

LEGAL & GENERAL DELIVERS 34% GROWTH IN IFRS OPERATING PROFIT TO £542M, GENERATES £358M NET CASH AND INCREASES HALF YEAR DIVIDEND BY 20%

- IFRS OPERATING PROFIT UP 34% AT £542M (H1 2009: £404M)
- IFRS PRE TAX PROFITS IMPROVED BY £680M TO £537M (H1 2009: £(143)M)
- NET CASH GENERATION¹ UP 19% AT £358M (H1 2009: £302M)
- HALF YEAR DIVIDEND UP BY 20% TO 1.33P PER SHARE (H1 2009: 1.11P PER SHARE)
- EEV PER SHARE UP 4% AT 119P (31/12/09: 114P)
- WORLDWIDE NEW BUSINESS UP 18% TO £881M APE² (H1 2009: £746M). LGIM NEW BUSINESS UP 49% TO £21.2 BN (H1 2009: £14.2BN)
- IGD SURPLUS³ UP TO £3.3BN (31/12/2009: £3.1BN)

Tim Breedon, Group Chief Executive, said:

“We are successfully executing our strategy to deliver healthy returns on capital and focus on cash generation. In the first half, we have delivered £358m against our £600m net cash generation target for the year. Reflecting the continuing combination of healthy net cash generation and a strong capital surplus, we have increased the half year dividend by 20% to 1.33p per share.

“The outlook for our markets in the second half of 2010 and into 2011 continues to be mixed. We are optimistic about growth prospects in UK savings and annuities, though there is little evidence of recovery in the UK housing market. We continue to see opportunities to export our investment management and bancassurance franchises into international markets.

“At the end of June the Group had £3.3bn of capital in excess of our current regulatory capital requirements³. This means we are ideally placed to respond to current market and economic uncertainty and to take advantage of the significant opportunities for growth that are emerging from the changing landscape for financial services post credit crisis.”

Financial highlights £m	H1 2010	H1 2009
IFRS operating profit	542	404
IFRS profit/(loss) from ordinary activities after tax	401	(91)
Net cash generation¹	358	302
IFRS diluted operating profit after tax per share (pence)	6.66	5.21
Half year dividend per share (pence)	1.33	1.11

1. Net cash generation includes the operational cash generated less new business strain for the UK non profit Risk and Savings businesses, plus the shareholders' share of bonuses on With-profits business, the post-tax IFRS operating profit of LGIM and other UK businesses, the expected investment return (excluding expected gains/losses on equities) on Group capital and financing invested assets and dividends remitted from International businesses.

2. Annual Premium Equivalent

3. Estimated unaudited Insurance Group Directive (IGD) surplus after accrual of the interim dividend of £78 m (H109: £65m).

INTERIM MANAGEMENT REPORT

KEY PERFORMANCE INDICATORS

IFRS - OPERATING PROFIT UP 34% TO £542M

£m	Risk	Savings	Inv Mgmt	Inter-national	Group capital & financing	Group projects	H1 2010	H1 2009
Operational cash generation	212	72	70	33	15	-	402	333
New business strain	(10)	(34)	-	-	-	-	(44)	(31)
Net cash generation	202	38	70	33	15	-	358	
H1 2009 Net cash generation	229	(4)	54	-	23	-		302
IFRS operating profit	310	54	98	61	33	(14)	542	
IFRS operating profit H1 2009	223	17	74	65	25	-		404
Number of shares – diluted (m)							5,890	5,830
Diluted operating profit per share (pence)							6.66	5.21
Half year dividend per share (pence)							1.33	1.11

BALANCE SHEET - £320BN IN LGIM, £56BN IN SAVINGS, £24BN IN ANNUITIES

£bn	H1 2010	H1 2009
LGIM funds under management ¹	320	271
Savings assets under administration	56	46
Annuities non profit assets	24	22

CAPITAL - IGD SURPLUS £3.3BN

£bn	H1 2010	H1 2009
IGD surplus ²	3.3	1.9
Coverage ratio %	222	179
Total credit default provision	1.5	1.3

EEV - EMBEDDED VALUE PER SHARE 119P

£m	H1 2010	H1 2009
Worldwide PVNBP ³	3,880	4,366
Worldwide new business margin %	4.1	4.5
EEV operating profit	589	656
Number of shares – period end (m)	5,866	5,862
Shareholders' equity	6,958	5,556
Equity per share (pence)	118.6	94.8

1. Includes Annuities and some Savings assets

2. Estimated unaudited IGD surplus after accrual of the interim dividend of £78m (H109: £65m).

3. Present Value of New Business Premiums

GROUP RESULTS

Summary IFRS income statement £m	H1 2010	H1 2009 Restated
Risk	310	223
Savings	54	17
Investment Management	98	74
International	61	65
Group capital and financing	33	25
Investment projects	(14)	-
Operating profit	542	404
Variation from longer term investment return	(4)	(527)
Property losses attributable to minority interests	(1)	(20)
Profit/(Loss) from ordinary activities before tax	537	(143)

IFRS OPERATING PROFIT UP 34% TO £542M

The Risk division made further progress increasing IFRS operating profit by 39% to £310m (H109: £223m) and operational cash generation was broadly flat at £212m (H109: £216m). The General Insurance business delivered a £14m profit contribution (H109: £6m).

LGIM continued to deliver impressive results. Half year IFRS operating profit of £98m was 32% up on prior year (H109: £74m). New business flows into our range of core investment products for UK corporate pension schemes were strong, as was demand for our active fixed income and liability driven investments (LDI) funds.

The transformation of the Savings business continued in the first half of 2010. IFRS operating profits of £54m (H109: £17m) trebled and net cash increased to £38m (H109: (£4)m). Our strategy of focusing on high quality, capital efficient products, backed by a low cost infrastructure, is succeeding. We have made material progress in transforming Savings into a modern, high quality, profitable business.

International delivered £61m of IFRS operating profit in the first half (H109: £65m). Operational cash generation was increased to £33m (H109: £nil) following the receipt of a dividend from the US business in March. We expect the US business to remit cash to Group on a regular basis going forward.

Below operating profit, the variation from longer term investment return was negative £4m from negative £527m last year. After allowing for the payment of £78m of dividends in the period, shareholders' equity increased by 7% to £4.5bn (FY09: £4.2bn) equating to 76.2 pence per share (2009: 71.6 pence per share).

NET CASH GENERATION UP 19% TO £358M

In the first half of 2010, the Group increased operational cash generation by 21% to £402m (H109: £333m). Investment in new business totalled £44m. Attractive pricing conditions in annuities remained a feature of the market in H110. Consequently, annuity new business strain was positive £35m in H110 (H109: positive £71m). Protection volumes were marginally down by 6% in the period, which, coupled with cost efficiencies, led to a fall in protection new business strain to £45m (H109: £58m). Savings new business strain of £34m was 23% down on the same period last year as we continue to reap benefits from our strategy of selling capital light, modern savings products. Net cash generation was up 19% at £358m for the period (H109: £302m).

We remain on track to generate at least £600m of net cash in 2010.

HALF YEAR DIVIDEND INCREASED BY 20% TO 1.33 PENCE PER SHARE

The strength of the Group's cash flow and the prospects for continued growth in net cash generation underpinned the Board's decision to increase the half year dividend by 20% to 1.33 pence per share at a cost of £78m (2009 Half year: £65m). The Board remains confident in our ability to continue to generate healthy and growing net cash and we intend to grow future dividends reflecting the strong net cash generation of the Group. We expect the full year dividend to continue to be 2 to 3 times covered by net cash and aim to return to paying around one third of the full year dividend at the interim stage over time.

BALANCE SHEET AND CAPITAL – IGD COVERAGE RATIO 222%

The Group maintains and benefits from a strong balance sheet. The estimated IGD surplus at 30 June 2010 of £3.3bn after the accrual of the half year dividend of £78m (31.12.09: £3.1bn after the accrual of the final dividend of £160m).

Worldwide assets under management of £331bn were broadly in line with the end of 2009 despite a fall in the FTSE 100 of 9 per cent over the period. Of this, shareholders have direct exposure to £33bn (10%) of worldwide assets and included within this are the assets held to back the UK non profit annuity business in Legal & General Pensions Limited, which are primarily invested in fixed interest securities.

The asset portfolio backing the annuity business remains of high quality and no default cost was experienced in the first half of 2010. Despite this, continued market volatility and the inclusion of a default provision applied to a significant proportion of new business written in the period have resulted in the total credit default provision remaining unchanged from year end 2009 at £1.5bn. This represents 67bps (31.12.09: 68bps) over the lifetime of the credit held.

The impact of Solvency II remains a key uncertainty for the business. Legal & General is actively engaged in promoting understanding of the potential impact of the Directive on the UK and European insurance sector and its customers. Technical and political discussions with UK and European regulators and government institutions continue, with the aim of ensuring that Solvency II achieves, in design and calibration, the objectives of the Directive.

STRATEGY AND OUTLOOK

Three years ago, Legal & General set out a strategy to focus on improving net cash generation and return on capital. The credit crisis of 2008/9 led us to accelerate the delivery of aspects of that strategy. In the first half of 2010, we have achieved further improvements in the performance of the Savings business, in net cash generation, in diversification and cash generation in the International portfolio and in the profitability of all businesses. We are ahead of the plans we set ourselves in 2008 and ahead of our target to generate £600m of net cash in 2010.

The outlook for our markets in the second half of 2010 and into 2011 continues to be mixed. UK economic growth is weak. The housing market continues to be challenging with little prospect of material recovery over the next 12 months. We are seeing an increase in household savings which we expect to continue to flow through to our long term savings markets over the next 12 months. Annuities will continue to experience strong growth as defined contribution savers and defined benefit trustees continue to seek to use the annuity markets to de-risk income in retirement. We anticipate this growth continuing into 2011. We are pleased with the progress we have made in investment management and international. We continue to see opportunities to export our investment management and bancassurance franchises into international markets.

The capital position of the Group has been transformed. The foundations laid by the capital restructuring of 2007/8 delivered a resilient balance sheet which remained strong throughout the crisis. As expected, the transformation in net cash generation is underpinning the growth in Group capital with IGD coverage ratio of 222% at the end of June 2010. The regulatory backlash to the crisis, ongoing uncertain market and economic conditions, and the implementation of Solvency II continue to present uncertainty for our business. Our capital strength positions us well as these debates reach their conclusion.

Looking further ahead, we anticipate a major restructuring of the global financial services market over coming years as the post crisis regulatory and political landscape evolves. The combination of the restructuring of state ownership of banks, new capital regimes, new regulatory models and consolidation across global insurance markets will create opportunities for growth. Legal & General is ideally positioned to take advantage of these opportunities as they arise.

BUSINESS REVIEW - INVESTMENT MANAGEMENT

Financial highlights £m	H1 2010	H1 2009
IFRS operating profit	98	74
Total revenue	182	143
Total costs	(84)	(69)
Net cash generation	70	54
Average ad valorem fee margin (bps)	10.6	9.6
Average expense margin (bps)	5.5	5.5
Gross new fund management mandates (£bn)	21.2	14.2
Closing funds under management (£bn)	320	271

Legal & General Investment Management (LGIM) delivered a 32% increase in IFRS operating profit during the first half of 2010. Profits amounting to £98m (H109: £74m) were driven by strong net inflows and growth in assets under management. Closing assets under management rose 2% to £320bn (31/12/09: £315bn) despite equity markets declining in recent months.

During the first half of the year gross new business increased 49% to £21.2bn (H109: £14.2bn) with 30% of new business derived from non-index mandates (H109: 21%). Following on from the success of 2009, LGIM continues to expand its international reach with 15% of new business coming from non-UK based clients (H109: 8%). Net new business for the period was £8.3bn (H109: £7.9bn).

The average ad-valorem fee to fund ratio increased to 10.6bps (H109: 9.6bps) as low margin client losses were more than replaced by higher margin active fixed income, LDI business and an increasing weighting to overseas equities. LDI assets under management increased by 67% to £37.6bn (H109: £22.5bn).

Expense to fund ratio was maintained at 5.5bps (H109: 5.5bps) despite the mix of assets continuing to move to active fixed income and LDI business as pension funds continue to de-risk.

OUTLOOK

LGIM remains focused on working closely with clients to continue to offer highly accessible, increasingly sophisticated products to meet their changing needs. As pension funds continue to pursue de-risking strategies, we believe demand for LGIM's range of good value, high quality and reliable products, coupled with our clear focus on customer service, will continue to grow. We anticipate an even greater share of new business to be in active fixed income and LDI products and have a significant pipeline of new product initiatives underway. Following LGIM's success growing business during the first half of 2010 within Europe, the US and the Gulf, we will continue to seek further growth opportunities in the international arena.

BUSINESS REVIEW - SAVINGS

Financial highlights £m	H1 2010	H1 2009
IFRS operating profit	54	17
Non Insured Savings	16	(8)
Non Profit Savings	6	(4)
With Profit Savings	32	29
Operational cash generation	72	40
New business strain	(34)	(44)
Net cash generation	38	(4)
Savings new business APE	609	448
Net fund flows (£bn)	1.5	0.7
Assets under administration (£bn)	56	46
	H1 2010	FY 2009
Fee to fund ratio (bps)*	77	73
Cost to fund ratio (bps)*	59	72

The transformation of the Savings business continues. IFRS operating profit was up 218% to £54m (H109: £17m) and net cash generation was improved by £42m to £38m (H109: £(4)m). Our focus continues to be on cost management, shifting product mix towards capital light products, reducing commissions and growing assets under administration. Cost to fund ratio at 59bps* has fallen to almost half of the 2008 level (2008: 108bps).

*Annualised, excluding With-profits

NON INSURED SAVINGS

Financial Highlights £m	H1 2010	H1 2009
IFRS operating profit	16	(8)
Unit Trusts	13	1
Structured Products, SIPPs and Other	5	(4)
Platform Business	(2)	(5)
Net Cash Generation	14	(5)

Non insured savings includes unit trusts, structured products, platform sales and uninsured SIPPs (including Suffolk Life). In H110, these businesses generated £16m of operating profit compared to a loss of £(8)m in the first half of 2009.

In Unit Trusts, the profit increase was achieved through strong growth in assets under administration. APE sales were up 53% at £141m (H109: £92m) with 10% of all new stocks and shares ISAs invested with Legal & General.

Structured products include a range of products with fully hedged guarantees offered to customers with a lower attitude to risk from several of our bank partners and IFAs. In H110 structured sales benefited from increased interest from the customers of our bancassurance partners with net flows of £1bn during the period. Overall, including insured SIPPs, SIPP sales are up 7% to £60m APE (H109: £56m) representing 72% (H109: 55%) of all new individual pensions business and SIPP assets have grown to £5.2bn.

IPS, our platform business, is deployed amongst our tied distribution and banking partners. In H110 we wrote 10% of savings APE on our platform. In addition, a further £98m APE, representing 16% of Savings APE, was written on the Cofunds platform which operates in the IFA market.

Asset movements £bn	Unit Trusts	Structured, SIPPs & Other	Platform Business	Total
Assets under administration (at 31/12/09)	9.8	6.8	1.4	18.0
Gross new business	1.4	1.5	0.6	3.5
Redemptions	(1.0)	(0.2)	(0.1)	(1.3)
Net new business	0.4	1.3	0.5	2.2
Market movements	-	-	(0.1)	(0.1)
Assets under administration (at 30/06/10)	10.2	8.1	1.8	20.1

NON PROFIT INSURED SAVINGS

Financial highlights £m	H1 2010	H1 2009
IFRS operating profit	6	(4)
Operational cash generation	35	24
New business strain	(34)	(44)
Net cash generation	1	(20)

Non profit insured savings includes workplace pensions, individual pensions, non profit bonds and international bonds sold via our offshore centre in Dublin. Our strategy has been to reduce our focus on individual non profit savings through reducing expenses and commission rates. New business strain as a percentage of PVNBP continued to fall to 2.4% in H110 (H109: 3.3%).

We continue to build scale in workplace savings where we see opportunities for profitable growth in the medium term. We are investing in a new platform to support our workplace savings business. Workplace non profit pensions sales were up 76% to £110m APE (H109: £63m). We now manage around 2,000 corporate defined contribution schemes covering nearly 200,000 employees (around 36% of schemes are for employers with over 1,000 employees). We have also seen good progress in the sales of Corporate SIPPs to our workplace savings clients. Overall non profit EEV pension margin improved from (0.4)% in H109 to (0.1)% in H110.

In UK non profit bonds, sales were down 10% against H109 at £27m APE (H109: £30m). Recent changes in CGT for higher rate taxpayers have improved the relative attractiveness of these products. International bonds sales increased by 750% to £17m APE (H109: £2m). Embedded value margin across unit linked bonds improved to 0.7% in H110 (H109: (1.6)%). In individual pensions we are continuing to reduce sales of stakeholder pensions which were down to just £12m APE in H110 (H109: £27m).

Asset movements £bn	Workplace NP Pensions	Indiv NP Pensions	NP and Int'l Bonds	Total
Assets under administration (at 31/12/09)	2.4	3.3	9.8	15.5
Gross new business	0.3	0.1	0.4	0.8
Redemptions	(0.1)	(0.2)	(0.5)	(0.8)
Net new business	0.2	(0.1)	(0.1)	(0.0)
Market movements	(0.1)	(0.1)	-	(0.2)
Assets under administration (at 30/06/10)	2.5	3.1	9.7	15.3

WITH-PROFITS SAVINGS

Financial highlights £m	H1 2010	H1 2009
IFRS operating profit	32	29
Net cash generation	23	21
Assets under administration (£bn)	20.9	18.9

With-profits comprises all products sold from the with-profits fund. This includes with-profits bonds and with-profits pensions as well as a range of older style products which are no longer sold. With-profits bond sales reduced year on year to £20m APE (H109: £31m). With-profits pensions sales are also down as customers shift their preference to more modern pension savings vehicles such as SIPPs.

Asset movements £bn	Workplace WP Pensions	Ind WP Pensions	WP Bonds	WP Other	Total
Assets under administration (at 31/12/09)	3.8	9.4	4.4	3.8	21.4
Gross new business	0.2	0.1	0.2	0.1	0.6
Redemptions	(0.2)	(0.4)	(0.2)	(0.3)	(1.1)
Net new business	0.0	(0.3)	0.0	(0.2)	(0.5)
Market movements	-	-	-	-	-
Assets under administration (at 30/06/10)	3.8	9.1	4.4	3.6	20.9

OUTLOOK

As individuals, families and companies respond to the post crisis economic landscape, we expect savings rates to increase. Over time we anticipate that this increase will flow into our range of competitive long term savings contracts. In the short term, our savings markets have continued to be affected by fiscal uncertainty. The imminent implementation of the FSA's Retail Distribution Review will present opportunities and challenges for the industry but we feel well placed to take advantage of these changes.

Our strategy of focusing on high quality, capital efficient products backed by a low cost infrastructure is succeeding. We have made material progress in transforming Savings into a modern, high quality business.

BUSINESS REVIEW – RISK

Financial highlights £m	H1 2010	H1 2009
IFRS operating profit	310	223
Operational cash generation	212	216
New business strain	(10)	13
Net cash generation	202	229

In the first half of 2010, Risk businesses generated £212m of operational cash (H109: £216m) and £310m of operating profit (H109: £223m). The Risk division operates in two discrete 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 personal or corporate risk (housing & protection).

ANNUITIES

Financial highlights £m	H1 2010	H1 2009
Operational cash generation	106	117
New business strain	35	71
Net cash generation	141	188
Annuity new business APE	106	133
Non profit annuity earned interest margin (bps)	117	124*
Non profit annuity assets under administration (£bn)	23.9	22.4

*Full year 2009

Operational cash generation of £106m represents an annualised 117bps return on £23.9bn of closing assets. This is broadly in line with our expectation of delivering 100bps net margin from the book of in-force annuities. In the first half of 2010, we priced annuity business above prudent reserves leading to a £35m positive new business strain in H110.

When compared to the exceptional markets of 2008 and H109, the buyout market in 2010 has been characterised by lower volumes and value of bulk annuity transactions. However these have been supplemented by some large longevity insurance deals. Legal & General has continued its strategy of focusing on the core individual and small bulk schemes markets with a selective approach to larger bulk schemes with no compromise against strict return on capital criteria. In the first half of 2010 Legal & General wrote £1,058m of new annuity business, 98% up on H209. Individual annuity volumes were up 3% on H109 and up 57% on H209, with bulk annuity volumes down 39% on H109 but up 221% on H209.

OUTLOOK

The increase in the minimum retirement age from 50 to 55 resulted in strong individual annuity sales in March and April. Strong sales levels have continued as competitive pressure has eased. Current trading conditions are expected to persist into the second half. The change in compulsory purchase annuitisation rules is not expected to materially affect new business volumes.

In the buyout market there are some signs of increased activity and the medium term outlook remains strong. The flow of small deals remains strong and there are signs of large schemes coming to market, although scheme closures remain affected by prevailing market conditions. Legal & General is now participating in the longevity swap market although the size of these deals and competition levels means that deal flow in this area is likely to be characteristically uneven.

HOUSING & PROTECTION

Financial highlights £m	H1 2010	H1 2009
Operational cash generation	106	99
New business strain	(45)	(58)
Net cash generation	61	41
Protection new business APE	85	90
Protection new business EEV margin (%)	6.0	7.0
Protection gross premiums (£m)	610	561
General Insurance combined operating ratio	90	99
General Insurance gross premiums	134	136

Operational cash generation in the first half was £106m, up 7% on H109 (H109: £99m). This increase was a result of an improved contribution from the general insurance business of £10m of cash in the first half (H109: £4m) as well as the effect of increased gross premiums in the individual and group protection businesses. New business strain reduced by 22% to £45m (H109: £58m).

In individual protection, total premiums grew to £435m (H109: £398m) and new business sales held up at 95% of 2009 levels at £57m (H109: £60m) despite continued weakness in the UK housing market. Legal & General retained its leading market position. New business strain as a percentage of APE fell as we continue to focus on reducing costs and strain. In H110, nearly 70% of new protection applications were submitted via OLPC, our market leading technology platform.

In group protection, gross premiums grew 7% to £175m (H109: £163m). However, corporate payrolls have continued to shrink throughout H1 and, consequently, increments to premiums have been impacted leading to a fall in total new premiums of 7% to £28m (H109: £30m). New schemes written however have been resilient, despite weakness in corporate confidence and strong competition reflecting our reputation in this market. Legal & General continues to focus on meeting return on capital criteria for all new business.

Despite the impact of the harsh freeze at the start of the year, general insurance operating profit improved to £14m (H109: £6m) resulting from a continued focus on expense and claims management, together with relatively benign weather conditions in the second quarter. New bancassurance distribution agreements have been signed during the period which should contribute to growth in gross written premiums over the next few years.

OUTLOOK

There is no sign of material recovery in the UK housing market, where we expect mortgage supply and housing transactions to remain depressed into 2011. This, coupled with continued economic uncertainty, means that we are likely to see limited growth in UK protection markets this year. Competition remains intense although we expect to benefit from consolidation and exits by competitors who do not have the scale necessary to compete in these markets.

BUSINESS REVIEW - INTERNATIONAL

Financial highlights £m	H1 2010	H1 2009
USA	44	45
Europe (France and Netherlands)	21	20
Middle East and Asia (Egypt, the Gulf and India) ¹	(4)	-
IFRS operating profit	61	65
New business APE ²	81	75
Net cash generation	33	-

International operating profits were £61m (H109: £65m), taking account of £4m of investment in our emerging markets business and head office costs (H109: £0m). The underlying profits of the mature businesses were, in local currency terms, 3% ahead of H109. First half cash flow (i.e. dividends) from the international portfolio was £33m (H109: £nil). New business growth of 8% is driven by emerging markets: over 16% of International new business is already generated in the emerging markets of Egypt, India and the Gulf.

US profits of £44m (H109: £45m) were broadly unchanged in local currency. In March 2010, the US business paid a dividend of \$50m (£33m) (H109: £nil). We expect dividends to be a regular feature of the US operation going forward. New business volumes in the US were £22m (H109: £29m), however positive management action on product development has led to a recovery in the second quarter with Q210 sales up 20% on Q110 (in local currency terms). This growth in sales is expected to continue into the second half.

In Europe, profits were £21m (H109: £20m). In France sales were up 9% and were well ahead of market growth, totalling £36m of APE in H110 (H109: £33m). In the Netherlands, protection sales were 7% higher than in H109. Total APE sales in the Netherlands were £10m (H109: £13m).

IndiaFirst, our bancassurance joint venture in India, continues to perform well. In the first half of 2010, we sold over 80,000 policies in India across the 4,500 branches of our partner banks. Across the emerging markets businesses we received APE sales of £13m (H109: £nil), representing our share of sales in these joint venture businesses.

OUTLOOK

We intend to deliver a growing and sustainable dividend flow from our developed markets businesses which is underpinned by our scale and maturity in America and Europe. We expect these businesses to continue to grow, in particular focusing on protection products.

In emerging markets, we have made good progress. We will continue to drive sales growth in our businesses in India and the Gulf which will, in the long term, generate distributable profits. In India we will expand our product range and start further channel development, and we look to repeat our IndiaFirst success in other large emerging markets. We continue to seek to develop bancassurance-led businesses in markets where we can build scale and profitability.

1. Including head office costs.

2. New business APE includes business written by joint ventures in line with L&G Group's shareholding.

BUSINESS REVIEW – GROUP

GROUP CAPITAL AND FINANCING

£m	H1 2010	H1 2009 restated
Assets invested (£bn)	3.1	2.7
Investment return	96	95
Interest expense	(59)	(65)
Investment expenses	(1)	(2)
Unallocated corporate expenses	(3)	(3)
Group capital and financing	33	25

The Group capital and financing operating profit primarily reflects the smoothed investment return on shareholders' assets held at Group level and in the Risk and Savings businesses less interest charges on Group debt.

Investment return was broadly flat at £96m (H109: £95m) and is calculated by taking the average smoothed investment return of 3% (H109: 3%) on the average balance of invested assets of £3.2bn (H109: £2.7bn). The amount of invested assets at the end of the year was £3.1bn (30/06/09: £2.7bn).

VARIATION FROM LONGER TERM INVESTMENT RETURN

£m	H1 2010	H1 2009 restated
Operating profit	542	404
Variation from longer term investment return	(4)	(527)
Property losses attributable to minority interests	(1)	(20)
Profit from ordinary activities before tax	537	(143)

Below operating profit, the H1 2010 investment variance was £(4)m, a significant improvement from the first half of 2009 (H109: £(527)m).

BUSINESS REVIEW - CASH GENERATION & SUSTAINABILITY

The VIF monetisation profile of the Group is broadly unchanged from year end 2009. Of the £9.7bn of undiscounted VIF, 32% is expected to monetise in the next 5 years.

The following table shows how the £358m of net cash was generated in the first half of 2010.

	H1 2010			H1 2009		
	Operational Cash	New Bus Strain	Net Cash	Operational Cash	New Bus Strain	Net Cash
Protection	96	(45)	51	90	(58)	32
Annuities	106	35	141	117	71	188
General Insurance	10		10	4		4
Other Risk	-		-	5		5
Total Risk	212	(10)	202	216	13	229
NP Savings	37	(34)	3	31	(44)	(13)
WP Savings	23		23	21		21
Retail Investments	14		14	(4)		(4)
Other Savings	(2)		(2)	(8)		(8)
Total Savings	72	(34)	38	40	(44)	(4)
Investment Management	70		70	54		54
International Dividends Received	33		33	-		-
Group Capital & Financing	15		15	23		23
Total	402	(44)	358	333	(31)	302

RECONCILIATION OF OPERATIONAL CASH GENERATION TO IFRS OPERATING PROFIT

The following table shows the relevance of the £239m expected cash release in 2010 in the composition of total operational cash generation.

Reconciliation of non profit expected cash release to Group operational cash generation £m	H1 2010
Expected cash release – non profit risk and savings	239
Investment Management	70
With-profits	23
Other Risk and Savings businesses	22
International dividends	33
Group capital and financing	15
Operational cash generation	402

Net cash generation is calculated net of tax and forms an integral component of IFRS profit. IFRS profit in the year also includes non-recurring experience variances and changes to valuation assumptions which are managed to be positive over the medium term.

Reconciliation of operational cash generation to operating profit after tax £m	H1 2010
Operational cash generation	402
New business strain	(44)
Net cash	358
International profit (less dividends paid)	7
Experience variances, assumptions changes and movements in non-cash items	27
Investment gains and losses	15
Investment projects and other	(15)
Operating profit (net of tax)	392
Investment variance	(10)
Property losses attributable to minority interests	(1)
Profit after tax	401

NEW BUSINESS IRR AND PAYBACK PERIODS

The following table shows the internal rate of return (IRR) and undiscounted payback periods for new business.

The IRR on protection business decreased to 15% in 2010 (FY09: 17%) as a result of increased competition. However the undiscounted payback period remained unchanged at 5 years. The continued favourable pricing in the annuities market resulted in a strong IRR and immediate payback.

In both unit linked bonds and non profit pensions, lower commissions and expenses have led to an increase in IRR and reduction in payback period in both areas.

New business IRR and payback periods	H1 2010 PVNBP £m	H1 2010 Internal Rate of Return ¹ %	H1 2010 Undiscounted payback period (years)	FY 2009 PVNBP £m	FY 2009 Internal Rate of Return ¹ %	FY 2009 Undiscounted payback period (years)
Protection	417	15	5	866	17	5
Annuities	1,058	>30	<0	1,862	>30	<0
Unit linked bonds	273	9	8	677	8	9
Pensions	1,115	7	13	1,804	6	14

1. Internal Rate of Return on new business.

BUSINESS REVIEW – BALANCE SHEET

CAPITAL RESOURCES – HEALTHY IGD¹ COVERAGE RATIO OF 222%

As at 30 June 2010 the Insurance Groups Directive (IGD) capital resources were £6.0bn, while the capital resources requirement was £2.7bn generating an estimated surplus of £3.3bn and a coverage ratio of 222 per cent.

Capital £bn	H1 2010	FY 2009
Group capital resources	6.0	5.6
Group capital resources requirement	2.7	2.5
IGD surplus	3.3	3.1
Coverage ratio %	222	224

The half year end 2010 IGD surplus of £3.3bn increased from £3.1bn at the end of 2009 due to retained profits in the Group partially offset by the accrual of the half year dividend and an increase in the capital resources requirement.

The reconciliation from 31 December 2009 to 30 June 2010 is shown below.

IGD Surplus £bn	H1 2010	FY 2009
Opening IGD Surplus	3.1	1.8
Net cash generated	0.4	0.7
Profit after tax less net cash	-	0.2
Lower tier II debt	-	0.3
Dividends	(0.1)	(0.2)
Other ²	(0.1)	0.3
Closing IGD Surplus	3.3	3.1

1. All IGD amounts are estimated, unaudited and after accrual of the half year dividend of £78m (2009: half year dividend of £65m).

2. Includes changes in solvency capital.

MOVEMENTS IN UK SOLVENCY CAPITAL

Movements in net solvency capital requirements are not revenue or expense flows and therefore do not impact profit, distributable reserves or the dividend paying capacity of the Group. As such the movement does not form part of net cash generation but instead is absorbed by or released into the capital stock. Changes in solvency capital requirements are therefore considered in the adequacy of the capital stock and how that impacts potential dividend levels.

Pillar 1 capital requirement £bn	30 Jun 2010	31 Dec 2009	Change
Risk	1.5	1.4	0.1
Savings	0.1	0.1	-
With-profits	0.6	0.6	-
With-profits insurance capital component (WPICC)	0.1	-	0.1
Society long term fund	2.3	2.1	0.2
Other subsidiaries	0.4	0.4	-
Group capital resources requirement	2.7	2.5	0.2

The increase in the Risk capital requirement in 2010 reflects increased protection and annuity reserves in the first half.

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 and is calculated based on the most onerous risk capital margin stress.

LIQUIDITY

Legal & General has a limited appetite for liquidity risk and maintains 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. The liquidity position across our operational business units is very strong. On average during 2010 a daily average cash balance of circa £1bn of overnight cash deposits and significant holdings of liquid assets such as Gilts was maintained.

In addition there is an undrawn committed syndicated bank credit facility of approximately £1bn maturing in December 2012. The Group also has access to liquid funds under our US\$2bn Commercial Paper programme as well as holdings of £0.5bn of highly rated short term liquid assets. The Group has no outstanding bonds that mature before 2015. There are no restrictive covenants and no credit rating or share price triggers in respect of debt or liquidity positions.

SUPPLEMENTARY EEV DISCLOSURE

Analysis of business reported on an EEV basis £m	PVNBP		Margin (%)		Contribution	
	H1 2010	H1 2009	H1 2010	H1 2009	H1 2010	H1 2009
Risk	1,475	1,755	9.4	10.1	139	178
Savings	1,869	2,060	0.6	0.3	11	7
International	536	551	1.9	2.0	10	11
Total	3,880	4,366	4.1	4.5		
Contribution from new business					160	196
Expected return from in-force business					260	304
Persistency					(2)	(4)
Mortality / morbidity					14	15
Expenses					(13)	(41)
Other					44	115
Experience variances and assumption changes					43	85
Development costs					(8)	(18)
Contribution from shareholder net worth (international)					11	8
Contribution from shareholder net worth (group capital and financing)					72	61
Operating profit on covered business					538	636
Analysis of EEV profit					H1 2010	H1 2009
Risk					367	460
Savings					61	24
Investment Management					81	62
International					61	87
Group capital and financing					33	23
Investment projects					(14)	-
Operating profit					589	656
Variation from longer term investment return					(184)	(1,018)
Effect of economic assumption changes					179	(630)
Property losses attributable to minority interests					(1)	(20)
Profit from ordinary activities before tax					583	(1,012)
Tax					(161)	292
Profit from ordinary activities after tax					422	(720)
Diluted earnings per share based on operating profit after tax (p)					7.13	8.25
Shareholders' equity					6,958	5,556
Number of shares (m)					5,866	5,862
Shareholders' equity per share (p)					119	95

1. Restated for the revised IFRS definition of operating profit.

OPERATING PROFIT

The EEV operating profit decreased by 10% to £589m in the first half of 2010 (H109: £656m). This reflects a lower opening risk discount rate applied to a lower opening in-force value in the UK coupled with a lower contribution from new business.

NEW BUSINESS CONTRIBUTION

Contribution from worldwide new business at £160m is 18% lower than the corresponding period last year (H109: £196m) primarily as a result of lower new annuity business in Q1 coupled with more favourable annuity pricing conditions in the first half of 2009 than in 2010.

Risk: Margin 9.4% (FY09: 10.4%).

Annuities: Margin 10.8% (FY09: 11.7%). IRR > 30% (FY09: > 30%). Payback period < 0 years (FY09: < 0 years). The annuity margin of 10.8% has benefited from an extension of the favourable pricing conditions referred to in the IFRS section albeit to a lesser extent than in the first half of 2009.

Protection: Margin 6.0% (FY09: 7.9%). IRR 15% (FY09: 17%). Payback period 5 years (FY09: 5 years). The new business margin has decreased in 2010 as a result of a greater competition in Individual and Group Protection.

Savings: Margin 0.6% (FY09: 0.5%).

Unit linked bonds: Margin 0.7% (FY09: (0.6)%). IRR 9% (FY09: 8%). Payback period 8 years (FY09: 9 years). The increase in margin is primarily the result of a continuation from H209 of a more favourable business mix with an increased proportion of portfolio bond sales coupled with lower initial commissions.

Non profit pensions: Margin (0.1)% (FY09: (0.6)%). IRR 7% (FY09: 6%). Payback period 13 years (FY09: 14 years). The pensions margin has approached breakeven in the first half benefiting from lower commissions and expenses in the period.

With-profits: Margin 2.1% (FY09: 2.9%). The with-profits margin is lower than 2009 largely as a result of a reduction in average with-profits pensions premium sizes.

International: Margin 1.9% (FY09: 2.6%). The international margin benefited from a lower risk discount rate offset by a reduction in new business in the US resulting in higher unit costs.

IN-FORCE CONTRIBUTION

The expected return from in-force business decreased to £260m (H109: £304m) due to the unwind of a lower risk discount rate (8.0% vs 8.3%) on a lower in-force value in the UK.

Experience variances and assumption changes in our worldwide Risk and Savings businesses of £43m (H109: £85m) included:

Persistency: adverse £2m (H109: adverse £4m). There have been no material persistency variances in the period.

Mortality/morbidity/longevity: favourable £14m (H109: favourable £15m). The variance is the result of a release of surplus individual protection reserves.

Expenses: adverse £13m (H109: adverse £41m). The H110 variance is primarily due to higher assumed future investment expenses.

Other: favourable £44m (H109: favourable £115m). H110 primarily reflects one-off modelling improvements and the unwind of the cost of capital on the value of in-force. H109 reflects a reassessment of future bulk annuity reserve releases as data is loaded onto the administration system and one-off modelling improvements.

INVESTMENT MANAGEMENT

The Investment Management business is reported on an IFRS basis; operating profit of £81m (H109: £62m) excludes £17m (H109: £12m) of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a "look through" basis and as a consequence are included in the Risk and Savings covered businesses on an EEV basis.

GROUP CAPITAL AND FINANCING

Operating profit from Group capital and financing represents profit on the shareholder assets held within the covered business, reported on an embedded value basis and profit on the shareholder assets held outside the covered business reported on an IFRS basis. The profit from Group capital and financing of £33m in 2010 increased by 43% (H109: £23m) as a result of higher average invested assets in 2010.

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 £583m (H109: £(1,012)m)

The H110 variation from longer term investment return of £(184)m compares to £(1,018)m in the corresponding period last year. The 2010 variance is primarily due to a reduction in the credit exposure to corporate bonds and an increase in sovereign debt holdings of £(40)m and an increase in the cost of capital as a result of a reduction in the equity ratio backing the solvency capital of £(43)m.

The positive effect of economic assumption changes amounted to £179m (H109: £(630)m) and reflects a lower risk margin.

ENQUIRIES

INVESTORS:

Matt Hotson	Director, Investor Relations and Strategy	020 3124 2150
Adrian Liew	Investor Relations Manager	020 3124 2044
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
James Bradley	Tulchan Communications	020 7353 4200
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 presentation to analysts and fund managers 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. The passcode is "L&G Half-Year".

There will be a further teleconference at 15.30 GMT (10.30 EST) to answer specific technical and accounting questions. Investors should dial +44 (0)20 7906 8535.

FINANCIAL CALENDAR 2010	Date
Ex dividend date	1 September 2010
Record date	3 September 2010
Payment date of 2010 Half-Year dividend	1 October 2010
Q3 Interim Management Statement 2010	9 November 2010
2010 Preliminary Results Announcement	17 March 2011

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.

PRINCIPAL RISKS AND UNCERTAINTIES

REGULATION AND LEGISLATION	<p>Overview</p> <p><i>Changes in regulation or legislation may have a detrimental effect on our strategy or profitability</i></p> <p>Regulation defines the overall framework for the design, marketing and distribution of our products; the acceptance and administration of business; and the prudential capital that we hold. Legislation and government fiscal policy can also influence our product design, the retention of existing business and our required reserves for future liabilities.</p> <p>Current areas of significant regulatory change include Solvency II and the Retail Distribution Review, both targeted for implementation in 2012. Additionally, following the general election in May 2010, a range of policy announcements have been made by the new government in respect of the future regulation of the sector and the provision for retirement. There also remains potential for new regulation in response to recent market events.</p>	<p>Mitigation</p> <p>The Group bases its business strategy upon prevailing regulation and legislation, and known/anticipated change. To mitigate the risk of legislation or regulation adversely impacting the sectors in which we operate, the Group seeks to engage with regulatory and legislative authorities to assist in the evaluation of change and develop outcomes that meet the needs of all stakeholders.</p>
FINANCIAL MARKET AND ECONOMIC CONDITIONS	<p>Overview</p> <p><i>Investment market performance or conditions in the broader economy may adversely impact our results</i></p> <p>The Group holds a broad range of investment assets to meet the obligations arising from writing insurance business. The performance and liquidity of investment markets, interest rate movements and inflation can impact the value of these assets as well as the value of the underlying obligations. The income derived by our investment management activities can also be impacted by significant falls in investment asset values, whilst broader economic conditions can influence the purchase by customers of retail financial services products and how long they are retained.</p> <p>During 2010 investment markets have remained relatively stable. However, broader economic conditions continue to remain uncertain, with possible consequences to investment values. The occurrence of a significant macro-economic event such as a sovereign debt crisis within a developed world economy poses the threat of considerable disruption to investment markets.</p>	<p>Mitigation</p> <p>The Group seeks to reduce the impact of these risks through ensuring the profile of cash flows of our assets and liabilities are appropriately matched. Matching techniques include using financial instruments as part of formal risk management strategies to reduce volatility in returns from investment assets, the effect of changes in interest rates and inflation, and the broader effects of adverse market conditions. We seek to reduce the impact of market and economic conditions upon our investment businesses through the utilisation of a low cost scalable business model and by maintaining a diversified portfolio of products.</p>
COUNTERPARTY AND THIRD PARTY RISKS	<p>Overview</p> <p><i>In dealing with issuers of debt and other types of counterparty the Group is exposed to the risk of default</i></p> <p>As part of our strategies to appropriately match long term assets and liabilities, exposures can arise to the issuers of corporate debt and other financial instruments. As part of our day to day business we also have exposures to banking, money market and reinsurance counterparties, as well as the providers of investment settlement and custody services. Third party risks also arise through reliance upon external suppliers for certain administration and IT services.</p>	<p>Mitigation</p> <p>The Group seeks to limit the potential exposure to loss from counterparty and third party failure through setting robust selection criteria and exposure limits covering factors such as counterparty financial strength, sectors and geography. Exposures against limits are actively monitored, with trigger levels being set and management action being taken to pre-empt loss from default events.</p>

UK FINANCIAL SERVICES SECTOR CONTAGION RISKS	<p>Overview</p> <p><i>As a UK based Group, earnings are influenced by the perception of the UK financial services sector as a whole</i></p> <p>Factors such as investment market performance, actions by regulators against organisations operating in sector and shock events, including matters such as significant market failures, can impact the confidence of retail investors in the sector as a whole and their purchase or retention of financial service products.</p>	<p>Mitigation</p> <p>We continue to seek to differentiate our business model from that of our competitors. This includes a diversified portfolio of risk, savings and investment management businesses in the UK. In addition, we are focused on developing our international businesses, with joint ventures in India and the Gulf, complementing our existing portfolio of overseas activities.</p>
MORTALITY CATASTROPHE AND OTHER ASSUMPTION UNCERTAINTIES	<p>Overview</p> <p><i>Revisions to assumptions may require adjustments to reserves for long term business</i></p> <p>The writing of long term insurance business necessary requires the setting of assumptions for long term trends in factors such as mortality, persistency, valuation interest rates and credit defaults. Household insurance business requires assumptions to be made for factors such as extreme weather events and other catastrophic risks. A prudent approach is taken to evaluating required reserves for these risks. However, extreme events, such as for example a rapid advance in medical science leading to significantly enhanced annuitant longevity, may require assumptions to be recalibrated impacting profitability and capital.</p>	<p>Mitigation</p> <p>The Group uses its pricing capabilities and significant bank of experience data to assess and charge an appropriate premium for known risk factors, and to ensure that reserves remain appropriate on an ongoing basis. The evaluation of reserves is supported by stress and scenario testing which seek to validate the appropriateness of key assumptions to combinations of extreme events, including economic conditions, investment performance and product specific matters.</p>
INDUSTRY CHANGE	<p>Overview</p> <p><i>The Group may not maximise opportunities from structural changes within the financial services sector</i></p> <p>The financial services sector is going through a period of change and consolidation. This presents a range of challenges as well as opportunities to providers of sufficient scale such as Legal & General. The emergence of niche product providers with new business models continues to drive innovation within a number of the sectors in which the Group operates.</p>	<p>Mitigation</p> <p>Legal & General seeks to ensure it has market leading expertise in the core fields in which it operates, and actively focuses on retaining the best personnel with the knowledge to design and support our products, and manage their evolution as market and consumer expectations change.</p>

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;
- 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;
- 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;
- 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
- The directors of Legal & General Group Plc are listed in the Legal & General Group Plc Annual Report for 31 December 2009, except Dr Ronaldo Schmitz who resigned as a non-executive director of the company on 26 May 2010. A list of current directors is maintained on the Legal & General Group Plc website: www.legalandgeneralgroup.com.

By order of the Board

T.J. Breedon
Group Chief Executive
3 August 2010

N.D. Wilson
Group Chief Financial Officer
3 August 2010

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International Financial Reporting Standards

Supplementary operating profit information

For the six months ended 30 June 2010

	Notes	30.06.10 £m	30.06.09 Restated £m	Full year 31.12.09 £m
From continuing operations				
Risk	2.01(a)	310	223	735
Savings	2.02(a)	54	17	50
Investment management	2.03	98	74	172
International	2.04	61	65	127
Group capital and financing	2.05	33	25	57
Investment projects ¹		(14)	-	(32)
Operating profit		542	404	1,109
Variation from longer term investment return	2.06	(4)	(527)	(16)
Property losses attributable to minority interests		(1)	(20)	(19)
Profit/(loss) from continuing operations before tax		537	(143)	1,074
Tax (expense)/credit attributable to equity holders of the Company	2.07	(136)	52	(230)
Profit/(loss) for the period		401	(91)	844
Attributable to:				
Minority interests	2.17	(1)	(20)	(19)
Equity holders of the Company		402	(71)	863
		p	p	p
Earnings per share	2.11			
Based on operating profit from continuing operations after tax attributable to equity holders of the Company		6.73	5.22	13.82
Based on profit/(loss) attributable to equity holders of the Company		6.90	(1.22)	14.82
Diluted earnings per share	2.11			
Based on operating profit from continuing operations after tax attributable to equity holders of the Company		6.66	5.21	13.74
Based on profit/(loss) attributable to equity holders of the Company		6.83	(1.22)	14.73

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

This supplementary operating profit information provides further analysis of the results reported under IFRS and we believe gives shareholders a better understanding of the underlying performance of the business.

Supplementary IFRS operating profit is one of the Group's key performance indicators. The definition of operating profit was amended in 2009 and details were included in Note 2 of the 2009 Annual Report and Accounts. The H1 09 figures have been restated accordingly. In addition, the composition of the Savings and Investment management segments has changed. Institutional retail business is now included in the Savings segment. H1 09 and FY 09 have been amended accordingly in line with the new definition. The effect has been to reduce Savings H1 09 operating profit by £4m and FY 09 operating profit by £5m with an offsetting increase in the Investment management segment's operating profit.

Operating profit for the Risk segment represents the profit from the non profit Risk businesses (individual and group protection, and individual and bulk purchase annuities) and the profit of our general insurance 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 non profit Savings businesses (non profit investment bonds and non profit pensions (including SIPPs)), the with-profits transfer and the profit of our retail 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	30.06.10 £m	30.06.09 Restated £m	Full year 31.12.09 £m
Non profit Risk	2.01(b)	298	210	717
General insurance	2.01(f)	14	6	17
Other ¹		(2)	7	1
Total Risk operating profit		310	223	735

1. Other comprises estate agencies and housing related business conducted through our regulated mortgage network and business unit costs of £1m (H1 09: £2m; FY 09: £3m) allocated to the Risk business. In July 2009, an insurance business transfer of Nationwide Life business was made to Legal & General Assurance Society Limited (Society). Operating profit associated with the business was included in Other prior to the transfer; post transfer operating profit is recorded in non profit Risk.

(b) Analysis of non profit Risk operating profit

	Notes	30.06.10 £m	30.06.09 Restated £m	Full year 31.12.09 £m
Non profit business operating profit comprises:				
Operational cash generation		202	207	438
New business strain		(10)	13	50
Net cash generation		192	220	488
Experience variances	2.01(c)	(3)	22	113
Changes to valuation assumptions	2.01(d)	98	(2)	169
Changes to FSA reporting and capital rules		-	-	15
Movements in non-cash items	2.01(e)	(78)	(80)	(229)
Other		5	(10)	(41)
		214	150	515
Tax gross-up		84	60	202
		298	210	717

Non profit business operational cash generation represents the expected cash flows to be generated in the period from the in-force non profit business which is broadly equivalent to the 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.

In 2006, the FSA introduced a more realistic reserving framework for certain non profit business (Policy statement (PS) 06/14). In July 2009, an insurance business transfer of the Nationwide Life Risk business to Society took place and the Group chose to adopt PS06/14 for this business. The impact of this, offset by the amortisation of associated intangible assets, is reflected within changes to FSA reporting and capital rules above.

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

(c) Experience variances

	30.06.10 £m	30.06.09 Restated £m	Full year 31.12.09 £m
Persistency	(5)	(11)	(9)
Mortality/morbidity	2	(2)	(9)
Expenses	1	(18)	1
Bulk purchase annuity data loading	-	35	48
Project and development costs ¹	(5)	(14)	(21)
Tax ²	20	21	79
Other	(16)	11	24
	(3)	22	113

1. Project and development costs in 2009 related principally to continued investment in internal and other customer facing systems.
2. The current tax charge was lower due to the utilisation of brought forward tax losses.

International Financial Reporting Standards

Supplementary operating profit information

2.01 Risk (continued)

(d) Changes to valuation assumptions

	30.06.10	30.06.09 Restated	Full year 31.12.09
	£m	£m	£m
Persistency	-	-	(5)
Mortality/morbidity ¹	35	-	101
Expenses	(14)	1	54
Other ²	77	(3)	19
	98	(2)	169

1. Mortality/morbidity includes the release of £32m relating to reserving benefits within individual protection.

2. Other includes a £72m benefit from Inflation modelling enhancement on deferred annuity business.

(e) Movements in non-cash items

	30.06.10	30.06.09 Restated	Full year 31.12.09
	£m	£m	£m
Deferred tax ¹	(80)	(82)	(221)
Other	2	2	(8)
	(78)	(80)	(229)

1. The movement in deferred tax reflects the profitability of the non profit Risk business and the consequent utilisation of brought forward losses.

(f) General insurance operating profit

	30.06.10	30.06.09	Full year 31.12.09
	£m	£m	£m
Household	11	6	12
Other business	3	-	5
	14	6	17

(g) General insurance underwriting result

	30.06.10	30.06.09	Full year 31.12.09
	£m	£m	£m
Household	7	-	1
Other business	2	(1)	4
	9	(1)	5

(h) General insurance combined operating ratio

	30.06.10	30.06.09	Full year 31.12.09
	%	%	%
Household	91	98	98
Other business	79	103	79
	90	99	96

The combined operating ratio is:

$$\left[\frac{\text{Net incurred claims}}{\text{Net earned premiums}} + \frac{\text{Expenses + Net commission}}{\text{Net written premiums}} \right] \times 100$$

International Financial Reporting Standards

Supplementary operating profit information

2.02 Savings

(a) Savings operating profit

	Notes	30.06.10 £m	30.06.09 Restated £m	Full year 31.12.09 £m
Non profit Savings ¹	2.02(b)	11	6	(4)
With-profits business ²		32	29	64
		43	35	60
Retail investments ³		17	(5)	4
Other ⁴		(6)	(13)	(14)
Total Savings operating profit		54	17	50

1. Non profit Savings business includes non profit investment bonds and non profit pensions (including SIPPs).

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

3. Retail investments operating profit includes institutional unit trusts which were previously reported in the Investment management segment. Prior period comparatives have been amended. The impact has been to reduce Retail investments H1 09 operating profit by £4m and FY 09 operating profit by £5m.

4. Other includes Suffolk Life, International (Ireland), Nationwide Life Savings business and business unit costs of £1m (H1 09: £2m; FY 09: £3m), allocated to the Savings business.

(b) Analysis of non profit Savings operating profit

	Notes	30.06.10 £m	30.06.09 Restated £m	Full year 31.12.09 £m
Non profit business operating profit/(loss) comprises:				
Operational cash generation		37	31	58
New business strain		(34)	(44)	(77)
Net cash generation		3	(13)	(19)
Experience variances	2.02(c)	9	(8)	(1)
Changes to valuation assumptions	2.02(d)	(6)	15	9
Changes to FSA reporting and capital rules		-	38	50
Movements in non-cash items	2.02(e)	3	1	(64)
Other		(1)	(29)	22
		8	4	(3)
Tax gross-up		3	2	(1)
		11	6	(4)

Non profit business operational cash generation represents the expected cash flows to be generated in the period from the in-force non profit business which is broadly equivalent to the release of profit from non profit Savings 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.

In 2006, the FSA introduced a more realistic reserving framework for certain non profit business (PS 06/14). In 2009, the Group chose to implement PS 06/14 rule changes relating to the calculation of the regulatory sterling reserves on non profit unit linked contracts. The impact of this is reflected within changes to FSA reporting and capital rules above. However, sterling reserves on investment contracts are eliminated from IFRS reporting and the corresponding reduction is reported through non-cash items.

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

	30.06.10	30.06.09 Restated	Full year 31.12.09
	£m	£m	£m
Persistency	-	-	(1)
Expenses	(1)	(6)	-
Project and development costs ¹	(1)	(13)	(23)
Tax ²	8	11	22
Other	3	-	1
	9	(8)	(1)

1. Project and development costs in 2009 related principally to continued investment in internal and other customer facing systems.

2. The current tax charge was lower due to the utilisation of brought forward tax losses.

(d) Changes to valuation assumptions

	30.06.10	30.06.09 Restated	Full year 31.12.09
	£m	£m	£m
Persistency	-	-	1
Mortality/morbidity	-	-	(2)
Expenses	(1)	(2)	(1)
Other	(5)	17	11
	(6)	15	9

(e) Movements in non-cash items

	Notes	30.06.10	30.06.09 Restated	Full year 31.12.09
		£m	£m	£m
Deferred tax ¹		(17)	(13)	(33)
Deferred acquisition costs	2.02(f)	(5)	(4)	(5)
Deferred income liabilities		18	27	35
Other ²		7	(9)	(61)
		3	1	(64)

1. The movement in deferred tax reflects the profitability of the non profit Savings business and the consequent utilisation of brought forward losses.

2. In 2009, Other includes the elimination of £55m of sterling reserves following the adoption of PS06/14.

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

	Notes	30.06.10	30.06.09	Full year
		£m	£m	31.12.09
				£m
As at 1 January		628	633	633
Amortisation through income	2.02(e)	(32)	(28)	(67)
Acquisition costs deferred	2.02(e)	27	24	62
As at 30 June / 31 December		623	629	628

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:

	30.06.10	30.06.09	Full year
	£m	£m	31.12.09
			£m
Expected to be amortised within one year	72	66	61
Expected to be amortised between one year and five years	288	265	244
Expected to be amortised in over five years	263	298	323
	623	629	628

International Financial Reporting Standards

Supplementary operating profit information

2.03 Investment management

	30.06.10 £m	30.06.09 £m	Full year 31.12.09 £m
Managed pension funds	70	55	128
Private equity	(1)	(1)	(1)
Property	(1)	1	4
Other income ¹	30	19	41
Total Investment management operating profit²	98	74	172

1. Other income includes £17m of profits arising from the provision of investment management services charged to the Group's Risk and Savings businesses (H1 09: £12m; FY 09: £28m).

2. Investment management operating profit no longer includes institutional unit trusts which are now included within the Savings segment. Prior period comparatives have been amended. The impact has been to increase Investment management H1 09 operating profit by £4m and FY 09 operating profit by £5m.

2.04 International

(a) International operating profit

	30.06.10 £m	30.06.09 £m	Full year 31.12.09 £m
USA	44	45	86
Netherlands	14	16	42
France	7	4	4
Other ¹	(4)	-	(5)
Total International operating profit	61	65	127

1. Other includes our joint venture operations in Egypt, the Gulf, India and business unit costs allocated to the International segment.

2.05 Group capital and financing

	30.06.10 £m	30.06.09 Restated £m	Full year 31.12.09 £m
Investment return ¹	96	95	191
Interest expense ²	(59)	(65)	(127)
Investment expenses	(1)	(2)	(3)
Unallocated corporate expenses	(3)	(3)	(4)
Total Group capital and financing operating profit	33	25	57

1. The longer term expected investment return of £96m (H1 09: £95m; FY 09: £191m) reflects an average return of 3% (H1 09: 3%; FY 09: 6%) on the average balance of invested assets of £3.2bn (H1 09: £2.7bn; FY 09: £3.0bn) held within Group capital and financing calculated on a monthly basis. The invested assets held within Group capital and financing amounted to £3.1bn at H1 10 (H1 09: £2.7bn; FY 09: £2.8bn).

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

	30.06.10	30.06.09 Restated	Full year 31.12.09
	£m	£m	£m
Risk ¹	112	(361)	(218)
Savings ²	(16)	(26)	127
Investment management	(4)	(1)	(4)
International	25	(10)	26
Group capital and financing			
Asset related ³	(82)	(146)	24
Debt related ⁴	(65)	13	15
Defined benefit pension scheme ⁵	26	4	14
Total variation from longer term investment return	(4)	(527)	(16)

1. Risk business H1 10 investment variances reflects the positive trading experience of £150m, and favourable default experience leading to a release of £20m. The positive variances have been partly offset (£50m) by adverse economic conditions and changes to modelling of liability and asset data.

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

3. Group capital and financing asset related investment variances reflect the difference between the assumed return and actual return on Society shareholder capital and the Group's treasury assets.

4. 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 H1 10, as a result of a decrease in the relevant long term interest rates, amounted to £(56)m (H1 09: £26m; FY 09: £23m). In addition the elimination of Legal & General debt owned by the Group is £(4)m (H1 09: £nil; FY 09: £6m) and other small items have an impact of £(5)m (H1 09: £(13)m; FY 09: £(14)m).

5. 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.

Investment return is allocated to operating profit by reference to a longer term rate of investment return for the respective invested funds. The difference between the amount allocated to operating profit and actual investment return is the variation from longer term investment return analysed above.

2.07 Analysis of tax

	Profit/(loss) before tax	Tax (expense)/ credit	Profit/(loss) before tax	Tax (expense)/ credit	Profit/(loss) before tax Full year	Tax (expense)/ credit Full year
	30.06.10	30.06.10	30.06.09 Restated	30.06.09 Restated	31.12.09	31.12.09
	£m	£m	£m	£m	£m	£m
From continuing operations						
Risk	310	(86)	223	(61)	735	(204)
Savings	54	(16)	17	(2)	50	(13)
Investment management	98	(28)	74	(20)	172	(47)
International	61	(21)	65	(21)	127	(41)
Group capital and financing	33	(3)	25	4	57	(8)
Investment projects	(14)	4	-	-	(32)	9
Operating profit/(loss)	542	(150)	404	(100)	1,109	(304)
Variation from longer term investment return	(4)	14	(527)	152	(16)	74
Property losses attributable to minority interests	(1)	-	(20)	-	(19)	-
Profit/(loss) for the period/Tax (expense)/credit for the period	537	(136)	(143)	52	1,074	(230)

Only the element of total tax attributable to equity holders' profit/loss is shown explicitly in the analysis above; the tax attributable to policyholder returns is included within reported operating profit.

The rate of UK corporation tax applied in the calculation of the IFRS result is 28% (H1 09: 28%, FY 09: 28%).

At 30 June 2010, a partial provision is held for a dispute with HMRC relating to the basis of recognition of taxable profit within Society's LTF. The matter is being progressed through the Tax Tribunals Service. The maximum exposure in relation to this issue is £232m, plus interest of £98m.

International Financial Reporting Standards

Consolidated statement of comprehensive income

For the six months ended 30 June 2010

	Notes	30.06.10 £m	30.06.09 £m	Full year 31.12.09 £m
Profit/(loss) for the period		401	(91)	844
Other comprehensive income after tax	2.12			
Exchange differences on translation of overseas operations		25	(75)	(63)
Actuarial (losses) on defined benefit pension schemes		(29)	(89)	(154)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus		12	36	62
Net change in financial investments designated as available-for-sale		21	20	66
Total comprehensive income/(expense) for the period		430	(199)	755
Total comprehensive income/(expense) attributable to:				
Minority interests		(1)	(20)	(19)
Equity holders of the Company		431	(179)	774

International Financial Reporting Standards

Consolidated balance sheet

As at 30 June 2010

	Notes	At 30.06.10 £m	At 30.06.09 £m	Full year At 31.12.09 £m
Assets				
Investment in associates		44	21	45
Plant and equipment		56	71	61
Investment property		4,303	3,501	3,839
Financial investments	2.13	272,690	237,771	276,016
Reinsurers' share of contract liabilities		2,241	2,125	2,093
Purchased interest in long term businesses and other intangible assets		132	205	146
Deferred acquisition costs		2,030	1,985	1,957
Deferred tax asset		723	1,081	796
Income tax recoverable		1	11	1
Other assets		1,966	2,398	1,440
Cash and cash equivalents		11,261	11,138	10,650
Total assets		295,447	260,307	297,044
Equity				
Share capital		147	147	147
Share premium		938	936	936
Employee scheme shares		(43)	(42)	(38)
Capital redemption and other reserves		57	3	41
Retained earnings		3,368	2,251	3,110
Shareholders' equity		4,467	3,295	4,196
Minority interests	2.17	32	149	2
Total equity		4,499	3,444	4,198
Liabilities				
Subordinated borrowings	2.16	1,875	1,552	1,870
Participating insurance contracts		9,279	8,881	9,404
Participating investment contracts		7,120	6,689	7,139
Unallocated divisible surplus		1,179	902	1,284
Value of in-force non-participating contracts		(364)	(268)	(367)
Participating contract liabilities		17,214	16,204	17,460
Non-participating insurance contracts		30,011	26,720	28,583
Non-participating investment contracts		228,855	201,032	234,502
Non-participating contract liabilities		258,866	227,752	263,085
Senior borrowings	2.16	1,455	1,933	1,407
Provisions		810	855	757
Deferred tax liabilities		358	252	303
Income tax liabilities		96	155	140
Payables and other financial liabilities		6,465	6,168	5,003
Other liabilities		899	835	892
Net asset value attributable to unit holders		2,910	1,157	1,929
Total liabilities		290,948	256,863	292,846
Total equity and liabilities		295,447	260,307	297,044

International Financial Reporting Standards

Condensed consolidated statement of changes in equity

	Share capital £m	Share premium £m	Employee scheme shares £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Minority interests £m	Total equity £m
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 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	147	938	(43)	57	3,368	4,467	32	4,499
For the six months ended 30 June 2009								
As at 1 January	147	936	(46)	(42)	2,593	3,588	144	3,732
Total comprehensive expense for the period	-	-	-	(55)	(124)	(179)	(20)	(199)
Net movement in employee scheme shares	-	-	4	7	(5)	6	-	6
Dividends	-	-	-	-	(120)	(120)	-	(120)
Movement in third party interests	-	-	-	-	-	-	25	25
Currency translation differences	-	-	-	93	(93)	-	-	-
As at 30 June	147	936	(42)	3	2,251	3,295	149	3,444
For the year ended 31 December 2009								
As at 1 January	147	936	(46)	(42)	2,593	3,588	144	3,732
Total comprehensive income/(expense) for the year	-	-	-	3	771	774	(19)	755
Net movement in employee scheme shares	-	-	8	3	8	19	-	19
Dividends	-	-	-	-	(185)	(185)	-	(185)
Movement in third party interests	-	-	-	-	-	-	(123)	(123)
Currency translation differences	-	-	-	77	(77)	-	-	-
As at 31 December	147	936	(38)	41	3,110	4,196	2	4,198

International Financial Reporting Standards

Consolidated cash flow statement

For the six months ended 30 June 2010

	30.06.10 £m	30.06.09 £m	Full year 31.12.09 £m
Cash flows from operating activities			
Profit/(loss) for the period	401	(91)	844
Adjustments for non cash movements in net profit/(loss) for the period			
Realised and unrealised losses/(gains) on financial investments and investment properties	3,615	6,553	(29,180)
Investment income	(4,695)	(4,656)	(8,813)
Interest expense	78	148	179
Income tax expense	176	17	395
Other adjustments	32	36	104
Net increase in operational assets			
Investments held for trading or designated as fair value through profit or loss	(500)	(7,763)	(5,822)
Investments designated as available-for-sale	(25)	(54)	(61)
Other assets	(383)	(711)	477
Net (decrease)/increase in operational liabilities			
Insurance contracts	1,339	858	3,143
Transfer (from)/to unallocated divisible surplus	(99)	(15)	368
Investment contracts	(5,213)	(728)	29,337
Value of in-force non-participating contracts	3	(97)	(196)
Other liabilities	1,434	2,905	1,121
Cash used in operations	(3,837)	(3,598)	(8,104)
Interest paid	(79)	(148)	(160)
Interest received	2,432	2,529	5,074
Income tax received	106	91	52
Dividends received	2,126	2,096	3,896
Net cash flows from operating activities	748	970	758
Cash flows from investing activities			
Net acquisition of plant and equipment	(3)	(5)	(7)
Capital injection into overseas joint ventures	-	(8)	(36)
Net cash flows from investing activities	(3)	(13)	(43)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the Company during the period	(160)	(120)	(185)
Proceeds from issue of ordinary share capital	2	-	-
Purchase of employee scheme shares	(10)	(2)	(2)
Proceeds from borrowings	292	1,451	2,124
Repayment of borrowings	(274)	(1,768)	(2,629)
Net cash flows from financing activities	(150)	(439)	(692)
Net increase in cash and cash equivalents	595	518	23
Exchange gains/(losses) on cash and cash equivalents	16	(68)	(61)
Cash and cash equivalents at 1 January	10,650	10,688	10,688
Cash and cash equivalents at 30 June/31 December	11,261	11,138	10,650

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 2010 has been prepared in accordance with the Listing Rules of the Financial Services Authority. The 2010 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 2010 year end. These policies are consistent with the principal accounting policies which were set out in the Group's 2009 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 2009 financial statements except for some limited modelling and assumption changes. The impacts of these changes are included in section 2.01(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 composition of the Savings and Investment management segments has changed. Institutional retail business is now included in retail investments as part of the Savings segment; previously this was reported in the Investment management segment. Comparative information has been amended to reflect the change.

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 2010						
Operating profit	310	54	98	61	19	542
Variation from longer term investment return ²	112	(16)	(4)	25	(121)	(4)
Property losses attributable to minority 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

1. For segmental purposes, Investment projects of £14m (FY 09: £32m) 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 Restated £m	Savings Restated £m	Investment manage- ment £m	Inter- national £m	Group capital and financing Restated £m	Total £m
For the six months ended 30 June 2009						
Operating profit	223	17	74	65	25	404
Variation from longer term investment return ²	(361)	(26)	(1)	(10)	(129)	(527)
Property losses attributable to minority interests	-	-	-	-	(20)	(20)
(Loss)/profit from continuing operations before tax	(138)	(9)	73	55	(124)	(143)
Tax credit/(expense) attributable to equity holders of the Company	40	2	(20)	(18)	48	52
(Loss)/profit for the period	(98)	(7)	53	37	(76)	(91)

	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 2009						
Operating profit	735	50	172	127	25	1,109
Variation from longer term investment return ²	(218)	127	(4)	26	53	(16)
Property losses attributable to minority interests	-	-	-	-	(19)	(19)
Profit from continuing operations before tax	517	177	168	153	59	1,074
Tax (expense)/credit attributable to equity holders of the Company	(142)	(48)	(46)	(49)	55	(230)
Profit for the year	375	129	122	104	114	844

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 2010						
Internal revenue	64	66	59	-	(189)	-
External revenue	2,887	1,219	(664)	726	(25)	4,143
Total revenue	2,951	1,285	(605)	726	(214)	4,143
For the six months ended 30 June 2009						
Internal revenue	55	58	51	-	(164)	-
External revenue	2,371	618	(2,244)	680	16	1,441
Total revenue	2,426	676	(2,193)	680	(148)	1,441
For the year ended 31 December 2009						
Internal revenue	117	135	104	-	(356)	-
External revenue	5,809	7,295	28,897	1,527	262	43,790
Total revenue	5,926	7,430	29,001	1,527	(94)	43,790

Total revenue includes investment gains of £1,170m (H1 09: losses of £1,778m; FY 09: gains of £38,201m).

(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 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
Minority 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.

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 2009						
Assets						
Investments	20,842	40,272	180,904	6,231	4,182	252,431
Other assets	3,290	2,353	1,472	2,540	(1,779)	7,876
Total assets	24,132	42,625	182,376	8,771	2,403	260,307
Shareholders' equity						
Minority interests	-	-	-	-	149	149
Total equity	94	105	334	1,163	1,748	3,444
Liabilities						
Subordinated borrowings	-	-	-	-	1,552	1,552
Participating contract liabilities	-	14,103	-	2,101	-	16,204
Non-participating contract liabilities	20,492	25,967	178,487	3,348	(542)	227,752
Senior borrowings ¹	3	203	6	591	1,130	1,933
Other liabilities	3,543	2,247	3,549	1,568	(1,485)	9,422
Total liabilities	24,038	42,520	182,042	7,608	655	256,863
Total equity and liabilities	24,132	42,625	182,376	8,771	2,403	260,307

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 2009						
Assets						
Investments	22,984	45,531	210,488	6,954	4,593	290,550
Other assets	2,983	2,299	836	2,709	(2,333)	6,494
Total assets	25,967	47,830	211,324	9,663	2,260	297,044
Shareholders' equity						
Minority interests	-	-	-	-	2	2
Total equity	120	113	305	1,372	2,288	4,198
Liabilities						
Subordinated borrowings	-	-	-	-	1,870	1,870
Participating contract liabilities	-	15,084	-	2,376	-	17,460
Non-participating contract liabilities	22,102	30,078	207,963	3,523	(581)	263,085
Senior borrowings ¹	9	199	2	535	662	1,407
Other liabilities	3,736	2,356	3,054	1,857	(1,979)	9,024
Total liabilities	25,847	47,717	211,019	8,291	(28)	292,846
Total equity and liabilities	25,967	47,830	211,324	9,663	2,260	297,044

1. Includes non recourse financing.

International Financial Reporting Standards

Notes to the Financial Statements

2.10 Gross written premiums on insurance contracts

	30.06.10 £m	30.06.09 £m	Full year 31.12.09 £m
From continuing operations			
Risk			
Non-participating Risk business	1,737	1,953	3,057
General insurance			
- Household	123	123	247
- Other business	11	13	26
Total Risk	1,871	2,089	3,330
Savings			
Non-participating Savings business	21	21	45
Participating business	298	416	772
Total Savings	319	437	817
International			
USA	251	251	487
Netherlands	131	153	270
France	200	180	371
Total International	582	584	1,128
Total gross written premiums	2,772	3,110	5,275

2.11 Earnings per share

(a) Earnings per share

	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	Profit/(loss) before tax 30.06.09 Restated £m	Tax credit 30.06.09 Restated £m	Profit/(loss) after tax 30.06.09 Restated £m	Earnings per share 30.06.09 Restated p
Operating profit from continuing operations	542	(150)	392	6.73	404	(100)	304	5.22
Variation from longer term investment return	(4)	14	10	0.17	(527)	152	(375)	(6.44)
Earnings per share based on profit/(loss) attributable to equity holders	538	(136)	402	6.90	(123)	52	(71)	(1.22)
					Profit before tax Full year 31.12.09 £m	Tax expense Full year 31.12.09 £m	Profit after tax Full year 31.12.09 £m	Earnings per share Full year 31.12.09 p
Operating profit from continuing operations					1,109	(304)	805	13.82
Variation from longer term investment return					(16)	74	58	1.00
Earnings per share based on profit attributable to equity holders					1,093	(230)	863	14.82

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 from continuing operations after tax

	Profit after tax 30.06.10	Number of shares ¹ 30.06.10	Earnings per share 30.06.10	Profit after tax 30.06.09 Restated	Number of shares ¹ 30.06.09	Earnings per share 30.06.09 Restated
	£m	m	p	£m	m	p
Operating profit from continuing operations after tax	392	5,827	6.73	304	5,822	5.22
Net shares under options allocable for no further consideration	-	63	(0.07)	-	8	(0.01)
Diluted earnings per share	392	5,890	6.66	304	5,830	5.21

	Profit after tax Full year 31.12.09	Number of shares ¹ Full year 31.12.09	Earnings per share Full year 31.12.09
	£m	m	p
Operating profit from continuing operations after tax	805	5,824	13.82
Net shares under options allocable for no further consideration	-	33	(0.08)
Diluted earnings per share	805	5,857	13.74

(ii) Based on profit/(loss) attributable to equity holders

	Profit after tax 30.06.10	Number of shares ¹ 30.06.10	Earnings per share 30.06.10	Loss after tax 30.06.09	Number of shares ¹ 30.06.09	Earnings per share 30.06.09
	£m	m	p	£m	m	p
Profit/(loss) attributable to equity holders of the Company	402	5,827	6.90	(71)	5,822	(1.22)
Net shares under options allocable for no further consideration ²	-	63	(0.07)	-	8	-
Diluted earnings per share	402	5,890	6.83	(71)	5,830	(1.22)

	Profit after tax Full year 31.12.09	Number of shares ¹ Full year 31.12.09	Earnings per share Full year 31.12.09
	£m	m	p
Profit attributable to equity holders of the Company	863	5,824	14.82
Net shares under options allocable for no further consideration	-	33	(0.09)
Diluted earnings per share	863	5,857	14.73

The number of shares in issue at 30 June 2010 was 5,865,651,980 (30 June 2009: 5,861,679,365; 31 December 2009: 5,862,216,780).

1. Weighted average number of shares.

2. Net shares under options allocable for no further consideration are anti-dilutive and have therefore been excluded from the diluted earnings per share calculation for H1 09.

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 30.06.10 £m	Tax credit/ (expense) 30.06.10 £m	After tax 30.06.10 £m	Before tax 30.06.09 £m	Tax (expense)/ credit 30.06.09 £m	After tax 30.06.09 £m
Exchange differences on translation of overseas operations	25	-	25	(75)	-	(75)
Actuarial (losses) on defined benefit pension schemes	(40)	11	(29)	(123)	34	(89)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	16	(4)	12	50	(14)	36
Net change in financial investments designated as available-for-sale	32	(11)	21	31	(11)	20
Other comprehensive income	33	(4)	29	(117)	9	(108)

	Before tax Full year 31.12.09 £m	Tax (expense)/ credit Full year 31.12.09 £m	After tax Full year 31.12.09 £m
Exchange differences on translation of overseas operations	(63)	-	(63)
Actuarial (losses) on defined benefit pension schemes	(213)	59	(154)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	86	(24)	62
Net change in financial investments designated as available-for-sale	101	(35)	66
Other comprehensive income	(89)	-	(89)

2.13 Financial investments

	At 30.06.10 £m	At 30.06.09 £m	At 31.12.09 £m
Equities	125,099	109,015	139,296
Unit trusts	7,443	5,398	6,329
Debt securities	132,429	116,140	123,511
Accrued interest	1,590	1,446	1,688
Derivative assets ¹	4,791	3,823	3,749
Loans and receivables	1,338	1,949	1,443
	272,690	237,771	276,016

1. Derivative assets include £2,764m (H1 09: £2,068m; FY 09: £2,160m) held on behalf of unit linked policyholders. Derivative assets are shown gross of derivative liabilities. Exposures arise from:

- The use of derivatives for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management.
- Derivatives matching Guaranteed Equity Bonds within the Nationwide Life portfolio.

2.14 Dividends

	Per share 30.06.10 p	Total 30.06.10 £m	Per share 30.06.09 p	Total 30.06.09 £m	Per share Full year 31.12.09 p	Total Full year 31.12.09 £m
Ordinary share dividends paid in the period	2.73	160	2.05	120	3.16	185
Ordinary share dividend proposed ¹	1.33	78	1.11	65	2.73	160

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 30.06.10	Number of shares 30.06.09	Number of shares Full year 31.12.09
As at 1 January	5,862,216,780	5,861,627,994	5,861,627,994
Options exercised under share option schemes			
- Executive share option scheme	209,065	-	20,000
- Savings related share option scheme	3,226,135	51,371	568,786
As at 30 June / 31 December	5,865,651,980	5,861,679,365	5,862,216,780

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

	30.06.10 £m	30.06.09 £m	Full year 31.12.09 £m
Subordinated borrowings			
6.385% Sterling perpetual capital securities (Tier 1)	698	659	666
5.875% Sterling undated subordinated notes (Tier 2)	424	425	425
4.0% Euro subordinated notes 2025 (Tier 2)	455	468	498
10% Sterling subordinated notes 2041 (Tier 2)	308	-	308
Client fund holdings of Group debt ¹	(10)	-	(27)
Total subordinated borrowings	1,875	1,552	1,870
Senior borrowings			
Sterling medium term notes 2031-2041	602	602	608
Euro Commercial paper 2010	106	428	98
Bank loans 2010	28	17	12
Non recourse financing			
- US Dollar Triple X securitisation 2025	283	322	262
- US Dollar Triple X securitisation 2037	296	269	274
- Sterling property partnership loans 2011	-	97	-
- Suffolk Life unit linked borrowings	147	157	158
- LGV 6 Private Equity Fund Limited Partnership	39	41	40
Client fund holdings of Group debt ¹	(46)	-	(45)
Total senior borrowings	1,455	1,933	1,407
Total borrowings	3,330	3,485	3,277
Total borrowings (excluding non recourse financing)	2,565	2,599	2,543

1. £56m (FY 09: £72m) 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. The half-year comparative has not been restated.

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. In December 2009, \$109m of this issue was bought back.

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.

Sterling property partnership loans 2011

The property partnership loans are secured on specific properties.

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 2010, 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.

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 £134m (Euro Commercial Paper and Bank Loans).

2.17 Minority interests

Minority interests represent third party interests in property investment vehicles which are consolidated in the Group's results. The increase in the minority interests in 2010 arises from the increased percentage in the Group's ownership of Performance Retail Unit Trust to above 50%.

2.18 Foreign exchange rates

Principal rates of exchange used for translation are:

Period end exchange rates	At 30.06.10	At 30.06.09	At 31.12.09
United States Dollar	1.50	1.65	1.62
Euro	1.22	1.17	1.13
Average exchange rates	01.01.10- 30.06.10	01.01.09- 30.06.09	01.01.09- 31.12.09
United States Dollar	1.53	1.49	1.57
Euro	1.15	1.12	1.12

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 09: £15m; FY 09: £62m).

At 30 June 2010, 30 June 2009 and 31 December 2009 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:

	30.06.10 £m	30.06.09 £m	Full year 31.12.09 £m
Salaries	2	3	7
Social security costs	-	-	1
Post-employment benefits	1	-	1
Share-based incentive awards	2	1	3
Key management personnel compensation	5	4	12
Number of key management personnel	17	16	18

The UK defined benefit pension schemes have purchased annuity contracts issued by Society for consideration of £36m (H1 09: £16m; FY 09: £51m) 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 £1,704m during H1 10 (H1 09: £1,301m; FY 09: £1,780m). The Group has outstanding loans to these associates of £11m (H1 09: £6m; FY 09: £7m) and received investment management fees of £21m during the period (H1 09: £17m; FY 09: £30m). Distributions from these investment vehicles to the Group totalled £65m (H1 09: £25m; FY 09: £57m).

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 2010, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Society) has been estimated at £209m (30 June 2009: £179m; 31 December 2009: £203m). These amounts have been recognised in the financial statements with £124m charged against shareholder equity (H1 09: £106m; FY 09: £121m) and £85m against the unallocated divisible surplus (H1 09: £73m; FY 09: £82m).

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 interim financial information in the Half Year Report for the six months ended 30 June 2010, which comprises the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet as at 30 June 2010, Condensed consolidated statement of changes in equity, Consolidated cash flow statement and related notes on pages 32 to 46 ("the interim financial information"). 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 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 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 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 interim financial information in the Half Year Report for the six months ended 30 June 2010 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
3 August 2010

Notes:

- (a) The Half Year Report is published on the website of Legal & General Group Plc, www.legalandgeneralgroup.com. The maintenance and integrity of the Legal & General Group Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Cash Flow and Capital

3.01 Operational cash generation¹

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 ² £m	Variations £m	Investment gains and losses ³ £m	Other ⁴ £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	15	-	15	-	-	15	-	30	3	33
Investment projects	-	-	-	-	-	-	(10)	(10)	(4)	(14)
Operating profit	402	(44)	358	7	27	15	(15)	392	150	542
Investment variance	-	-	-	-	-	10	-	10	(14)	(4)
Property losses attributable to minority interests	-	-	-	-	-	-	(1)	(1)	-	(1)
Total	402	(44)	358	7	27	25	(16)	401	136	537
Dividends paid in the year			(160)							
Net cash available for reinvestment			198							
Six months ended 30 June 2009										
Total Risk operating profit	216	13	229	-	(70)	-	3	162	61	223
Total Savings operating profit	40	(44)	(4)	-	17	-	2	15	2	17
Investment management operating profit	54	-	54	-	-	-	-	54	20	74
International	-	-	-	44	-	-	-	44	21	65
Group capital and financing	23	-	23	-	-	6	-	29	(4)	25
Operating profit	333	(31)	302	44	(53)	6	5	304	100	404
Investment variance	-	-	-	-	-	(375)	-	(375)	(152)	(527)
Property losses attributable to minority interests	-	-	-	-	-	-	(20)	(20)	-	(20)
Total	333	(31)	302	44	(53)	(369)	(15)	(91)	(52)	(143)
Dividends paid in the year			(120)							
Net cash available for reinvestment			182							
Year ended 31 December 2009										
Total Risk operating profit	454	50	504	-	27	-	-	531	204	735
Total Savings operating profit	106	(77)	29	-	16	-	(8)	37	13	50
Investment management operating profit	125	-	125	-	-	-	-	125	47	172
International	8	-	8	78	-	-	-	86	41	127
Group capital and financing	33	-	33	-	-	16	-	49	8	57
Investment projects	-	-	-	-	-	-	(23)	(23)	(9)	(32)
Operating profit	726	(27)	699	78	43	16	(31)	805	304	1,109
Investment variance	-	-	-	-	-	58	-	58	(74)	(16)
Property losses attributable to minority interests	-	-	-	-	-	-	(19)	(19)	-	(19)
Total	726	(27)	699	78	43	74	(50)	844	230	1,074
Dividends paid in the year			(185)							
Net cash available for reinvestment			514							

Cash Flow and Capital

Variations⁵

	Notes	Risk £m 30.06.10	Savings £m 30.06.10	Risk £m 30.06.09	Savings £m 30.06.09	Risk £m 31.12.09	Savings £m 31.12.09
Experience variances	2.01(c)/2.02(c)	(3)	9	22	(8)	113	(1)
Changes to valuation assumptions	2.01(d)/2.02(d)	98	(6)	(2)	15	169	9
Changes to FSA reporting and capital rules	2.01(b)/2.02(b)	-	-	-	38	15	50
Movements in non-cash items	2.01(e)/2.02(e)	(78)	3	(80)	1	(229)	(64)
Other	2.01(b)/2.02(b)	5	(1)	(10)	(29)	(41)	22
Total		22	5	(70)	17	27	16

1. The operational cash generation analysed above is available to replenish the capital stock, reinvest back into the business and finance the dividend. In H1 10, the business generated operational cash flow of £402m (FY 09: £726m, H1 09: £333m) before investing £44m (FY 09: £27m, H1 09: £31m) in non profit new business strain, resulting in net cash generated of £358m (FY 09: £699m, H1 09: £302m). In H1 10, £160m has been used to pay the 2009 final dividend, resulting in £198m (FY 09: £514m, H1 09: £182m) being retained, augmenting the IGD surplus.

2. Profits arising in the international businesses that are not paid out in dividends are retained locally to support growth and are treated as not being available for distribution.

3. Investment gains and losses have been excluded from operational cash generation in order to reflect an expected net of tax income on shareholders' investments.

4. Other includes the removal of amortisation on acquired intangibles in our Savings business. Costs relating to one-off investment projects are also excluded.

5. Non-recurring experience variances and assumption changes are absorbed directly by the Group's IGD surplus. Movements in non-cash items do not generate cash in the period and are therefore not available for distribution.

Cash Flow and Capital

3.02 Regulatory capital resources

(a) Insurance Group's Directive (IGD)

The Group is required to measure and monitor its capital resources on a regulatory basis and to comply with the minimum capital requirements of regulators in each territory in which it operates. At Group level, Legal & General must comply with the requirements of the IGD. The table below shows the estimated total Group capital resources, Group capital resources requirement and the surplus at 30.06.10.

	At 30.06.10 £bn	At 30.06.09 £bn	At 31.12.09 £bn
Core tier 1	5.3	3.8	4.8
Innovative tier 1	0.6	0.6	0.6
Upper tier 2	0.4	0.4	0.4
Lower tier 2	0.8	0.5	0.8
Deductions ¹	(1.1)	(1.0)	(1.0)
Group capital resources	6.0	4.3	5.6
Group capital resources requirement	2.7	2.4	2.5
IGD surplus²	3.3	1.9	3.1

Coverage ratio (Group capital resources / Group capital resources requirement) **2.22 times** **1.79 times** **2.24 times**

1. Deductions comprises inadmissible assets in L&G America of £0.9bn (FY 09: £0.8bn, H1 09: £0.8bn), in Society of £0.1bn (FY 09: £0.1bn, H1 09: £0.1bn) and in other subsidiaries of £0.1bn (FY 09: £0.1bn, H1 09: £0.1bn).

2. The IGD surplus is stated after accruing for the period end dividend.

A segmental analysis is given below.

	At 30.06.10 £bn	At 30.06.09 £bn	At 31.12.09 £bn
Society long term fund ¹	2.1	1.8	2.1
Society shareholder capital	2.6	1.6	2.2
General insurance	0.1	0.1	0.1
France	0.2	0.1	0.2
Netherlands	0.2	0.2	0.2
Nationwide Life	0.1	0.1	0.1
USA	0.2	0.1	0.2
Investment management	0.4	0.3	0.3
Other ²	0.9	1.1	0.9
Innovative tier 1	0.6	0.6	0.6
Tier 2	1.2	0.9	1.2
Debt	(2.6)	(2.6)	(2.5)
Group capital resources	6.0	4.3	5.6
Society long term fund ¹	2.3	2.0	2.1
Other	0.4	0.4	0.4
Group capital resources requirement	2.7	2.4	2.5

1. The Society long term fund (LTF) capital requirement of £2.3bn (FY09: £2.1bn) is met by £2.1bn (FY 09: £2.1bn) of capital resources in the LTF and £0.2bn (FY 09: £nil) from other Society shareholder capital.

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

Cash Flow 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 30.06.10 £bn	At 30.06.09 £bn	At 31.12.09 £bn
Capital and reserves attributable to equity holders on an IFRS basis	4.5	3.3	4.2
Innovative tier 1	0.6	0.6	0.6
Tier 2	1.2	0.9	1.2
Proposed dividends	(0.1)	(0.1)	(0.2)
Additional capital available from Society	0.7	0.3	0.6
Adjustment to reflect regulatory value of the USA operation	(0.9)	(0.8)	(0.8)
Other regulatory adjustments	-	0.1	-
Group capital resources	6.0	4.3	5.6

(b) With-profits realistic balance sheet

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

	At 30.06.10 £bn	At 30.06.09 £bn	At 31.12.09 £bn
With-profits surplus	0.8	0.6	0.8
Risk capital margin	0.3	0.2	0.2
Surplus	0.5	0.4	0.6

Society is required to maintain a surplus in the with-profits part of the fund on a realistic basis (peak 2). The risk capital margin is calculated based on the most onerous capital requirement calculated after performing five stresses specified by the FSA. The surplus includes the present value of future shareholder transfers of £0.2bn (FY 09: £0.3bn, H1 09: £0.2bn) as a liability in the calculation.

(c) Society capital surplus

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

	30.06.10 Long term business £bn	30.06.10 General insurance £bn	30.06.09 Long term business £bn	30.06.09 General insurance £bn	31.12.09 Long term business £bn	31.12.09 General insurance £bn
Available capital resources - Tier 1	5.2	0.1	3.8	0.1	4.8	0.1
Insurance capital requirement	2.2	0.1	2.0	0.1	2.1	0.1
Capital requirements of regulated related undertakings	0.2	-	0.2	-	0.2	-
With-profits Insurance Capital Component	0.1	-	-	-	-	-
Capital resources requirement	2.5	0.1	2.2	0.1	2.3	0.1
Regulatory capital surplus	2.7	-	1.6	-	2.5	-

Movement in Society long term insurance capital requirement

	At 30.06.10 £bn	At 30.06.09 £bn	At 31.12.09 £bn
Pillar 1 capital requirement			
Protection	0.7	0.5	0.6
Annuities	0.8	0.8	0.8
Non profit pensions and unit linked bonds	0.1	0.1	0.1
Non profit	1.6	1.4	1.5
With-profits	0.6	0.6	0.6
Long term insurance capital requirement	2.2	2.0	2.1

On a regulatory basis (peak 1), Society long term business regulatory capital surplus of £2.7bn (FY 09: £2.5bn, H1 09: £1.6bn) comprises capital resources within the long term fund of £2.1bn (FY 09: £2.1bn, H1 09: £1.8bn) and capital resources outside the long term fund of £3.1bn (FY 09: £2.7bn, H1 09: £2.0bn) less the capital resources requirement of £2.5bn (FY 09: £2.3bn, H1 09: £2.2bn).

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 2010, this adjustment amounted to £0.2bn (FY 09: £0.3bn, H1 09: £0.2bn).

Asset Disclosures

4.01 Investment portfolio

	Notes	Market value At 30.06.10 £bn	Market value At 30.06.09 £bn	Market value At 31.12.09 £bn
Worldwide funds under management		331	287	334
Client and policyholder assets		(278)	(240)	(283)
Non-unit linked with-profits assets ¹		(20)	(18)	(20)
Assets to which shareholders are directly exposed		33	29	31

Comprising:

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

Legal & General Pensions Limited (LGPL)		24.2	20.2	22.5
Other UK non profit insurance business		0.9	1.5	1.2
		25.1	21.7	23.7

Assets held to back other insurance businesses (including Triple-X reserves)²

Society shareholder capital	4.05	2.8	2.2	2.3
Other Group capital	4.05	2.0	1.9	1.9
		33.1	28.7	31.1

1. Includes assets backing participating business in France of £2bn (H1 09: £2bn; FY 09: £2bn).

2. £0.9bn (H1 09: £0.7bn; FY 09: £0.8bn) of index linked assets within Legal & General Netherlands have been reclassified from client and policyholder assets to assets to which shareholders are directly exposed. FY 09 and H1 09 comparatives have been reclassified accordingly.

Analysed by asset class:

	LGPL	Other UK non profit insurance business	Other insurance business	Society shareholder capital	Other Group capital	Total	Total	Total
	At 30.06.10 £bn	At 30.06.10 £bn	At 30.06.10 £bn	At 30.06.10 £bn	At 30.06.10 £bn	At 30.06.10 £bn	At 30.06.09 £bn	At 31.12.09 £bn
Equities	-	-	-	0.8	-	0.8	0.8	0.9
Bonds ¹	22.4	0.4	2.9	1.1	1.3	28.1	22.9	26.5
Derivative assets ²	1.3	0.4	-	-	0.3	2.0	1.7	1.5
Property	-	-	-	0.1	-	0.1	0.2	0.1
Cash (including cash equivalents)	0.5	0.1	0.3	0.8	0.4	2.1	3.1	2.1
	24.2	0.9	3.2	2.8	2.0	33.1	28.7	31.1

1. Further information can be found in Note 4.02.

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

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

b. Derivatives matching Guaranteed Equity Bonds within the Nationwide Life portfolio.

Asset Disclosures

4.02 Bond portfolio summary

(i) Analysed by sector

	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 & Goods		2,195	10	2,556	9
Financial Services		794	4	1,012	4
Technology & Telecoms		1,455	7	1,729	6
Insurance		937	4	1,072	4
Industrials		963	4	1,160	4
Oil & Gas		1,253	6	1,488	5
Health Care		529	2	556	2
Property		494	2	553	2
ABS	4.03	3,748	17	4,745	17
CDO		1,124	5	1,129	4
Total		22,414	100	28,084	100

	Notes	Total At 30.06.09 £m	Total At 30.06.09 %	Total At 31.12.09 £m	Total At 31.12.09 %
Sovereigns, Supras and Sub-Sovereigns		2,987	13	2,916	11
Banks - Tier 1 ¹	4.04	415	2	528	2
- Tier 2 and other subordinated	4.04	1,825	8	2,078	8
- Senior		2,013	9	2,242	9
Utilities		2,451	11	3,009	11
Consumer Services & Goods		2,062	9	2,624	10
Financial Services		884	4	1,141	4
Technology & Telecoms		1,465	6	1,665	6
Insurance		942	4	1,219	5
Industrials		952	4	1,086	4
Oil & Gas		921	4	1,155	4
Health Care		730	3	608	2
Property		430	2	584	2
ABS	4.03	3,775	16	4,441	17
CDO		1,080	5	1,212	5
Total		22,932	100	26,508	100

1. Tier 1 holdings include £53m (30 June 2009: £65m; 31 December 2009: £45m) of preference shares.

Asset Disclosures

4.02 Bond portfolio summary (continued)

(ii) Analysed by domicile

	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
North America	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

	Total At 30.06.09 £m	Total At 30.06.09 %	Total At 31.12.09 £m	Total At 31.12.09 %
United Kingdom	8,611	38	9,192	35
North America	7,733	34	8,964	34
Europe	5,812	25	7,020	26
Other	776	3	1,332	5
Total	22,932	100	26,508	100

Within the UK non profit annuity business all non-sterling denominated bonds are currency hedged back to sterling.

(iii) Analysed by credit rating

	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

	Total At 30.06.09 Restated £m	Total At 30.06.09 Restated %	Total At 31.12.09 Restated £m	Total At 31.12.09 Restated %
AAA	5,327	23	5,086	19
AA	2,913	13	3,274	13
A	8,219	36	9,891	37
BBB	4,406	19	5,864	22
BB or below	360	2	425	2
Unrated: Bespoke CDOs	974	4	1,104	4
Other	733	3	864	3
	22,932	100	26,508	100

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

The methodology for analysing assets by credit rating has been amended in 2010 to present the average of the available external credit ratings. This provides a more realistic view of the credit quality of the Group's assets. In previous periods, the credit ratings were presented using the lowest of the available external credit ratings. H1 09 and FY 09 comparatives have been restated accordingly.

Asset Disclosures

4.02 Bond portfolio summary (continued)

(iv) CDOs

The Group holds collateralised debt obligations (CDO) with a market value of £1,129m at 30 June 2010 (30 June 2009: £1,080m; 31 December 2009: £1,212m).

These holdings include £992m (30 June 2009: £934m; 31 December 2009: £1,063m) relating to four CDOs that were constructed in 2007 and 2008 in accordance with terms specified by Legal & General as part of a strategic review of the assets backing the annuity portfolio. These CDOs mature in 2017 and 2018. The Group selected at outset and manages the reference portfolios underlying the CDOs to give exposure to globally diversified portfolios of investment grade corporate bonds. The Group is able to substitute the constituents of the original reference portfolios with new reference assets, allowing the management of the underlying credit risk although substitutions in 2009 were limited and no substitutions were made in H1 10. A breakdown of the underlying CDO reference portfolio by sector is provided below:

Sector	At 30.06.10 %	At 30.06.09 %	At 31.12.09 %
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 28%, 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 28% 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 31% or if 44% 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.)

Despite the difficult financial conditions in early 2009, the underlying reference portfolio has had no reference entity defaults in 2009 or H1 10.

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 in H1 10 (2009: £nil).

These CDOs are valued using an internal valuation which is based on observable market inputs. This is then validated against the counterparty valuation and, at the year end, validated by independent external consultants.

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 £137m of CDO holdings includes a £36m (30 June 2009: £40m; 31 December 2009: £41m) exposure to an equity tranche of a bespoke CDO.

Asset Disclosures

4.03 Asset backed securities summary

(i) By security

	LGPL At 30.06.10 £m	LGPL At 30.06.10 %	Total At 30.06.10 £m	Total At 30.06.10 %
Traditional ABS:				
RMBS - Prime ¹	369	10	650	14
RMBS - Sub-prime ²	-	-	21	-
CMBS	230	6	419	9
Credit Card	9	-	285	6
Auto	14	-	119	2
Consumer Loans	43	1	47	1
Student Loan	21	1	42	1
	686	18	1,583	33
Other:				
Secured Bond	1,525	41	1,571	33
Commercial Property Backed Bonds	227	6	227	5
Infrastructure / PFI / 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	3,748	100	4,745	100

	Total At 30.06.09 £m	Total At 30.06.09 %	Total At 31.12.09 £m	Total At 31.12.09 %
Traditional ABS:				
RMBS - Prime ¹	549	15	646	15
RMBS - Sub-prime ²	21	1	22	-
CMBS	273	7	376	8
Credit Card	287	8	297	7
Auto	84	2	83	2
Consumer Loans	50	1	56	1
Student Loan	38	1	51	1
	1,302	35	1,531	34
Other:				
Secured Bond	1,113	29	1,431	32
Commercial Property Backed Bonds	175	5	211	5
Infrastructure / PFI / Social housing	942	25	946	21
Whole Business Securitisation	191	5	250	6
Other secured holdings ³	52	1	72	2
	2,473	65	2,910	66
Total	3,775	100	4,441	100

1. 61% (30 June 2009: 78%; 31 December 2009: 64%) of Prime RMBS holdings relate to UK mortgages.

2. 52% (30 June 2009: 81%; 31 December 2009: 54%) of Sub-prime RMBS holdings have a credit rating of AAA and 55% (30 June 2009: 53%; 31 December 2009: 57%) relate to the UK.

3. Other secured holdings include covered bonds of £13m (30 June 2009: £11m; 31 December 2009: £11m).

Asset Disclosures

4.03 Asset backed securities summary (continued)

(ii) By credit rating

	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

	Total At 30.06.09 Restated £m	Total At 30.06.09 Restated %	Total At 31.12.09 Restated £m	Total At 31.12.09 Restated %
AAA	1,746	46	1,821	41
AA	581	16	675	15
A	765	20	1,120	25
BBB	575	15	563	13
BB or below	17	1	107	2
Unrated	91	2	155	4
Total	3,775	100	4,441	100

Of the £897m of traditional ABS holdings held outside of LGPL, 76% are rated AAA (30 June 2009: £777m of which 91% are rated AAA; 31 December 2009: £839m of which 79% are rated AAA).

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

The methodology for analysing assets by credit rating has been amended in 2010 to present the average of the available external credit ratings. This provides a more realistic view of the credit quality of the Group's assets. In previous periods the credit ratings were presented using the lowest of the available external credit ratings. H1 09 and FY 09 comparatives have been restated accordingly.

Asset Disclosures

4.04 Group subordinated bank exposures

	Market value At 30.06.10 £m	Total At 30.06.10 %	Market value At 30.06.09 £m	Total At 30.06.09 %	Market value At 31.12.09 £m	Total At 31.12.09 %
Tier 1						
United Kingdom ¹	264	11	246	11	224	8
North America	106	4	69	3	101	4
Europe	118	5	91	4	174	7
Others	29	1	9	-	29	1
Total tier 1	517	21	415	18	528	20
Lower tier 2						
United Kingdom	804	34	743	33	853	33
North America	502	21	549	25	569	22
Europe	213	9	299	13	311	12
Others	84	4	81	4	79	3
Upper tier 2						
United Kingdom	94	4	101	5	89	3
North America	26	1	-	-	24	1
Europe	68	3	47	2	73	3
Others	5	-	5	-	4	-
Other subordinated						
United Kingdom	5	-	-	-	3	-
North America	76	3	-	-	72	3
Europe	-	-	-	-	1	-
Others	7	-	-	-	-	-
Total tier 2 and other subordinated	1,884	79	1,825	82	2,078	80
Total	2,401	100	2,240	100	2,606	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.

In 2009, the Group has taken advantage of the favourable terms on which some banks exchanged junior subordinated debt for more senior debt and this has contributed to the reduction in the holdings of junior subordinated bank debt.

Asset Disclosures

4.05 Group capital asset mix

	Society shareholder capital At 30.06.10 %	Other Group shareholder assets At 30.06.10 %	Total At 30.06.10 %	Society shareholder capital At 30.06.09 %	Other Group shareholder assets At 30.06.09 %	Total At 30.06.09 %
Equities	29	-	17	32	3	19
Bonds	39	65	50	30	56	42
Derivative assets	-	15	6	1	15	8
Property	4	-	2	7	-	4
Cash (including cash equivalents)	28	20	25	30	26	27
	100	100	100	100	100	100
Invested assets (£bn)	2.8	2.0	4.8	2.2	1.9	4.1

	Society shareholder capital At 31.12.09 %	Other Group shareholder assets At 31.12.09 %	Total At 31.12.09 %
Equities	39	-	21
Bonds	35	58	46
Derivative assets	-	11	5
Property	4	-	2
Cash (including cash equivalents)	22	31	26
	100	100	100
Invested assets (£bn)	2.3	1.9	4.2

4.06 Value of policyholder assets held in Society and LGPL

	At 30.06.10 £bn	At 30.06.09 £bn	At 31.12.09 £bn
With-profits business	25.1	23.2	25.6
Non profit business	37.3	32.0	35.9
	62.4	55.2	61.5

Asset Disclosures

4.07 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	UK non linked non profit business
	%	%	%	%	%
As at 30 June 2010					
Equities	(4)	36	4	(55)	-
Bonds	6	43	85	153	99
Property	8	14	1	-	-
Cash	-	7	10	2	1
		100	100	100	100
Investment return (% pa)	5	2	5	17	5

Invested assets (£bn):

Net of derivative liabilities	13.3	2.4	1.6	23.4
Gross of derivative liabilities	13.4	2.4	1.6	25.1

As at 30 June 2009

Equities	(1)	35	4	(56)	-
Bonds	1	44	86	137	94
Property	(10)	14	1	-	-
Cash	1	7	9	19	6
		100	100	100	100
Investment return (% pa)	-	(1)	-	(4)	3

Invested assets (£bn):

Net of derivative liabilities	12.1	2.2	1.8	20.3
Gross of derivative liabilities	12.1	2.2	1.8	21.7

As at 31 December 2009

Equities	19	37	4	(68)	-
Bonds	13	42	87	161	98
Property	3	13	1	-	-
Cash	2	8	8	7	2
		100	100	100	100
Investment return (% pa)	12	14	10	(19)	15

Invested assets (£bn):

Net of derivative liabilities	13.6	2.3	1.4	22.4
Gross of derivative liabilities	13.7	2.3	1.4	23.7

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

Asset Disclosures

4.08 Analysis of fair value measurement bases

As at 30 June 2010	Fair value measurement at the end of the reporting period based on:			
	Level 1 £bn	Level 2 £bn	Level 3 £bn	Total £bn
Group capital and other insurance business				
Equities	0.6	0.1	0.1	0.8
Bonds	1.9	3.4	-	5.3
Derivative assets	-	0.3	-	0.3
	2.5	3.8	0.1	6.4
Non profit non-unit linked				
Equities	-	-	-	-
Bonds	2.4	20.4	-	22.8
Derivative assets	0.2	1.5	-	1.7
	2.6	21.9	-	24.5
As at 30 June 2009				
Fair value measurement at the end of the reporting period based on:				
	Level 1 £bn	Level 2 £bn	Level 3 £bn	Total £bn
Group capital and other insurance business				
Equities	0.6	0.1	-	0.7
Bonds	1.7	2.6	-	4.3
Derivative assets	-	0.3	-	0.3
	2.3	3.0	-	5.3
Non profit non-unit linked				
Equities	0.1	-	-	0.1
Bonds	1.4	17.2	-	18.6
Derivative assets	0.2	1.2	-	1.4
	1.7	18.4	-	20.1
As at 31 December 2009				
Fair value measurement at the end of the reporting period based on:				
	Level 1 £bn	Level 2 £bn	Level 3 £bn	Total £bn
Group capital and other insurance business				
Equities	0.7	0.1	0.1	0.9
Bonds	1.7	3.0	-	4.7
Derivative assets	-	0.2	-	0.2
	2.4	3.3	0.1	5.8
Non profit non-unit linked				
Equities	-	-	-	-
Bonds	1.0	20.8	-	21.8
Derivative assets	-	1.3	-	1.3
	1.0	22.1	-	23.1

Consolidated CDO holdings have been presented on a net basis within level 2.

The analysis excludes cash, loans and receivables and property investments of £2.2bn (30 June 2009: £3.3bn; 31 December 2009: £2.2bn) (Note 4.01).

Asset Disclosures

4.08 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 arms 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 industry standard internal models which utilise market assumptions. The CDO valuations have also been verified using externally provided prices. 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 with 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.

Asset Disclosures

European Embedded Value

Consolidated income statement

For the six months ended 30 June 2010

	Notes	30.06.10 £m	30.06.09 Restated ¹ £m	Full year 31.12.09 £m
From continuing operations				
Risk	5.01	367	460	913
Savings ²	5.01	61	24	77
Investment management ²	5.08	81	62	144
International	5.09	61	87	170
Group capital and financing	5.10	33	23	47
Investment projects ³		(14)	-	(32)
Operating profit		589	656	1,319
Variation from longer term investment return	5.11	(184)	(1,018)	(413)
Effect of economic assumption changes	5.12	179	(630)	(335)
Property losses attributable to minority interests		(1)	(20)	(19)
Profit/(loss) from continuing operations before tax		583	(1,012)	552
Tax (expense)/credit on profit/(loss) from ordinary activities	5.14	(161)	292	(114)
Tax impact of corporate restructure	5.01	-	-	59
Profit/(loss) for the period		422	(720)	497
Loss attributable to minority interests	2.17	1	20	19
Profit/(loss) attributable to equity holders of the Company		423	(700)	516
		p	p	p
Earnings per share	5.15			
Based on operating profit from continuing operations after tax attributable to equity holders of the Company		7.21	8.26	16.28
Based on profit/(loss) attributable to equity holders of the Company		7.26	(12.02)	8.86
Diluted earnings per share	5.15			
Based on operating profit from continuing operations after tax attributable to equity holders of the Company		7.13	8.25	16.19
Based on profit/(loss) attributable to equity holders of the Company		7.18	(12.02)	8.81

1. The H1 09 EEV comparatives have been restated to reflect the impact of the change in definition of IFRS operating profit on non covered business. The change has decreased H1 09 EEV operating profit by £1m and increased variation from longer term investment return by £1m. There is no impact on profit after tax or shareholders' equity.

2. The composition of the Savings and Investment management segments has changed. Institutional retail business is now included in the Savings segment. H1 09 and FY 09 have been amended accordingly in-line with the new definition. The effect has been to reduce Savings H1 09 operating profit by £4m and FY 09 operating profit by £5m with an offsetting increase in the Investment management segment's operating profit.

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

European Embedded Value

Consolidated statement of comprehensive income

For the six months ended 30 June 2010

	30.06.10 £m	30.06.09 £m	Full year 31.12.09 £m
Profit/(loss) for the period	422	(720)	497
Other comprehensive income after tax			
Exchange differences on translation of overseas operations	10	(93)	(88)
Actuarial (losses) on defined benefit pension schemes	(17)	(52)	(90)
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	12	36	62
Total comprehensive income/(expense) for the period	427	(829)	381
Total comprehensive income/(expense) attributable to:			
Minority interests	(1)	(20)	(19)
Equity holders of the Company	428	(809)	400

Consolidated balance sheet

As at 30 June 2010

	Notes	At 30.06.10 £m	At 30.06.09 £m	At 31.12.09 £m
Assets				
Investments		288,298	252,431	290,550
Long term in-force business asset		2,623	2,466	2,645
Other assets		7,017	7,671	6,348
Total assets		297,938	262,568	299,543
Equity				
Shareholders' equity	5.17/5.18	6,958	5,556	6,695
Minority interests	2.17	32	149	2
Total equity		6,990	5,705	6,697
Liabilities				
Subordinated borrowings	2.16	1,875	1,552	1,870
Unallocated divisible surplus		1,179	902	1,284
Participating contract liabilities		16,035	15,302	16,176
Non-participating contract liabilities		258,866	227,752	263,085
Senior borrowings	2.16	1,455	1,933	1,407
Other liabilities and provisions		11,538	9,422	9,024
Total liabilities		290,948	256,863	292,846
Total equity and liabilities		297,938	262,568	299,543

European Embedded Value

Notes to the Financial Statements

5.01 Profit/(loss) for the period

For the six months ended 30 June 2010	Notes	Risk and Savings £m	Investment management £m	Inter-national £m	Group capital and financing £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.03/5.05	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:						
General insurance	2.01(f)	14				14
Retail investments		17				17
Investment management ³	5.08		81			81
Group capital and financing	5.10				(39)	(39)
Investment projects					(14)	(14)
Other ⁴		(4)		(4)		(8)
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 minority interests		-	-	-	(1)	(1)
Profit/(loss) from continuing operations 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 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 10 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. Investment management operating profit excludes £17m (H1 09: £12m; FY 09: £28m) 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.

4. In H1 10, Suffolk Life and business unit costs allocated to the Risk and Savings business are included in the EEV covered business operating profit. These are included within Other Risk and Other Savings within IFRS operating profit.

European Embedded Value

Notes to the Financial Statements

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

		Risk and Savings	Investment management	International	Group capital and financing	Total
	Notes	£m	£m	£m	Restated £m	Restated £m
For the six months ended 30 June 2009						
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.03/5.05	185		11		196
Contribution from in-force business:						
- expected return		244		60		304
- experience variances	5.07	114		3		117
- operating assumption changes	5.07	(37)		5		(32)
Development costs		(18)		-		(18)
Contribution from shareholder net worth				8	61	69
Operating profit on covered business		488	-	87	61	636
Business reported on an IFRS basis:						
General insurance	2.01(f)	6				6
Retail investments		(5)				(5)
Investment management ¹	5.08		62			62
Group capital and financing	5.10				(38)	(38)
Other ²		(5)		-		(5)
Total operating profit		484	62	87	23	656
Variation from longer term investment return	5.11	(885)	(1)	(16)	(116)	(1,018)
Effect of economic assumption changes	5.12	(515)	-	(112)	(3)	(630)
Property losses attributable to minority interests		-	-	-	(20)	(20)
(Loss)/profit from continuing operations before tax		(916)	61	(41)	(116)	(1,012)
Tax credit/(expense) on profit from ordinary activities		255	(17)	15	39	292
(Loss)/profit for the period		(661)	44	(26)	(77)	(720)
Operating profit attributable to:						
Risk		460				
Savings		24				

1. H1 09 Investment management operating profit excludes £12m 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.

2. In H1 09, Suffolk Life, International (Ireland) and business unit costs allocated to the Risk and Savings business are included in the EEV covered business operating profit. These are included within Other Risk and Other Savings within IFRS operating profit.

European Embedded Value

Notes to the Financial Statements

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

		Risk and Savings	Investment management	International	Group capital and financing	Total
	Notes	£m	£m	£m	£m	£m
For the year ended 31 December 2009						
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.03/5.05	305		23		328
Contribution from in-force business:						
- expected return		496		118		614
- experience variances	5.07	46		17		63
- operating assumption changes	5.07	156		1		157
Development costs		(30)		-		(30)
Contribution from shareholder net worth				16	125	141
Operating profit on covered business		973	-	175	125	1,273
Business reported on an IFRS basis:						
General insurance	2.01(f)	17				17
Retail investments		4				4
Investment management ¹	5.08		144			144
Group capital and financing	5.10				(78)	(78)
Investment projects					(32)	(32)
Other ²		(4)		(5)		(9)
Total operating profit		990	144	170	15	1,319
Variation from longer term investment return	5.11	(501)	(4)	62	30	(413)
Effect of economic assumption changes	5.12	(249)	-	(97)	11	(335)
Property losses attributable to minority interests		-	-	-	(19)	(19)
Profit from continuing operations before tax		240	140	135	37	552
Tax (expense)/credit on profit from ordinary activities		(67)	(37)	(43)	33	(114)
Tax impact of corporate restructure ³		-	-	-	59	59
Profit for the year		173	103	92	129	497
Operating profit attributable to:						
Risk		913				
Savings		77				

1. FY 09 Investment management operating profit excludes £28m 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.

2. In FY 09, Suffolk Life, International (Ireland) and business unit costs allocated to the Risk and Savings business are included in the EEV covered business operating profit. These are included within Other Risk and Other Savings within IFRS operating profit.

3. In 2009, in addition to current year investment return, £469m was released from the Shareholder Retained Capital and declared as surplus for tax purposes. As a result of the 2007 corporate restructure, this release along with current year movements did not give rise to any incremental tax and therefore resulted in a £59m benefit to embedded value.

European Embedded Value

Notes to the Financial Statements

5.02 New business summary¹

	Notes	APE ² 30.06.10 £m	PVNBP ³ 30.06.10 £m	Margin ⁴ 30.06.10 %	APE 30.06.09 £m	PVNBP 30.06.09 £m	Margin 30.06.09 %
Risk	5.03	191	1,475	9.4	223	1,755	10.1
Savings	5.03	286	1,869	0.6	297	2,060	0.3
International	5.05	64	536	1.9	72	551	2.0
		541	3,880	4.1	592	4,366	4.5

	Notes	APE Full year 31.12.09 £m	PVNBP Full year 31.12.09 £m	Margin Full year 31.12.09 %
Risk	5.03	366	2,728	10.4
Savings	5.03	532	3,676	0.5
International	5.05	109	876	2.6
		1,007	7,280	4.5

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	PVNB ³	Contribution from new business ³	Margin
For the six months ended 30 June 2010	£m	£m		£m	£m	£m	%
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 ⁴	-	-	-	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 ⁵						15	
Contribution from new business before cost of capital						165	

For the six months ended 30 June 2009

Protection	90	427	4.7	-	427	30	7.0
Annuities	-	-	-	1,328	1,328	148	11.1
Total Risk	90	427	4.7	1,328	1,755	178	10.1
Unit linked bonds	-	-	-	319	319	(5)	(1.6)
Pensions, stakeholder and other non profit	77	304	3.9	703	1,007	(4)	(0.4)
With-profits savings	68	241	3.5	493	734	16	2.2
Total Savings	145	545	3.8	1,515	2,060	7	0.3
Total Risk and Savings	235	972	4.1	2,843	3,815	185	4.8
Cost of capital						32	
Contribution from new business before cost of capital						217	

For the year ended 31 December 2009

Protection	180	866	4.8	-	866	68	7.9
Annuities	-	-	-	1,862	1,862	217	11.7
Total Risk	180	866	4.8	1,862	2,728	285	10.4
Unit linked bonds	-	-	-	677	677	(4)	(0.6)
Pensions, stakeholder and other non profit	144	515	3.6	1,289	1,804	(11)	(0.6)
With-profits savings	103	316	3.1	879	1,195	35	2.9
Total Savings	247	831	3.4	2,845	3,676	20	0.5
Total Risk and Savings	427	1,697	4.0	4,707	6,404	305	4.8
Cost of capital						40	
Contribution from new business before cost of capital						345	

1. Covered business only.

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

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

4. For H1 10, business written through International (Ireland) has been removed from covered business. This business is now reported on an IFRS basis within Other savings, making the presentation comparable with the IFRS financial statements. If International (Ireland) had been removed from covered business in H1 09 and FY 09, the contribution from new business would be increased by £nil and £2m respectively. Comparatives have not been restated.

5. The H1 10 new business cost of capital is lower than H1 09 primarily reflecting the impact of a reduction in the risk margin from 4.5% at H1 09 to 3.2% at H1 10.

European Embedded Value

Notes to the Financial Statements

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

	IRR 30.06.10 %	Payback period 30.06.10 years	IRR 30.06.09 %	Payback period 30.06.09 years	IRR 31.12.09 %	Payback period 31.12.09 years
Protection	15	5	16	5	17	5
Annuities ²	>30	<0	>30	<0	>30	<0
Unit linked bonds	9	8	6	9	8	9
Pensions, stakeholder and other non profit	7	13	7	12	6	14

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 £m	PVNB £m	Contri- bution from new business ² £m	Cost of capital £m	Margin %
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 six months ended 30 June 2009					
USA	29	204	8	4	4.2
Netherlands	13	113	1	2	0.6
France	30	234	2	3	0.9
Total	72	551	11	9	2.0

For the year ended 31 December 2009					
USA	49	354	17	2	4.9
Netherlands	22	193	5	3	2.7
France	38	329	1	5	0.1
Total	109	876	23	10	2.6

1. Excludes core retail investments in France.

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

5.06 International¹ new business in local currency

	Annual premiums m	Present value of annual premiums m	Capital- isation factor	Single Premiums m	PVNB m	Contri- bution from new business ² m	Cost of capital m	Margin %
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 six months ended 30 June 2009								
USA	\$43	\$301	7.0	-	\$301	\$13	\$6	4.2
Netherlands	€5	€32	6.5	€96	€128	€1	€2	0.6
France	€21	€142	6.7	€122	€264	€2	€3	0.9

For the year ended 31 December 2009								
USA	\$76	\$553	7.3	-	\$553	\$27	\$3	4.9
Netherlands	€9	€61	6.8	€157	€218	€6	€3	2.7
France	€15	€105	7.2	€264	€369	€1	€5	0.1

1. Excludes core retail investments in France.

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

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
	£m	£m	£m	£m	£m	£m
For the six months ended 30 June 2010						
Persistency	1	(2)	(1)	(1)	-	(1)
Mortality/morbidity	11	12	23	(9)	-	(9)
Expenses	6	(15)	(9)	(2)	(2)	(4)
Other	49	(4)	45	(1)	-	(1)
	67	(9)	58	(13)	(2)	(15)

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

H1 10 Risk and Savings other experience variances principally includes £31m relating to one-off modelling improvements, with the remainder reflecting cost of capital releases on the value of in-force.

	Risk and Savings			International		
	Experience variances	Operating assumption changes	Total	Experience variances	Operating assumption changes	Total
	£m	£m	£m	£m	£m	£m
For the six months ended 30 June 2009						
Persistency	(4)	(1)	(5)	1	-	1
Mortality/morbidity	5	-	5	4	6	10
Expenses	(5)	(31)	(36)	(1)	(4)	(5)
Other	118	(5)	113	(1)	3	2
	114	(37)	77	3	5	8

H1 09 Risk and Savings expense assumption changes primarily reflect assumed higher future investment expenses.

H1 09 Risk and Savings other experience variances principally include £57m relating to one-off modelling improvements and £39m reflecting a reassessment of future reserve releases as data is loaded onto the BPA system and other reserve releases.

	Risk and Savings			International		
	Experience variances	Operating assumption changes	Total	Experience variances	Operating assumption changes	Total
	£m	£m	£m	£m	£m	£m
For the year ended 31 December 2009						
Persistency	(5)	(42)	(47)	(2)	(13)	(15)
Mortality/morbidity	(6)	114	108	13	26	39
Expenses	(19)	60	41	(7)	(12)	(19)
Other	76	24	100	13	-	13
	46	156	202	17	1	18

FY 09 Risk and Savings persistency operating assumption changes relate to the strengthening of lapse assumptions for individual protection and unit linked bond policies; partially offset by improved persistency for with-profits products.

FY 09 Risk and Savings mortality assumption changes relates to favourable annuitant mortality experience in 2009 which has been reflected in the latest three year average experience, and favourable individual protection mortality.

FY 09 Risk and Savings expense assumption changes primarily reflects the £76m impact of the cost reductions delivered in 2009; partially offset by the impact of assumed higher future investment expenses of £(29)m. Other smaller items have a net positive impact of £13m. Expense experience variances include the impact of redundancy costs as a result of the cost reduction programme and exceptional project expenses and other items; partially offset by the impact of lower maintenance expenses than assumed of £6m.

FY 09 Risk and Savings other experience variances includes £44m reflecting a reassessment of future reserve releases as data is loaded onto the BPA system and £43m relating to one-off modelling improvements.

FY 09 International mortality operating assumption changes primarily reflects improved claims ratios on group protection business in France, following positive experience in 2009.

European Embedded Value

Notes to the Financial Statements

5.08 Investment management operating profit

	30.06.10 £m	30.06.09 £m	Full year 31.12.09 £m
Managed pension funds ¹	70	55	128
Private equity	(1)	(1)	(1)
Property	(1)	1	4
Other income ²	13	7	13
Total Investment management operating profit	81	62	144

1. The managed pension funds business within Investment management has been reported on an IFRS basis as management believe IFRS to be the most appropriate reporting basis for the Investment management business.

2. Other income excludes £17m (H1 09: £12m; FY 09: £28m) 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, Savings and Group capital and financing covered business on an EEV basis.

5.09 International operating profit

	30.06.10 £m	30.06.09 £m	Full year 31.12.09 £m
USA	41	58	109
Netherlands	10	9	29
France	14	20	37
Other ¹	(4)	-	(5)
Total International operating profit	61	87	170

1. Other includes our joint venture operations in Egypt, the Gulf, India and business unit costs allocated to the International segment.

5.10 Group capital and financing operating profit¹

	30.06.10 £m	30.06.09 Restated £m	Full year 31.12.09 £m
Business reported on an EEV basis	72	61	125
Business reported on an IFRS basis:			
Investment return	23	30	53
Interest expense ²	(59)	(65)	(127)
Unallocated corporate expenses	(3)	(3)	(4)
	(39)	(38)	(78)
Total Group capital and financing operating profit	33	23	47

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

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

European Embedded Value

Notes to the Financial Statements

5.11 Variation from longer term investment return

	30.06.10	30.06.09 Restated	Full year 31.12.09
	£m	£m	£m
Business reported on an EEV basis:			
Risk and Savings ¹	(110)	(875)	(513)
International	31	(16)	62
Group capital and financing	(49)	(141)	(8)
	(128)	(1,032)	(459)
Business reported on an IFRS basis:			
Risk and Savings	10	(10)	12
Investment management	(4)	(1)	(4)
Group capital and financing	(62)	25	38
	(184)	(1,018)	(413)

1. In H1 10, favourable market conditions have allowed the annuity business to reduce some of its credit exposure to corporate bonds, and in turn increase its UK sovereign debt holdings with negligible IFRS impact. However the yield on the gilts purchased is lower than the EEV reinvestment rate which is reflected in a negative investment variance of £(40)m. A £(25)m negative investment variance from the savings business and £(43)m negative variance due to an increased cost of capital arising from the reduction in the equity ratio for assets backing solvency capital have also contributed to the investment return variance.

5.12 Effect of economic assumption changes

	30.06.10	30.06.09	Full year 31.12.09
	£m	£m	£m
Business reported on an EEV basis:			
Risk and Savings ¹	139	(515)	(249)
International	40	(112)	(97)
Group capital and financing	-	(3)	11
	179	(630)	(335)

1. H1 10 Risk and Savings economic assumption changes primarily reflects the decrease in the UK risk margin from 3.5% to 3.2%.

5.13 Time value of options and guarantees

	30.06.10	30.06.09	Full year 31.12.09
	£m	£m	£m
Risk and Savings	21	27	13
International	17	12	19
	38	39	32

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
	30.06.10	30.06.10	30.06.09 Restated	30.06.09 Restated	Full year 31.12.09	Full year 31.12.09
	£m	£m	£m	£m	£m	£m
From continuing operations						
Risk	367	(103)	460	(129)	913	(254)
Savings	61	(18)	24	(7)	77	(23)
Investment management	81	(23)	62	(17)	144	(38)
International	61	(20)	87	(29)	170	(57)
Group capital and financing	33	(9)	23	7	47	(8)
Investment projects	(14)	4	-	-	(32)	9
Operating profit	589	(169)	656	(175)	1,319	(371)
Variation from longer term investment return	(184)	62	(1,018)	282	(413)	158
Effect of economic assumption changes	179	(54)	(630)	185	(335)	99
Property losses attributable to minority interests	(1)	-	(20)	-	(19)	-
Profit/(loss) from continuing operations before tax / Tax	583	(161)	(1,012)	292	552	(114)

It is considered that the net effect of the government's proposed tax changes announced in the emergency budget, including a reduction in the corporation tax rate to 27% and an increase in the rate of VAT to 20%, will have an immaterial impact on the EEV results. The UK EEV calculations and the tax rate used for grossing up in the income statement are therefore based on a UK corporation tax rate of 28% (H1 09: 28%; FY 09: 28%).

5.15 Earnings per share

(a) Earnings per share

	Profit/(loss) before tax	Tax (expense)/ credit	Profit/(loss) after tax	Per share	Profit/(loss) before tax	Tax (expense)/ credit	Profit/(loss) after tax	Per share
	30.06.10	30.06.10	30.06.10	30.06.10	30.06.09 Restated	30.06.09 Restated	30.06.09 Restated	30.06.09 Restated
	£m	£m	£m	p	£m	£m	£m	p
Operating profit from continuing operations	589	(169)	420	7.21	656	(175)	481	8.26
Variation from longer term investment return	(184)	62	(122)	(2.09)	(1,018)	282	(736)	(12.64)
Effect of economic assumption changes	179	(54)	125	2.14	(630)	185	(445)	(7.64)
Earnings per share based on profit/(loss) attributable to equity holders	584	(161)	423	7.26	(992)	292	(700)	(12.02)
					Profit/(loss) before tax	Tax (expense)/ credit	Profit/(loss) after tax	Per share
					Full year 31.12.09	Full year 31.12.09	Full year 31.12.09	Full year 31.12.09
					£m	£m	£m	p
Operating profit from continuing operations					1,319	(371)	948	16.28
Variation from longer term investment return					(413)	158	(255)	(4.38)
Effect of economic assumption changes					(335)	99	(236)	(4.05)
Tax impact of corporate restructure					-	59	59	1.01
Earnings per share based on profit/(loss) attributable to equity holders					571	(55)	516	8.86

European Embedded Value

Notes to the Financial Statements

5.15 Earnings per share (continued)

(b) Diluted earnings per share

(i) Based on operating profit from continuing operations after tax

	Profit after tax 30.06.10	Number of shares ¹ 30.06.10	Per share 30.06.10	Profit after tax 30.06.09 Restated £m	Number of shares ¹ 30.06.09	Per share 30.06.09 Restated p
	£m	m	p	£m	m	p
Operating profit from continuing operations after tax	420	5,827	7.21	481	5,822	8.26
Net shares under options allocable for no further consideration	-	63	(0.08)	-	8	(0.01)
Diluted earnings per share	420	5,890	7.13	481	5,830	8.25

	Profit after tax Full year 31.12.09 £m	Number of shares ¹ Full year 31.12.09 m	Per share Full year 31.12.09 p
Operating profit from continuing operations after tax	948	5,824	16.28
Net shares under options allocable for no further consideration	-	33	(0.09)
Diluted earnings per share	948	5,857	16.19

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

	Profit after tax 30.06.10 £m	Number of shares ¹ 30.06.10 m	Per share 30.06.10 p	Loss after tax 30.06.09 £m	Number of shares ¹ 30.06.09 m	Per share 30.06.09 p
Profit/(loss) attributable to equity holders of the Company	423	5,827	7.26	(700)	5,822	(12.02)
Net shares under options allocable for no further consideration	-	63	(0.08)	-	8	-
Diluted earnings per share	423	5,890	7.18	(700)	5,830	(12.02)

	Profit after tax Full year 31.12.09 £m	Number of shares ¹ Full year 31.12.09 m	Per share Full year 31.12.09 p
Profit attributable to equity holders of the Company	516	5,824	8.86
Net shares under options allocable for no further consideration	-	33	(0.05)
Diluted earnings per share	516	5,857	8.81

The number of shares in issue at 30 June 2010 was 5,865,651,980 (30 June 2009: 5,861,679,365; 31 December 2009: 5,862,216,780).

1. Weighted average number of shares.

European Embedded Value

Notes to the Financial Statements

5.16 Group embedded value reconciliation

	Covered business			Total UK £m	Inter-national £m	Non-covered business £m	Total £m
	UK free surplus £m	UK required capital £m	UK value of in-force £m				
For the six months ended 30 June 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)	-			
- Experience variances	7	-	40	47			
- Operating assumption changes	85	-	(92)	(7)			
- Development costs	(6)	-	-	(6)			
- Expected return on SNW	21	34	-	55			
Operating profit/(loss)	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 ³	84	-	-	84	(34)	(50)	-
Dividends to equity holders of the Company	-	-	-	-	-	(160)	(160)
Net movements in employee share schemes	-	-	-	-	-	(2)	(2)
Loss attributable to minority 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				International	Non-covered business Restated	Total Restated
	UK free surplus	UK required capital	UK value of in-force	Total UK			
For the six months ended 30 June 2009	£m	£m	£m	£m	£m	£m	£m
At 1 January							
Value of in-force business (VIF)	-	-	4,268	4,268	1,059	-	5,327
Shareholder net worth (SNW)	509	1,369	-	1,878	404	(1,088)	1,194
	509	1,369	4,268	6,146	1,463	(1,088)	6,521
Exchange rate movements	-	-	-	-	(177)	84	(93)
	509	1,369	4,268	6,146	1,286	(1,004)	6,428
Operating profit for the period:							
- New business contribution ¹	(119)	95	157	133			
- Expected return on VIF	-	-	175	175			
- Expected transfer from Non profit VIF to SNW ²	304	(61)	(243)	-			
- With-profits transfer	21	-	(21)	-			
- Experience variances	(54)	(4)	133	75			
- Operating assumption changes	49	4	(75)	(22)			
- Development costs	(13)	-	-	(13)			
- Expected return on SNW	20	25	-	45			
Operating profit	208	59	126	393	58	30	481
Non-operating (loss)/profit for the period:							
- Investment variances	(588)	(4)	(144)	(736)			
- Economic assumption changes	123	24	(521)	(374)			
Non-operating (loss)/profit for the period:	(465)	20	(665)	(1,110)	(84)	(7)	(1,201)
(Loss)/profit for the period	(257)	79	(539)	(717)	(26)	23	(720)
Intra-group distributions	-	-	-	-	(2)	2	-
Dividends to equity holders of the Company	-	-	-	-	-	(120)	(120)
Net movements in employee share schemes	-	-	-	-	-	6	6
Loss attributable to minority interests	-	-	-	-	-	20	20
Transfer to non-covered business ⁴	(8)	-	-	(8)	-	8	-
Other reserve movements including pension deficit	(36)	-	(6)	(42)	-	(16)	(58)
Embedded value	208	1,448	3,723	5,379	1,258	(1,081)	5,556
Represented by:							
- Non profit			3,386				
- With-profits			337				
Value of in-force business	-	-	3,723	3,723	935	-	4,658
Shareholder net worth	208	1,448	-	1,656	323	(1,081)	898

1. The free surplus reduction of £119m to finance new business includes £31m IFRS new business strain and £95m additional required capital. Other items have a net positive impact of £7m.

2. The increase in free surplus of £304m from the expected return on the in-force non profit business includes £238m of IFRS operational cash generation and a £61m reduction in required capital. Other items have a net positive impact of £5m.

3. 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 £m	International £m	Non-covered business £m	Total £m
	UK free surplus £m	UK required capital £m	UK value of in-force £m				
For the year ended 31 December 2009							
At 1 January							
Value of in-force business (VIF)	-	-	4,268	4,268	1,059	-	5,327
Shareholder net worth (SNW)	509	1,369	-	1,878	404	(1,088)	1,194
	509	1,369	4,268	6,146	1,463	(1,088)	6,521
Exchange rate movements	-	-	-	-	(153)	65	(88)
	509	1,369	4,268	6,146	1,310	(1,023)	6,433
Operating profit for the year:							
- New business contribution ¹	(189)	155	253	219			
- Expected return on VIF	-	-	358	358			
- Expected transfer from Non profit VIF to SNW ²	648	(147)	(501)	-			
- With-profits transfer	46	-	(46)	-			
- Experience variances	30	29	(31)	28			
- Operating assumption changes	285	(23)	(152)	110			
- Development costs	(21)	-	-	(21)			
- Expected return on SNW	34	61	-	95			
Operating profit/(loss)	833	75	(119)	789	117	42	948
Non-operating (loss)/profit for the year:							
- Investment variances	(66)	2	(276)	(340)			
- Economic assumption changes	(66)	75	(180)	(171)			
- Tax impact of corporate restructure	59	-	-	59			
Non-operating (loss)/profit for the year:	(73)	77	(456)	(452)	(21)	22	(451)
Profit/(loss) for the year	760	152	(575)	337	96	64	497
Capital movements	-	-	-	-	50	(50)	-
Intra-group distributions ³	(154)	-	-	(154)	(10)	164	-
Dividends to equity holders of the Company	-	-	-	-	-	(185)	(185)
Net movements in employee share schemes	-	-	-	-	-	19	19
Loss attributable to minority interests	-	-	-	-	-	19	19
Transfer to non-covered business ⁴	(20)	-	-	(20)	-	20	-
Other reserve movements including pension deficit	(28)	-	(14)	(42)	-	(46)	(88)
Embedded value	1,067	1,521	3,679	6,267	1,446	(1,018)	6,695
Represented by:							
- Non profit			3,213				
- With-profits			466				
Value of in-force business	-	-	3,679	3,679	928	-	4,607
Shareholder net worth	1,067	1,521	-	2,588	518	(1,018)	2,088

1. The free surplus reduction of £189m to finance new business includes £27m IFRS new business strain and £155m additional required capital. Other items have a net positive impact of £7m.

2. The increase in free surplus of £648m from the expected return on the in-force non profit business includes £496m of IFRS operational cash generation and a £147m reduction in required capital. Other items have a net positive impact of £5m.

3. Intra-group distributions comprise a £154m dividend paid from Society to Group, and distributions from the covered businesses of USA (\$6m), Netherlands (€5m) and France (€3m).

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.

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 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)

	Risk and Savings	Investment management	Inter-national	Group capital and financing	Total
	£m	£m	£m	£m	£m
As at 30 June 2009					
Analysed as:					
IFRS basis shareholders' equity ¹	199	334	1,163	1,599	3,295
Additional retained profit/(loss) on an EEV basis	3,723	-	105	(1,567)	2,261
Shareholders' equity on an EEV basis	3,922	334	1,268	32	5,556
Comprising:					
Business reported on an IFRS basis	199	334	10	(1,624)	(1,081)
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus ²			84	208	292
- Required capital to cover solvency margin			239	1,448	1,687
Value of in-force					
- Value of in-force business	4,128		1,028		5,156
- Cost of capital	(405)		(93)		(498)

	Risk and Savings	Investment management	Inter-national	Group capital and financing	Total
	£m	£m	£m	£m	£m
As at 31 December 2009					
Analysed as:					
IFRS basis shareholders' equity ¹	233	305	1,372	2,286	4,196
Additional retained profit/(loss) on an EEV basis	3,679	-	108	(1,288)	2,499
Shareholders' equity on an EEV basis	3,912	305	1,480	998	6,695
Comprising:					
Business reported on an IFRS basis	233	305	34	(1,590)	(1,018)
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus ²			263	1,067	1,330
- Required capital to cover solvency margin			255	1,521	1,776
Value of in-force					
- Value of in-force business	3,987		1,012		4,999
- Cost of capital	(308)		(84)		(392)

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 30.06.10 £m	Other business IFRS basis At 30.06.10 £m	Total At 30.06.10 £m	Covered business EEV basis At 30.06.09 £m	Other business IFRS basis At 30.06.09 £m	Total At 30.06.09 £m
Risk						
- Risk reported on an EEV basis	2,381	-	2,381	2,688	-	2,688
- General insurance	-	137	137	-	95	95
- Other	-	(1)	(1)	-	(1)	(1)
Total Risk	2,381	136	2,517	2,688	94	2,782
Savings						
- Savings reported on an EEV basis	1,116	-	1,116	1,035	-	1,035
- Retail investments	-	107	107	-	92	92
- Other	-	15	15	-	13	13
Total Savings	1,116	122	1,238	1,035	105	1,140
Investment management	-	370	370	-	334	334
International						
- USA	1,002	-	1,002	777	-	777
- Netherlands	313	-	313	278	-	278
- France	220	-	220	203	-	203
- Emerging markets	-	33	33	-	10	10
Total International	1,535	33	1,568	1,258	10	1,268
Group capital and financing	2,988	(1,723)	1,265	1,656	(1,624)	32
	8,020	(1,062)	6,958	6,637	(1,081)	5,556
				Covered business EEV basis At 31.12.09 £m	Other business IFRS basis At 31.12.09 £m	Total At 31.12.09 £m
Risk						
- Risk reported on an EEV basis				2,530	-	2,530
- General insurance				-	120	120
- Other				-	-	-
Total Risk				2,530	120	2,650
Savings						
- Savings reported on an EEV basis				1,149	-	1,149
- Retail investments				-	100	100
- Other				-	13	13
Total Savings				1,149	113	1,262
Investment management				-	305	305
International						
- USA				904	-	904
- Netherlands				316	-	316
- France				226	-	226
- Emerging markets				-	34	34
Total International				1,446	34	1,480
Group capital and financing				2,588	(1,590)	998
				7,713	(1,018)	6,695

European Embedded Value

Notes to the Financial Statements

5.19 Reconciliation of shareholder net worth

	UK covered business At 30.06.10 £m	Total At 30.06.10 £m	UK covered business At 30.06.09 £m	Total At 30.06.09 £m	UK covered business At 31.12.09 £m	Total At 31.12.09 £m
SNW of long term operations (IFRS basis)	4,090	5,529	3,223	4,376	3,876	5,214
Other liabilities (IFRS basis)	-	(1,062)	-	(1,081)	-	(1,018)
Shareholders' equity on the IFRS basis	4,090	4,467	3,223	3,295	3,876	4,196
Purchased interest in long term business	(93)	(101)	(161)	(183)	(114)	(126)
Deferred acquisition costs/deferred income liabilities	(251)	(1,221)	(246)	(1,089)	(250)	(1,132)
Contingent loan ¹	(538)	(538)	(692)	(692)	(421)	(421)
Deferred tax ²	(280)	58	(391)	(112)	(324)	(33)
Other ³	60	(243)	(77)	(321)	(179)	(396)
Shareholder net worth on the EEV basis	2,988	2,422	1,656	898	2,588	2,088

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 sterling reserves, other long term reserves and the non profit result of LGPL under EEV compared with IFRS. 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 total portfolio, after allowance for long term default risk, are shown below.

For annuities, separate returns are calculated for new and existing business.

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

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 30.06.09; 0.70% p.a. at 31.12.09) greater than the swap rate at that time (i.e. the long term credit rate).

Additionally 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 credit defaults over the short term. The allowance expressed as a level rate deduction from the expected returns was 35bp at 30 June 2010 (43bp at 30.06.09; 40bp at 31.12.09).

Economic assumptions

	30.06.10 % p.a.	30.06.09 % p.a.	31.12.09 % p.a.	31.12.08 % p.a.
Equity risk premium	3.5	3.5	3.5	3.5
Property risk premium	2.0	2.0	2.0	2.0
Investment return				
- Gilts:				
- Fixed interest	3.8	4.3	4.0	3.8
- RPI linked	4.1	4.2	4.5	3.7
- Non gilts:				
- Fixed interest	3.9 – 5.8	4.4 – 7.6	4.4 – 6.2	4.2 – 8.2
- RPI linked	4.5 – 5.4	4.9 – 6.1	5.1 – 6.1	4.7 – 5.9
- Equities	7.6	7.8	8.0	7.3
- Property	6.1	6.3	6.5	5.8
Risk free rate ¹	4.1	4.3	4.5	3.8
Risk margin	3.2	4.5	3.5	4.5
Risk discount rate (net of tax)	7.3	8.8	8.0	8.3
Inflation				
- Expenses/earnings	3.8	4.2	4.6	3.6
- Indexation	3.3	3.2	3.6	2.6

1. The risk free rate is the gross redemption yield on the 20 year gilt index.

UK covered business

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

European Embedded Value Notes to the Financial Statements

5.20 Assumptions (continued)

- 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 CMI Working Paper 30, projection MC, with a minimum annual improvement of 1.5% for future experience, and 2.0% for statutory reserving. Female annuitant mortality is assumed to improve in accordance with 75% of projection MC, with a minimum annual 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 89 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 24.5 years (30.06.09: 25.2 years; 31.12.09: 24.5 years). The expectation of life on the regulatory reserving basis is 25.7 years (30.06.09: 26.4 years; 31.12.09: 25.7 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:

	30.06.10 % p.a.	30.06.09 % p.a.	31.12.09 % p.a.	31.12.08 % p.a.
USA				
Reinvestment rate	4.4	5.3	5.1	5.4
Risk margin	3.2	4.5	3.5	4.5
Risk discount rate (net of tax)	6.5	8.0	7.4	6.8
Europe				
Government bond return	2.8	3.8	3.6	3.5
Risk margin	3.2	4.5	3.5	4.5
Risk discount rate (net of tax)	6.0	8.3	7.1	8.0

- 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. The tax rate used for grossing up is the corporate tax rate in the territory concerned, which for the UK was 28% (H1 09 and FY 09: 28%). It is considered that the net effect of the government's proposed tax changes announced in the emergency budget, including a reduction in the corporation tax rate to 27% and an increase in the rate of VAT to 20%, will have an immaterial impact on the EEV results. 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 2010 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%	4.0%	4.7%	4.1%
Corporate bonds	5.7%	4.1%	6.5%	4.3%
Property (excess returns)	1.9%	14.7%	2.0%	15.0%
Equities (excess returns)	3.5%	20.3%	3.5%	20.0%
European Business (Euro)				
Long Government bonds ³	3.1%	4.3%	3.8%	4.3%
Short Government bonds ⁴	3.1%	3.7%	3.8%	6.9%
US Business (US Dollar)				
Long Government bonds ³	3.3%	5.5%	4.5%	5.6%

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.

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, as management believe IFRS to be the most appropriate reporting basis for the investment management business.

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 175% 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 4% and 5%. 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 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 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 28%.

European Embedded Value Notes to the Financial Statements

5.21 Methodology (continued)

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 10 results the risk margin was decreased to 3.2% (H1 09: 4.5%; FY 09: 3.5%). The decrease reflects the continued reduction in the market perceived company specific risks that were initially apparent in the dislocated market conditions at the end of 2008 and early in 2009.

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 financial information in the Half Year Report for the six months ended 30 June 2010, which comprises the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet as at 30 June 2010 and related notes prepared on the European Embedded Value (“EEV”) basis on pages 65 to 90 (“the supplementary half year financial information”). 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 half year 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 half year 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 half year 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 half year financial information in the Half Year Report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with the EEV basis set out in note 5.21.

PricewaterhouseCoopers LLP
Chartered Accountants
London
3 August 2010

Notes:

- (a) The Half Year Report is published on the website of Legal & General Group Plc, www.legalandgeneralgroup.com. The maintenance and integrity of the Legal & General Group Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

New Business

6.01 Investment management new business

	30.06.10 £m	30.06.09 £m	Full year 31.12.09 £m
Managed pension funds¹			
Pooled funds	12,320	11,788	25,606
Segregated funds	5,045	1,247	3,381
Total managed funds	17,365	13,035	28,987
Other funds ²	4,577	2,102	4,297
Total new funds	21,942	15,137	33,284
Attributable to:			
Legal & General Investment Management	21,158	14,182	31,485
Legal & General Retail Investments	784	955	1,799

6.02 Investment management new business quarterly progression

	3 months to 30.06.10 £m	3 months to 31.03.10 £m	3 months to 31.12.09 £m	3 months to 30.09.09 £m	3 months to 30.06.09 £m	3 months to 31.03.09 £m
Managed pension funds¹						
Pooled funds	4,936	7,384	6,742	7,076	5,763	6,025
Segregated funds	4,777	268	1,344	790	533	714
Total managed funds	9,713	7,652	8,086	7,866	6,296	6,739
Other funds ²	981	3,596	869	1,326	1,382	720
Total new funds	10,694	11,248	8,955	9,192	7,678	7,459
Attributable to:						
Legal & General Investment Management	10,305	10,853	8,450	8,853	7,166	7,016
Legal & General Retail Investments	389	395	505	339	512	443

1. New monies from pension fund clients of Legal & General Assurance (Pensions Management) exclude £2.3bn (H109: £2.4bn; FY09: £7.9bn) held through the year on a temporary basis, generally as part of portfolio reconstructions.

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

6.03 Legal & General Investment Management new business by investment approach

	30.06.10 %	30.06.09 %	31.12.09 %
Indexed equities	43	52	49
Indexed bonds (including index linked funds and cash)	27	27	27
Active bonds (including index linked funds and cash)	9	16	14
Structured solutions	20	5	10
Property	1	-	-
Total	100	100	100

New Business

6.04 Funds under management

	At 30.06.10 £m	At 30.06.09 £m	At 31.12.09 £m
Total investments	320,014	270,899	315,101
<i>Represented by</i>			
Index tracking funds:			
- UK equities	61,376	55,595	68,971
- Overseas equities	71,390	56,715	73,858
- Fixed interest	37,971	34,798	36,534
- Index linked	30,642	31,514	28,245
- Cash/deposits	628	1,939	695
Total index tracking funds	202,007	180,561	208,303
Actively managed funds	80,408	67,864	76,860
Structured solutions	37,599	22,474	29,938
	320,014	270,899	315,101
<i>By investment approach</i>			
Index equities	132,766	112,310	142,828
Index bonds (including index linked funds and cash)	69,241	68,252	65,475
Active bonds (including index linked funds and cash)	64,507	54,453	61,167
Structured solutions	37,599	22,474	29,938
Active equities	8,057	7,290	8,788
Property	7,656	5,899	6,675
Private equity	188	221	230
	320,014	270,899	315,101
<i>By source of business</i>			
Institutional funds under management ¹ :			
- Managed pension funds pooled	184,495	163,875	190,792
- Structured solutions	37,599	22,474	29,938
- Other	14,368	9,055	11,261
- Managed pension funds segregated	3,630	6,378	4,330
Total institutional funds under management	240,092	201,782	236,321
UK businesses (life and general insurance funds)	66,206	58,198	65,106
UK businesses (unit trusts - excluding life fund investment)	13,716	10,919	13,674
	320,014	270,899	315,101

1. Excludes institutional investments in unit trust funds.

Funds under management of £11bn (30 June 2009: £16bn; 31 December 2009: £19bn) derived from retail investments and additional funds managed overseas, take total worldwide funds under management to £331bn (30 June 2009: £287bn; 31 December 2009: £334bn).

New Business

6.05 Worldwide new business

	Annual premiums 30.06.10 £m	Single premiums 30.06.10 £m	APE 30.06.10 £m	Annual premiums 30.06.09 £m	Single premiums 30.06.09 £m	APE 30.06.09 £m	APE Full year 31.12.09 £m
Protection							
- Individual	57	-	57	60	-	60	123
- Group	28	-	28	30	-	30	57
	85	-	85	90	-	90	180
Annuities							
- Individual (non profit)	-	601	60	-	583	58	96
- Individual (with-profits)	-	10	1	-	7	1	2
- Bulk purchase	-	447	45	-	738	74	88
	-	1,058	106	-	1,328	133	186
Total Risk	85	1,058	191	90	1,328	223	366
Core retail investments ¹							
- Unit trusts	4	2,055	210	5	1,061	111	269
- ISAs	11	860	97	13	270	40	106
Non profit savings							
- Unit linked bonds	-	443	44	-	319	32	68
- Individual pensions	114	678	181	77	699	147	272
- DWP rebates	-	6	1	-	4	-	1
With-profits savings							
- Bonds	-	197	20	-	305	31	55
- Individual pensions	40	78	48	67	123	79	123
- DWP rebates	-	74	7	-	65	7	12
- Group pensions	1	2	1	1	-	1	1
Total Savings	170	4,393	609	163	2,846	448	907
- USA	22	-	22	29	-	29	49
- Netherlands	3	66	10	4	86	13	22
- France	20	123	32	19	110	30	38
- India (26% share)	8	2	8	-	-	-	-
- Egypt (55% share)	5	-	5	-	-	-	-
	58	191	77	52	196	72	109
France retail investment business	-	40	4	-	32	3	6
Total International	58	231	81	52	228	75	115
Total worldwide new business	313	5,682	881	305	4,402	746	1,388

1. Core retail 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

6.06 Worldwide new business APE quarterly progression

	3 months to 30.06.10 £m	3 months to 31.03.10 £m	3 months to 31.12.09 £m	3 months to 30.09.09 £m	3 months to 30.06.09 £m	3 months to 31.03.09 £m
Protection						
- Individual	29	28	31	32	30	30
- Group	14	14	16	11	16	14
	43	42	47	43	46	44
Annuities						
- Individual (non profit)	33	27	16	22	25	33
- Individual (with-profits)	1	-	1	-	1	-
- Bulk purchase	30	15	9	5	24	50
	64	42	26	27	50	83
Total Risk	107	84	73	70	96	127
Core retail investments ¹						
- Unit trusts	104	106	85	73	65	46
- ISAs	59	38	32	34	26	14
Non profit savings						
- Unit linked bonds	26	18	23	13	14	18
- Individual pensions	113	68	60	65	71	76
- DWP rebates	1	-	-	1	-	-
With-profits savings						
- Bonds	11	9	11	13	18	13
- Individual pensions	21	27	22	22	40	39
- DWP rebates	7	-	1	4	7	-
- Group pensions	-	1	-	-	1	-
Total Savings	342	267	234	225	242	206
- USA	13	9	9	11	13	16
- Netherlands	4	6	5	4	6	7
- France	19	13	7	1	6	24
- India (26% share)	2	6	-	-	-	-
- Egypt (55% share)	5	-	-	-	-	-
	43	34	21	16	25	47
France retail investment business	1	3	2	1	1	2
Total International	44	37	23	17	26	49
Total worldwide new business	493	388	330	312	364	382

1. Core retail 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

6.07 Worldwide new business annual premium quarterly progression

	3 months to 30.06.10 £m	3 months to 31.03.10 £m	3 months to 31.12.09 £m	3 months to 30.09.09 £m	3 months to 30.06.09 £m	3 months to 31.03.09 £m
Protection						
- Individual	29	28	31	32	30	30
- Group	14	14	16	11	16	14
	43	42	47	43	46	44
Annuities						
- Individual (non profit)	-	-	-	-	-	-
- Individual (with-profits)	-	-	-	-	-	-
- Bulk purchase	-	-	-	-	-	-
	-	-	-	-	-	-
Total Risk	43	42	47	43	46	44
Core retail investments ¹						
- Unit trusts	2	2	2	3	2	3
- ISAs	8	3	4	5	7	6
Non profit savings						
- Unit linked bonds	-	-	-	-	-	-
- Individual pensions	81	33	29	38	37	40
- DWP rebates	-	-	-	-	-	-
With-profits savings						
- Bonds	-	-	-	-	-	-
- Individual pensions	18	22	18	17	35	32
- DWP rebates	-	-	-	-	-	-
- Group pensions	-	1	-	-	1	-
Total Savings	109	61	53	63	82	81
- USA	13	9	9	11	13	16
- Netherlands	1	2	2	2	2	2
- France	12	8	-	(5)	-	19
- India (26% share)	2	6	-	-	-	-
- Egypt (55% share)	5	-	-	-	-	-
	33	25	11	8	15	37
France retail investment business	-	-	-	-	-	-
Total International	33	25	11	8	15	37
Total worldwide new business	185	128	111	114	143	162

1. Core retail 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

6.08 Worldwide new business single premium quarterly progression

	3 months to 30.06.10 £m	3 months to 31.03.10 £m	3 months to 31.12.09 £m	3 months to 30.09.09 £m	3 months to 30.06.09 £m	3 months to 31.03.09 £m
Protection						
- Individual	-	-	-	-	-	-
- Group	-	-	-	-	-	-
	-	-	-	-	-	-
Annuities						
- Individual (non profit)	334	267	165	214	260	323
- Individual (with-profits)	6	4	6	4	4	3
- Bulk purchase	298	149	91	54	234	504
	638	420	262	272	498	830
Total Risk	638	420	262	272	498	830
Core retail investments ¹						
- Unit trusts	1,018	1,037	829	705	630	431
- ISAs	511	349	283	285	188	82
Non profit savings						
- Unit linked bonds	260	183	222	136	144	175
- Individual pensions	331	347	310	270	341	358
- DWP rebates	6	-	2	4	4	-
With-profits savings						
- Bonds	103	94	116	132	171	134
- Individual pensions	31	47	35	53	56	67
- DWP rebates	72	2	6	44	63	2
- Group pensions	1	1	-	-	-	-
Total Savings	2,333	2,060	1,803	1,629	1,597	1,249
- USA	-	-	-	-	-	-
- Netherlands	23	43	29	27	31	55
- France	78	45	66	61	61	49
- India (26% share)	1	1	-	-	-	-
- Egypt (55% share)	-	-	-	-	-	-
	102	89	95	88	92	104
France retail investment business	11	29	13	11	16	16
Total International	113	118	108	99	108	120
Total worldwide new business	3,084	2,598	2,173	2,000	2,203	2,199

1. Core retail 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 International new business in local currency

	Annual premiums 30.06.10	Single premiums 30.06.10	APE 30.06.10	Annual premiums 30.06.09	Single premiums 30.06.09	APE 30.06.09	APE Full year 31.12.09
USA (\$m)	33	-	33	43	-	43	76
Netherlands (€m)	4	78	12	5	96	15	25
France (€m):							
- Life and pensions	24	143	38	21	122	33	41
- Unit trusts	-	47	5	-	36	4	6
India (Rs m) - Group's 26% interest	544	157	560	-	-	-	-
Egypt (Pounds m) - Group's 55% interest	40	3	40	-	-	-	-

6.10 UK individual APE by channel quarterly progression

	3 months to 30.06.10 £m	3 months to 31.03.10 £m	3 months to 31.12.09 £m	3 months to 30.09.09 £m	3 months to 30.06.09 £m	3 months to 31.03.09 £m
Independent financial advisers	280	208	171	168	186	191
Tied	100	88	89	94	86	51
Direct	25	25	22	17	25	27
Total	405	321	282	279	297	269

6.11 UK individual APE by channel

	Annual £m	Single £m	Total APE £m	% of total
For the six months ended 30 June 2010				
Independent financial advisers	179	3,095	488	67
Tied	35	1,532	188	26
Direct	12	375	50	7
Total	226	5,002	726	100
For the six months ended 30 June 2009				
Independent financial advisers	168	2,090	377	67
Tied	42	945	137	24
Direct	12	401	52	9
Total	222	3,436	566	100
For the year ended 31 December 2009				
Independent financial advisers	298	4,175	716	64
Tied	82	2,381	320	28
Direct	21	701	91	8
Total	401	7,257	1,127	100