets under management	381,297	362,438	371,211
Other assets under management ¹	7,115	7,900	7,362
Worldwide assets under management	388,412	370,338	378,573

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

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

Represented by

Index tracking funds:

- UK equities	62,141	69,647	63,228
- Overseas equities	88,367	87,271	82,200
- Fixed interest	38,541	38,505	37,515
- Index linked	37,275	35,855	40,554
- Cash/deposits	691	1,501	671
Total index tracking funds	227,015	232,779	224,168
Actively managed funds	93,067	84,743	88,684
Liability driven investments	61,215	44,916	58,359
	381,297	362,438	371,211

By investment approach

Index equities	150,508	156,918	145,428
Index bonds (including index linked funds and cash)	76,507	75,861	78,740
Active bonds (including index linked funds and cash)	77,219	67,233	72,355
Liability driven investments	61,215	44,916	58,359
Active equities	6,969	8,826	7,229
Property	8,536	8,307	8,757
Private equity	343	377	343
	381,297	362,438	371,211

By source of business

Institutional assets under management¹:

- Managed pension funds pooled	208,204	208,895	205,174
- Liability driven investments	61,233	44,904	58,367
- Other	20,808	18,706	16,920
- Managed pension funds segregated	5,081	4,103	5,136
Total institutional assets under management	295,326	276,608	285,597
UK businesses (life and general insurance funds)	71,089	69,735	70,630
UK businesses (unit trusts - excluding life fund investment)	14,882	16,095	14,984
	381,297	362,438	371,211

1. Excludes institutional investments in unit trust funds.

New Business

6.05 Savings net flows

	30.06.12 £m	30.06.11 £m	31.12.11 £m
Investments	555	1,703	2,490
Insured	154	220	424
With-profits	(829)	(787)	(1,736)
Total Savings net flows	(120)	1,136	1,178

6.06 Savings net flows quarterly progression

	3 months to 30.06.12 £m	3 months to 31.03.12 £m	3 months to 31.12.11 £m	3 months to 30.09.11 £m	3 months to 30.06.11 £m	3 months to 31.03.11 £m
Investments	571	(16)	165	622	804	899
Insured	56	98	200	4	107	113
With-profits	(358)	(471)	(381)	(568)	(387)	(400)
Total Savings net flows	269	(389)	(16)	58	524	612

New Business

6.07 Worldwide new business

	Annual premiums 30.06.12 £m	Single premiums 30.06.12 £m	APE 30.06.12 £m	Annual premiums 30.06.11 £m	Single premiums 30.06.11 £m	APE 30.06.11 £m	APE 31.12.11 £m
Protection							
- Individual	72	-	72	65	-	65	131
- Group	37	-	37	29	-	29	46
	109	-	109	94	-	94	177
Annuities							
- Individual (non profit)	-	514	51	-	505	51	103
- Individual (with-profits)	-	8	1	-	11	1	2
- Bulk purchase	-	67	7	-	240	24	146
	-	589	59	-	756	76	251
Longevity insurance ¹	-	-	-	-	-	-	70
Total Risk	109	589	168	94	756	170	498
Investments²							
Insured business	139	2,756	314	30	3,415	371	688
With-profits	35	227	58	39	317	71	122
Total Savings	212	4,017	614	190	4,723	662	1,255
- USA (LGA)	42	-	42	32	-	32	69
- Netherlands (LGN)	6	45	11	2	58	8	15
- France (LGF)	26	123	38	24	125	36	47
- India (26% share)	4	17	6	3	13	4	7
- Egypt (55% share)	8	-	8	3	-	3	9
- Gulf (50% share)	2	2	2	1	-	1	2
	88	187	107	65	196	84	149
France (LGF) retail investment business	-	3	-	-	18	2	5
Total International	88	190	107	65	214	86	154
Total worldwide new business	409	4,796	889	349	5,693	918	1,907

1. As announced on 9 January 2012, the Group entered into its first longevity insurance transaction during December 2011.

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

New Business

6.08 Worldwide new business APE quarterly progression

	3 months to 30.06.12 £m	3 months to 31.03.12 £m	3 months to 31.12.11 £m	3 months to 30.09.11 £m	3 months to 30.06.11 £m	3 months to 31.03.11 £m
Protection						
- Individual	36	36	33	33	32	33
- Group	25	12	7	10	14	15
	61	48	40	43	46	48
Annuities						
- Individual (non profit)	25	26	21	31	30	21
- Individual (with-profits)	1	-	-	1	-	1
- Bulk purchase	3	4	119	3	22	2
	29	30	140	35	52	24
Longevity insurance	-	-	70	-	-	-
Total Risk	90	78	250	78	98	72
Investments ¹	174	140	133	184	195	176
Insured business	110	132	128	97	112	108
With-profits	30	28	26	25	35	36
Total Savings	314	300	287	306	342	320
- USA (LGA)	22	20	19	18	16	16
- Netherlands (LGN)	5	6	4	3	3	5
- France (LGF)	18	20	5	6	21	15
- India (26% share)	1	5	1	2	1	3
- Egypt (55% share)	4	4	3	3	2	1
- Gulf (50% share)	1	1	-	1	1	-
	51	56	32	33	44	40
France (LGF) retail investment business	-	-	2	1	1	1
Total International	51	56	34	34	45	41
Total worldwide new business	455	434	571	418	485	433

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

New Business

6.09 Worldwide new business annual premium quarterly progression

	3 months to 30.06.12 £m	3 months to 31.03.12 £m	3 months to 31.12.11 £m	3 months to 30.09.11 £m	3 months to 30.06.11 £m	3 months to 31.03.11 £m
Protection						
- Individual	36	36	33	33	32	33
- Group	25	12	7	10	14	15
	61	48	40	43	46	48
Annuities						
- Individual (non profit)	-	-	-	-	-	-
- Individual (with-profits)	-	-	-	-	-	-
- Bulk purchase	-	-	-	-	-	-
	-	-	-	-	-	-
Longevity insurance	-	-	70	-	-	-
Total Risk	61	48	110	43	46	48
Investments¹	25	13	18	20	19	11
Insured business	64	75	72	51	62	59
With-profits	17	18	14	16	17	22
Total Savings	106	106	104	87	98	92
- USA (LGA)	22	20	19	18	16	16
- Netherlands (LGN)	3	3	1	2	1	1
- France (LGF)	11	15	-	-	15	9
- India (26% share)	1	3	1	1	1	2
- Egypt (55% share)	4	4	3	3	2	1
- Gulf (50% share)	1	1	1	-	1	-
	42	46	25	24	36	29
France (LGF) retail investment business	-	-	-	-	-	-
Total International	42	46	25	24	36	29
Total worldwide new business	209	200	239	154	180	169

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

New Business

6.10 Worldwide new business single premium quarterly progression

	3 months to 30.06.12 £m	3 months to 31.03.12 £m	3 months to 31.12.11 £m	3 months to 30.09.11 £m	3 months to 30.06.11 £m	3 months to 31.03.11 £m
Protection						
- Individual	-	-	-	-	-	-
- Group	-	-	-	-	-	-
	-	-	-	-	-	-
Annuities						
- Individual (non profit)	250	264	212	313	293	212
- Individual (with-profits)	4	4	7	6	5	6
- Bulk purchase	31	36	1,190	31	217	23
	285	304	1,409	350	515	241
Longevity insurance	-	-	-	-	-	-
Total Risk	285	304	1,409	350	515	241
Investments ¹	1,487	1,269	1,153	1,632	1,761	1,654
Insured business	461	573	568	456	502	489
With-profits	129	98	112	96	177	140
Total Savings	2,077	1,940	1,833	2,184	2,440	2,283
- USA (LGA)	-	-	-	-	-	-
- Netherlands (LGN)	16	29	20	17	19	39
- France (LGF)	71	52	51	56	69	56
- India (26% share)	2	15	5	4	2	11
- Egypt (55% share)	-	-	-	-	-	-
- Gulf (50% share)	1	1	-	5	-	-
	90	97	76	82	90	106
France (LGF) retail investment business	2	1	13	15	9	9
Total International	92	98	89	97	99	115
Total worldwide new business	2,454	2,342	3,331	2,631	3,054	2,639

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

New Business

6.11 International new business in local currency

	Annual premiums 30.06.12	Single premiums 30.06.12	APE 30.06.12	Annual premiums 30.06.11	Single premiums 30.06.11	APE 30.06.11	APE 31.12.11
USA (LGA) (\$m)	66	-	66	52	-	52	111
Netherlands (LGN) (€m)	8	54	13	2	67	9	17
France (LGF) (€m):							
- Life and pensions	32	150	47	27	143	41	54
- Unit trusts	-	3	-	-	20	2	5
India (Rs m) - Group's 26% interest	353	1,381	491	224	959	320	536
Egypt (Pounds m) - Group's 55% interest	73	1	73	30	-	30	87
Gulf (US\$m) - Group's 50% interest	3	7	4	1	-	1	4

6.12 UK APE by channel quarterly progression

	3 months to 30.06.12 £m	3 months to 31.03.12 £m	3 months to 31.12.11 £m	3 months to 30.09.11 £m	3 months to 30.06.11 £m	3 months to 31.03.11 £m
Retail IFA	146	145	137	173	170	166
Employee benefit consultants	120	131	300	84	120	104
Tied agents	11	8	8	9	13	8
Bancassurance	113	85	86	107	123	100
Direct	11	11	6	11	14	14
Total	401	380	537	384	440	392

New Business

6.13 UK APE by channel

	Annual premiums £m	Single premiums £m	APE £m	% of total
For the six months ended 30 June 2012				
Retail IFA	44	2,465	291	37
Employee benefit consultants	196	547	251	33
Tied agents	14	54	19	2
Bancassurance	55	1,434	198	25
Direct	11	107	22	3
Total	320	4,607	781	100

	Annual premiums £m	Single premiums £m	APE £m	% of total
For the six months ended 30 June 2011				
Retail IFA	41	2,955	336	40
Employee benefit consultants	170	538	224	27
Tied agents	15	57	21	3
Bancassurance	44	1,791	223	27
Direct	14	138	28	3
Total	284	5,479	832	100

	Annual premiums £m	Single premiums £m	APE £m	% of total
For the year ended 31 December 2011				
Retail IFA	81	5,649	646	37
Employee benefit consultants	394	2,140	608	35
Tied agents	30	77	38	2
Bancassurance	97	3,195	416	23
Direct	26	194	45	3
Total	628	11,255	1,753	100