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New Business101



MORE.

Half-Year Results 2011
3rd August 2011



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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.

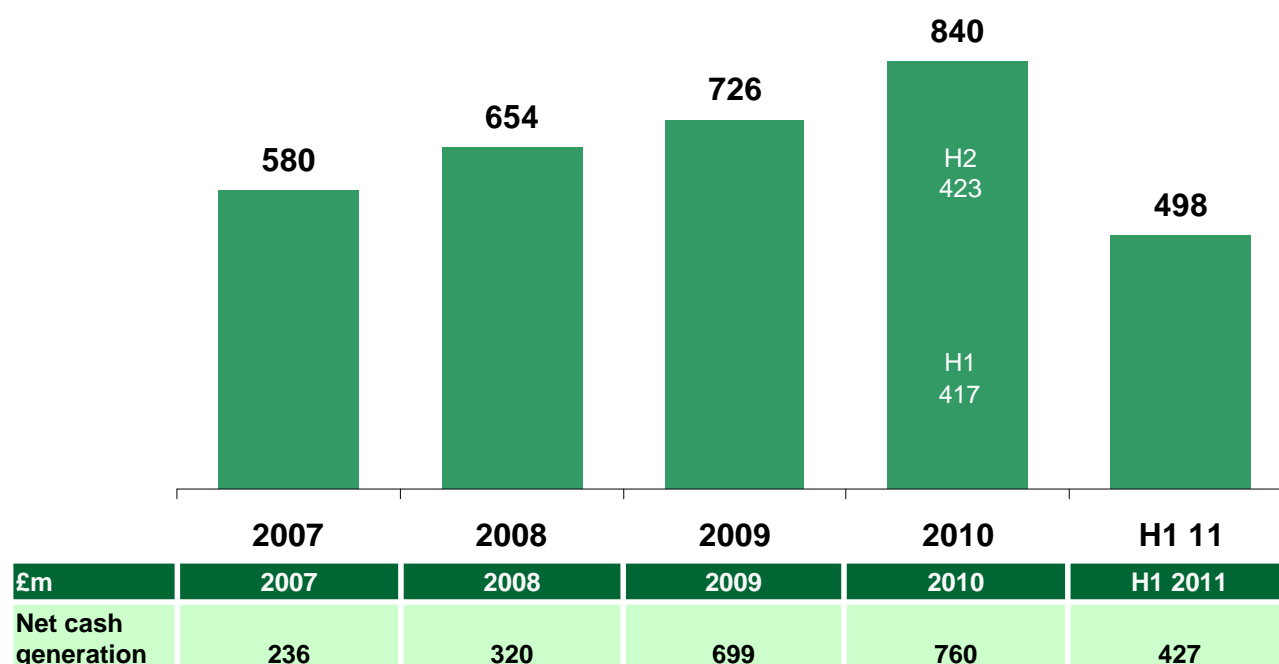
H1 2011: Delivering on our strategy A strong track record of performance.

Financial highlights (£m)	H1 2011	H1 2010	H1 2009
Operational cash generation	498	417	333
Net cash generation	427	373	302
Worldwide new business	920	881	746
IFRS operating profit	523	542	404
IFRS profit before tax	473	537	(143)
EEV operating profit	662	589	656
EEV per share	139	119	95
IGD Surplus ¹ (£bn)	4.0	3.3	1.9
Interim dividend (p)	1.66	1.33	1.11

(1) Estimated

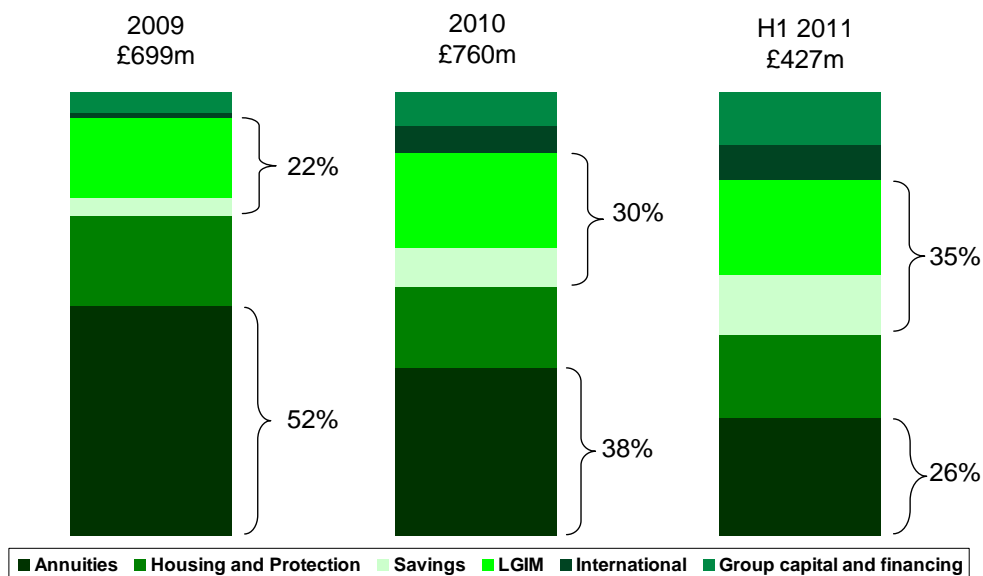
CASH: Consistent growth in operational and net cash generation.

Operational cash generation 2007 – 2011 (£m)



Material progress in diversification of net cash generation.

Source of net cash generation 2009-2011



Continued strong profitability and returns.

Summary IFRS income statement (£m)	H1 2011	H1 2010
Risk	236	310
Savings	68	54
Investment management	117	98
International	66	61
Group capital and financing	61	33
Investment projects	(25)	(14)
Operating profit	523	542
Variation from longer term investment return	(49)	(4)
Property losses attributable to non-controlling interests	(1)	(1)
Profit from ordinary activities before tax	473	537
Tax	(115)	(136)
Profit from ordinary activities after tax	358	401
IFRS shareholders equity	4,987	4,467
Annualised return on equity (%)	14.6	18.6
Operating earnings per share (p)	6.69	6.73
Interim dividend per share (p)	1.66	1.33

Sales: Solid H1 performance, confident about H2.

New business sales (£m)	H1 2011	H1 2010
Protection APE	94	85
Annuities APE	76	106
Savings APE	662	609
International APE	88	81
Worldwide new business APE	920	881
LGIM gross new business (£bn)	17.9	21.2
LGIM net asset flows (£bn)	3.0	8.3
Savings net asset flows (£bn)	1.1	1.5
Total net asset flows (£bn)	4.1	9.8

Investment management: Another record six months for LGIM. Operating profit of £117m.

Financial highlights (£m)	H1 2011	H1 2010
Investment management IFRS operating profit	117	98
Net cash generation	91	70
LGIM highlights		
Total revenue	205	182
Total costs	(88)	(84)
IFRS operating profit	117	98
Average ad valorem fee margin (bps)	10.9	10.6
Average expense margin (bps)	5.2	5.5
Gross new fund management mandates (£bn)	17.9	21.2
Closing funds under management (£bn) ¹	362	320

(1) Includes annuities and some savings assets

Investment management: LDI and international from £39bn to £62bn in 18 months.

Assets under management (£bn)	H1 2011	FY 2010
Opening assets under management	353.5	315.1
of which international	14.6	8.9
of which LDI	40.8	29.9
UK gross new business	14.7	26.5
of which LDI new business	2.7	4.9
International gross new business	3.2	6.1
Gross outflows	(14.9)	(26.0)
Net new business	3.0	6.6
Market and other movements	5.9	31.8
Closing assets under management	362.4	353.5
of which international	17.3	14.6
of which LDI	44.9	40.8

Savings: Another record six months for sales, assets, profits and cash.

Financial highlights (£m)	H1 2011	H1 2010
Operational cash generation	89	72
New business strain	(31)	(34)
Net cash generation	58	38
Experience variance, assumption changes, tax and other variances	10	16
IFRS operating profit	68	54
Savings new business APE	662	609
Assets under administration (£bn)	66	56
Net new funds (£bn)	1.1	1.5
Non profit new business strain / PVNBP (%)	2.6	3.1

Savings: All business units generating cash and profits.

Financial highlights (£m)	Savings Investments		With-profits		Insured Savings	
	H1 2011	H1 2010	H1 2011	H1 2010	H1 2011	H1 2010
Operational cash generation	12	13	26	23	51	36
New business strain					(31)	(34)
Net cash generation	12	13	26	23	20	2
Assumption changes, experience and other variances	(4)	(4)	-	-	(4)	4
Tax gross up	5	5	9	9	4	2
IFRS operating profit	13	14	35	32	20	8

Savings Investments includes unit trusts, ISAs, structured products, platform business and uninsured SIPPs

With-profits includes all business written within the with-profits fund

Insured Savings includes all non profit bond business and non profit pension business

Risk: Another good six months. Healthy cash generation and profit contribution.

Financial Highlights (£m)	H1 2011	H1 2010
Operational cash generation	233	212
New business strain	(40)	(10)
Net cash generation	193	202
Experience variance, assumption changes, tax and other variances	43	108
IFRS operating profit	236	310
Investment variances	15	112
Profit before tax	251	422

Risk: Good growth in operational cash generation, masked by one off movements.

Movement in operating profit (£m)	H1 2011
Risk H1 2010 operating profit	310
Increase in operational cash generation	21
Lower expense assumptions	18
Reduction in positive annuity new business strain	(34)
Group protection negative mortality experience	(27)
2010 inflation modelling not repeated in 2011	(72)
Other changes	20
Risk H1 2011 operating profit	236

Risk: operational cash growth in all areas.

Financial highlights (£m)	Annuities		Protection		GI and other	
	H1 2011	H1 2010	H1 2011	H1 2010	H1 2011	H1 2010
Operational cash generation	112	106	109	96	12	10
New business strain	1	35	(41)	(45)	-	-
Net cash generation	113	141	68	51	12	10
Assumption changes, experience and other variances	(7)	(3)	(13)	24	-	1
Tax gross up	39	56	20	29	4	1
IFRS operating profit	145	194	75	104	16	12

International: Strong performance from the US, continuing to invest in emerging markets.

Financial highlights (£m)	H1 2011	H1 2010
IFRS operating profit		
USA	50	44
Europe (France and Netherlands)	18	21
Middle East and Asia (Egypt, the Gulf and India) ¹	(2)	(4)
IFRS operating profit	66	61
New business APE	88	81
USA	32	22
Europe (France and Netherlands)	48	46
Middle East and Asia (Egypt, the Gulf and India) ¹	8	13
Net cash generation	35	33

(1) Includes international divisional head office costs

Group capital and financing: Assets increased by over £1bn, profits up 85%.

Group capital and financing (£m)	Balance Sheet		Profit and Loss	
	H1 2011	H1 2010	H1 2011	H1 2010
Equities	989	820		
Property	131	140		
Bonds	1,868	1,198		
Derivative Assets	298	273		
Cash	1,083	821		
Total	4,369	3,252	130	96
Debt	2,742	2,565	(62)	(59)
Investment expense and unallocated corporate expenses			(7)	(4)
IFRS operating Profit			61	33

Additional £1.5bn (H1 10: £1.6bn) of other shareholder funds outside of Group capital and financing

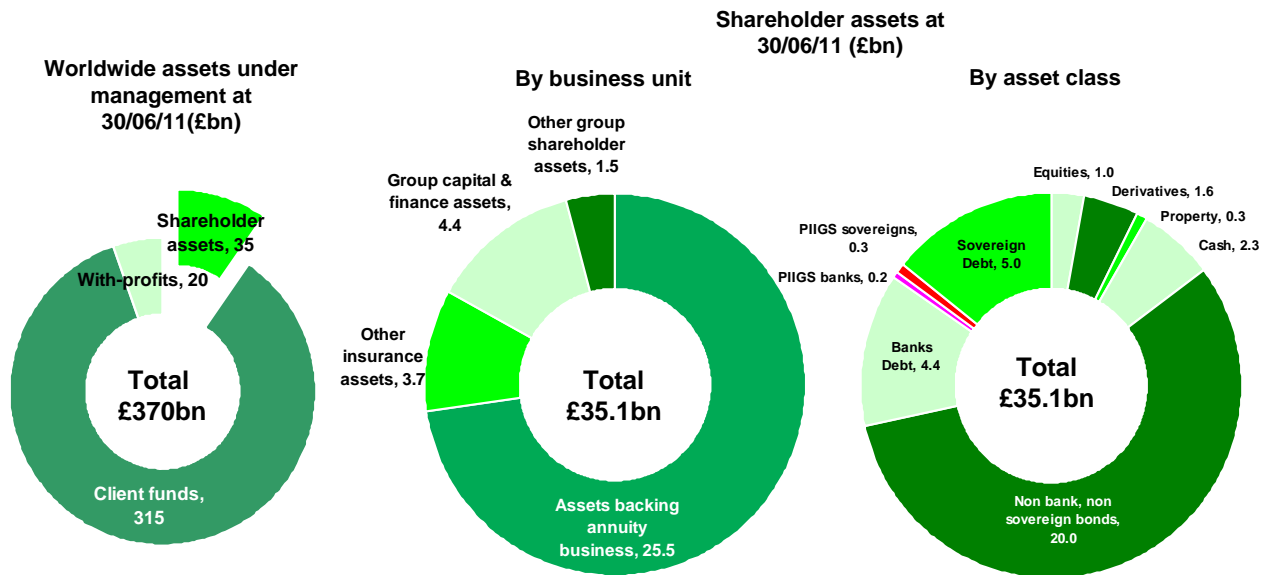
H1 2010 Operational cash generation: Close and transparent link between cash and profit.

2010 Half-Year (£m)	Operational cash generation	New business strain	Net cash generation	International	Tax and other	IFRS profit before tax
Annuities	106	35	141			310
Housing and protection	106	(45)	61		108	
Savings	72	(34)	38		16	54
Investment management	70		70		28	98
International	33		33	7	21	61
Group capital and financing	30		30		3	33
Investment projects					(14)	(14)
Total	417	(44)	373	7	162	542

H1 2011 Operational cash generation: Close and transparent link between cash and profit.

2011 Half-Year (£m)	Operational cash generation	New business strain	Net cash generation	International	Tax and other	IFRS profit before tax
Annuities	112	1	113			236
Housing and protection	121	(41)	80		43	
Savings	89	(31)	58		10	68
Investment management	91		91		26	117
International	35		35	9	22	66
Group capital and financing	50		50		11	61
Investment projects					(25)	(25)
Total	498	(71)	427	9	87	523

Assets: High quality with PIIGS sovereign debt and bank debt exposure only 1.4% of shareholder assets.



High degree of confidence over 2011 cash.

	Operational cash generation (£m)	New business strain (£m)	Net cash generation (£m)	Operational cash generation (£m)	New business strain (£m)	Net cash generation (£m)
Annuities	112	1	113	c. 220		
Protection	109	(41)	68	c. 230		
Insured savings	53	(31)	22	c. 100		
In-force cash generation	274	(71)	203	c. 550		
With-profits	26		26	c. 50		
Savings investments and other savings	10		10			
GI and other risk	12		12			
LGIM	91		91			
International dividends	35		35	c. 50		
Group capital and financing	100		50			
Cost of Debt	(50)					
Total	498	(71)	427			
Variations and other			(46)			
International (excl. dividends)			9			
Tax gross up			133			
Operating profit			523			

UK UVIF¹: £8.7bn

HY 2011 **FY 2011**

1. Undiscounted VIF

Modelling IGD.

IGD Surplus (£m)	H1 2011	FY 2010
At start of period	3,745	3,148
Operational cash generation	498	840
New business strain	(71)	(80)
Dividends	(97)	(279)
Experience variances and assumption changes	27	138
Investment variance	(27)	46
(Increase) / decrease in operational regulatory capital requirement	(8)	(155)
Release of capital from US capital management programme	-	132
Other	(32)	(45)
At end of period	4,035	3,745

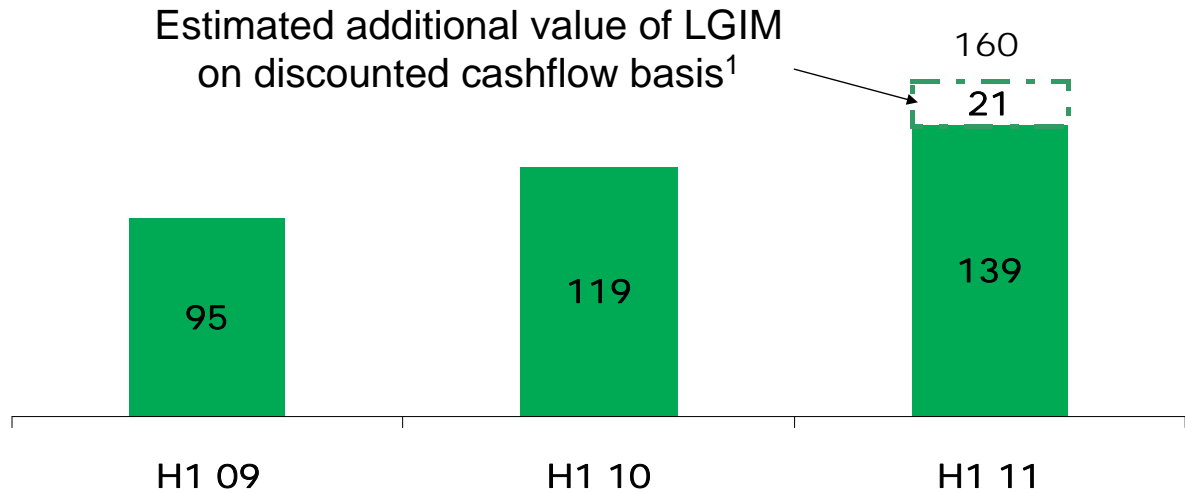
Modelling VIF.

Reconciliation of UK long term Risk and Savings VIF £bn	Discounted ¹	Undiscounted
Opening VIF at 1 January 2011	3.89	8.0
Contribution from new business	0.16	0.3
Unwind of discount rate	0.15	n/a
Expected release from non profit and with-profits businesses	(0.30)	(0.3)
Closing operational VIF at 30 June 2011	3.90	8.0
Experience variances / assumption changes	0.06	0.2
Investment variance / economic assumption changes	(0.02)	0.2
Other ²	0.14	0.3
Closing VIF at 30 June 2011	4.08	8.7

1. After cost of capital

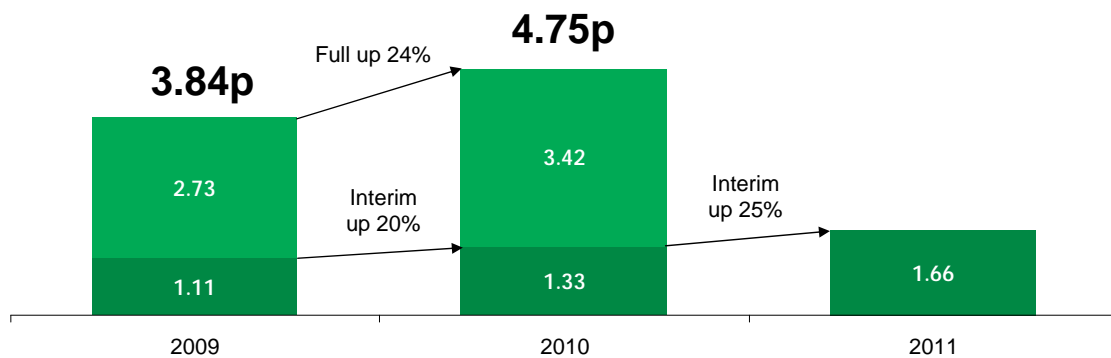
2. Includes the effect of UK budget changes of £0.15bn (discounted) and £0.3bn (undiscounted)

EEV per share increased to 139p.



1. Management estimates, assuming stable margins and 10% outflows per annum

Interim dividend up 25%.



£m	2009	2010	2011
Cash cover (x)	3.1	2.6	
Earnings cover (x)	3.9	3.0	

Cash cover to move towards two times over the medium term and potential to fall further thereafter as risks recede

Positive outlook for L&G.

Difficult macro-economic environment

- Low growth
- Economic and market risks remain high

Attractive trends in the UK

- Demographic shifts favour our model
- Pension fund de-risking driving demand in LGIM and BPA
- Government agenda plays to L&G's strengths

Significant and prolonged regulatory change

- L&G distribution model well positioned for RDR
- Direction of Solvency 2 remains broadly positive
- Uncertainty and delay is unhelpful and expensive

Business growth and opportunities.

Cash and dividend growth.

Strong balance sheet.

Stock Exchange Release
03 August 2011



LEGAL & GENERAL DELIVERS STRONG GROWTH IN CASH GENERATION AND 25% INCREASE IN INTERIM DIVIDEND.

- OPERATIONAL CASH GENERATION UP 19% TO £498M (H1 2010: £417M)
NET CASH GENERATION UP 14% TO £427M (H1 2010: £373M)
- INTERIM DIVIDEND UP 25% TO 1.66P PER SHARE (H1 2010: 1.33P PER SHARE)
- WORLDWIDE SALES UP 4% TO £920M APE (H1 2010: £881M APE)
- IFRS OPERATING PROFIT £523M (H1 2010: £542M)
IFRS PROFIT BEFORE TAX £473M (H1 2010: £537M)
- EEV OPERATING PROFIT 12% HIGHER AT £662M (H1 2010: £589M)
EEV PER SHARE UP 5% TO 139P (31/12/2010: 132P)
- IGD SURPLUS £4.0BN (31/12/2010: £3.7BN)
- ANNUALISED IFRS RETURN ON EQUITY¹ 14.6% (H1 2010: 18.6%)

Tim Breedon, Group Chief Executive, said:

“In the first half of 2011, Legal & General has continued to deliver on our key metrics. Continued strong cash generation and confidence in our future prospects has led the Board to increase the interim dividend by a further 25% to 1.66p per share.

“We remain confident in our business model and strategy. Our leading market positions in UK savings, annuities, protection and asset management are delivering healthy returns for shareholders. Sales volumes continue to grow, and we are developing attractive new businesses both in the UK and internationally.

“Economic uncertainties remain, volatility continues in financial markets and the life assurance sector is entering a period of significant regulatory change. In these conditions it is prudent to maintain a strong balance sheet. Our IGD surplus of £4bn provides sufficient capital to exploit opportunities as they emerge, to continue to grow the business and to provide protection from economic and regulatory risks.”

RETURNS - DIVIDEND INCREASED BY 25%

	H1 2011	H1 2010
Half year dividend per share (pence)	1.66	1.33
Net cash generation per share (pence)	7.33	6.40
IFRS operating profits earnings after tax per share (pence) (basic)	6.69	6.73
IFRS earnings per share (pence) (basic)	6.16	6.90
Average number of shares (m)	5,828	5,827

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.

KEY PERFORMANCE INDICATORS

OPERATIONAL CASH GENERATION¹ UP 19% TO £498M,
NET CASH GENERATION UP 14% TO £427M

H1 2011 £m	Risk	Savings	Inv Mgmt	Inter- national	Group capital and financing	Group projects	H1 2011
Operational cash generation	233	89	91	35	50	-	498
New business strain	(40)	(31)	-	-	-	-	(71)
Net cash generation	193	58	91	35	50	-	427
IFRS operating profit							
	236	68	117	66	61	(25)	523
H1 2010 £m	Risk	Savings	Inv Mgmt	Inter- national	Group capital and financing	Group projects	H1 2010
Operational cash generation	212	72	70	33	30	-	417
New business strain	(10)	(34)	-	-	-	-	(44)
Net cash generation	202	38	70	33	30	-	373
IFRS operating profit							
	310	54	98	61	33	(14)	542

ASSETS - £362BN IN LGIM, £66BN IN SAVINGS, £25BN IN ANNUITIES

£bn	H1 2011	H1 2010
LGIM ²	362	320
Savings	66	56
Annuities	25	24

EEV RESULTS - EMBEDDED VALUE PER SHARE UP TO 139P

£m	H1 2011	H1 2010
Worldwide PVNBP	3,899	3,880
Worldwide new business margin (%)	3.5	4.1
EEV operating profit	662	589
EEV profit after tax ³	606	422
Number of shares (m)	5,871	5,866
Shareholders' equity	8,147	6,958
Equity per share (pence)	138.8	118.6

1. Net cash generation is defined as operational cash generation less new business strain for the UK non profit Risk and Savings businesses. Operational cash generation is defined as the expected release from in-force business for the UK non profit Risk and Savings businesses, the shareholders' share of bonuses on with-profits business, the post-tax IFRS operating profit on other UK businesses, including the group capital and financing segment, and dividends remitted from our international businesses from sustainable cash generation. The operational cash generation definition for the group capital and financing segment is now consistent with IFRS operating profit definition and includes expected gains/losses on equities. This change has no impact on IFRS operating profit but has increased operational cash generation by £18m (H1 2010: £15m, FY 2010: £32m).

2. Includes Annuities and some Savings assets.

3. Includes £155m relating to change in UK corporation tax rates.

GROUP RESULTS

£m	H1 2011	H1 2010
Operational cash generation	498	417
New business strain	(71)	(44)
Net cash generation	427	373
IFRS		
Risk	236	310
Savings	68	54
Investment Management	117	98
International	66	61
Group capital and financing	61	33
Investment projects	(25)	(14)
Operating profit	523	542
Variation from longer term investment return	(49)	(4)
Property losses attributable to non-controlling interests	(1)	(1)
Profit before income tax	473	537

OPERATIONAL CASH GENERATION UP 19%, NET CASH GENERATION UP 14%

Further, strong progress in cash generation.

In H1 2011, the Group delivered a 19% increase in operational cash generation to £498m (H1 2010: £417m). Net cash generation was up 14% to £427m (H1 2010: £373m) despite a further reduction in positive annuity strain from £35m in H1 2010 to £1m in H1 2011. This effect was offset by strong growth in operational cash generation from protection (up 14%), savings (up 24%), LGIM (up 30%) and group capital and financing (up 67%).

IFRS OPERATING PROFIT £523M (H1 2010: £542M)

Continued growth in risk business offsetting negative headwinds.

IFRS operating profit in Risk was down to £236m, largely due to a reduction in the positive new business strain in annuities (H1 2011: £1m, H1 2010: £35m), an increase in claims in Group protection and the non recurrence of positive inflation modelling effects seen in H1 2010.

Annuity assets grew 6% as the slow start for sales in Q1 (APE: £24m) was reversed in Q2 (APE: £52m). Housing and protection gross premiums grew 2% with higher new business volumes achieved despite continued challenging markets.

Record assets, sales, cash and profits in Savings.

Savings operating profit of £68m was up 26% (H1 2010: £54m) and net cash generation was up 53% to £58m (H1 2010: £38m). We have continued to improve returns from this business whilst accelerating growth in new business APE, up 9% to £662m (H1 2010: £609m). Net new funds were £1.1bn (H1 2010: £1.5bn) and assets under administration are 18% higher at £66bn (H1 2010: £56bn).

Another record six months for profits in LGIM.

LGIM delivered another record half year operating profit of £117m (H1 2010: £98m). LGIM's international expansion continued with £3.2bn of new business from overseas clients. Total gross new business was £17.9bn and net new business was £3.0bn (H1 2010: £8.3bn). Funds under management grew 13% to £362bn (30/06/10: £320bn) and margins further improved. Net cash generation from LGIM improved by 30% to £91m (H1 2010: £70m).

<i>Higher sales, profit and dividend from US business.</i>	The US business paid an increased dividend of £34m (H1 2010: £33m, H1 2009: nil). International generated £66m of operating profit (H1 2010: £61m) and £88m of new business APE (H1 2010: £81m).
<i>Increased shareholder funds improving returns.</i>	As group capital and financing assets (excluding derivatives) increased to £4.1bn (30/06/10: £3.1bn), the income from these funds boosted profits in the group capital and financing area to £61m (H1 2010: £33m). This also led to an increase in net cash generation to £50m (H1 2010: £30m).
<i>Shareholders' equity up 12% to 85p per share.</i>	Below operating profit, weak investment markets led to negative investment variances of £49m (H1 2010: negative £4m). Reflecting this, post-tax profits were lower at £358m (H1 2010: £401m). Shareholders' equity increased by 12% to £5.0bn (H1 2010: £4.5bn) equating to 85p per share (H1 2010: 76p per share).

INTERIM DIVIDEND INCREASED BY 25% TO 1.66 PENCE PER SHARE

<i>Interim dividend raised by 25%.</i>	Continued strong operational cash and net cash generation, coupled with the Board's confidence in the prospects for further growth for the business, underpin the decision to recommend a 25% increase in the interim dividend to 1.66p (H1 2010: 1.33p) per share at a cost of £97m (H1 2010: £78m).
<i>Cash cover to fall to two times in the medium term.</i>	The Board intends to reduce net cash generation coverage of the dividend to two times in the medium term. Thereafter, further reductions in the net cash generation coverage ratio are possible, depending on prevailing economic and regulatory conditions.

STRATEGY AND OUTLOOK

<i>Our strategy continues to deliver...</i>	These results demonstrate a further period of delivery from our strategy of focusing on markets where we have expertise and scale, with the aim of delivering superior returns on capital and high quality, sustainable operational cash generation.
<i>Market leading UK businesses with scale and operational leverage.</i>	We have market leading positions in annuities, protection, savings and asset management in the UK. All of our businesses have the scale necessary to be competitive. In each of our key markets we have strong market share positions. We benefit from the significant economies and operational leverage which scale provides. As we continue to grow the stock of assets and premiums in these businesses, we expect returns to improve.
<i>Sustainable and predictable cashflow.</i>	Future cash flows are both sustainable and predictable. We have built a strong pipeline of future cash flow in our risk and savings businesses where the value of in-force business continues to increase, and in our asset management business where customer loyalty is strong.
<i>The UK is an attractive market for us....</i>	The UK market is attractive. A combination of an ageing population, increasing savings rates, de-risking amongst pension trustees and retrenchment of the welfare state will continue to drive demand across our risk, savings and investment management model.
<i>...and we are selectively exporting expertise into attractive markets.</i>	Furthermore, we are exporting our expertise into new markets. In the last three years we have established bancassurance joint ventures in India and in the Gulf, a fixed income asset management operation in the USA, and have increased the international new business franchise of LGIM substantially. Our international strategy is to be highly selective, targeting attractive markets where we can deploy our experience and established capabilities in pursuit of profitable growth.
<i>Aim to continue to grow profits, cash and dividend.</i>	We remain very confident about the prospects for the Group. We aim to continue to grow earnings and cash generation and plan for a higher proportion of our cash generation to be passed to shareholders as economic and regulatory uncertainties recede.

BUSINESS REVIEW – RISK

Financial highlights £m	H1 2011	H1 2010
Operational cash generation	233	212
New business strain	(40)	(10)
Net cash generation	193	202
Experience variances, assumption changes, tax and other variances	43	108
IFRS operating profit	236	310
Investment variances	15	112
IFRS profit before income tax attributable to equity holders	251	422

Operational cash generation up 10%, net cash generation of £193m lower as strain normalises in annuities

In H1 2011, the Risk division increased operational cash generation by 10% to £233m (H1 2010: £212m). Net cash generation was £193m (H1 2010: £202m) as new business strain in annuities reduced as exceptional pricing conditions continue to normalise. Operating profit was £236m (H1 2010: £310m) reflecting this reduced positive new business strain in annuities, a lower level of positive assumption changes compared with H1 2010, and the impact of higher than expected claims in the Group Protection business. IFRS profit before tax was £251m with a contribution from investment variances of £15m.

L&G: A market leader in annuities and protection.

The Risk division has leading positions in a number of markets: the provision of income in retirement to individual savers and members of company pension schemes (annuities); and the provision of insurance services to individuals and businesses seeking to mitigate the financial consequences of personal or employee risk (housing and protection).

ANNUITIES

Financial highlights £m	H1 2011	H1 2010
Operational cash generation	112	106
New business strain	1	35
Net cash generation	113	141
Individual annuity new business APE	52	61
Bulk annuity new business APE	24	45
Total annuity new business APE	76	106
Annuity assets under administration (£bn)	25.4	23.9
Non profit annuity earned net interest margin (bps per annum) ¹	100	117
Annuities EEV margin (%)	8.5	10.8

1. Annualised rate of shareholders return from existing assets

Net cash generation of £113m in H1 2011. New business strain of £1m.

Operational cash generation was up 6% at £112m (H1 2010: £106m) with an earned net interest margin on assets of 100bps per annum. Net cash generation of £113m reflects reduced new business strain at positive £1m (H1 2010: positive £35m). The high levels of positive new business strain we have seen in recent years were not repeated in H1 2011. Annuity assets under management further increased to £25.4bn.

Individual annuities continuing to benefit from distribution relationships.

Annuity APE of £76m was higher in Q2 (£52m APE) than in Q1 (£24m APE). Individual annuity APE of £52m in the first half was lower than 2010 (H1 2010: £61m). However, comparisons are skewed by the strong individual annuity market in H1 2010 arising from the change in minimum retirement age. We continue to benefit from the flow of annuitants from our own pensions

business as well as our distribution deals with Zurich FS and SAGA. In the open market, pricing conditions were more favourable in Q2 which allowed us to grow volumes whilst continuing to exceed return on capital thresholds.

BPA market remains quiet but strong quote pipeline in small and large schemes.

In the BPA market we wrote 45 schemes worth £24m APE (H1 2010: 57 schemes worth £45m). The first half remained a relatively quiet period for BPA although the quote pipeline remains strong. We continue to offer prices on all schemes tendering in the market, irrespective of scheme size, with a strong focus on meeting return on economic capital thresholds. Historically this has been achieved through focusing on the smaller end of the market where we have developed a market-leading position. However we remain interested in larger schemes where the liability characteristics and available returns on capital appear attractive. We are actively pursuing opportunities within the longevity insurance market, although the emergence of this market continues to be slow.

HOUSING AND PROTECTION

Financial highlights £m	H1 2011	H1 2010
Operational cash generation	121	106
New business strain	(41)	(45)
Net cash generation	80	61
Protection new business APE	94	85
Protection new business EEV margin (%)	6.4	6.0
Protection gross premiums	614	610
General Insurance gross premiums	146	134
Total gross premiums	760	744
General Insurance new business premiums	54	35
General Insurance combined operating ratio (%)	90	90

Net cash generation up 31% to £80m. Operational cash generation of £121m was up 14% on 2010 (H1 2010: £106m). New business strain was £41m (H1 2010: £45m) representing 44% of new business APE (H1 2010: 53%). The business continues to grow with a 2% increase in gross premiums to £760m (H1 2010: £744m).

Individual protection APE up 14%. In individual protection, gross premiums grew 3% to £447m (H1 2010: £435m) as a result of new business sales of £65m (H1 2010: £57m). Progress continues in our strategy of diversification into more specialist higher margin areas of the market with 17% growth in business protection, 22% growth in high net worth protection and 48% growth in direct business. Despite a weak housing market, we have grown our housing related business with an estimated 17% share of the intermediated mortgage market (H1 2010: 13.5%) leading to stable volumes of housing related protection and general insurance sales. In group protection, in a competitive market, we grew sales by 4% to £29m APE (H1 2010: £28m) as a result of the combination of securing new business and retaining existing schemes. Total protection new business margins increased to 6.4% (H1 2010: 6.0%).

Group protection sales up 4%.

Total protection margin increased to 6.4%.

General insurance returns to profitability. In general insurance, performance was good with operating profit of £17m (H1 2010: £14m) and net cash generation of £12m (H1 2010: £10m). A combined operating ratio of 90% (H1 2010: 90%, FY 2010: 106%) primarily resulted from a return to more normal weather conditions in the UK compared with the second half of 2010.

BUSINESS REVIEW - SAVINGS

Financial highlights £m	H1 2011	H1 2010
Operational cash generation	89	72
New business strain	(31)	(34)
Net cash generation	58	38
Experience variance, assumption changes, tax and other variances	10	16
IFRS operating profit	68	54
Investment variance	(2)	(16)
IFRS profit before income tax attributable to equity holders	66	38
Savings new business APE	662	609
Assets under administration (£bn)	66	56
Net new funds (£bn)	1.1	1.5
New business strain % PVNBP	2.6	3.1

Record profits and cash generation. The continued success of the Savings strategy, focusing on asset accumulation, selling capital light products and improving operational efficiency, resulted in a 53% increase in net cash generation to £58m (H1 2010: £38m), an increase of 26% to £68m in IFRS operating profit (H1 2010: £54m). Investment variances were small at negative £2m (H1 2010: negative £16m) leading to IFRS profit before tax of £66m (H1 2010: £38m).

SAVINGS INVESTMENTS

Net cash generation of £12m. Savings Investments comprises unit trusts and ISAs, structured products, our platform business and uninsured SIPPs (including Suffolk Life). In total, these businesses delivered net cash generation of £12m (H1 2010: £13m) and delivered IFRS operating profit of £13m (H1 2010: £14m).

Assets up 9% to £25bn. This has largely been achieved by growing assets under administration by 9% to £25.4bn (31/12/10: £23.3bn) through a combination of strong fund flows and market movements. In addition we have improved operational efficiency as the scale of the business has increased, while investing in our platform capabilities during the year.

APE up 8% to £371m, net new business of £1.7bn. New business APE grew by 8% in H1 2011 to £371m (H1 2010: £343m). Unit Trusts and ISAs grew by 11% to £157m (H1 2010: £141m) with an increase in applications from customers attracted to our funds proposition and performance. Sales on our platform, IPS, increased 71% to £106m (H1 2010: £62m) and contributed 16% of the total Savings APE (H1 2010: 10%). Net new business flows were £1.7bn whilst gross new business was £3.5bn. We continue to grow assets on our platform, IPS, which has £3.3bn of assets under administration (FY 2010: £2.6bn).

Platform assets of £3.3bn

Asset movements £bn	Total
Assets under administration (at 1 January 2011)	23.3
Gross new business	3.5
Redemptions	(1.8)
Net new business	1.7
Market movements and other	0.4
Assets under administration (at 30 June 2011)	25.4

INSURED SAVINGS

Substantial increase in IFRS profits and cash contribution.

The Insured Savings business includes workplace pensions, individual pensions, insured bonds and international bonds. The business contributed £20m net cash generation in H1 2011 (H1 2010: £2m). IFRS operating profit has increased by 150% to £20m in H1 2011 (H1 2010: £8m). Operational cash generation was up 42% to £51m (H1 2010: £36m). New business strain was down to £31m (H1 2010: £34m) despite new business APE increasing 16% to £220m. New business strain as a percentage of PVNBP has improved further to 2.6% (H1 2010 3.1%).

Major scheme wins in workplace pensions driving scale in customer numbers and AUM.

Continuing success of our workplace pensions business drove non profit pensions new business APE to £159m (H1 2010: £146m). We have seen strong interest in our auto-enrolment solutions which have been selected by several major employers including Marks & Spencer. We have also been chosen as replacement provider for Threadneedle defined contribution customers. We expect momentum to increase as we approach the first auto enrolment staging dates. At the end of H1 2011, workplace pension assets increased to £7.8bn (H1 2010: £6.3bn), representing further progress towards our targeted scale.

Bonds new business up 39%.

Insured bonds new business APE grew by 39% to £61m (H1 2010: £44m) driven by success in International Bonds particularly through our banking channels. Onshore bonds sales have stabilised in the year after declining following tax changes in 2007 which led to reduced customer appetite.

EEV margins continuing to improve.

Non profit pensions margin increased to 0.2% (H1 2010: negative 0.1%) and non profit bonds to 1.6% (H1 2010: 0.7%) benefiting from a further shift in new business mix towards capital light products.

Asset movements £bn	Total
Assets under administration (at 1 January 2011)	18.7
Gross new business	1.3
Redemptions	(1.1)
Net new business	0.2
Market movements	0.3
Assets under administration (at 30 June 2011)	19.2

WITH-PROFITS SAVINGS

Growth in cash and IFRS profits.

With-profits Savings comprise all products sold in the with-profits fund, including with-profits pensions and with-profits bonds. IFRS operating profit, representing the shareholders' share of the with-profits bonus, was up 9% in H1 2011 at £35m (H1 2010: £32m) with net cash generation of £26m (H1 2010: £23m). New business APE has fallen by 7% from £76m in H1 2010 to £71m in H1 2011.

Asset movements £bn	Total
Assets under administration (at 1 January 2011)	22.1
Gross new business	0.6
Redemptions	(1.4)
Net new business	(0.8)
Market movements	0.3
Assets under administration (at 30 June 2011)	21.6

BUSINESS REVIEW - INVESTMENT MANAGEMENT

Financial highlights £m	H1 2011	H1 2010
Total revenue	205	182
Total costs	(88)	(84)
IFRS profit before tax	117	98
Net cash generation	91	70
Average ad valorem fee margin (bps)	10.9	10.6
Average expense margin (bps)	5.2	5.5
Gross new fund management mandates (£bn)	17.9	21.2
Net new fund management mandates (£bn)	3.0	8.3
Closing funds under management (£bn)	362	320

Record profits, cash generation and AUM.

LGIM delivered another record six month IFRS operating profit in H1 2011 up 19% to £117m (H1 2010: £98m). Strong fund performance coupled with high quality customer service resulted in good persistency and net fund flows of £3.0bn. Along with higher market levels, this helped assets under management rise to £362bn (H1 2010: £320bn) with an increase in funds across most asset classes. Margins improved due to a higher fee to fund ratio and continued focus on cost control. Net cash generation of £91m (H1 2010: £70m) increased by 30% and benefits from the increase in IFRS profit coupled with a lower effective tax rate.

Pension fund de-risking continues to drive demand for LGIM's products.

A core part of LGIM's UK business focus is on providing investment solutions for defined benefit pension schemes which are increasingly looking to de-risk. Our ability to deliver consistent positive passive fund tracking, strong fixed interest performance and innovative LDI (Liability Driven Investment) solutions, the principal building blocks for de-risking strategies, is resulting in healthy new fund flows. Gross UK flows were £14.7bn (H1 2010: £18.8bn). LGIM's LDI assets grew 19% to £44.9bn (H1 2010: £37.6bn), despite the current market environment placing constraints on the ability to fully execute these de-risking strategies. In addition to new fund flows, further UK business revenue growth was generated from the trend of index fund clients to move assets out of the more mature markets into emerging economies.

International diversification gaining momentum.

LGIM's strategy to diversify into international markets to generate growth has seen new mandates won in the USA, Middle East and Europe. International gross new business of £3.2bn represents 18% of the total new fund flows compared with £2.4bn or 15% in H1 2010. LGIM's internationally sourced assets now stand at £17.3bn, up 53% over the period from H1 2010 (£11.3bn).

Asset movements £bn	Index	Active	Total
Funds under management (at 1 January 2011)	228.5	125.0	353.5
Gross inflows	13.0	4.9	17.9
Gross outflows	(12.6)	(2.3)	(14.9)
Net flows	0.4	2.6	3.0
Market and other movements*	3.9	2.0	5.9
Funds under management (at 30 June 2011)	232.8	129.6	362.4

*includes movements in internal clients funds

INDEX FUNDS

Continued positive net flows into index funds.

The performance of the index business is built on market leading index tracking performance, excellent customer service and good cost control. This has resulted in sustained, strong new business flows and high persistency helping index assets under management to increase 15% to £232.8bn at June 2011 (H1 2010: £202.0bn) Outflows of £12.9bn reflect payments to pensioners and client losses.

Asset movements £bn	UK equities	Int'l equities	Fixed interest	Total – index
Funds under management (at 1 January 2011)	72.0	86.0	70.5	228.5
Gross inflows	2.5	5.5	4.9	12.9
Gross outflows	(3.9)	(5.3)	(3.3)	(12.5)
Net flows	(1.4)	0.2	1.6	0.4
Market and other movements*	(1.0)	1.1	3.8	3.9
Funds under management (at 30 June 2011)	69.6	87.3	75.9	232.8

*includes movements in internal clients funds

LDI AND ACTIVE FUNDS

De-risking driving demand for LDI and active fixed income.

Fixed income fund performance remains consistently strong with 89% and 92% of funds outperforming their respective benchmarks over 1 and 3 years, to the end of June 2011. This excellent performance is attracting new business mandates, with gross fixed income inflows of £2.1bn (H1 2010: £1.9bn). Momentum is building in our US office which experienced strong gross inflows of £0.9bn in H1 2011 (H1 2010: £0.1bn).

Legal & General Property (LGIM's property business) continues to perform well and has increased assets under management. LGP is the UK's third largest institutional property investor by assets under management.

Asset movements £bn	Equities	Fixed interest	Property & other	LDI	Total – active
Funds under management (at 1 January 2011)	9.1	66.6	8.5	40.8	125.0
Gross inflows	-	2.1	0.1	2.7	4.9
Gross outflows	-	(1.5)	-	(0.8)	(2.3)
Net flows	-	0.6	0.1	1.9	2.6
Market and other movements*	(0.3)	-	0.1	2.2	2.0
Funds under management (at 30 June 2011)	8.8	67.2	8.7	44.9	129.6

*includes movements in internal clients funds

BUSINESS REVIEW - INTERNATIONAL

Financial highlights £m	H1 2011	H1 2010
Operating Profit		
USA	50	44
Europe (Netherlands and France)	18	21
Middle East and Asia (Egypt, the Gulf and India) ¹	(2)	(4)
IFRS profit before tax	66	61
New business APE	88	81
Operational cash generation	35	33

1. Includes divisional head office costs.

TRADING PERFORMANCE AND OPERATING PROFIT

Operating profit up 8%, new business up 9%. International operating profits were up 8% at £66m (H1 2010: £61m). New business growth of 9% was driven by a strong performance in the US. New business margins rose in H1 2011 in the US, as a consequence of increasing reinvestment yields and the impact of improving new business levels on expense recovery.

Growth in US dividends and £52m capital repatriation. Operational cash generation by International division was £35m (H1 2010: £33m), representing 10% growth in the underlying dividend from the US in local currency terms. These underlying dividend flows are expected to continue and grow in future years. We also expect dividends from Europe in the second half. In addition, the US business remitted £52m (H1 2010: £nil) of capital representing repatriation of the profits in 2010 from redemption of external debt in February.

LEGAL & GENERAL AMERICA (LGA)

Financial highlights \$m	H1 2011	H1 2010
IFRS operating profit	81	67
IFRS profit before tax	80	67
New business APE	52	33
Gross premium income	403	384
Net cash generation	55	50
New business margin (%)	9.8	1.4
Embedded value	1,514	1,504

Growth in profits, sales and new business margins. In H1 2011, US operating profits of \$81m (H1 2010: \$67m) were 21% higher in local currency terms due to investment profits, strong sales growth and improved mortality experience. New business of \$52m (H1 2010: \$33m) was 58% higher in local currency terms as management supplemented last year's pricing action with action on distribution. Encouragingly, new business was 11% higher than in H2 2010. New business margins rose sharply as a result of the significant increase in volume, with its effect on expense recovery and increasing reinvestment yields.

First two phases of capital programme complete. We have completed the first two phases of our US capital management programme. Phase One was announced in February and involved the reinsurance of a tranche of triple-X reserves back to the UK and associated repurchase of externally financed securities. Phase

Two involved the establishment of an internally financed triple-X structure for new business written in 2011 and subsequent years. Whilst this has not led to capital repatriation, it creates a structure which avoids the build up of redundant reserves in LGA. The work on subsequent phases of the programme is continuing.

LEGAL & GENERAL EUROPE

Financial highlights €m	H1 2011	H1 2010
IFRS operating profit	21	24
IFRS profit before tax	27	53
New business APE	55	55
Gross premium income	369	381
Net cash generation	1	1
New business margin (%)	0.6	2.1
Embedded value	648	643

Operating profit of €21m. In Europe, IFRS operating profits were €21m (H1 2010: €24m). Our European business comprises two operations: Legal & General Netherlands and Legal & General France.

Dutch profits down, new business of €9m. In the Netherlands, profits slipped from the exceptional levels in H1 2010, which benefited from profit on rapidly declining yields on bonds. At the same time, results were impacted by high levels of product development expenditure as the business seeks to shift emphasis away from the unit linked life assurance savings market. New business in the Netherlands was €9m (H1 2010: €12m), due to lower term and single premium sales. The Netherlands remains a very difficult market with reduced new business volumes and high levels of regulatory change.

French profits up, new business of €46m. Profits in France have improved, due to higher investment profits which offset adverse claims experience on group business. New business in France totalled €46m (H1 2010: €43m) representing 7% growth, due to increasing levels of Group new business, which consists of life, health and disability products sold to small and medium sized businesses.

EMERGING MARKETS

Emerging market strategy progressing well. We continue to make modest investments in our developing emerging markets joint venture businesses, in India, Egypt and the Gulf states, where we are encouraged by progress after the political instability earlier this year. We have now obtained regulatory approval to open a representative office in China.

IndiaFirst continues to exceed expectations. Our bancassurance joint venture in India, India First, had a solid half year of operation. India First has sold 50,000 policies to individual clients in the half year, taking the total since launch in late 2009 to nearly 200,000. New business APE in H1 2011 totalled R1,228m, equivalent to £17m, of which L&G's share was £4m.

BUSINESS REVIEW – GROUP

GROUP CAPITAL AND FINANCING

Financial highlights (£m)	H1 2011	H1 2010
Closing group capital and financing shareholder funds	4,369	3,252
Closing outstanding debt balances	2,742	2,565
Investment return	100	72
Interest expense	(50)	(42)
Total operational cash generation	50	30
Investment return	130	96
Interest expense	(62)	(59)
Investment expenses and unallocated corporate expenses	(7)	(4)
IFRS profit before tax	61	33

Cash generation leading to increase in shareholder funds... The group capital and financing operating profit primarily reflects the smoothed investment return on shareholders' assets held at Group level and in the long term Risk and Savings businesses less interest charges on Group debt. Whilst there is no change to the definition of IFRS operating profit, in 2011 we changed the definition of group capital and financing operational cash generation to include the assumed capital appreciation on equity holdings in our cash flow definition. This puts the treatment of equities on the same basis with other asset classes and brings us more in line with other companies in our sector.

....with higher smoothed investment returns.... As a result of the strong cash generation of the Group, coupled with capital management activities in the USA, shareholder funds have risen during the period. At 30 June 2011, shareholder funds totalled £4.1bn (31/12/10: £3.3bn). The average balance of invested assets was £3.8bn (H1 2010: £3.2bn). Smoothed investment return was £130m (H1 2010: £96m) and is calculated by applying an average smoothed investment return of 3.4% (H1 2010: 3.0%).

....whilst debt costs remain flat. Interest expense of £62m (H1 2010: £59m) reflects the average cost of debt of 4.8% per annum (H1 2010: 4.9% per annum) on average debt balances of £2.6bn (H1 2010: £2.4bn).

VARIATION FROM LONGER TERM INVESTMENT RETURN

£m	H1 2011	H1 2010
Operating profit	523	542
Variation from longer term investment return	(49)	(4)
Property losses attributable to non-controlling interests	(1)	(1)
Profit from ordinary activities before tax	473	537

Negative investment variance in group capital and financing. Below the operating profit line, the H1 2011 investment variance was negative £49m (H1 2010: negative £4m). The negative variance of £49m is primarily due to underperformance of Society assets against assumptions, reflecting weaker investment markets and mark to market movement in debt related swaps.

TAX

	H1 2011			H1 2010		
	Profit before tax £m	Tax £m	Effective tax rate (%) ¹	Profit before tax £m	Tax £m	Effective tax rate (%) ¹
IFRS operating profit	523	(133)	25.4	542	(150)	27.7
Variation from longer term investment return	(49)	22		(4)	14	
Property losses attributable to minority interests	(1)	-		(1)	-	
Impact of change in UK tax rates	-	(4)		-	-	
IFRS profit before tax	473	(115)	24.3	537	(136)	25.3

1. The Group's standard rate of corporation tax applicable for the period is 26.5% (H1 2010: 28%).

The equity holders' effective tax rate on operating profit is 25.4% compared to 27.7% in the equivalent period last year. The effective tax rate on IFRS profit reduced from 25.3% to 24.3%. The decrease in the effective tax rate is mainly due to the reduction in the applicable rate of corporation tax to 26.5% (H1 2010: 28%) and also due to recognition of a previously unrecognised deferred tax asset of £12m.

DEFERRED TAX ASSET UTILISATION

The table below provides a breakdown of the key component parts of the IFRS net deferred tax asset of £104m (H1 2010: £365m).

£m	H1 2011	H1 2010
Excess and deferred expenses (XSE)	274	249
Capital losses	30	302
Trading losses	209	275
Other	(36)	(103)
UK net deferred tax asset	477	723
Overseas deferred tax liability	(373)	(358)
IFRS net deferred tax asset	104	365

The utilisation of trading losses is reflected within net cash and has contributed £33m in H1 2011 (H1 2010: £40m). The expected date that the deferred tax asset recognised for trading losses will be fully utilised has been extended from 2012 to 2013.

CHANGE IN UK CORPORATION TAX RATES – IMPACT ON VIF (DISCOUNTED AND UNDISCOUNTED)

The Government have made clear their commitment to reduce corporation tax rates to 23% by 2014. As the 2% rate reduction in 2011 and further 1% reduction in 2012 have already been enacted, we are confident that the Government will deliver the proposed rate changes as announced. As such, our best estimate of the applicable tax rates are those which were announced on Budget day and we have reflected the stepped rate change to 23% in our EEV as at H1 2011. This has given rise to a £155m benefit to discounted VIF and a £334m benefit to undiscounted VIF.

BUSINESS REVIEW – CASH GENERATION

SOURCES OF CASH GENERATION

The Group benefits from a range of diversified sources of operational cash generation.

£m	H1 2011	H1 2011	H1 2011	FY 2010	FY 2010	FY 2010
	Operational cash generation	New business strain	Net cash generation	Operational cash generation	New business strain	Net cash generation
UK long term annuities	112	1	113	229	60	289
UK long term protection	109	(41)	68	216	(70)	146
UK long term non profit savings	53	(31)	22	77	(70)	7
UK long term risk and savings	274	(71)	203	522	(80)	442
UK long term with-profits savings	26		26	46		46
General insurance	12		12	(6)		(6)
Savings investments	10		10	15		15
Other UK risk and savings	22		22	9		9
LGIM	91		91	162		162
International	35		35	44		44
Group capital and financing						
Return on assets	100		50	152		57
Interest expense	(50)			(95)		
Group total	498	(71)	427	840	(80)	760

1. UK LONG TERM RISK AND SAVING BUSINESS

The UK long term Risk and Savings businesses comprise annuities, protection, pensions and bonds written in the non profit and with-profits funds. At the end of June 2011, the value of the future undiscounted cashflows in the in-force UK long term Risk and Savings businesses was £8.7bn (31/12/10: £8.0bn). Excluding experience and investment variances, this value monetises and is released into surplus each year with reasonable certainty and forms the basis of the Group's operational cash generation. The estimated monetisation profile of the VIF is provided below.

Estimated monetisation of UK VIF (undiscounted) ¹ £m	2011	2012	2011 - 2015	2016 - 2021	Beyond 2021
UK annuities	250				
UK protection	270				
UK non profit savings	100				
Total non profit	620				
With-profits	70				
UK VIF monetisation	690	630	33%	20%	47%

1. Management estimates at 31/12/10.

The table overleaf demonstrates how the VIF is being replaced by the new business written in the period and illustrates the movements between the opening and closing UK long term Risk and Savings VIF.

The contribution to VIF from new business written in H1 2011 coupled with the unwind of the discount rate (resulting as cash flows from new business written in previous periods are closer to the balance sheet date) exceed the expected releases from the non profit and with-profits businesses.

Reconciliation of UK long term Risk and Savings VIF £bn	Discounted ¹	Undiscounted
Opening VIF at 1 January 2011	3.89	8.0
Contribution from new business	0.16	0.3
Unwind of discount rate	0.15	n/a
Expected release from non profit and with-profits businesses	(0.30)	(0.3)
Closing operational VIF at 30 June 2011	3.90	8.0
Experience variances / assumption changes	0.06	0.2
Investment variance / economic assumption changes	(0.02)	0.2
Other ²	0.14	0.3
Closing VIF at 30 June 2011	4.08	8.7

1. After cost of capital.

2. Includes the effect of UK budget changes of £0.15bn (discounted) and £0.3bn (undiscounted).

The Group has once again grown the VIF on both a discounted and undiscounted basis in H1 2011.

2. OTHER UK RISK AND SAVINGS BUSINESSES

Other UK Risk and Savings operational cash generation is primarily generated by the general insurance (Risk) and Savings investments businesses. In H1 2011, the general insurance business delivered strong profitability of £17m and a positive cash contribution of £12m at a combined operating ratio of 90%.

The Savings Investments business which comprises unit trusts, ISAs, platform business and structured products increased sales by 8%. This resulted in cash generation of £12m (H1 2010: £13m).

3. LGIM

LGIM's contribution to operational cash generation is defined as operating profit after tax. This contribution has grown consistently as funds under management have increased from strong net fund inflows and good client persistency. Further increases in funds under management as the business diversifies into new asset classes and into international markets will help to further grow profits and cash.

Within the calculation of Group embedded value, investment management profits on internally sourced business is included in Group embedded value on a look through basis at £0.2bn (31/12/10: £0.2bn) equivalent to 3p per share. The external funds element of the investment management business is included at net asset value of £0.4bn (31/12/10: £0.3bn), equivalent to 7p per share (31/12/10: 6p per share). Calculating the external funds element of LGIM on a discounted cash flow basis, using assumptions detailed below, would increase the contribution of LGIM to Group Embedded value from £0.6bn (10p 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 2011 (p per share)	H1 2011 £bn
Look through value of profits on covered business	3	0.2
Net asset value	7	0.4
Current value of LGIM in Group embedded value	10	0.6
LGIM VIF (assuming stable margins and 10% outflows per annum)	21	1.2
Alternative discounted value of LGIM future cash flows	31	1.8

4. INTERNATIONAL

Operational cash generation from international operations is defined as the dividends paid to the Group. In March 2011, Legal & General America (LGA) paid a dividend of \$55m (£34m). We are confident that the dividend flow from the international business is sustainable and we expect dividends to grow going forward.

RECONCILIATION OF CASH GENERATION TO IFRS OPERATING PROFIT

Net cash generation is defined as operational cash generation less new business strain for the UK non profit Risk and Savings businesses. Operational cash generation is defined as the expected release from in-force business for the UK non profit Risk and Savings businesses, the shareholders' share of bonuses on with-profits business, the post-tax IFRS operating profit on other UK businesses, including the group capital and financing segment, and dividends remitted from our international businesses from sustainable cash generation.

IFRS profit in the year also includes non-recurring experience variances and changes to valuation assumptions which are expected to be neutral to positive over the medium term.

Reconciliation of operational cash generation to operating profit after tax £m	H1 2011	H1 2010
Operational cash generation	498	417
New business strain	(71)	(44)
Net cash generation	427	373
International profit (less dividends paid)	9	7
Experience variances, assumptions changes and other variances	(28)	22
Investment projects	(18)	(10)
Operating profit (net of tax)	390	392
Investment variance	(27)	10
Impact of change in UK tax rates	(4)	-
Property losses attributable to non-controlling interests	(1)	(1)
Profit after tax	358	401

NEW BUSINESS IRR AND PAYBACK PERIODS

The IRR on protection business improved to 16% (H1 2010: 15%) and the payback period reduced to 4 years. Pricing in the annuities market, whilst not as favourable as in 2010, still remains strong and annuities were written at positive new business strain in H1 2011.

In Savings, unit linked bonds and non profit pensions benefited from cost efficiencies and lower commissions. In unit linked bonds the IRR increased to 13% (H1 2010: 9%) and the payback reduced to 6 years from 8 years in H1 2010. In pensions, cost efficiencies and strong growth in new business resulted in lower unit costs and an increase in IRR from 7% in H1 2010 to 8% in H1 2011 and a decrease in the payback period to 12 years (H1 2010: 13 years).

New business IRR and payback periods	H1 2011 PVNBP £m	H1 2011 Internal Rate of Return ¹ %	H1 2011 Undiscounted payback period (years)	H1 2010 PVNBP £m	H1 2010 Internal Rate of Return ¹ %	H1 2010 Undiscounted payback period (years)
Protection	466	16	4	417	15	5
Annuities	756	>30	<0	1,058	>30	<0
Unit linked bonds	600	13	6	273	9	8
Pensions	1,277	8	12	1,115	7	13

1. Internal Rate of Return on new business.

BUSINESS REVIEW – BALANCE SHEET

CAPITAL RESOURCES – IGD¹ SURPLUS INCREASED TO £4.0BN

The end H1 2011 Insurance Groups Directive (IGD) surplus of £4.0bn increased from £3.7bn at the end of 2010 due to retained profits in the Group. The reconciliation from FY 2010 to HY 2011 is shown below.

IGD Surplus £m	H1 2011	FY 2010
At start of period	3,745	3,148
Operational cash generation	498	840
New business strain	(71)	(80)
Dividends	(97)	(279)
Experience variances, assumption changes and other variances	27	138
Investment variance	(27)	46
Decrease /(increase) in operational regulatory capital requirement	(8)	(155)
Release of capital from US capital management programme	-	132
Other	(32)	(45)
At end of period	4,035	3,745

As at 30 June 2011 the IGD capital resources of £6.9bn covered the capital resources requirement of £2.9bn by 2.38 times, giving rise to an estimated surplus of £4.0bn.

Capital £bn	30/06/11	31/12/10
Group capital resources	6.9	6.7
Group capital resources requirement	2.9	3.0
IGD surplus	4.0	3.7
Coverage ratio %	238	226

The increase in the Group capital resources to £6.9bn (31/12/2010: £6.7bn) is primarily due to retained profits from first half trading operations less the cost of the proposed interim dividend. Group capital resources requirement decreased from £3.0bn to £2.9bn due to the changes in solvency capital outlined below.

1. All IGD amounts are estimated, unaudited and after accrual of the interim dividend of £97m (H1 2010: £78m, FY 10: £279m).

MOVEMENTS IN GROUP SOLVENCY CAPITAL

Solvency capital is analysed into 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 2011	FY 2010
Risk	1.6	1.5
Savings	0.1	0.1
With-profits – operational	0.6	0.7
Other subsidiaries	0.4	0.4
Operational group capital resources requirement	2.7	2.7
With-profits insurance capital component (WPICC)	0.2	0.3
Group capital resources requirement	2.9	3.0

LIQUIDITY

Limited appetite for liquidity risk.

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, as identified through annual planning processes and taking 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. The liquidity position across our operational business units is very strong. On average during the first half of 2011 daily overnight cash deposits of circa £500m were maintained as well as carrying significant holdings of liquid assets.

Access to liquid funds....

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 as and when required. As at 30 June 2011 the Group had in place undrawn committed syndicated and bilateral facilities in excess of £1bn provided by a number of the Group's key relationship banks, maturing in December 2012. 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.

....with no bonds maturing before 2015.

EUROPEAN EMBEDDED VALUE DISCLOSURE

Analysis of EEV results - covered business £m	PVNBP		Margin (%)		Contribution	
	H1 2011	H1 2010	H1 2011	H1 2010	H1 2011	H1 2010
Risk	1,222	1,475	7.6	9.4	93	139
Savings	2,032	1,869	0.8	0.6	16	11
International	645	536	4.3	1.9	28	10
Total	3,899	3,880	3.5	4.1		
Contribution from new business					137	160
Expected return from in-force business					244	260
<i>Persistency</i>					7	(2)
<i>Mortality / morbidity</i>					(48)	14
<i>Expenses</i>					36	(13)
<i>Modelling changes and other</i>					117	44
Experience variances and assumption changes					112	43
Development costs					(7)	(8)
Contribution from shareholder net worth					118	83
Operating profit on covered business					604	538
Business reported on an IFRS basis					58	51
Operating profit					662	589
Analysis of EEV results – worldwide business £m					H1 2011	H1 2010
Risk					344	367
Savings					94	61
Investment management					104	81
International					87	61
Group capital and financing					58	33
Investment Projects					(25)	(14)
Operating profit					662	589
Variation from longer term investment return					(59)	(184)
Effect of economic assumption changes					(13)	179
Property losses attributable to non-controlling interests					(1)	(1)
Profit from ordinary activities before tax					589	583
Tax and other					(139)	(161)
Effect of tax rate change					156	-
Profit for the period					606	422
Earnings per share (p)					10.42	7.26
Shareholders' equity					8,147	6,958
Number of shares (m)					5,871	5,866
Shareholders' equity per share (p)					138.8	118.6

OPERATING PROFIT

EEV operating profit increased by 12% to £662m (H1 2010: £589m). The contributing factors to this increase are discussed below.

NEW BUSINESS CONTRIBUTION

Contribution from worldwide new business was £137m (H1 2010: £160m). The margin on this business reduced to 3.5% (H1 2010: 4.1%) reflecting reduced margins in the annuity business as a result of competitive pressure and business mix changes in H1 2011.

RISK

New business margin %	H1 2011	H1 2010
Protection	6.4	6.0
Annuities	8.4	10.8
Risk	7.6	9.4

The impact of the intense competitive environment in the protection market in 2011 was partially offset by improved business mix, initial and renewal expenses. This led to an increase in the new business margin to 6.4% (H1 2010: 6.0%). The IRR on protection new business was 16% (H1 2010: 15%) with a reduced payback period of 4 years (H1 2010: 5 years).

The annuities margin decreased to 8.4% (H1 2010: 10.8%) reflecting lower annuity margins, a change in business mix and more competition in the individual annuity market.

SAVINGS

New business margin %	H1 2011	H1 2010
Unit linked bonds	1.6	0.7
Non profit pensions	0.2	(0.1)
With-profits	1.8	2.1
Savings	0.8	0.6

In unit linked bonds, the new business margin was 1.6% (H1 2010: 0.7%). This translates into an IRR of 13% (H1 2010: 9%) and a payback period of 6 years (H1 2010: 8 years).

In non profit pensions, the increase in new business volumes particularly in the fee-based workplace pensions market, has lowered unit costs and increased the margin to 0.2% in H1 2011 (H1 2010: negative 0.1%). This equates to an IRR and payback period of 8% and 12 years respectively (H1 2010: IRR 7%, payback period 13 years).

The with-profits margin has reduced slightly from 2.1% in H1 2010 to 1.8% in H1 2011.

INTERNATIONAL

New business margin %	H1 2011	H1 2010
USA	9.8	1.4
Netherlands	-	1.2
France	0.8	2.3
International	4.3	1.9

The consolidated International new business margin increased to 4.3% in H1 2011 (H1 2010: 1.9%). This was driven by an increase in the USA to 9.8% (H1 2010: 1.4%) as a result of new business volume improvements and their impact on expense recovery and increasing reinvestment yields.

IN-FORCE CONTRIBUTION

The expected return from in-force business decreased to £244m (H1 2010: £260m) due to the unwind of a lower opening discount rate (7.3% vs 8.0%) and a lower tax gross up rate (23% vs 28%).

Positive experience variances and assumption changes of £112m (H1 2010: positive £43m) included:

Persistency: £7m (H1 2010: negative £2m). This includes an improvement in persistency in the US business.

Mortality/morbidity/longevity: negative £48m (H1 2010: positive £14m). This reflects adverse mortality experience in the Group Protection business.

Expenses: £36m (H1 2010: negative £13m), primarily reflecting lower unit costs in individual protection.

Other: £117m (H1 2010: £44m). This includes a reassessment of future BPA reserve release as data is loaded onto the BPA system (£19m), the unwind of the cost of capital in the UK (£27m) and one-off modelling improvements (£50m).

INVESTMENT MANAGEMENT

The Investment management business is reported on an IFRS basis; operating profit of £104m (H1 2010: £81m) excludes £13m (H1 2010: £17m) 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. The capitalised value of these internal profits is £0.2bn (3p per share) and is included in the current definition of Group embedded value.

GROUP CAPITAL AND FINANCING

The profit from group capital and financing increased to £58m in H1 2011 (H1 2010: £33m) as a result of higher average invested assets throughout H1 2011.

PROFIT BEFORE TAX

Profit before tax includes the variation from longer term investment return and the effect of economic assumption changes. EEV profit before tax was £589m (H1 2010: £583m).

The variation from longer term investment return was negative £59m in H1 2011 (H1 2010: negative £184m). This was primarily due to underperformance of Society assets against assumptions, reflecting weaker investment markets and mark to market movement in debt related swaps.

The effect of economic assumption changes amounted to negative £13m (H1 2010: positive £179m).

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 we are rewarded for and understand deeply, 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

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.

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 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 FSA consultation on the operation of With Profits Funds. We also continue to work with our business partners in their transition to the Retail Distribution Review regime, which comes into operation in 2012.

FINANCIAL MARKET AND ECONOMIC CONDITIONS

Investment market performance or conditions in the broader economy may adversely impact our earnings and profitability

The performance and liquidity of investment markets, interest rate movements and inflation can impact the value of 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.

2011 is seeing further recovery of major investment markets. However, the outlook for the broader economy remains uncertain with potential for a rise in inflation and increases in interest rates. Recent events in the Middle East and North Africa as well as Sovereign debt issues within the Euro zone add to uncertainty.

A prolonged period of economic uncertainty or a return to recession may result in increased levels of consumer saving benefiting our retail savings business. However, other product segments such as protection may experience reduced demand, impacting our new business volumes and our earnings. As part of our medium term plan we have sought to ensure focus upon those market segments that will be resilient in projected conditions.

The ongoing potential for a euro-zone based sovereign debt crisis presents the risk of falls in investment asset values and significant disruption and illiquidity in global financial markets. Disruption from a major Sovereign debt event may impact our ability to execute hedging strategies that ensure the profile of cash flows of our assets and liabilities are appropriately matched. Falls in investment values may impact the value of and income from our Shareholder cash flows.

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 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.

Market reaction to a significant default event could result in the short term diminution 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. We continue to actively manage our exposure to default risk, setting robust counterparty selection criteria and exposure limits.

UK FINANCIAL SERVICES SECTOR CONTAGION RISKS

As a UK based Group, our earnings are influenced by the 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 retail investors 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. Forced changes in reserves can also be required as a result of changes in regulation or legislation.

Our product pricing assumptions for annuities, protection and other insurance business reflect the risks we assess as being exposed to. We undertake significant analysis of longevity and mortality risks to ensure an appropriate premium is charged for the risks we take on and that our reserves remain appropriate. We are focused on developing a comprehensive understanding of annuitant mortality, including the development of 'cause of death' models using UK population data and engaging directly with the medical profession and scientific community. For our protection and general insurance businesses we continue to evolve and develop our underwriting capabilities. We are closely monitoring the implementation in the UK of the ECJ Gender Equality ruling, its impact for our customers and the required changes to our business.

ENQUIRIES

INVESTORS:

Matt Hotson	Director, Investor Relations and Strategy	020 3124 2150 or 07711 956077
Ching-Yee Chan	Investor Relations Co-ordinator	020 3124 2345

MEDIA:

John Godfrey	Group Communications Director	020 3124 2090
Richard King	Head of Media Relations	020 3124 2095
Mal Patel	Tulchan Communications	020 7353 4200

NOTES

A copy of this announcement can be found in "Results", under the "Financial information" section of our shareholder website at <http://www.legalandgeneralgroup.com/investors/results.cfm>. A video of Tim Breedon, Group Chief Executive discussing these results is also available.

A presentation will take place at 09.30 GMT today at One Coleman Street, London, EC2R 5AA. There will be a live webcast of the presentation which can be accessed at <http://investor.legalandgeneral.com/investors/results.cfm>. A replay will be available on this website later today. There will be a live listen only teleconference link to the presentation. Investors should dial +44 (0)20 3059 5845. There is no passcode.

Technical queries on the results should be e-mailed to investor.relations@group.landg.com or to one of our team using the convention firstname.lastname@group.landg.com. Answers to technical queries will be posted to our shareholder website on 4 August 2011

FINANCIAL CALENDAR 2011	Date
Ex dividend date	7 September 2011
Record date	9 September 2011
Payment date of 2011 interim dividend	3 October 2011
Q3 Interim Management Statement 2011	9 November 2011
Preliminary Results 2011	8 March 2012

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 2011 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:

The condensed set of IFRS financial statements has been prepared in accordance with IAS 34 as adopted by the European Union;

- I. 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;
- II. 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;
- III. 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
- IV. The directors of Legal & General Group Plc are listed in the Legal & General Group Plc Annual Report for 31 December 2010, except James Strachan and Sir David Walker who resigned as non-executive directors of the company on 25 May 2011 and Mike Fairey and Stuart Popham who were appointed to the Board on 1 May 2011 and 1 July 2011 respectively. A list of current directors is maintained on the Legal & General Group Plc website: legalandgeneralgroup.com.

By order of the Board

T. J. Breedon
Group Chief Executive
2 August 2011

N. D. Wilson
Group Chief Financial Officer
2 August 2011

International Financial Reporting Standards

Supplementary operating profit information

For the six months ended 30 June 2011

	Notes	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
From continuing operations				
Risk	2.01(a)	236	310	560
Savings	2.02(a)	68	54	115
Investment management	2.03	117	98	206
International	2.04	66	61	102
Group capital and financing	2.05	61	33	58
Investment projects ¹		(25)	(14)	(39)
Operating profit		523	542	1,002
Variation from longer term investment return	2.06	(49)	(4)	90
Property losses attributable to non-controlling interests		(1)	(1)	-
Profit before tax		473	537	1,092
Tax expense attributable to equity holders of the Company	2.07	(115)	(136)	(272)
Profit for the period		358	401	820
Attributable to:				
Non-controlling interests	2.17	(1)	(1)	-
Equity holders of the Company		359	402	820
		p	p	p
Earnings per share	2.11			
Based on operating profit after tax attributable to equity holders of the Company		6.69	6.73	12.89
Based on profit attributable to equity holders of the Company		6.16	6.90	14.07
Diluted earnings per share	2.11			
Based on operating profit after tax attributable to equity holders of the Company		6.58	6.66	12.72
Based on profit attributable to equity holders of the Company		6.06	6.83	13.88

1. Investment projects relate to strategic investments including Solvency II.

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 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 SIPP)), the with-profits transfer and the profit of our Savings investments business. Operating profit reflects the investment returns that the business expects to make on the financial investments that back this business.

Operating profit for the Investment management and International segments includes a longer term expected investment return on the shareholders' funds within the Investment management and Netherlands' operations.

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	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Annuities		145	194	364
Protection		75	104	207
General insurance		17	14	(8)
Other		(1)	(2)	(3)
Total Housing and Protection		91	116	196
Total Risk operating profit¹	2.01(b)	236	310	560

1. Prior year comparatives include a one-off benefit of £72m resulting from inflation modelling enhancements (see Note 2.01(d)).

(b) Analysis of Risk operating profit

	Notes	Annuities 30.06.11 £m	Housing and Protection 30.06.11 £m	Total 30.06.11 £m	Annuities 30.06.10 £m	Housing and Protection 30.06.10 £m	Total 30.06.10 £m
Risk business segment operating profit comprises:							
Operational cash generation		112	121	233	106	106	212
New business strain ¹		1	(41)	(40)	35	(45)	(10)
Net cash generation		113	80	193	141	61	202
Experience variances	2.01(c)			(7)			(3)
Changes to valuation assumptions	2.01(d)			30			98
Movements in non-cash items	2.01(e)			(43)			(78)
Other				-			5
				173			224
Tax gross up	2.07			63			86
Total Risk operating profit				236			310

1. Annuities new business strain of £1m (H1 10: £35m; FY 10: £60m) reflects the continued normalisation of pricing conditions in the annuities market.

	Notes	Annuities Full year 31.12.10 £m	Housing and Protection Full year 31.12.10 £m	Total Full year 31.12.10 £m
Risk business segment operating profit comprises:				
Operational cash generation		229	210	439
New business strain		60	(70)	(10)
Net cash generation		289	140	429
Experience variances	2.01(c)			67
Changes to valuation assumptions	2.01(d)			30
Movements in non-cash items	2.01(e)			(122)
Other				(1)
				403
Tax gross up	2.07			157
Total Risk operating profit				560

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 as is required by the ABI SORP.

International Financial Reporting Standards

Supplementary operating profit information

2.01 Risk (continued)

(c) Experience variances

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

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Persistency	(3)	(5)	(3)
Mortality/morbidity ¹	(32)	2	(8)
Expenses	-	1	(1)
Bulk purchase annuity data loading	19	-	59
Project and development costs	(5)	(5)	(9)
Tax ²	16	20	37
Other	(2)	(16)	(8)
	(7)	(3)	67

1. The adverse mortality expense variance includes £27m relating to the Group Protection business, of which half is due to a small number of high value claims.

2. This principally relates to the utilisation of brought forward tax losses.

(d) Changes to valuation assumptions

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Persistency	-	-	(5)
Mortality/morbidity ¹	-	35	(19)
Expenses ²	18	(14)	(9)
Other ³	12	77	63
	30	98	30

1. Mortality/morbidity includes the release of £nil (H1 10: £32m; FY 10: £43m) relating to reserving benefits within individual protection. FY 10 was offset by a £59m strengthening of mortality assumptions within the annuity business.

2. The positive expense assumption reflects the lower unit costs in individual protection. The prior year reflected the impact of a change in reserving basis for custodian fees.

3. Prior year Other reflects the benefit from inflation modelling enhancement on deferred annuity business.

(e) Movements in non-cash items

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Deferred tax	(38)	(80)	(125)
Other	(5)	2	3
	(43)	(78)	(122)

(f) General insurance operating profit/(loss)

	Net cash generation 30.06.11 £m	Tax 30.06.11 £m	Operating profit 30.06.11 £m	Net cash generation 30.06.10 £m	Tax 30.06.10 £m	Operating profit 30.06.10 £m
Household	9	4	13	8	3	11
Other business	3	1	4	2	1	3
	12	5	17	10	4	14

	Net cash generation Full year 31.12.10 £m	Tax Full year 31.12.10 £m	Operating (loss)/profit Full year 31.12.10 £m
Household	(10)	(4)	(14)
Other business	4	2	6
	(6)	(2)	(8)

International Financial Reporting Standards

Supplementary operating profit information

2.01 Risk (continued)

(g) General insurance underwriting result

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Household	6	7	(27)
Other business	3	2	5
	9	9	(22)

(h) General insurance combined operating ratio

	30.06.11 %	30.06.10 %	Full year 31.12.10 %
Household	92	91	109
Other business	69	79	77
	90	90	106

2.02 Savings

(a) Savings operating profit

	Notes	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Insured savings ¹		20	8	31
With-profits ²		35	32	63
Savings investments ³		13	14	21
Total Savings operating profit	2.02(b)	68	54	115

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

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

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

(b) Analysis of Savings operating profit

	Notes	Insured savings 30.06.11 £m	With- profits 30.06.11 £m	Savings investments 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 ¹		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	2.07				18
Total Savings operating profit					68

1. Insured savings Net cash generation of £20m (H1 10: £3m; FY 10: £1m) reflects the benefit of higher fees on higher opening asset values coupled with continued expense and commission savings resulting in a lower new business strain.

International Financial Reporting Standards

Supplementary operating profit information

2.02 Savings (continued)

(b) Analysis of Savings operating profit (continued)

	Notes	Insured savings 30.06.10 £m	With- profits 30.06.10 £m	Savings investments 30.06.10 £m	Total 30.06.10 £m
Savings business segment operating profit comprises:					
Operational cash generation		36	23	13	72
New business strain		(34)	-	-	(34)
Net cash generation		2	23	13	38
Insured savings					
Experience variances	2.02(c)				9
Changes to valuation assumptions	2.02(d)				(6)
Movements in non-cash items	2.02(e)				2
Other					(1)
Savings investments					
Movements in non-cash items and other					(4)
					38
Tax gross up	2.07				16
Total Savings operating profit					54

	Notes	Insured savings Full year 31.12.10 £m	With- profits Full year 31.12.10 £m	Savings investments Full year 31.12.10 £m	Total Full year 31.12.10 £m
Savings business segment operating profit comprises:					
Operational cash generation		71	46	21	138
New business strain		(70)	-	-	(70)
Net cash generation		1	46	21	68
Insured savings					
Experience variances	2.02(c)				10
Changes to valuation assumptions	2.02(d)				28
Movements in non-cash items	2.02(e)				(21)
Other					4
Savings investments					
Movements in non-cash items and other					(9)
					80
Tax gross up	2.07				35
Total Savings operating profit					115

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 as is required by the ABI SORP.

International Financial Reporting Standards

Supplementary operating profit information

2.02 Savings (continued)

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

(c) Experience variances

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Persistency	-	-	(3)
Mortality/morbidity	-	-	1
Expenses	1	(1)	3
Project and development costs	(4)	(1)	(4)
Tax	(1)	8	14
Other	1	3	(1)
	(3)	9	10

(d) Changes to valuation assumptions

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Mortality/morbidity	-	-	2
Expenses	1	(1)	3
Other	2	(5)	23
	3	(6)	28

(e) Movements in non-cash items

	Notes	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Deferred tax		(9)	(17)	(39)
Deferred acquisition costs (DAC)	2.02(f)	(25)	(5)	(16)
Deferred income liabilities (DIL)		28	18	33
Other		(2)	6	1
		(8)	2	(21)

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

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
As at 1 January	612	628	628
Amortisation through income ¹	(50)	(32)	(66)
Acquisition costs deferred	25	27	50
As at 30 June / 31 December	587	623	612

1. Included in the amortisation of the DAC asset at H1 11 is £16m relating to changes to economic assumptions relating to the trail commission. This has been offset by a similar movement in the DIL liability.

The Group's balance sheet deferred acquisition costs also includes amounts relating to the Group's overseas, general insurance, retail investments and with-profits businesses and is presented gross of associated deferred tax.

Expected amortisation profile:

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Expected to be amortised within one year	66	72	69
Expected to be amortised between one year and five years	273	288	276
Expected to be amortised in over five years	248	263	267
	587	623	612

International Financial Reporting Standards

Supplementary operating profit information

2.03 Investment management

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Pension funds (managed and segregated)	87	70	148
Other non-pension ¹	12	11	20
Investment management services for internal funds	18	17	38
Total Investment management operating profit	117	98	206

1. Other non-pension includes institutional segregated mandates, private equity and property (both in the UK and overseas). Interest income on shareholder funds of £5m (H1 10: £6m; FY 10: £11m) has been included within other non-pension operating profit.

2.04 International

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
USA	50	44	85
Netherlands	6	14	20
France	12	7	6
Total Europe operating profit	18	21	26
Other ¹	(2)	(4)	(9)
Total International operating profit²	66	61	102

1. Other includes our joint venture operations in Egypt, the Gulf, India and business unit overhead costs of £2m (H1 10: £2m; FY 10: £5m).
2. In H1 2011, the International division paid £35m (H1 10: £33m; FY 10: £44m) of dividends to the Group.

Exchange rates are provided in Note 2.18.

2.05 Group capital and financing

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Investment return ¹	130	96	187
Interest expense ²	(62)	(59)	(121)
Investment expenses	(2)	(1)	(3)
Unallocated corporate expenses	(5)	(3)	(5)
Total Group capital and financing operating profit	61	33	58

1. The longer term expected investment return of £130m (H1 10: £96m; FY 10: £187m) reflects an average return of 3.4% (H1 10: 3.0%; FY 10: 5.8%) on the average balance of invested assets of £3.8bn (H1 10: £3.2bn; FY 10: £3.2bn) held within Group capital and financing calculated on a monthly basis. The invested assets held within Group capital and financing amounted to £4.1bn at 30 June 2011 (30 June 2010: £3.1bn; 31 December 2010: £3.3bn). This excludes £0.3bn of derivative assets held to hedge interest rate and exchange rate exposure in relation to the Group's debt.

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

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Risk ¹	15	112	102
Savings ²	(2)	(16)	(54)
Investment management	(3)	(4)	(8)
International ³	4	25	35
Group capital and financing			
Asset related ⁴	(47)	(82)	52
Debt related ⁵	(19)	(65)	(72)
Defined benefit pension scheme ⁶	3	26	35
Total variation from longer term investment return	(49)	(4)	90

1. The annuities division has generated £10m of IFRS investment variance in the first half of 2011 which demonstrates the resilience of our asset portfolio and investment strategy in challenging economic conditions.

2. Savings business investment variance includes the difference between IFRS deferred policyholder tax and the amount included within the unit linked life funds.

3. At H1 10 the International investment variance included £28m investment gains on Dutch government bonds due to reductions in bond yields generating capital gains. At FY 10, the International investment variance included a £28m benefit from the US Capital restructuring programme, which involved replacing the Triple X financing solution with an internal reinsurance structure. The benefit was the result of purchasing the Potomac Trust Capital Class A Money Market Securities (used to fund the Triple X solution) at a discount.

4. Group capital and financing operating profit incorporates an assumed long term investment return. The asset related investment variance reflects the difference between the assumed return and actual return on Society shareholder capital and the Group's treasury assets.

5. The Group manages its exposure to interest rate movements on debt issued with a series of interest rate swaps to lock into a fixed funding cost. The Group does not hold an active trading position in such derivative contracts. For contracts which have not been designated within hedge accounting relationships there is resulting short term income statement volatility which in 2011, primarily as a result of a decrease in the relevant long term interest rates, amounted to £(29)m (H1 10: £(56)m; FY 10: £(62)m). In addition, the elimination of Legal & General debt owned by the Group is £4m (H1 10: £(4)m; FY 10: £(8)m) and other small items have an impact of £6m (H1 10: £(5)m; FY 10: £(2)m).

6. 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

	Profit/(loss) before tax 30.06.11 £m	Tax (expense)/ credit 30.06.11 £m	Profit/(loss) before tax 30.06.10 £m	Tax (expense)/ credit 30.06.10 £m	Profit/(loss) before tax Full year 31.12.10 £m	Tax (expense)/ credit Full year 31.12.10 £m
Risk	236	(63)	310	(86)	560	(157)
Savings	68	(18)	54	(16)	115	(35)
Investment management	117	(26)	98	(28)	206	(44)
International	66	(22)	61	(21)	102	(25)
Group capital and financing	61	(11)	33	(3)	58	(1)
Investment projects	(25)	7	(14)	4	(39)	11
Operating profit/Tax expense	523	(133)	542	(150)	1,002	(251)
Variation from longer term investment return	(49)	22	(4)	14	90	(16)
Impact of change in UK tax rates	-	(4)	-	-	-	(5)
Property losses attributable to non-controlling interests	(1)	-	(1)	-	-	-
Profit for the period/Tax expense for the period	473	(115)	537	(136)	1,092	(272)

The equity holders' effective tax rate for the period is 24.3% (H1 10: 25.3%; FY 10: 24.9%). The principal reasons for the decrease relates to a fall in the standard rate of corporation tax applicable for the period to 26.5% and the recognition of a previously unrecognised deferred tax asset of £12m.

International Financial Reporting Standards

Consolidated Income Statement

For the six months ended 30 June 2011

	Notes	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Revenue				
Gross written premiums	2.10	2,382	2,772	5,348
Outward reinsurance premiums		(291)	(286)	(590)
Net change in provision for unearned premiums		(13)	(7)	(14)
Net premiums earned		2,078	2,479	4,744
Fees from fund management and investment contracts		463	452	900
Investment return		7,738	1,170	32,671
Operational income		88	42	125
Total revenue		10,367	4,143	38,440
Expenses				
Claims and change in insurance liabilities		2,607	3,748	7,567
Reinsurance recoveries		(275)	(344)	(621)
Net claims and change in insurance liabilities		2,332	3,404	6,946
Change in provisions for investment contract liabilities		6,729	(587)	28,154
Acquisition costs		393	377	770
Finance costs		77	78	168
Other expenses		462	381	905
Transfers (from)/to unallocated divisible surplus		(137)	(87)	190
Total expenses		9,856	3,566	37,133
Profit before income tax		511	577	1,307
Income tax expense attributable to policyholder returns		(38)	(40)	(215)
Profit before income tax attributable to equity holders of the Company		473	537	1,092
Total income tax expense		(153)	(176)	(487)
Income tax expense attributable to policyholder returns		38	40	215
Income tax expense attributable to equity holders	2.07	(115)	(136)	(272)
Profit for the period		358	401	820
Attributable to:				
Non-controlling interests		(1)	(1)	-
Equity holders of the Company		359	402	820
Dividend distributions to equity holders of the Company during the period	2.14	201	160	238
Dividend distributions to equity holders of the Company proposed after the period	2.14	97	78	201
p p p				
Earnings per share				
Based on profit attributable to equity holders of the Company	2.11	6.16	6.90	14.07
Diluted earnings per share				
Based on profit attributable to equity holders of the Company	2.11	6.06	6.83	13.88

This financial information was approved by the Board on 2 August 2011.

The results for the six months to 30 June 2011 and 30 June 2010 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 16 March 2011 which have been filed with the Registrar of Companies. The published full year 2010 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 2011

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Profit for the period	358	401	820
Other comprehensive income after tax			
Exchange differences on translation of overseas operations	(7)	25	8
Actuarial (losses) on defined benefit pension schemes	(3)	(29)	(9)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	1	12	4
Net change in financial investments designated as available-for-sale	9	21	27
Total comprehensive income for the period	358	430	850
Total comprehensive income/(expense) attributable to:			
Non-controlling interests	(1)	(1)	-
Equity holders of the Company	359	431	850

International Financial Reporting Standards

Consolidated Balance Sheet

As at 30 June 2011

	Notes	At 30.06.11 £m	At 30.06.10 £m	At 31.12.10 £m
Assets				
Purchased interest in long term businesses and other intangible assets		145	132	157
Deferred acquisition costs		1,983	2,030	2,000
Investment in associates		57	44	57
Plant and equipment		66	56	64
Investment property		4,758	4,303	4,571
Financial investments	2.13	302,303	272,690	299,570
Reinsurers' share of contract liabilities		2,359	2,241	2,336
Deferred tax asset		477	723	495
Income tax recoverable		-	1	-
Other assets		2,655	1,966	1,587
Cash and cash equivalents		12,358	11,261	13,036
Total assets		327,161	295,447	323,873
Equity				
Share capital		147	147	147
Share premium		940	938	938
Employee scheme treasury shares		(45)	(43)	(41)
Capital redemption and other reserves		88	57	79
Retained earnings		3,857	3,368	3,704
Shareholders' equity		4,987	4,467	4,827
Non-controlling interests	2.17	49	32	47
Total equity		5,036	4,499	4,874
Liabilities				
Subordinated borrowings	2.16	1,915	1,875	1,897
Participating insurance contracts		9,131	9,279	9,383
Participating investment contracts		7,471	7,120	7,323
Unallocated divisible surplus		1,330	1,179	1,469
Value of in-force non-participating contracts		(345)	(364)	(377)
Participating contract liabilities		17,587	17,214	17,798
Non-participating insurance contracts		31,897	30,011	31,325
Non-participating investment contracts		255,721	228,855	253,426
Non-participating contract liabilities		287,618	258,866	284,751
Senior borrowings	2.16	1,324	1,455	1,435
Provisions		737	810	761
Deferred tax liabilities		373	358	356
Income tax liabilities		78	96	111
Payables and other financial liabilities		6,126	6,465	5,473
Other liabilities		830	899	954
Net asset value attributable to unit holders		5,537	2,910	5,463
Total liabilities		322,125	290,948	318,999
Total equity and liabilities		327,161	295,447	323,873

International Financial Reporting Standards

Condensed Consolidated Statement of Changes in Equity

	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
For the six months ended 30 June 2011								
As at 1 January	147	938	(41)	79	3,704	4,827	47	4,874
Total comprehensive income/(expense)								
for the period	-	-	-	2	357	359	(1)	358
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	-	-	-	5	(5)	-	-	-
As at 30 June 2011	147	940	(45)	88	3,857	4,987	49	5,036
For the six months ended 30 June 2010								
As at 1 January	147	936	(38)	41	3,110	4,196	2	4,198
Total comprehensive income/(expense)								
for the period	-	-	-	46	385	431	(1)	430
Options exercised under share option schemes	-	2	-	-	-	2	-	2
Net movement in employee scheme treasury shares	-	-	(5)	(3)	6	(2)	-	(2)
Dividends	-	-	-	-	(160)	(160)	-	(160)
Movement in third party interests	-	-	-	-	-	-	31	31
Currency translation differences	-	-	-	(27)	27	-	-	-
As at 30 June 2010	147	938	(43)	57	3,368	4,467	32	4,499
For the year ended 31 December 2010								
As at 1 January	147	936	(38)	41	3,110	4,196	2	4,198
Total comprehensive income								
for the year	-	-	-	35	815	850	-	850
Options exercised under share option schemes	-	2	-	-	-	2	-	2
Net movement in employee scheme treasury shares	-	-	(3)	12	8	17	-	17
Dividends	-	-	-	-	(238)	(238)	-	(238)
Movement in third party interests	-	-	-	-	-	-	45	45
Currency translation differences	-	-	-	(9)	9	-	-	-
As at 31 December 2010	147	938	(41)	79	3,704	4,827	47	4,874

International Financial Reporting Standards

Consolidated Cash Flow Statement

For the six months ended 30 June 2011

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Cash flows from operating activities			
Profit for the period	358	401	820
Adjustments for non cash movements in net profit for the period			
Realised and unrealised (gains)/losses on financial investments and investment properties	(3,023)	3,615	(23,673)
Investment income	(4,604)	(4,695)	(8,787)
Interest expense	77	78	168
Income tax expense	153	176	487
Other adjustments	29	32	59
Net (increase)/decrease in operational assets			
Investments held for trading or designated as fair value through profit or loss	(2,004)	(500)	(2,958)
Investments designated as available-for-sale	45	(25)	(39)
Other assets	(679)	(383)	(479)
Net increase/(decrease) in operational liabilities			
Insurance contracts	245	1,339	2,746
Transfer (from)/to unallocated divisible surplus	(139)	(99)	186
Investment contracts	4,269	(5,213)	20,702
Value of in-force non-participating contracts	32	3	(10)
Other liabilities	672	1,434	4,968
Cash used in operations	(4,569)	(3,837)	(5,810)
Interest paid	(77)	(79)	(167)
Interest received	2,498	2,432	5,030
Income tax (paid)/received	(140)	106	(164)
Dividends received	1,937	2,126	3,818
Net cash flows from operating activities	(351)	748	2,707
Cash flows from investing activities			
Net acquisition of plant and equipment	(9)	(3)	(17)
Acquisitions (net of cash acquired) ¹	-	-	(44)
Capital injection into overseas joint ventures	-	-	(8)
Net cash flows from investing activities	(9)	(3)	(69)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the Company during the period	(201)	(160)	(238)
Proceeds from issue of ordinary share capital	2	2	2
Purchase of employee scheme shares	(9)	(10)	(11)
Proceeds from borrowings	713	292	750
Repayment of borrowings	(819)	(274)	(758)
Net cash flows from financing activities	(314)	(150)	(255)
Net (decrease)/increase in cash and cash equivalents	(674)	595	2,383
Exchange (losses)/gains on cash and cash equivalents	(4)	16	3
Cash and cash equivalents at 1 January	13,036	10,650	10,650
Cash and cash equivalents at 30 June/31 December	12,358	11,261	13,036

1. Net cash flows from acquisitions include total net identifiable assets acquired of £nil (H1 10: £nil; FY 10: £52m) less cash and cash equivalents acquired of £nil (H1 10: £nil; FY 10: £8m).

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 2011 has been prepared in accordance with the Listing Rules of the Financial Services Authority. The 2011 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 2011 year end. These policies are consistent with the principal accounting policies which were set out in the Group's 2010 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.

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 2010 financial statements except for the changes outlined in sections 2.01(d) and 2.02(d).

Estimates are based on management's best knowledge of current circumstances and future events and actions, however, actual results may differ from those estimates, possibly significantly.

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, 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, and all with-profits products. 'Other' principally comprises the Group's interest in Cofunds.

The Investment management segment comprises institutional fund management.

The International segment comprises businesses in the United States, France, the Netherlands and 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) Profit/(loss) from ordinary activities after tax

	Risk £m	Savings £m	Investment manage- ment £m	Inter- national £m	Group capital and financing ¹ £m	Total £m
For the six months ended 30 June 2011						
Operating profit	236	68	117	66	36	523
Variation from longer term investment return ²	15	(2)	(3)	4	(63)	(49)
Property losses attributable to non-controlling interests	-	-	-	-	(1)	(1)
Profit/(loss) from continuing operations before tax	251	66	114	70	(28)	473
Tax (expense)/credit attributable to equity holders of the Company	(65)	(16)	(25)	(24)	15	(115)
Profit/(loss) for the period	186	50	89	46	(13)	358

1. For segmental purposes, Investment projects of £25m (H1 10: £14m; FY 10: £39m) 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	Investment manage- ment £m	Inter- national £m	Group capital and financing ¹ £m	Total £m
For the six months ended 30 June 2010						
Operating profit	310	54	98	61	19	542
Variation from longer term investment return	112	(16)	(4)	25	(121)	(4)
Property losses attributable to non-controlling interests	-	-	-	-	(1)	(1)
Profit/(loss) from continuing operations before tax	422	38	94	86	(103)	537
Tax (expense)/credit attributable to equity holders of the Company	(115)	(10)	(27)	(28)	44	(136)
Profit/(loss) for the period	307	28	67	58	(59)	401

	Risk £m	Savings £m	Investment manage- ment £m	Inter- national £m	Group capital and financing ¹ £m	Total £m
For the year ended 31 December 2010						
Operating profit	560	115	206	102	19	1,002
Variation from longer term investment return	102	(54)	(8)	35	15	90
Property losses attributable to non-controlling interests	-	-	-	-	-	-
Profit from continuing operations before tax	662	61	198	137	34	1,092
Tax (expense)/credit attributable to equity holders of the Company	(184)	(18)	(41)	(37)	8	(272)
Profit for the year	478	43	157	100	42	820

International Financial Reporting Standards

Notes to the Financial Statements

2.09 Segmental analysis (continued)

(b) Revenue

	Risk £m	Savings £m	Investment manage- ment £m	Inter- national £m	Group capital and financing £m	Total £m
For the six months ended 30 June 2011						
Internal revenue	-	21	70	9	(100)	-
External revenue	1,864	1,616	6,195	596	96	10,367
Total revenue	1,864	1,637	6,265	605	(4)	10,367
For the six months ended 30 June 2010						
Internal revenue	-	24	59	-	(83)	-
External revenue	2,887	1,219	(664)	726	(25)	4,143
Total revenue	2,887	1,243	(605)	726	(108)	4,143
For the year ended 31 December 2010						
Internal revenue	-	46	128	-	(174)	-
External revenue	5,547	6,403	24,922	1,236	332	38,440
Total revenue	5,547	6,449	25,050	1,236	158	38,440

Total revenue includes investment gains of £7,738m (H1 10: gains of £1,170m; FY 10: gains of £32,671m).

(c) Consolidated balance sheet

	Risk £m	Savings £m	Investment manage- ment £m	Inter- national £m	Group capital and financing £m	Total £m
As at 30 June 2011						
Assets						
Investments	25,930	47,706	228,788	7,168	9,884	319,476
Other assets	3,048	3,479	1,516	2,887	(3,245)	7,685
Total assets	28,978	51,185	230,304	10,055	6,639	327,161
Shareholders' equity						
Shareholders' equity	138	144	409	1,400	2,896	4,987
Non-controlling interests	-	-	-	-	49	49
Total equity	138	144	409	1,400	2,945	5,036
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	2,050	1,675	13,681
Total liabilities	28,840	51,041	229,895	8,655	3,694	322,125
Total equity and liabilities	28,978	51,185	230,304	10,055	6,639	327,161

1. Includes non recourse financing.

International Financial Reporting Standards

Notes to the Financial Statements

2.09 Segmental analysis (continued)

(c) Consolidated balance sheet (continued)

	Risk £m	Savings £m	Investment manage- ment £m	Inter- national £m	Group capital and financing £m	Total £m
As at 30 June 2010						
Assets						
Investments	24,679	44,891	205,626	7,000	6,102	288,298
Other assets	2,869	2,624	1,047	2,965	(2,356)	7,149
Total assets	27,548	47,515	206,673	9,965	3,746	295,447
Shareholders' equity						
Shareholders' equity	136	122	370	1,473	2,366	4,467
Non-controlling interests	-	-	-	-	32	32
Total equity	136	122	370	1,473	2,398	4,499
Liabilities						
Subordinated borrowings	-	-	-	-	1,875	1,875
Participating contract liabilities	-	14,896	-	2,318	-	17,214
Non-participating contract liabilities	23,585	29,854	202,489	3,567	(629)	258,866
Senior borrowings ¹	13	200	1	579	662	1,455
Other liabilities	3,814	2,443	3,813	2,028	(560)	11,538
Total liabilities	27,412	47,393	206,303	8,492	1,348	290,948
Total equity and liabilities	27,548	47,515	206,673	9,965	3,746	295,447

1. Includes non recourse financing.

	Risk £m	Savings £m	Investment manage- ment £m	Inter- national £m	Group capital and financing £m	Total £m
As at 31 December 2010						
Assets						
Investments	25,587	47,933	227,088	7,248	9,378	317,234
Other assets	2,687	2,932	821	3,157	(2,958)	6,639
Total assets	28,274	50,865	227,909	10,405	6,420	323,873
Shareholders' equity						
Shareholders' equity	123	142	324	1,664	2,574	4,827
Non-controlling interests	-	-	-	-	47	47
Total equity	123	142	324	1,664	2,621	4,874
Liabilities						
Subordinated borrowings	-	-	-	-	1,897	1,897
Participating contract liabilities	-	15,351	-	2,447	-	17,798
Non-participating contract liabilities	24,868	32,963	223,940	3,625	(645)	284,751
Senior borrowings ¹	-	248	1	344	842	1,435
Other liabilities	3,283	2,161	3,644	2,325	1,705	13,118
Total liabilities	28,151	50,723	227,585	8,741	3,799	318,999
Total equity and liabilities	28,274	50,865	227,909	10,405	6,420	323,873

1. Includes non recourse financing.

International Financial Reporting Standards

Notes to the Financial Statements

2.10 Gross written premiums on insurance contracts

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
From continuing operations			
Risk			
Non-participating Risk business	1,404	1,737	3,309
General insurance			
- Household	135	123	259
- Other business	11	11	22
Total Risk	1,550	1,871	3,590
Savings			
Non-participating Savings business	21	21	41
Participating business	241	298	609
Total Savings	262	319	650
International			
USA	249	251	502
Netherlands	116	131	227
France	205	200	379
Total International	570	582	1,108
Total gross written premiums	2,382	2,772	5,348

2.11 Earnings per share

(a) Earnings per share

	Profit before tax 30.06.11 £m	Tax expense 30.06.11 £m	Profit after tax 30.06.11 £m	Earnings per share 30.06.11 p	Profit before tax 30.06.10 £m	Tax expense 30.06.10 £m	Profit after tax 30.06.10 £m	Earnings per share 30.06.10 p
Operating profit	523	(133)	390	6.69	542	(150)	392	6.73
Variation from longer term investment return	(49)	22	(27)	(0.46)	(4)	14	10	0.17
Impact of change in UK tax rates	-	(4)	(4)	(0.07)	-	-	-	-
Earnings per share based on profit attributable to equity holders	474	(115)	359	6.16	538	(136)	402	6.90
					Profit before tax Full year 31.12.10 £m	Tax expense Full year 31.12.10 £m	Profit after tax Full year 31.12.10 £m	Earnings per share Full year 31.12.10 p
Operating profit					1,002	(251)	751	12.89
Variation from longer term investment return					90	(16)	74	1.27
Impact of change in UK tax rates					-	(5)	(5)	(0.09)
Earnings per share based on profit attributable to equity holders					1,092	(272)	820	14.07

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 30.06.11 £m	Number of shares ¹ 30.06.11 m	Earnings per share 30.06.11 p	Profit after tax 30.06.10 £m	Number of shares ¹ 30.06.10 m	Earnings per share 30.06.10 p
Operating profit after tax	390	5,828	6.69	392	5,827	6.73
Net shares under options allocable for no further consideration	-	97	(0.11)	-	63	(0.07)
Diluted earnings per share	390	5,925	6.58	392	5,890	6.66

	Profit after tax Full year 31.12.10 £m	Number of shares ¹ Full year 31.12.10 m	Earnings per share Full year 31.12.10 p
Operating profit after tax	751	5,827	12.89
Net shares under options allocable for no further consideration	-	79	(0.17)
Diluted earnings per share	751	5,906	12.72

(ii) Based on profit attributable to equity holders

	Profit after tax 30.06.11 £m	Number of shares ¹ 30.06.11 m	Earnings per share 30.06.11 p	Profit after tax 30.06.10 £m	Number of shares ¹ 30.06.10 m	Earnings per share 30.06.10 p
Profit attributable to equity holders of the Company	359	5,828	6.16	402	5,827	6.90
Net shares under options allocable for no further consideration	-	97	(0.10)	-	63	(0.07)
Diluted earnings per share	359	5,925	6.06	402	5,890	6.83

	Profit after tax Full year 31.12.10 £m	Number of shares ¹ Full year 31.12.10 m	Earnings per share Full year 31.12.10 p
Profit attributable to equity holders of the Company	820	5,827	14.07
Net shares under options allocable for no further consideration	-	79	(0.19)
Diluted earnings per share	820	5,906	13.88

1. Weighted average number of shares.

The number of shares in issue at 30 June 2011 was 5,870,748,796 (30 June 2010: 5,865,651,980; 31 December 2010: 5,866,669,323).

International Financial Reporting Standards

Notes to the Financial Statements

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

	Before tax 30.06.11 £m	Tax credit/ (expense) 30.06.11 £m	After tax 30.06.11 £m	Before tax 30.06.10 £m	Tax credit/ (expense) 30.06.10 £m	After tax 30.06.10 £m
Exchange differences on translation of overseas operations	(7)	-	(7)	25	-	25
Actuarial (losses) on defined benefit pension schemes	(5)	2	(3)	(40)	11	(29)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	2	(1)	1	16	(4)	12
Net change in financial investments designated as available-for-sale	13	(4)	9	32	(11)	21
Other comprehensive income	3	(3)	-	33	(4)	29

	Before tax Full year 31.12.10 £m	Tax credit/ (expense) Full year 31.12.10 £m	After tax Full year 31.12.10 £m
Exchange differences on translation of overseas operations	8	-	8
Actuarial (losses) on defined benefit pension schemes	(12)	3	(9)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	5	(1)	4
Net change in financial investments designated as available-for-sale	42	(15)	27
Other comprehensive income	43	(13)	30

2.13 Financial investments

	At 30.06.11 £m	At 30.06.10 £m	At 31.12.10 £m
Equities	146,711	125,099	149,056
Unit trusts	7,782	7,443	7,550
Debt securities ¹	142,124	132,429	136,858
Accrued interest	1,636	1,590	1,682
Derivative assets ²	3,753	4,791	4,014
Loans and receivables	297	1,338	410
	302,303	272,690	299,570

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 2011. 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 £2,112m (H1 10: £2,764m; FY 10: £2,217m) held on behalf of unit linked policyholders.

2.14 Dividends

	Per share 30.06.11 p	Total 30.06.11 £m	Per share 30.06.10 p	Total 30.06.10 £m	Per share Full year 31.12.10 p	Total Full year 31.12.10 £m
Ordinary share dividends paid in the period	3.42	201	2.73	160	4.06	238
Ordinary share dividend proposed ¹	1.66	97	1.33	78	3.42	201

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

International Financial Reporting Standards

Notes to the Financial Statements

2.15 Ordinary shares

	Number of shares 30.06.11	Number of shares 30.06.10	Number of shares Full year 31.12.10
As at 1 January	5,866,669,323	5,862,216,780	5,862,216,780
Options exercised under share option schemes			
- Executive share option scheme	1,181,589	209,065	295,065
- Savings related share option scheme	2,897,884	3,226,135	4,157,478
As at 30 June / 31 December	5,870,748,796	5,865,651,980	5,866,669,323

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

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

2.16 Analysis of borrowings

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Subordinated borrowings			
6.385% Sterling perpetual capital securities (Tier 1)	691	698	690
5.875% Sterling undated subordinated notes (Tier 2)	422	424	423
4.0% Euro subordinated notes 2025 (Tier 2)	508	455	488
10% Sterling subordinated notes 2041 (Tier 2)	308	308	308
Client fund holdings of Group debt ¹	(14)	(10)	(12)
Total subordinated borrowings	1,915	1,875	1,897
Senior borrowings			
Sterling medium term notes 2031-2041	602	602	608
Euro Commercial paper 2011	204	106	279
Bank loans/other	72	28	9
Non recourse financing			
- US Dollar Triple X securitisation 2025	-	283	61
- US Dollar Triple X securitisation 2037	276	296	283
- Suffolk Life unit linked borrowings	136	147	154
- LGV 6 Private Equity Fund Limited Partnership	85	39	86
Client fund holdings of Group debt ¹	(51)	(46)	(45)
Total senior borrowings	1,324	1,455	1,435
Total borrowings	3,239	3,330	3,332
Total borrowings (excluding non recourse financing)	2,742	2,565	2,748

1. £65m (H1 10: £56m; FY 10: £57m) 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.

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.

International Financial Reporting Standards

Notes to the Financial Statements

2.16 Analysis of borrowings (continued)

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 2025

In 2004, a subsidiary of Legal & General America Inc issued US\$550m of non recourse debt in the US capital markets to meet the Triple X reserve requirements of part of the US term insurance written up to 2005. It is secured on the cash flows related to that tranche of business. As at 30 June 2011, all of the outstanding debt had been redeemed and cancelled.

US Dollar Triple X securitisation 2037

In 2006, a subsidiary of Legal & General America Inc 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 Private Equity Fund Limited Partnership

These borrowings are non recourse bank borrowings.

Syndicated credit facility

As at 30 June 2011, the Group had in place a £960m syndicated committed revolving credit facility provided by a number of its key relationship banks, maturing in December 2012. The Group also had in place a £60m bilateral committed revolving credit facility from one of its key relationship banks also maturing in December 2012. No drawings were made under these facilities in 2011 to date.

Holding company short term assets

Short term assets available at the holding company level exceeded the amount of non-unit linked short term borrowings of £276m (Euro Commercial Paper and Bank Loans).

2.17 Non-controlling interests

Non-controlling interests represent third party interests in property investment vehicles which are consolidated in the Group's results. The increase in the non-controlling interests in 2011 arises from the dilution of the Group's share in the L&G UK Property Ungeared Fund Limited Partnership.

2.18 Foreign exchange rates

Principal rates of exchange used for translation are:

Period end exchange rates	At 30.06.11	At 30.06.10	At 31.12.10
United States Dollar	1.61	1.50	1.57
Euro	1.11	1.22	1.17
Average exchange rates	01.01.11- 30.06.11	01.01.10- 30.06.10	01.01.10- 31.12.10
United States Dollar	1.62	1.53	1.55
Euro	1.15	1.15	1.17

International Financial Reporting Standards

Notes to the Financial Statements

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 £14m (H1 10: £14m; FY 10: £60m).

At 30 June 2011, 30 June 2010 and 31 December 2010 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:

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Salaries	2	2	7
Social security costs	-	-	1
Post-employment benefits	1	1	1
Share-based incentive awards	1	2	3
Key management personnel compensation	4	5	12
Number of key management personnel	17	17	18

The UK defined benefit pension schemes have purchased annuity contracts issued by Society for consideration of £14m (H1 10: £36m; FY 10: £74m) 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 £1,161m during H1 11 (H1 10: £1,704m; FY 10: £1,266m). The Group has outstanding loans to these associates of £7m (H1 10: £11m; FY 10: £3m) and received investment management fees of £15m during the period (H1 10: £21m; FY 10: £36m). Distributions from these investment vehicles to the Group totalled £29m (H1 10: £65m; FY 10: £97m).

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 2011, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Society) has been estimated at £153m (H1 10: £209m; FY 10: £169m). These amounts have been recognised in the financial statements with £91m charged against shareholder equity (H1 10: £124m; FY 10: £100m) and £62m against the unallocated divisible surplus (H1 10: £85m; FY 10: £69m).

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.

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 2011, which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and related notes on pages 39 to 53. 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 information in 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 2011 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
2 August 2011

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.

Net Cash and Capital

3.01 Operational cash generation

The operational cash definition for the Group capital and financing segment has been amended to be equal to the post-tax IFRS operating profit. At H1 10 and FY 10, the operational cash definition for the group capital and financing segment represented the post-tax IFRS operating profit excluding expected gains/losses on equities. The change in definition aligns the treatment between equities and fixed income securities. The application of the change in operational cash definition has increased the reported net cash by £18m (H1 10: £15m; FY 10: £32m).

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

	Operational cash generation £m	New business strain £m	Net cash £m	Inter-national £m	Variations £m	Investment gains and losses £m	Other £m	IFRS profit/(loss) after tax £m	Tax expense/(credit) £m	IFRS profit/(loss) before tax £m
Six months ended 30 June 2011										
Total Risk operating profit	233	(40)	193	-	(20)	-	-	173	63	236
Total Savings operating profit	89	(31)	58	-	(4)	-	(4)	50	18	68
Investment management operating profit	91	-	91	-	-	-	-	91	26	117
International	35	-	35	9	-	-	-	44	22	66
Group capital and financing	50	-	50	-	-	-	-	50	11	61
Investment projects	-	-	-	-	-	-	(18)	(18)	(7)	(25)
Operating profit	498	(71)	427	9	(24)	-	(22)	390	133	523
Investment variance	-	-	-	-	-	(27)	-	(27)	(22)	(49)
Impact of change in UK tax rates	-	-	-	-	-	-	(4)	(4)	4	-
Property losses attributable to non-controlling interests	-	-	-	-	-	-	(1)	(1)	-	(1)
Total	498	(71)	427	9	(24)	(27)	(27)	358	115	473

	Operational cash generation £m	New business strain £m	Net cash £m	Inter-national £m	Variations £m	Investment gains and losses £m	Other £m	IFRS profit/(loss) after tax £m	Tax expense/(credit) £m	IFRS profit/(loss) before tax £m
Six months ended 30 June 2010										
Total Risk operating profit	212	(10)	202	-	22	-	-	224	86	310
Total Savings operating profit	72	(34)	38	-	5	-	(5)	38	16	54
Investment management operating profit	70	-	70	-	-	-	-	70	28	98
International	33	-	33	7	-	-	-	40	21	61
Group capital and financing	30	-	30	-	-	-	-	30	3	33
Investment projects	-	-	-	-	-	-	(10)	(10)	(4)	(14)
Operating profit	417	(44)	373	7	27	-	(15)	392	150	542
Investment variance	-	-	-	-	-	10	-	10	(14)	(4)
Property losses attributable to non-controlling interests	-	-	-	-	-	-	(1)	(1)	-	(1)
Total	417	(44)	373	7	27	10	(16)	401	136	537

Net Cash and Capital

3.01 Operational cash generation (continued)

Year ended 31 December 2010	Operational cash generation £m	New business strain £m	Net cash £m	Inter-national £m	Variations £m	Investment gains and losses £m	Other £m	IFRS profit/(loss) after tax £m	Tax expense/(credit) £m	IFRS profit/(loss) before tax £m
Total Risk operating profit	439	(10)	429	-	(26)	-	-	403	157	560
Total Savings operating profit	138	(70)	68	-	21	-	(9)	80	35	115
Investment management operating profit	162	-	162	-	-	-	-	162	44	206
International	44	-	44	33	-	-	-	77	25	102
Group capital and financing	57	-	57	-	-	-	-	57	1	58
Investment projects	-	-	-	-	-	-	(28)	(28)	(11)	(39)
Operating profit	840	(80)	760	33	(5)	-	(37)	751	251	1,002
Investment variance	-	-	-	-	-	74	-	74	16	90
Impact of change in UK tax rates	-	-	-	-	-	-	(5)	(5)	5	-
Property losses attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Total	840	(80)	760	33	(5)	74	(42)	820	272	1,092

Variations

	Notes	Risk £m 30.06.11	Savings £m 30.06.11	Risk £m 30.06.10	Savings £m 30.06.10	Risk £m 31.12.10	Savings £m 31.12.10
Experience variances	2.01(c)/2.02(c)	(7)	(3)	(3)	9	67	10
Changes to valuation assumptions	2.01(d)/2.02(d)	30	3	98	(6)	30	28
Movements in non-cash items	2.01(e)/2.02(e)	(43)	(8)	(78)	3	(122)	(21)
Other	2.01(b)/2.02(b)	-	4	5	(1)	(1)	4
Total		(20)	(4)	22	5	(26)	21

Net Cash and Capital

3.02 Regulatory capital resources

(a) Insurance Groups 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 surplus based on unaudited regulatory returns.

	At 30.06.11 £bn	At 30.06.10 £bn	At 31.12.10 £bn
Core tier 1	6.2	5.3	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 ¹	(1.1)	(1.1)	(1.0)
Group capital resources	6.9	6.0	6.7
Group capital resources requirement²	2.9	2.7	3.0
IGD surplus³	4.0	3.3	3.7

Coverage ratio (Group capital resources / Group capital resources requirement)⁴ **2.38 times** 2.22 times 2.26 times

1. Deductions comprises inadmissible assets in Legal & General America of £0.8bn (H1 10: £0.9bn; FY 10: £0.8bn), in Society of £0.1bn (H1 10: £0.1bn; FY 10: £0.1bn) and in other subsidiaries of £0.2bn (H1 10: £0.1bn; FY 10: £0.1bn).
2. The Group capital resources requirement includes a With-profits Insurance Capital Component (WPICC) of £0.2bn (H1 10: £0.1bn; FY 10: £0.3bn).
3. The IGD surplus is stated after accruing for the period end dividend and excludes £0.3bn (H1 10: £nil; FY 10: £0.3bn) of restricted assets in the Society long term fund (LTF).
4. Coverage ratio is calculated on unrounded values.

A segmental analysis is given below.

	At 30.06.11 £bn	At 30.06.10 £bn	At 31.12.10 £bn
Society long term fund ¹	2.5	2.1	2.6
Society shareholder capital	2.7	2.6	2.5
General insurance	0.1	0.1	0.1
France	0.2	0.2	0.2
Netherlands	0.2	0.2	0.2
Nationwide Life	0.1	0.1	0.1
USA	0.2	0.2	0.5
Investment management	0.4	0.4	0.3
Other ²	1.4	0.9	1.1
Innovative tier 1	0.6	0.6	0.6
Tier 2	1.2	1.2	1.2
Debt	(2.7)	(2.6)	(2.7)
Group capital resources	6.9	6.0	6.7
Society long term fund ¹	2.5	2.3	2.6
Other	0.4	0.4	0.4
Group capital resources requirement	2.9	2.7	3.0

1. The Society LTF capital requirement of £2.5bn (H1 10: £2.3bn; FY 10: £2.6bn) is met by £2.8bn (H1 10: £2.1bn; FY 10: £2.9bn) of capital resources in the LTF and £nil (H1 10: £0.2bn; FY 10: £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 30.06.11 £bn	At 30.06.10 £bn	At 31.12.10 £bn
Capital and reserves attributable to equity holders on an IFRS basis	5.0	4.5	4.8
Innovative tier 1	0.6	0.6	0.6
Tier 2	1.2	1.2	1.2
Proposed dividends	(0.1)	(0.1)	(0.2)
Additional capital available from Society	1.0	0.7	1.1
Adjustment to reflect regulatory value of the USA operation	(0.8)	(0.9)	(0.8)
Other regulatory adjustments	-	-	-
Group capital resources	6.9	6.0	6.7

(b) With-profits realistic balance sheet

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

	At 30.06.11 £bn	At 30.06.10 £bn	At 31.12.10 £bn
With-profits surplus	0.8	0.8	0.9
Risk capital margin	0.1	0.3	0.2
Surplus	0.7	0.5	0.7

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 £0.4bn (H1 10: £0.2bn; FY 10: £0.4bn) 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 30.06.11 Long term business £bn	At 30.06.11 General insurance £bn	At 30.06.10 Long term business £bn	At 30.06.10 General insurance £bn	At 31.12.10 Long term business £bn	At 31.12.10 General insurance £bn
Available capital resources - Tier 1	5.7	0.1	5.2	0.1	5.6	0.1
Insurance capital requirement	2.3	0.1	2.2	0.1	2.3	0.1
Capital requirements of regulated related undertakings	0.2	-	0.2	-	0.2	-
With-profits Insurance Capital Component	0.2	-	0.1	-	0.3	-
Capital resources requirement	2.7	0.1	2.5	0.1	2.8	0.1
Regulatory capital surplus¹	3.0	-	2.7	-	2.8	-

1. Society regulatory capital surplus is stated after excluding £0.3bn (H1 10: £nil; FY 10: £0.3bn) of capital arising in the LTF that is restricted for the purposes of Group IGD.

Movement in Society long term insurance capital requirement

	At 30.06.11 £bn	At 30.06.10 £bn	At 31.12.10 £bn
Pillar 1 capital requirement			
Protection	0.7	0.7	0.6
Annuities	0.9	0.8	0.9
Non profit pensions and unit linked bonds	0.1	0.1	0.1
Non profit	1.7	1.6	1.6
With-profits	0.6	0.6	0.7
Long term insurance capital requirement	2.3	2.2	2.3

On a regulatory basis (peak 1), Society long term business regulatory capital surplus of £3.0bn (H1 10: £2.7bn; FY 10: £2.8bn) comprises capital resources within the long term fund of £2.5bn (H1 10: £2.1bn; FY 10: £2.6bn) and capital resources outside the long term fund of £3.2bn (H1 10: £3.1bn; FY 10: £3.0bn) less the capital resources requirement of £2.7bn (H1 10: £2.5bn; FY 10: £2.8bn).

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 2011, this adjustment amounted to £0.4bn (H1 10: £0.2bn; FY 10: £0.4bn).

Asset Disclosures

4.01 Investment portfolio

	Market value At 30.06.11 £m	Market value At 30.06.10 £m	Market value At 31.12.10 £m
Worldwide funds under management	370,338	330,959	364,846
Client and policyholder assets	(315,528)	(278,337)	(310,546)
Non-unit linked with-profits assets ¹	(19,732)	(19,505)	(19,927)
Assets to which shareholders are directly exposed	35,078	33,117	34,373

Comprising:

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

Legal & General Pensions Limited (LGPL) ²	25,528	24,169	25,107
Other UK non profit insurance business	552	922	642
	26,080	25,091	25,749

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

Group capital and financing assets ³	4,369	3,180	3,280
Other shareholder assets ³	1,524	1,594	1,688
	35,078	33,117	34,373

1. Includes assets backing participating business in France of £2,468m (H1 10: £2,196m; FY 10: £2,304m).

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

3. The presentation of shareholder assets has been amended to align the presentation with the Group's reporting segments. 2010 comparatives have been restated accordingly.

Analysed by asset class:

	Notes	LGPL At 30.06.11 £m	Other UK non profit insurance business At 30.06.11 £m	Other insurance business At 30.06.11 £m	Group capital and financing assets At 30.06.11 £m	Other shareholder assets At 30.06.11 £m	Total At 30.06.11 £m	Total At 30.06.10 £m	Total At 31.12.10 £m
Equities		-	-	-	989	10	999	830	975
Bonds	4.02	23,834	191	2,942	1,868	1,070	29,905	28,084	28,870
Derivative assets ¹		1,013	237	12	298	-	1,560	1,925	1,713
Property		187	9	-	131	6	333	178	275
Cash (including cash equivalents)		494	115	151	1,083	438	2,281	2,100	2,540
		25,528	552	3,105	4,369	1,524	35,078	33,117	34,373

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

(i) Analysed by sector

	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		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		1,048	4	1,053	4
Total		23,834	100	29,905	100

	Notes	LGPL At 30.06.10 £m	LGPL At 30.06.10 %	Total At 30.06.10 £m	Total At 30.06.10 %
Sovereigns, Supras and Sub-Sovereigns		2,709	12	4,658	16
Banks - Tier 1 ¹	4.04	490	2	517	2
- Tier 2 and other subordinated	4.04	1,656	7	1,884	7
- Senior		1,353	6	2,063	7
Utilities		2,714	12	2,962	11
Consumer Services and Goods		2,195	10	2,556	9
Financial Services		794	4	1,012	4
Technology and Telecoms		1,455	7	1,729	6
Insurance		937	4	1,072	4
Industrials		963	4	1,160	4
Oil and Gas		1,253	6	1,488	5
Health Care		529	2	556	2
Property		494	2	553	2
Traditional and secured asset backed securities	4.03	3,748	17	4,745	17
CDO		1,124	5	1,129	4
Total		22,414	100	28,084	100

Asset Disclosures

4.02 Bond portfolio summary (continued)

(i) Analysed by sector (continued)

	Notes	LGPL At 31.12.10 £m	LGPL At 31.12.10 %	Total At 31.12.10 £m	Total At 31.12.10 %
Sovereigns, Supras and Sub-Sovereigns		3,042	13	5,034	17
Banks - Tier 1 ¹	4.04	480	2	513	2
- Tier 2 and other subordinated	4.04	1,619	7	1,811	6
- Senior		1,448	6	2,168	8
Utilities		2,831	12	3,033	11
Consumer Services and Goods		2,160	9	2,503	9
Financial Services		776	3	1,036	4
Technology and Telecoms		1,538	7	1,768	6
Insurance		978	5	1,103	4
Industrials		1,124	5	1,299	4
Oil and Gas		1,321	6	1,509	5
Health Care		551	2	563	2
Property		552	2	588	2
Traditional and secured asset backed securities	4.03	3,996	17	4,920	16
CDO		1,017	4	1,022	4
Total		23,433	100	28,870	100

1. Tier 1 holdings include £55m (H1 10: £53m; FY 10: £55m) of preference shares.

Additional analysis of sovereign debt exposures

	Sovereigns, Supras and Sub-Sovereigns			
	LGPL At 30.06.11 £m	Total At 30.06.11 £m	LGPL At 31.12.10 £m	Total At 31.12.10 £m
Market value by region				
United Kingdom ¹	1,972	2,383	1,909	2,366
USA	283	574	276	524
Portugal	-	6	-	12
Italy	207	301	77	189
Ireland	-	4	29	45
Greece	-	1	-	15
Spain	-	32	-	43
Subtotal	207	344	106	304
Germany	132	365	131	359
Netherlands	28	552	28	553
France	121	325	117	251
Belgium	-	35	-	31
Europe - Other	427	576	413	543
Rest of World	85	103	62	103
Total	3,255	5,257	3,042	5,034

1. LGPL holds liquidity in the form of cash and cash equivalents of £494m (FY 10: £496m) and gilts of £1,972m (FY 10: £1,909m).

Asset Disclosures

4.02 Bond portfolio summary (continued)

(ii) Analysed by domicile

	LGPL At 30.06.11 £m	LGPL At 30.06.11 %	Total At 30.06.11 £m	Total At 30.06.11 %
United Kingdom	9,367	40	10,766	37
USA	6,999	29	9,365	31
Europe	5,707	24	7,859	26
Other	1,761	7	1,915	6
Total	23,834	100	29,905	100

	LGPL At 30.06.10 £m	LGPL At 30.06.10 %	Total At 30.06.10 £m	Total At 30.06.10 %
United Kingdom	9,014	40	10,393	37
USA	7,053	31	9,458	34
Europe	5,061	23	6,852	24
Other	1,286	6	1,381	5
Total	22,414	100	28,084	100

	LGPL At 31.12.10 £m	LGPL At 31.12.10 %	Total At 31.12.10 £m	Total At 31.12.10 %
United Kingdom	9,246	39	10,517	36
USA	7,528	32	9,790	34
Europe	5,302	23	7,130	25
Other	1,357	6	1,433	5
Total	23,433	100	28,870	100

Within LGPL, all non-sterling denominated bonds are currency hedged back to sterling.

(iii) Analysed by credit rating

	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	792	3	820	3
	23,834	100	29,905	100

Asset Disclosures

4.02 Bond portfolio summary (continued)

(iii) Analysed by credit rating (continued)

	LGPL At 30.06.10 £m	LGPL At 30.06.10 %	Total At 30.06.10 £m	Total At 30.06.10 %
AAA	3,911	17	6,669	24
AA	2,337	10	3,002	11
A	8,704	39	10,030	35
BBB	5,297	24	6,057	21
BB or below	397	2	476	2
Unrated: Bespoke CDOs	1,028	5	1,028	4
Other	740	3	822	3
	22,414	100	28,084	100

	LGPL At 31.12.10 £m	LGPL At 31.12.10 %	Total At 31.12.10 £m	Total At 31.12.10 %
AAA	4,218	18	6,996	24
AA	2,444	10	3,092	11
A	8,949	39	10,125	35
BBB	5,718	24	6,424	22
BB or below	379	2	479	2
Unrated: Bespoke CDOs	912	4	912	3
Other	813	3	842	3
	23,433	100	28,870	100

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

Asset Disclosures

4.02 Bond portfolio summary (continued)

(iv) CDOs

The Group holds collateralised debt obligations (CDOs) with a market value of £1,053m at 30 June 2011 (H1 10: £1,129m; FY 10: £1,022m).

These holdings include £899m (H1 10: £992m; FY 10: £875m) 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 no substitutions were made in 2010 or for the six months ended 30 June 2011. A breakdown of the underlying CDO reference portfolio by sector is provided below:

Sector	At 30.06.11 %	At 30.06.10 %	At 31.12.10 %
Banks	14	14	14
Utilities	10	10	10
Consumer Services & Goods	26	26	26
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	3	3	3
	100	100	100

The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27.5%, 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 27.5% 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 30.4% or if 43.4% 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 2010 or for the six months ended 30 June 2011.

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 2011 (H1 10: £nil; FY 10: £nil). During the period, the Group received £nil (H1 10: £nil; FY 10: £155m) 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 £154m (H1 10: £137m; FY 10: £147m) of CDO holdings includes a £37m (H1 10: £36m; FY 10: £37m) exposure to an equity tranche of a bespoke CDO.

Asset Disclosures

4.03 Traditional and secured asset backed securities summary

(i) By security

	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

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 issued 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 30.06.10 £m	LGPL At 30.06.10 %	Total At 30.06.10 £m	Total At 30.06.10 %
Traditional asset backed securities:				
Residential Mortgage-Backed Securities - Prime ¹	369	10	650	14
Residential Mortgage-Backed Securities - Sub-prime ²	-	-	21	-
Commercial Mortgage-Backed Securities	230	6	419	9
Credit Card	9	-	285	6
Auto	14	-	119	2
Consumer Loans	43	1	47	1
Student Loans	21	1	42	1
	686	18	1,583	33
Securitisations and debentures:				
Secured Bond	1,525	41	1,571	33
Commercial Property Backed Bonds	227	6	227	5
Infrastructure / Private Finance Initiative / Social housing	989	27	991	21
Whole Business Securitisation	273	7	276	6
Other secured holdings ³	48	1	97	2
	3,062	82	3,162	67
Total traditional and secured asset backed securities	3,748	100	4,745	100

Asset Disclosures

4.03 Traditional and secured asset backed securities summary (continued)

(i) By security (continued)

	LGPL At 31.12.10 £m	LGPL At 31.12.10 %	Total At 31.12.10 £m	Total At 31.12.10 %
Traditional asset backed securities:				
Residential Mortgage-Backed Securities - Prime ¹	453	11	714	15
Residential Mortgage-Backed Securities - Sub-prime ²	-	-	18	-
Commercial Mortgage-Backed Securities	242	6	439	9
Credit Card	12	-	242	5
Auto	12	-	128	3
Consumer Loans	41	1	47	1
Student Loans	20	1	39	1
	780	19	1,627	34
Securitisations and debentures:				
Secured Bond	1,668	42	1,687	34
Commercial Property Backed Bonds	227	6	230	5
Infrastructure / Private Finance Initiative / Social housing	1,002	25	1,004	20
Whole Business Securitisation	267	7	269	5
Other secured holdings ³	52	1	103	2
	3,216	81	3,293	66
Total traditional and secured asset backed securities	3,996	100	4,920	100

1. 57% (H1 10: 61%; FY 10: 54%) of Prime RMBS holdings relate to UK mortgages.

2. 51% (H1 10: 52%; FY 10: 52%) of Sub-prime RMBS holdings have a credit rating of AAA and 70% (H1 10: 55%; FY 10: 54%) relate to the UK.

3. Other secured holdings in LGPL include covered bonds of £20m (H1 10: £13m; FY 10: £17m).

Asset Disclosures

4.03 Traditional and secured asset backed securities summary (continued)

(ii) By credit rating

	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 30.06.10 £m	LGPL At 30.06.10 %	Total At 30.06.10 £m	Total At 30.06.10 %
AAA	1,133	30	1,862	40
AA	769	21	855	18
A	1,156	31	1,244	26
BBB	544	14	607	13
BB or below	14	-	21	-
Unrated	132	4	156	3
Total	3,748	100	4,745	100

	LGPL At 31.12.10 £m	LGPL At 31.12.10 %	Total At 31.12.10 £m	Total At 31.12.10 %
AAA	1,223	31	1,939	39
AA	788	20	848	17
A	1,263	31	1,314	27
BBB	567	14	626	13
BB or below	23	1	61	1
Unrated	132	3	132	3
Total	3,996	100	4,920	100

Of the £888m (H1 10: £897m; FY 10: £847m) of traditional ABS holdings held outside of LGPL, 76% are rated AAA (H1 10: 76%; FY 10: 79%).

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 30.06.11 £m	Total At 30.06.11 %	Total At 30.06.10 £m	Total At 30.06.10 %	Total At 31.12.10 £m	Total At 31.12.10 %
Tier 1						
United Kingdom ¹	169	8	264	11	244	10
USA	84	4	106	4	119	5
Europe	115	6	118	5	114	5
Others	30	2	29	1	36	2
Total tier 1	398	20	517	21	513	22
Lower tier 2						
United Kingdom	704	34	804	34	806	35
USA	430	22	502	21	520	22
Europe	193	10	213	9	184	8
Others	74	4	84	4	79	3
Upper tier 2						
United Kingdom	75	4	94	4	94	4
USA	19	1	26	1	19	1
Europe	57	3	68	3	55	3
Others	3	-	5	-	3	-
Other subordinated						
United Kingdom	-	-	5	-	-	-
USA	47	2	76	3	51	2
Europe	-	-	-	-	-	-
Others	-	-	7	-	-	-
Total tier 2 and other subordinated	1,602	80	1,884	79	1,811	78
Total	2,000	100	2,401	100	2,324	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 30.06.11 £m	At 30.06.10 £m	At 31.12.10 £m
With-profits business	25,987	25,072	26,442
Non profit business	40,864	37,286	40,244
	66,851	62,358	66,686

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 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 30 June 2010				
Equities	(4)	36	4	(55)
Bonds	7	43	85	153
Property	8	14	1	-
Cash	-	7	10	2
		100	100	100
Investment return (% pa)	4	2	5	17
Invested assets (£bn):				
Net of derivative liabilities		13.3	2.4	1.6
Gross of derivative liabilities		13.4	2.4	1.6
As at 31 December 2010				
Equities	13	40	3	(65)
Bonds	9	39	86	153
Property	17	15	-	(1)
Cash	1	6	11	13
		100	100	100
Investment return (% pa)	10	12	8	4
Invested assets (£bn):				
Net of derivative liabilities		13.8	2.4	1.5
Gross of derivative liabilities		14.0	2.4	1.5

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

	Fair value measurement at the end of the reporting period based on:			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
As at 30 June 2011				
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 30 June 2010				
Group capital and other insurance business				
Equities	606	106	118	830
Bonds ¹	1,894	3,356	10	5,260
Derivative assets	3	270	-	273
	2,503	3,732	128	6,363
Non profit non-unit linked				
Bonds ¹	2,355	20,397	-	22,752
Derivative assets	168	1,466	-	1,634
	2,523	21,863	-	24,386
As at 31 December 2010				
Group capital and other insurance business				
Equities	730	115	130	975
Bonds ¹	2,093	3,134	9	5,236
Derivative assets	5	282	-	287
	2,828	3,531	139	6,498
Non profit non-unit linked				
Bonds ¹	2,562	21,116	-	23,678
Derivative assets	78	1,348	-	1,426
	2,640	22,464	-	25,104

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 £2,614m (H1 10: £2,278m; FY 10: £2,815m), 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).

In current market conditions, the liquidity of financial instruments is lower than it has been in the past. 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. However, 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.

Our holdings in bespoke CDOs and swaps are priced using an external model which utilise market assumptions. The CDO valuations have also been verified using an internal model. 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 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 independently 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 2011 (H1 10 and FY 10: No significant transfers between levels 1, 2 and 3).

Asset Disclosures

European Embedded Value

Consolidated Income Statement

For the six months ended 30 June 2011

	Notes	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
From continuing operations				
Risk	5.01	344	367	663
Savings	5.01	94	61	204
Investment management	5.08	104	81	179
International	5.09	87	61	163
Group capital and financing	5.10	58	33	54
Investment projects ¹		(25)	(14)	(39)
Operating profit		662	589	1,224
Variation from longer term investment return	5.11	(59)	(184)	161
Effect of economic assumption changes	5.12	(13)	179	292
Property losses attributable to non-controlling interests		(1)	(1)	-
Profit before tax		589	583	1,677
Tax expense attributable to equity holders of the Company	5.14	(139)	(161)	(446)
Effect of tax rate changes	5.14	156	-	33
Profit for the period		606	422	1,264
Loss attributable to non-controlling interests	2.17	1	1	-
Profit attributable to equity holders of the Company		607	423	1,264
			p	p
Earnings per share	5.15			p
Based on operating profit after tax attributable to equity holders of the Company		8.66	7.21	15.52
Based on profit attributable to equity holders of the Company		10.42	7.26	21.71
Diluted earnings per share	5.15			
Based on operating profit after tax attributable to equity holders of the Company		8.52	7.13	15.31
Based on profit attributable to equity holders of the Company		10.24	7.18	21.41

1. Investment projects relate to strategic investments including Solvency II.

European Embedded Value

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Profit for the period	606	422	1,264
Other comprehensive income after tax			
Exchange differences on translation of overseas operations	10	10	(5)
Actuarial (losses) on defined benefit pension schemes	(2)	(17)	(5)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	1	12	4
Total comprehensive income for the period	615	427	1,258
Total comprehensive income/(expense) attributable to:			
Non-controlling interests	(1)	(1)	-
Equity holders of the Company	616	428	1,258

Consolidated Balance Sheet

As at 30 June 2011

	Notes	At 30.06.11 £m	At 30.06.10 £m	At 31.12.10 £m
Assets				
Investments		319,476	288,298	317,234
Long term in-force business asset		3,305	2,623	3,060
Other assets		7,540	7,017	6,482
Total assets		330,321	297,938	326,776
Equity				
Shareholders' equity	5.17/5.18	8,147	6,958	7,730
Non-controlling interests	2.17	49	32	47
Total equity		8,196	6,990	7,777
Liabilities				
Subordinated borrowings	2.16	1,915	1,875	1,897
Unallocated divisible surplus		1,330	1,179	1,469
Participating contract liabilities		16,257	16,035	16,329
Non-participating contract liabilities		287,618	258,866	284,751
Senior borrowings	2.16	1,324	1,455	1,435
Other liabilities and provisions		13,681	11,538	13,118
Total liabilities		322,125	290,948	318,999
Total equity and liabilities		330,321	297,938	326,776

European Embedded Value

Notes to the Financial Statements

5.01 Profit/(loss) for the period

	Notes	Risk and Savings £m	Investment management £m	Inter-national £m	Group capital and financing £m	Total £m
For the six months ended 30 June 2011						
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 ²				13	105	118
Operating profit on covered business		410	-	89	105	604
Business reported on an IFRS basis:						
Risk non-covered business ³		18				18
Savings non-covered business ⁴		10				10
Investment management ⁵	5.08		104			104
Group capital and financing	5.10				(47)	(47)
Investment projects ⁶					(25)	(25)
International non-covered business ⁷				(2)		(2)
Total operating profit		438	104	87	33	662
Variation from longer term investment return	5.11	16	(3)	(6)	(66)	(59)
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		(96)	(22)	(37)	16	(139)
Effect of tax rate changes ⁸		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 in 2011 (H1 10: £3,679m; FY 10: £3,679m). This is adjusted for the effects of opening model changes of £193m (H1 10: £17m; FY 10: £39m) to give an adjusted opening base VIF of £4,079m (H1 10: £3,696m; FY 10: £3,718m). This is then multiplied by the opening risk discount rate of 7.3% for half a year and the result grossed up at the notional attributed tax rate of 23% (H1 10: 28%; FY 10: 27%) to give a return of £190m (H1 10: £201m; FY 10: £407m).

2. The H1 11 Group capital and financing contribution from shareholder net worth (SNW) comprises £113m (H1 10: £74m; FY 10: £146m) from the average return of 3.8% (H1 10: 3%; FY 10: 5.9%) on the average balance of invested assets of £3.0bn (H1 10: £2.5bn; FY 10: £2.5bn) offset by pre-tax corporate expenses charged to shareholders' funds of £8m (H1 10: £(3)m; FY 10: £(8)m).

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

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

5. Investment management operating profit excludes £13m (H1 10: £17m; FY 10: £27m) of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis and as a consequence are included in the Risk, Savings and Group capital and financing covered business on an EEV basis.

6. Investment projects comprises Solvency II and other strategic investments.

7. International non-covered business includes our joint venture operations in Egypt, the Gulf, India and business unit costs of £2m (H1 10: £2m; FY 10: £5m) allocated to the International segment.

8. 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)

	Notes	Risk and Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
For the six months ended 30 June 2010						
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.03/5.05	150		10		160
Contribution from in-force business:						
- expected return ¹		201		59		260
- experience variances	5.07	67		(13)		54
- operating assumption changes	5.07	(9)		(2)		(11)
Development costs		(8)		-		(8)
Contribution from shareholder net worth ²				11	72	83
Operating profit on covered business		401	-	65	72	538
Business reported on an IFRS basis:						
Risk non-covered business ³		13				13
Savings non-covered business ⁴		14				14
Investment management ⁵	5.08		81			81
Group capital and financing	5.10				(39)	(39)
Investment projects ⁶					(14)	(14)
International non-covered business ⁷				(4)		(4)
Total operating profit		428	81	61	19	589
Variation from longer term investment return	5.11	(100)	(4)	31	(111)	(184)
Effect of economic assumption changes	5.12	139	-	40	-	179
Property losses attributable to non-controlling interests		-	-	-	(1)	(1)
Profit/(loss) before tax		467	77	132	(93)	583
Tax (expense)/credit on profit from ordinary activities		(133)	(22)	(44)	38	(161)
Profit/(loss) for the period		334	55	88	(55)	422
Operating profit attributable to:						
Risk		367				
Savings		61				

1. The expected return on in-force is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the Risk and Savings business was £3,679m in 2010. This is adjusted for the effects of opening model changes of £17m to give an adjusted opening base VIF of £3,696m. This is then multiplied by the opening risk discount rate of 8.0% for half a year and the result grossed up at the notional attributed tax rate of 28% to give a return of £201m.

2. The H1 2010 Group capital and financing contribution from shareholder net worth (SNW) comprises £74m from the average return of 3% on the average balance of invested assets of £2.5bn and an adjustment for opening tax and other modelling changes of £1m; offset by pre-tax corporate expenses charged to shareholders' funds of £(3)m.

3. Risk non-covered business primarily reflects GI operating profit of £14m (see note 2.01(f)).

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

5. Investment management operating profit excludes £17m 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.

6. Investment projects comprises Solvency II and other strategic investments.

7. 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.

European Embedded Value

Notes to the Financial Statements

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

	Notes	Risk and Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
For the year ended 31 December 2010						
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.03/5.05	333		44		377
Contribution from in-force business:						
- expected return ¹		407		120		527
- experience variances	5.07	188		6		194
- operating assumption changes	5.07	(58)		(20)		(78)
Development costs		(15)		-		(15)
Contribution from shareholder net worth ²				22	138	160
Operating profit on covered business		855	-	172	138	1,165
Business reported on an IFRS basis:						
Risk non-covered business ³		(8)				(8)
Savings non-covered business ⁴		20				20
Investment management ⁵	5.08		179			179
Group capital and financing	5.10				(84)	(84)
Investment projects ⁶					(39)	(39)
International non-covered business ⁷				(9)		(9)
Total operating profit		867	179	163	15	1,224
Variation from longer term investment return	5.11	115	(8)	43	11	161
Effect of economic assumption changes	5.12	252	-	40	-	292
Property losses attributable to non-controlling interests		-	-	-	-	-
Profit/(loss) before tax		1,234	171	246	26	1,677
Tax (expense)/credit on profit from ordinary activities		(332)	(34)	(84)	4	(446)
Effect of tax rate changes		33	-	-	-	33
Profit for the year		935	137	162	30	1,264
Operating profit attributable to:						
Risk		663				
Savings		204				

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 £3,679m. This is adjusted for the effects of opening model changes of £39m to give an adjusted opening base VIF of £3,718m. This is then multiplied by the opening risk discount rate of 8.0% and the result grossed up at the notional attributed tax rate of 27% to give a return of £407m.

2. The FY 10 Group capital and financing contribution from shareholder net worth (SNW) comprises £146m from the average return of 5.9% on the average balance of invested assets of £2.5bn; offset by pre-tax corporate expenses charged to shareholders' funds of £(8)m.

3. Risk non-covered business reflects GI operating loss of £8m (see note 2.01(f)).

4. Savings non-covered business mainly comprises Savings investments on an IFRS basis, adjusted for Suffolk Life, International (Ireland) and business conducted in Germany.

5. Investment management operating profit excludes £27m of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis and as a consequence are included in the Risk, Savings and Group capital and financing covered business on an EEV basis.

6. Investment projects comprises Solvency II and other strategic investments.

7. 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.

European Embedded Value

Notes to the Financial Statements

5.02 New business summary¹

	Notes	APE ² 30.06.11 £m	PVNBP ³ 30.06.11 £m	Margin ⁴ 30.06.11 %	APE 30.06.10 £m	PVNBP 30.06.10 £m	Margin 30.06.10 %
Risk	5.03	170	1,222	7.6	191	1,475	9.4
Savings	5.03	303	2,032	0.8	286	1,869	0.6
International	5.05	78	645	4.3	64	536	1.9
		551	3,899	3.5	541	3,880	4.1

	Notes	APE Full year 31.12.10 £m	PVNBP Full year 31.12.10 £m	Margin Full year 31.12.10 %
Risk	5.03	382	2,925	10.3
Savings	5.03	628	3,934	0.8
International	5.05	116	1,017	4.3
		1,126	7,876	4.8

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.

European Embedded Value

5.03 Risk and Savings¹ new business by product

	Annual premiums	Present value of annual premiums	Capitalisation factor ²	Single premiums	PVNBP	Contribution from new business ³	Margin
	£m	£m		£m	£m	£m	%
For the six months ended 30 June 2011							
Protection	94	466	5.0	-	466	30	6.4
Annuities	-	-	-	756	756	63	8.4
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	
For the six months ended 30 June 2010							
Protection	85	417	4.9	-	417	25	6.0
Annuities	-	-	-	1,058	1,058	114	10.8
Total Risk	85	417	4.9	1,058	1,475	139	9.4
Unit linked bonds	-	-	-	273	273	2	0.7
Pensions, stakeholder and other non profit	114	431	3.8	684	1,115	(1)	(0.1)
With-profits savings	41	130	3.2	351	481	10	2.1
Total Savings	155	561	3.6	1,308	1,869	11	0.6
Total Risk and Savings	240	978	4.1	2,366	3,344	150	4.5
Cost of capital						15	
Contribution from new business before cost of capital						165	
For the year ended 31 December 2010							
Protection	175	860	4.9	-	860	55	6.4
Annuities	-	-	-	2,065	2,065	245	11.9
Total Risk	175	860	4.9	2,065	2,925	300	10.3
Unit linked bonds	-	-	-	586	586	8	1.4
Pensions, stakeholder and other non profit	300	1,135	3.8	1,373	2,508	3	0.1
With-profits savings	71	232	3.3	608	840	22	2.6
Total Savings	371	1,367	3.7	2,567	3,934	33	0.8
Total Risk and Savings	546	2,227	4.1	4,632	6,859	333	4.9
Cost of capital						47	
Contribution from new business before cost of capital						380	

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.

European Embedded Value

Notes to the Financial Statements

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

	IRR 30.06.11 %	Payback period 30.06.11 years	IRR 30.06.10 %	Payback period 30.06.10 years	IRR 31.12.10 %	Payback period 31.12.10 years
Protection	16	4	15	5	15	5
Annuities ²	>30	<0	>30	<0	>30	<0
Unit linked bonds	13	6	9	8	11	7
Pensions, stakeholder and other non profit	8	12	7	13	8	13

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

2. Given negative strain on annuity business and an immediate IFRS payback, the IRR calculation is infinite.

5.05 International¹ new business

	APE	PVNB	Contri- bution from new business ²	Cost of capital	Margin
	£m	£m	£m	£m	%
For the six months ended 30 June 2011					
USA	32	261	25	2	9.8
Netherlands	8	69	-	1	-
France	38	315	3	3	0.8
Total	78	645	28	6	4.3

For the six months ended 30 June 2010					
USA	22	162	2	2	1.4
Netherlands	10	92	1	1	1.2
France	32	282	7	1	2.3
Total	64	536	10	4	1.9

For the year ended 31 December 2010					
USA ³	52	443	40	4	8.9
Netherlands	18	166	2	2	1.4
France	46	408	2	4	0.6
Total	116	1,017	44	10	4.3

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

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

3. The H1 11 and FY 10 USA margin primarily reflects an increase to the reinvestment rate following a change in methodology. The 10-year treasury spot yield was replaced by the average treasury forward rates weighted according to the expected timing and amounts of future reinvestment cash flows.

5.06 International¹ new business in local currency

	Annual premiums	Present value of annual premiums	Capital- isation factor	Single Premiums	PVNB	Contri- bution from new business ²	Cost of capital	Margin
	m	m		m	m	m	m	%
For the six months ended 30 June 2011								
USA	\$52	\$422	8.1	-	\$422	\$41	\$3	9.8
Netherlands	€2	€13	6.4	€67	€80	-	€1	-
France	€30	€219	7.3	€143	€362	€3	€4	0.8

For the six months ended 30 June 2010								
USA	\$33	\$251	7.6	-	\$251	\$4	\$3	1.4
Netherlands	€4	€29	7.2	€78	€107	€1	€1	1.2
France	€24	€182	7.6	€143	€325	€8	€1	2.3

For the year ended 31 December 2010								
USA ³	\$80	\$690	8.6	-	\$690	\$62	\$7	8.9
Netherlands	€7	€48	6.9	€146	€194	€3	€2	1.4
France	€27	€203	7.5	€277	€480	€3	€5	0.6

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

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

3. The H1 11 and FY 10 USA margin primarily reflects an increase to the reinvestment rate following a change in methodology. The 10-year treasury spot yield was replaced by the average treasury forward rates weighted according to the expected timing and amounts of future reinvestment cash flows.

European Embedded Value

Notes to the Financial Statements

5.07 Analysis of experience variances and operating assumption changes

	Risk and Savings			International		
	Experience variances	Operating assumption changes	Total	Experience variances	Operating assumption changes	Total
For the six months ended 30 June 2011	£m	£m	£m	£m	£m	£m
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)

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

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 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%, and grossed up for the notional attributed tax rate of 23% to give £16m.

	Risk and Savings			International		
	Experience variances	Operating assumption changes	Total	Experience variances	Operating assumption changes	Total
For the six months ended 30 June 2010	£m	£m	£m	£m	£m	£m
Persistency	1	(2)	(1)	(1)	-	(1)
Mortality/morbidity	11	12	23	(9)	-	(9)
Expenses	6	(15)	(9)	(2)	(2)	(4)
Other						
- US capital restructure						
- Bulk purchase annuity data loading						
- UK cost of capital unwind	18					
- Modelling changes and other experience variances	31			(1)		
	49	(4)	45	(1)	-	(1)
	67	(9)	58	(13)	(2)	(15)

	Risk and Savings			International		
	Experience variances	Operating assumption changes	Total	Experience variances	Operating assumption changes	Total
For the year ended 31 December 2010	£m	£m	£m	£m	£m	£m
Persistency	-	(16)	(16)	(1)	(14)	(15)
Mortality/morbidity	-	(28)	(28)	(12)	(13)	(25)
Expenses	(1)	1	-	(10)	(1)	(11)
Other						
- US capital restructure	30			16		
- Bulk purchase annuity data loading	59					
- UK cost of capital unwind	54					
- Modelling changes and other experience variances	46			13		
	189	(15)	174	29	8	37
	188	(58)	130	6	(20)	(14)

FY 10 Risk and Savings persistency assumption changes relate to the strengthening of lapse assumptions for individual protection and non profit pensions.

FY 10 Risk and Savings mortality assumption changes reflect the strengthening of the annuity business mortality assumptions partially offset by favourable individual protection mortality.

The FY 10 US Capital restructuring programme involved replacing the Triple X financing solution with an internal reinsurance structure.

European Embedded Value

Notes to the Financial Statements

5.08 Investment management operating profit

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Pension funds (managed and segregated) ¹	87	70	148
Other non-pension ²	12	11	20
Investment management services for internal funds ³	5	-	11
Total Investment management operating profit	104	81	179

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 £5m (H1 10: £6m; FY 10: £11m) has been included within other non-pension operating profit.

3. Investment management services for internal funds excludes £13m (H1 10: £17m; FY 10: £27m) of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis within the Risk and Savings covered business on an EEV basis.

5.09 International operating profit

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
USA	75	41	129
Netherlands	11	10	52
France ¹	3	14	(9)
Total Europe operating profit	14	24	43
Other ²	(2)	(4)	(9)
Total International operating profit	87	61	163

1. The FY 10 EEV operating loss in France reflects £26m of adverse operating assumption changes. These changes relate to Group risk morbidity, following higher claims experience in 2010, and also a reduction in the assumed future investment margin applied to the main savings product.

2. Other includes our joint venture operations in Egypt, the Gulf, India and business unit costs of £2m (H1 10: £2m; FY 10: £5m) allocated to the International segment.

5.10 Group capital and financing operating profit¹

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Investment return ²	130	96	187
Interest expense ³	(62)	(59)	(121)
Investment expenses	(2)	(1)	(3)
Unallocated corporate expenses	(5)	(3)	(5)
Other	(3)	-	(4)
Total Group capital and financing operating profit	58	33	54
Analysed as:			
On an EEV basis	105	72	138
On an IFRS basis	(47)	(39)	(84)

1. Group capital and financing represents operating profit on the shareholder assets held within the covered business, reported on an embedded value basis, and operating profit on the shareholder assets held outside the covered business reported on an IFRS basis.

2. In H1 11, of the £130m investment return, £113m is reported on an EEV basis within contribution from SNW based on a 3.8% average return on the average balance of invested assets of £3.0bn.

3. 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

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Business reported on an EEV basis:			
Risk and Savings ¹	12	(110)	103
International	(6)	31	43
Group capital and financing ²	(39)	(49)	82
	(33)	(128)	228
Business reported on an IFRS basis:			
Risk and Savings	4	10	12
Investment management	(3)	(4)	(8)
Group capital and financing ²	(27)	(62)	(71)
	(59)	(184)	161

1. The £12m Risk and Savings covered business variation from longer term investment return predominantly reflects the resilience of the annuities division's asset portfolio and investment strategy in challenging economic conditions. H1 2010 negative variance of £110m is as a result of an increased cost of capital arising from a reduction in the equity ratio for assets backing solvency capital and increased gilt holdings. FY 2010 predominantly reflects the strong recovery in equity and property markets.

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

5.12 Effect of economic assumption changes

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Business reported on an EEV basis:			
Risk and Savings ¹	(42)	139	252
International	29	40	40
	(13)	179	292

1. The Risk and Savings economic assumptions changes include the impact of the 25bps reduction in the equity risk premium of £(25)m.

5.13 Time value of options and guarantees

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Risk and Savings ¹	15	21	15
International	13	17	13
	28	38	28

1. Includes £10m (H1 10: £21m; FY 10: £10m) relating to UK with-profits business, and £5m (H1 10: £5m; FY 10: £5m) relating to UK non profit business.

European Embedded Value

Notes to the Financial Statements

5.14 Tax

	Profit/(loss) before tax	Tax (expense)/ credit	Profit/(loss) before tax	Tax (expense)/ credit	Profit/(loss) before tax	Tax (expense)/ credit
	30.06.11 £m	30.06.11 £m	30.06.10 £m	30.06.10 £m	Full year 31.12.10 £m	Full year 31.12.10 £m
From continuing operations						
Risk	344	(79)	367	(103)	663	(179)
Savings	94	(22)	61	(18)	204	(54)
Investment management	104	(23)	81	(23)	179	(36)
International	87	(30)	61	(20)	163	(54)
Group capital and financing	58	(10)	33	(9)	54	(8)
Investment projects	(25)	7	(14)	4	(39)	11
Operating profit	662	(157)	589	(169)	1,224	(320)
Variation from longer term investment return	(59)	18	(184)	62	161	(43)
Effect of economic assumption changes	(13)	-	179	(54)	292	(83)
Property losses attributable to non-controlling interests	(1)	-	(1)	-	-	-
Effect of tax rate changes	-	156	-	-	-	33
Profit/(loss) before tax / Tax	589	17	583	(161)	1,677	(413)

The UK EEV calculations assume a tax basis which reflects the current tax rate of 26% and the planned future reductions in corporation tax to 25% from 1 April 2012, 24% from 1 April 2013, and 23% from 1 April 2014 (previously a single tax rate was used: H1 10: 28%; FY 10: 27%). The tax rate used for grossing up in the income statement is based on a UK corporation tax rate of 23% (H1 10: 28%; FY 10: 27%).

5.15 Earnings per share

(a) Earnings per share

	Profit before tax	Tax (expense)/ credit	Profit after tax	Per share	Profit before tax	Tax (expense)/ credit	Profit after tax	Per share
	30.06.11 £m	30.06.11 £m	30.06.11 £m	30.06.11 p	30.06.10 £m	30.06.10 £m	30.06.10 £m	30.06.10 p
Operating profit	662	(157)	505	8.66	589	(169)	420	7.21
Variation from longer term investment return	(59)	18	(41)	(0.70)	(184)	62	(122)	(2.09)
Effect of economic assumption changes	(13)	-	(13)	(0.22)	179	(54)	125	2.14
Effect of tax rate changes	-	156	156	2.68	-	-	-	-
Earnings per share based on profit attributable to equity holders	590	17	607	10.42	584	(161)	423	7.26
					Profit before tax Full year 31.12.10 £m	Tax (expense) Full year 31.12.10 £m	Profit after tax Full year 31.12.10 £m	Per share Full year 31.12.10 p
Operating profit					1,224	(320)	904	15.52
Variation from longer term investment return					161	(43)	118	2.03
Effect of economic assumption changes					292	(83)	209	3.59
Effect of tax rate changes					-	33	33	0.57
Earnings per share based on profit attributable to equity holders					1,677	(413)	1,264	21.71

European Embedded Value

Notes to the Financial Statements

5.15 Earnings per share (continued)

(b) Diluted earnings per share

(i) Based on operating profit after tax

	Profit after tax 30.06.11 £m	Number of shares ¹ 30.06.11 m	Per share 30.06.11 p	Profit after tax 30.06.10 £m	Number of shares ¹ 30.06.10 m	Per share 30.06.10 p
Operating profit after tax	505	5,828	8.66	420	5,827	7.21
Net shares under options allocable for no further consideration	-	97	(0.14)	-	63	(0.08)
Diluted earnings per share	505	5,925	8.52	420	5,890	7.13

	Profit after tax Full year 31.12.10 £m	Number of shares ¹ Full year 31.12.10 m	Per share Full year 31.12.10 p
Operating profit after tax	904	5,827	15.52
Net shares under options allocable for no further consideration	-	79	(0.21)
Diluted earnings per share	904	5,906	15.31

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

	Profit after tax 30.06.11 £m	Number of shares ¹ 30.06.11 m	Per share 30.06.11 p	Profit after tax 30.06.10 £m	Number of shares ¹ 30.06.10 m	Per share 30.06.10 p
Profit attributable to equity holders of the Company	607	5,828	10.42	423	5,827	7.26
Net shares under options allocable for no further consideration	-	97	(0.18)	-	63	(0.08)
Diluted earnings per share	607	5,925	10.24	423	5,890	7.18

	Profit after tax Full year 31.12.10 £m	Number of shares ¹ Full year 31.12.10 m	Per share Full year 31.12.10 p
Profit attributable to equity holders of the Company	1,264	5,827	21.71
Net shares under options allocable for no further consideration	-	79	(0.30)
Diluted earnings per share	1,264	5,906	21.41

The number of shares in issue at 30 June 2011 was 5,870,748,796 (30 June 2010: 5,865,651,980; 31 December 2010: 5,866,669,323).

1. Weighted average number of shares.

European Embedded Value

Notes to the Financial Statements

5.16 Group embedded value reconciliation

	Covered business				Inter-national £m	Non-covered business £m	Total £m
	UK free surplus £m	UK required capital £m	UK value of in-force £m	Total UK £m			
For the six months ended 30 June 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	-	-	-	-	(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	42	49	-	91			
Generation of embedded value	290	30	1	321			
- Experience variances	(9)	1	53	45			
- Operating assumption changes	33	-	4	37			
- Development costs	(5)	-	-	(5)			
Variations	19	1	57	77			
Operating profit after tax for the period	309	31	58	398	59	48	505
Non-operating profit/(loss) for the period:							
- Investment variances	(33)	6	9	(18)			
- Economic assumption changes	-	-	(32)	(32)			
- Effect of UK Budget tax changes	-	-	155	155			
Non-operating profit/(loss) for the period:	(33)	6	132	105	16	(20)	101
Profit 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)
Net movements in employee share schemes	-	-	-	-	-	-	-
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 repayment from the US in respect 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 provision 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 six months ended 30 June 2010							
At 1 January							
Value of in-force business (VIF)	-	-	3,679	3,679	928	-	4,607
Shareholder net worth (SNW)	1,067	1,521	-	2,588	518	(1,018)	2,088
	1,067	1,521	3,679	6,267	1,446	(1,018)	6,695
Exchange rate movements	-	-	-	-	32	(22)	10
	1,067	1,521	3,679	6,267	1,478	(1,040)	6,705
Operating profit/(loss) for the period:							
- New business contribution ¹	(129)	88	149	108			
- Expected return on VIF	-	-	145	145			
- Expected transfer from Non profit VIF to SNW ²	335	(90)	(245)	-			
- With-profits transfer	23	-	(23)	-			
- Expected return on SNW	21	34	-	55			
Generation of embedded value	250	32	26	308			
- Experience variances	7	-	40	47			
- Operating assumption changes	85	-	(92)	(7)			
- Development costs	(6)	-	-	(6)			
Variations	86	-	(52)	34			
Operating profit/(loss) after tax for the period	336	32	(26)	342	44	34	420
Non-operating profit/(loss) for the period:							
- Investment variances	118	(1)	(220)	(103)			
- Economic assumption changes	(4)	25	78	99			
Non-operating profit/(loss) for the period:	114	24	(142)	(4)	47	(41)	2
Profit/(loss) for the period	450	56	(168)	338	91	(7)	422
Intra-group distributions	84	-	-	84	(34)	(50)	-
Dividends to equity holders of the Company	-	-	-	-	-	(160)	(160)
Net movements in employee share schemes	-	-	-	-	-	(2)	(2)
Loss attributable to non-controlling interests	-	-	-	-	-	1	1
Transfer to non-covered business ⁴	(12)	-	-	(12)	-	12	-
Other reserve movements including pension deficit ⁵	(153)	(25)	(14)	(192)	-	184	(8)
Embedded value	1,436	1,552	3,497	6,485	1,535	(1,062)	6,958
Represented by:							
- Non profit			3,041				
- With-profits			456				
Value of in-force business	-	-	3,497	3,497	1,039	-	4,536
Shareholder net worth	1,436	1,552	-	2,988	496	(1,062)	2,422

1. The free surplus reduction of £129m to finance new business includes £44m IFRS new business strain and £88m additional required capital. Other items have a net positive impact of £3m.

2. The increase in free surplus of £335m from the expected transfer from the in-force non profit business includes £239m of IFRS operational cash generation and a £90m reduction in required capital. Other items have a net positive impact of £6m.

3. Intra-group distributions reflect dividends of £84m paid to Society from subsidiaries (primarily Nationwide Life) and a dividend of \$50m from the USA paid to Group.

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

5. Other reserve movements primarily comprise the transfer from the covered business of Nationwide Life following the Part VII transfer of the majority of the insurance business in 2009.

European Embedded Value

Notes to the Financial Statements

5.16 Group embedded value reconciliation (continued)

	Covered business					Non-covered business	Total
	UK free surplus	UK required capital	UK value of in-force	Total UK	International		
	£m	£m	£m	£m	£m	£m	£m
For the year ended 31 December 2010							
At 1 January							
Value of in-force business (VIF)	-	-	3,679	3,679	928	-	4,607
Shareholder net worth (SNW)	1,067	1,521	-	2,588	518	(1,018)	2,088
	1,067	1,521	3,679	6,267	1,446	(1,018)	6,695
Exchange rate movements	-	-	-	-	7	(12)	(5)
	1,067	1,521	3,679	6,267	1,453	(1,030)	6,690
Operating profit/(loss) for the year:							
- New business contribution ¹	(258)	178	323	243			
- Expected return on VIF	-	-	297	297			
- Expected transfer from Non profit VIF to SNW ²	688	(166)	(522)	-			
- With-profits transfer	46	-	(46)	-			
- Expected return on SNW	45	72	-	117			
Generation of embedded value	521	84	52	657			
- Experience variances	121	11	(7)	125			
- Operating assumption changes	(14)	1	(28)	(41)			
- Development costs	(11)	-	-	(11)			
Variations	96	12	(35)	73			
Operating profit after tax for the year	617	96	17	730	117	57	904
Non-operating profit/(loss) for the year:							
- Investment variances	95	49	(6)	138			
- Economic assumption changes	-	-	184	184			
- Effect of UK Budget tax changes	-	-	33	33			
Non-operating profit/(loss) for the year:	95	49	211	355	53	(48)	360
Profit for the year	712	145	228	1,085	170	9	1,264
Capital movements ³	-	-	-	-	184	(184)	-
Intra-group distributions ⁴	(207)	-	-	(207)	(44)	251	-
Dividends to equity holders of the Company	-	-	-	-	-	(238)	(238)
Net movements in employee share schemes	-	-	-	-	-	17	17
Transfer to non-covered business ⁵	(19)	-	-	(19)	-	19	-
Other reserve movements including pension deficit ⁶	(158)	(26)	(21)	(205)	-	202	(3)
Embedded value	1,395	1,640	3,886	6,921	1,763	(954)	7,730
Represented by:							
- Non profit			3,372				
- With-profits			514				
Value of in-force business	-	-	3,886	3,886	1,015	-	4,901
Shareholder net worth	1,395	1,640	-	3,035	748	(954)	2,829

1. The free surplus reduction of £258m to finance new business includes £80m IFRS new business strain and £178m additional required capital.

2. The increase in free surplus of £688m from the expected transfer from the in-force non profit business includes £522m of IFRS operational cash generation and a £166m reduction in required capital.

3. The capital movement of £184m reflects the capital contribution made to the US to enable the repurchase of Potomac securities.

4. UK intra-group distributions reflect a £300m dividend paid from Society to Group and dividends of £93m paid to Society from subsidiaries (primarily Nationwide Life). Dividends of \$53m from the USA, €10m from the Netherlands and €2m from France were also paid to Group.

5. The transfer to non-covered business represents the IFRS profits arising in the period from the provision 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.

6. Other reserve movements primarily comprise the transfer from the covered business of Nationwide Life following the Part VII transfer of the majority of the insurance business in 2009.

European Embedded Value

Notes to the Financial Statements

5.17 Analysis of shareholders' equity

	Risk and Savings	Investment management	Inter-national	Group capital and financing	Total
	£m	£m	£m	£m	£m
As at 30 June 2011					
Analysed as:					
IFRS basis shareholders' equity ¹	282	409	1,400	2,896	4,987
Additional retained profit/(loss) on an EEV basis	4,076	-	165	(1,081)	3,160
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)
As at 30 June 2010					
Analysed as:					
IFRS basis shareholders' equity ¹	258	370	1,473	2,366	4,467
Additional retained profit/(loss) on an EEV basis	3,497	-	95	(1,101)	2,491
Shareholders' equity on an EEV basis	3,755	370	1,568	1,265	6,958
Comprising:					
Business reported on an IFRS basis	258	370	33	(1,723)	(1,062)
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus ²			239	1,436	1,675
- Required capital to cover solvency margin			257	1,552	1,809
Value of in-force					
- Value of in-force business	3,817		1,119		4,936
- Cost of capital	(320)		(80)		(400)
As at 31 December 2010					
Analysed as:					
IFRS basis shareholders' equity ¹	265	324	1,664	2,574	4,827
Additional retained profit/(loss) on an EEV basis	3,886	-	136	(1,119)	2,903
Shareholders' equity on an EEV basis	4,151	324	1,800	1,455	7,730
Comprising:					
Business reported on an IFRS basis	265	324	37	(1,580)	(954)
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus ²			501	1,395	1,896
- Required capital to cover solvency margin			247	1,640	1,887
Value of in-force					
- Value of in-force business	4,220		1,090		5,310
- Cost of capital	(334)		(75)		(409)

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 At 30.06.11 £m	Other business IFRS basis At 30.06.11 £m	Total At 30.06.11 £m	Covered business EEV basis At 30.06.10 £m	Other business IFRS basis At 30.06.10 £m	Total At 30.06.10 £m
Risk						
- Risk reported on an EEV basis	2,743	-	2,743	2,381	-	2,381
- General insurance	-	133	133	-	137	137
- Other	-	5	5	-	(1)	(1)
Total Risk	2,743	138	2,881	2,381	136	2,517
Savings						
- Savings reported on an EEV basis	1,333	-	1,333	1,116	-	1,116
- Savings investments	-	126	126	-	107	107
- Other	-	18	18	-	15	15
Total Savings	1,333	144	1,477	1,116	122	1,238
Investment management	-	409	409	-	370	370
International						
- USA	940	-	940	1,002	-	1,002
- Netherlands	364	-	364	313	-	313
- France	226	-	226	220	-	220
- Emerging markets	-	35	35	-	33	33
Total International	1,530	35	1,565	1,535	33	1,568
Group capital and financing	3,336	(1,521)	1,815	2,988	(1,723)	1,265
	8,942	(795)	8,147	8,020	(1,062)	6,958
At 31.12.10						
	Covered business EEV basis At 31.12.10 £m	Other business IFRS basis At 31.12.10 £m	Total At 31.12.10 £m	Covered business EEV basis At 31.12.10 £m	Other business IFRS basis At 31.12.10 £m	Total At 31.12.10 £m
Risk						
- Risk reported on an EEV basis				2,563	-	2,563
- General insurance				-	120	120
- Other				-	3	3
Total Risk				2,563	123	2,686
Savings						
- Savings reported on an EEV basis				1,323	-	1,323
- Savings investments				-	121	121
- Other				-	21	21
Total Savings				1,323	142	1,465
Investment management				-	324	324
International						
- USA				1,220	-	1,220
- Netherlands				335	-	335
- France				208	-	208
- Emerging markets				-	37	37
Total International				1,763	37	1,800
Group capital and financing				3,035	(1,580)	1,455
				8,684	(954)	7,730

European Embedded Value

Notes to the Financial Statements

5.19 Reconciliation of shareholder net worth

	UK covered business At 30.06.11 £m	Total At 30.06.11 £m	UK covered business At 30.06.10 £m	Total At 30.06.10 £m	UK covered business At 31.12.10 £m	Total At 31.12.10 £m
SNW of long term operations (IFRS basis)	4,416	5,782	4,090	5,529	4,154	5,781
Other liabilities (IFRS basis)	-	(795)	-	(1,062)	-	(954)
Shareholders' equity on the IFRS basis	4,416	4,987	4,090	4,467	4,154	4,827
Purchased interest in long term business	(80)	(82)	(93)	(101)	(86)	(91)
Deferred acquisition costs/deferred income liabilities	(253)	(1,231)	(251)	(1,221)	(253)	(1,211)
Contingent loan ¹	(212)	(212)	(538)	(538)	(551)	(551)
Deferred tax ²	(227)	130	(280)	58	(238)	85
Other ³	(308)	(596)	60	(243)	9	(230)
Shareholder net worth on the EEV basis	3,336	2,996	2,988	2,422	3,035	2,829

1. On an EEV basis the contingent loan (between Society and LGPL) is modelled within the VIF. On an IFRS basis the contingent loan asset is 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 US 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 2010; 0.70% p.a. at 31 December 2010) greater than the swap rate at that time (i.e. the long term credit rate).
- iii. Where reinvestment or disinvestment is necessary to rebalance the asset portfolio in line with projected outgo, this is also assumed to take place at the long term credit rate above the swap rate at that time.

The returns on fixed and index-linked securities are calculated net of an allowance for default risk which takes account of the credit rating, outstanding term of the securities, and increase in the expectation of credit defaults over the economic cycle. The allowance for corporate securities expressed as a level rate deduction from the expected returns for annuities was 27bps at 30 June 2011 (42bps at 30 June 2010; 29bps at 31 December 2010).

Economic assumptions

	30.06.11	30.06.10	31.12.10	31.12.09
	% p.a.	% p.a.	% p.a.	% p.a.
Equity risk premium	3.3	3.5	3.5	3.5
Property risk premium	2.0	2.0	2.0	2.0
Investment return (excluding annuities in LGPL)				
- Gilts:				
- Fixed interest	3.3 – 4.0	3.8	3.4 – 4.0	4.0
- RPI linked	4.1	4.1	4.1	4.5
- Non gilts:				
- Fixed interest	3.6 – 5.1	3.7 – 5.6	3.6 – 5.0	4.4 - 6.2
- Equities	7.3	7.6	7.5	8.0
- Property	6.0	6.1	6.0	6.5
Long-term rate of return on non profit annuities in LGPL	5.6	5.6	5.5	6.1
Risk free rate ¹	4.0	4.1	4.0	4.5
Risk margin	3.3	3.2	3.3	3.5
Risk discount rate (net of tax)	7.3	7.3	7.3	8.0
Inflation				
- Expenses/earnings	4.2	3.8	4.1	4.6
- Indexation	3.7	3.3	3.6	3.6

1. The risk free rate is the gross redemption yield on the 15 year gilt index (20 year gilt index for 30 June 2010 and 31 December 2009; 15 year gilt index for 31 December 2010).

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.

European Embedded Value

Notes to the Financial Statements

5.20 Assumptions (continued)

- 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 24.4 years (30 June 2010: 24.5 years; 31 December 2010: 24.3 years). The expectation of life on the regulatory reserving basis is 26 years (30 June 2010: 25.7 years; 31 December 2010: 26 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:

	30.06.11 % p.a.	30.06.10 % p.a.	31.12.10 % p.a.	31.12.09 % p.a.
USA				
Reinvestment rate	5.5	4.4	5.5	5.1
Risk margin	3.3	3.2	3.3	3.5
Risk discount rate (net of tax)	6.4	6.5	6.6	7.4
Europe				
Government bond return	3.3	2.8	3.2	3.6
Risk margin	3.3	3.2	3.3	3.5
Risk discount rate (net of tax)	6.6	6.0	6.5	7.1

- 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 current tax rate of 26% and the subsequent planned future reductions in corporation tax to 25% from 1 April 2012, 24% from 1 April 2013, and 23% from 1 April 2014 (previously a single tax rate was used; 30 June 2010: 28%; 31 December 2010: 27%). The tax rate used for grossing up is the long term corporate tax rate in the territory concerned, which for the UK is 23% (30 June 2010: 28%; 31 December 2010: 27%) taking into account the expected further rate reductions to 23% 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.

Stochastic calculations

- ix. 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.

European Embedded Value Notes to the Financial Statements

5.20 Assumptions (continued)

Summary statistics:

The following table sets out means and standard deviations (StDev) of future returns as at 30 June 2011 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	3.8%	4.1%	4.9%	4.4%
Corporate bonds	5.5%	4.4%	6.3%	4.8%
Property (excess returns)	2.0%	15.0%	2.0%	14.9%
Equities (excess returns)	3.3%	20.3%	3.3%	20.3%
European Business (Euro)				
Long Government bonds ³	3.5%	4.5%	4.4%	4.7%
Short Government bonds ⁴	3.5%	3.7%	4.4%	7.8%
US Business (US Dollar)				
Long Government bonds ³	3.5%	6.0%	5.0%	6.2%

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 audited by PricewaterhouseCoopers LLP and prepared with assistance from our consulting actuaries; Towers Watson in the UK and Milliman in the USA.

Covered business

The Group uses EEV methodology to value individual and group life assurance, pensions and annuity business written in the UK, Continental Europe and the US. The UK covered business also includes non-insured self invested personal pension (SIPP) business. The managed pension funds business has been excluded from covered business and is reported on an IFRS basis.

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

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

Description of methodology

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

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

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

- i. cash transfers during the relevant period from the covered business to the remainder of the Group's assets; and
- ii. the movement in the present value of future distributable profits to shareholders arising from the covered business over the relevant reporting period.

Embedded value

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

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

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

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.

European Embedded Value

Notes to the Financial Statements

5.21 Methodology (continued)

Department of Work and Pensions rebates have not been treated as recurring and are included in single premium new business when received.

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

The present value of future new business premiums (PVNBP) has been calculated and expressed at the point of sale. The PVNBP is equivalent to the total single premiums plus the discounted value of regular premiums expected to be received over the term of the contracts using the same economic and operating assumptions used for the embedded value at the end of the financial period. The new business margin is defined as new business contribution at the end of the reporting period divided by the PVNBP. The premium volumes and projection assumptions used to calculate the PVNBP are the same as those used to calculate new business contribution.

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 in the US, 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 or expected future changes.

Allowance for risk

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

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

Required capital and free surplus

Regulatory capital for the 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 Legal & General America, 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 Legal & General Netherlands, 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 212% of the EU minimum solvency margin has been used. The level of capital has been determined using risk based capital techniques.

European Embedded Value

Notes to the Financial Statements

5.21 Methodology (continued)

For Legal & General France, 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.

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 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.

In the US, 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.

In the Netherlands, there are two types of guarantees which have been separately provided for: 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.

In France, 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). Following a review, the risk free rate for 31 December 2010 was set by reference to the gross redemption yield on the 15 year gilt index. The risk free rate for 30 June 2011 continues this methodology. For 31 December 2009 and 30 June 2010, a 20 year gilt index was referenced.

Risk discount rate

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

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

The WACC is derived from the Group's cost of equity and debt, and the proportion of equity to debt in the Group's capital structure measured using market values. Each of these three parameters is forward looking, although informed by historic information. 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

European Embedded Value Notes to the Financial Statements

5.21 Methodology (continued)

a better estimate of the Company's beta for the future period. We have computed the WACC using an arithmetical average of forward-looking betas against the FTSE 100 index.

The cost of debt used in the WACC calculations takes account of the actual locked-in rates for our senior and subordinated long term debt. All debt interest attracts tax relief at a rate of 23%.

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.

For the H1 11 results, the risk margin remained at 3.3% (H1 10: 3.2%; FY 10: 3.3%).

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.

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 2011, which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet as at 30 June 2011 and related notes prepared on the European Embedded Value (“EEV”) basis on pages 73 to 98. 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 2011 is not prepared, in all material respects, in accordance with the EEV basis set out in note 5.21.

PricewaterhouseCoopers LLP
Chartered Accountants
London
2 August 2011

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.

New Business

6.01 Investment management new business

	30.06.11 £m	30.06.10 £m	Full year 31.12.10 £m
Managed pension funds¹			
Pooled funds	12,791	12,320	19,898
Segregated funds	1,893	5,045	5,756
Total managed funds	14,684	17,365	25,654
Other funds ²	3,573	4,577	8,440
Total new funds	18,257	21,942	34,094
Attributable to:			
Legal & General Investment Management	17,852	21,158	32,642
Legal & General Retail Investments	405	784	1,452

6.02 Investment management new business quarterly progression

	3 months to 30.06.11 £m	3 months to 31.03.11 £m	3 months to 31.12.10 £m	3 months to 30.09.10 £m	3 months to 30.06.10 £m	3 months to 31.03.10 £m
Managed pension funds¹						
Pooled funds	6,712	6,079	3,569	4,009	4,936	7,384
Segregated funds	255	1,638	490	221	4,777	268
Total managed funds	6,967	7,717	4,059	4,230	9,713	7,652
Other funds ²	920	2,653	2,863	1,000	981	3,596
Total new funds	7,887	10,370	6,922	5,230	10,694	11,248
Attributable to:						
Legal & General Investment Management	7,764	10,088	6,577	4,907	10,305	10,853
Legal & General Retail Investments	123	282	345	323	389	395

1. New monies from pension fund clients of Legal & General Assurance (Pensions Management) exclude monies 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. Due to the expected volatility of gross new business inflows into the sterling/euro liquidity funds, these have been removed from the gross new business figures going forward. For consistency, this has led to a reduction of £442m in H1 2011 and £492m in H2 2010.

6.03 Legal & General Investment Management new business by investment approach

	30.06.11 %	30.06.10 %	31.12.10 %
Indexed equities	43	43	47
Indexed bonds (including index linked funds and cash)	26	27	24
Active bonds (including index linked funds and cash)	15	9	12
Liability driven investments	15	20	15
Property	1	1	1
Private equity	-	-	-
Active equities	-	-	1
Total	100	100	100

New Business

6.04 Funds under management

	At 30.06.11 £m	At 30.06.10 £m	At 31.12.10 £m
Legal & General Investment Management funds under management	362,438	320,014	353,520
Other funds under management ¹	7,900	10,945	11,326
Worldwide funds under management	370,338	330,959	364,846

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

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

Represented by

Index tracking funds:

- UK equities	69,647	61,376	71,982
- Overseas equities	87,271	71,390	85,999
- Fixed interest	38,505	37,971	36,496
- Index linked	35,855	30,642	33,872
- Cash/deposits	1,501	628	188
Total index tracking funds	232,779	202,007	228,537
Actively managed funds	84,743	80,408	84,207
Liability driven investments	44,916	37,599	40,776
	362,438	320,014	353,520

By investment approach

Index equities	156,918	132,766	157,981
Index bonds (including index linked funds and cash)	75,861	69,241	70,556
Active bonds (including index linked funds and cash)	67,233	64,507	66,564
Liability driven investments	44,916	37,599	40,776
Active equities	8,826	8,057	9,137
Property	8,307	7,656	8,136
Private equity	377	188	370
	362,438	320,014	353,520

By source of business

Institutional funds under management¹:

- Managed pension funds pooled	208,895	184,495	206,400
- Liability driven investments	44,904	37,599	40,776
- Other	18,706	14,368	16,772
- Managed pension funds segregated	4,103	3,630	3,508
Total institutional funds under management	276,608	240,092	267,456
UK businesses (life and general insurance funds)	69,735	66,206	70,024
UK businesses (unit trusts - excluding life fund investment)	16,095	13,716	16,040
	362,438	320,014	353,520

1. Excludes institutional investments in unit trust funds.

New Business

6.05 Savings net flows

	30.06.11 £m	30.06.10 £m	31.12.10 £m
Investments	1,703	2,058	4,149
Insured	220	102	476
With-profits	(787)	(628)	(1,480)
Total net flows	1,136	1,532	3,145

6.06 Savings net flows quarterly progression

	3 months to 30.06.11 £m	3 months to 31.03.11 £m	3 months to 31.12.10 £m	3 months to 30.09.10 £m	3 months to 30.06.10 £m	3 months to 31.03.10 £m
Investments	804	899	985	1,106	1,123	935
Insured	107	113	211	163	74	28
With-profits	(387)	(400)	(483)	(369)	(290)	(338)
Total net flows	524	612	713	900	907	625

6.07 Worldwide new business

	Annual premiums 30.06.11 £m	Single premiums 30.06.11 £m	APE 30.06.11 £m	Annual premiums 30.06.10 £m	Single premiums 30.06.10 £m	APE 30.06.10 £m	APE 31.12.10 £m
Protection							
- Individual	65	-	65	57	-	57	118
- Group	29	-	29	28	-	28	57
	94	-	94	85	-	85	175
Annuities							
- Individual (non profit)	-	505	51	-	601	60	114
- Individual (with-profits)	-	11	1	-	10	1	3
- Bulk purchase	-	240	24	-	447	45	90
	-	756	76	-	1,058	106	207
Total Risk	94	756	170	85	1,058	191	382
Investments ¹	30	3,415	371	15	3,279	343	643
Insured business	121	991	220	114	763	190	478
With-profits	39	317	71	41	351	76	132
Total Savings	190	4,723	662	170	4,393	609	1,253
- USA	32	-	32	22	-	22	52
- Netherlands	2	58	8	3	66	10	18
- France	26	125	38	20	123	32	46
- India (26% share)	3	13	4	8	2	8	14
- Egypt (55% share)	3	-	3	5	-	5	10
- Gulf (50% share)	1	-	1	-	-	-	-
	67	196	86	58	191	77	140
France retail investment business	-	18	2	-	40	4	6
Total International	67	214	88	58	231	81	146
Total worldwide new business	351	5,693	920	313	5,682	881	1,781

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

6.08 Worldwide new business APE quarterly progression

	3 months to 30.06.11 £m	3 months to 31.03.11 £m	3 months to 31.12.10 £m	3 months to 30.09.10 £m	3 months to 30.06.10 £m	3 months to 31.03.10 £m
Protection						
- Individual	32	33	30	31	29	28
- Group	14	15	15	14	14	14
	46	48	45	45	43	42
Annuities						
- Individual (non profit)	30	21	24	30	33	27
- Individual (with-profits)	-	1	2	-	1	-
- Bulk purchase	22	2	36	9	30	15
	52	24	62	39	64	42
Total Risk	98	72	107	84	107	84
Investments ¹	195	176	157	143	179	164
Insured business	112	108	106	182	124	66
With-profits	35	36	29	27	39	37
Total Savings	342	320	292	352	342	267
- USA	16	16	16	14	13	9
- Netherlands	3	5	5	3	4	6
- France	23	15	8	6	19	13
- India (26% share)	1	3	3	3	2	6
- Egypt (55% share)	2	1	2	3	5	-
- Gulf (50% share)	1	-	-	-	-	-
	46	40	34	29	43	34
France retail investment business	1	1	1	1	1	3
Total International	47	41	35	30	44	37
Total worldwide new business	487	433	434	466	493	388

1. Investments excludes institutional investments in unit trust funds which are disclosed as part of institutional fund management new business (see Note 6.02).

New Business

6.09 Worldwide new business annual premium quarterly progression

	3 months to 30.06.11 £m	3 months to 31.03.11 £m	3 months to 31.12.10 £m	3 months to 30.09.10 £m	3 months to 30.06.10 £m	3 months to 31.03.10 £m
Protection						
- Individual	32	33	30	31	29	28
- Group	14	15	15	14	14	14
	46	48	45	45	43	42
Annuities						
- Individual (non profit)	-	-	-	-	-	-
- Individual (with-profits)	-	-	-	-	-	-
- Bulk purchase	-	-	-	-	-	-
	-	-	-	-	-	-
Total Risk	46	48	45	45	43	42
Investments ¹	19	11	7	4	10	5
Insured business	62	59	47	138	81	33
With-profits	17	22	17	13	18	23
Total Savings	98	92	71	155	109	61
- USA	16	16	16	14	13	9
- Netherlands	1	1	1	2	1	2
- France	17	9	2	-	12	8
- India (26% share)	1	2	2	3	2	6
- Egypt (55% share)	2	1	2	3	5	-
- Gulf (50% share)	1	-	-	-	-	-
	38	29	23	22	33	25
France retail investment business	-	-	-	-	-	-
Total International	38	29	23	22	33	25
Total worldwide new business	182	169	139	222	185	128

1. Investments excludes institutional investments in unit trust funds which are disclosed as part of institutional fund management new business (see Note 6.02).

New Business

6.10 Worldwide new business single premium quarterly progression

	3 months to 30.06.11 £m	3 months to 31.03.11 £m	3 months to 31.12.10 £m	3 months to 30.09.10 £m	3 months to 30.06.10 £m	3 months to 31.03.10 £m
Protection						
- Individual	-	-	-	-	-	-
- Group	-	-	-	-	-	-
	-	-	-	-	-	-
Annuities						
- Individual (non profit)	293	212	243	298	334	267
- Individual (with-profits)	5	6	11	5	6	4
- Bulk purchase	217	23	361	89	298	149
	515	241	615	392	638	420
Total Risk	515	241	615	392	638	420
Investments ¹	1,761	1,654	1,513	1,377	1,692	1,587
Insured business	502	489	591	441	434	329
With-profits	177	140	113	144	207	144
Total Savings	2,440	2,283	2,217	1,962	2,333	2,060
- USA	-	-	-	-	-	-
- Netherlands	19	39	42	16	23	43
- France	69	56	61	53	78	45
- India (26% share)	2	11	2	3	1	1
- Egypt (55% share)	-	-	-	-	-	-
- Gulf (50% share)	-	-	-	-	-	-
	90	106	105	72	102	89
France retail investment business	9	9	11	9	11	29
Total International	99	115	116	81	113	118
Total worldwide new business	3,054	2,639	2,948	2,435	3,084	2,598

1. Investments excludes institutional investments in unit trust funds which are disclosed as part of institutional fund management new business (see Note 6.02).

New Business

6.11 International new business in local currency

	Annual premiums 30.06.11	Single premiums 30.06.11	APE 30.06.11	Annual premiums 30.06.10	Single premiums 30.06.10	APE 30.06.10	APE 2010
USA (\$m)	52	-	52	33	-	33	80
Netherlands (€m)	2	67	9	4	78	12	22
France (€m):							
- Life and pensions	30	143	44	24	143	38	55
- Unit trusts	-	20	2	-	47	5	7
India (Rs m) - Group's 26% interest	224	959	320	544	157	560	980
Egypt (Pounds m) - Group's 55% interest	30	-	30	40	3	40	87
Gulf (US\$m) - Group's 50% interest	1	-	1	-	-	-	-

6.12 UK APE by channel quarterly progression

	3 months to 30.06.11 £m	3 months to 31.03.11 £m	3 months to 31.12.10 £m	3 months to 30.09.10 £m	3 months to 30.06.10 £m	3 months to 31.03.10 £m
Retail IFA	170	166	166	150	164	156
Employee benefit consultants	120	104	118	178	145	84
Tied agents	13	8	11	9	12	8
Bancassurance	123	100	97	93	115	94
Direct	14	14	7	6	13	9
Total	440	392	399	436	449	351

6.13 UK APE by channel

	Annual £m	Single £m	Total 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
For the six months ended 30 June 2010				
Retail IFA	37	2,824	320	40
Employee benefit consultants	167	620	229	29
Tied agents	13	69	20	2
Bancassurance	26	1,842	209	26
Direct	12	96	22	3
Total	255	5,451	800	100
For the year ended 31 December 2010				
Retail IFA	75	5,610	636	39
Employee benefit consultants	389	1,360	525	32
Tied agents	29	110	40	3
Bancassurance	57	3,420	399	24
Direct	21	137	35	2
Total	571	10,637	1,635	100