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LEGAL & GENERAL DELIVERS £1.1BN IFRS OPERATING PROFIT, GENERATES £699M NET CASH AND INCREASES FINAL DIVIDEND BY 33%

- **IFRS OPERATING PROFIT UP 87% AT £1,109M (2008: £592M)**
- **FINAL DIVIDEND UP BY 33% TO 2.73P PER SHARE**
- **NET CASH UP 118% AT £699M (2008: £320M)**
- **INTERNATIONAL IFRS OPERATING PROFIT UP 115% TO £127M (2008: £59M)**
- **ANNUAL COST REDUCTION OF £69M VS £50M TARGET**
- **EEV OPERATING PROFIT UP 51% AT £1,319M (2008: £875M)**
- **WORLDWIDE EEV NEW BUSINESS CONTRIBUTION UP 10% TO £328M (2008: £297M)**
- **IGD SURPLUS[1] UP BY £1.3BN TO £3.1BN (2008: £1.8BN)**

Tim Breedon, Group Chief Executive, said:

"IFRS operating profit of £1.1 billion is considerably higher this year and the balance sheet has been further strengthened with an IGD surplus of £3.1 billion after accruing for an increased final dividend of 2.73 pence per share. This increased dividend reflects underlying growth in net cash and the Board's confidence in its sustainability over the medium term.

"Today's results demonstrate the significant progress we continue to make in transforming the Group into a lower cost, capital efficient, cash generative business. This focus has helped us to exceed our full year target for net cash generation by nearly £250 million in 2009. In difficult markets, sales were down 7% in 2009 but each of our businesses delivered higher profits and generated more cash than in 2008.

"We expect modest growth in the UK economy in 2010. However, UK Risk and Savings markets which were depressed in 2009 are expected to rebound. These results show that Legal & General is in excellent health and is ideally placed to take advantage of new opportunities as they emerge in a financial services sector which is undergoing rapid change."

Financial highlights £m	**2009**	2008
IFRS Operating profit[2]	**1,109**	592
IFRS profit/(loss) from ordinary activities after tax	**844**	(1,130)
Net cash[3]	**699**	320
IFRS diluted earnings per share (pence)	**13.74**	7.16
Final dividend per share (pence)	**2.73**	2.05

1 Estimated unaudited IGD surplus after accrual of the final dividend of £160 million (2008: £120m).

2 2008 reported IFRS operating loss of £189m has been restated to largely remove from non profit Risk and Savings businesses the impact of investment variances which is now reported below the line in Variation from longer term investment return.

3 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.

KEY PERFORMANCE INDICATORS

IFRS – OPERATING PROFIT UP 87% TO £1.1BN

£m	Risk	Savings	Inv Mgmt	Inter-national	Group capital & financing	Group projects	2009	2008
Operational cash	454	110	121	8	33	-	**726**	654
New business strain	50	(77)	-	-	-	-	**(27)**	(334)
Net cash	**504**	**33**	**121**	**8**	**33**	-	**699**	320
IFRS Operating profit	**735**	**55**	**167**	**127**	**57**	**(32)**	**1,109**	-
IFRS Operating profit 2008[1]	222	7	165	59	139	-	-	592
Return on Equity %							**22.2**	(23.6)
Number of shares – diluted (m)							**5,857**	5,990
Diluted earnings per share (pence)							**13.74**	7.16
Full year dividend per share (pence)							**3.84**	4.06

ASSETS - £315BN IN LGIM, £55BN IN SAVINGS, £22BN IN ANNUITIES

£bn	2009	2008
LGIM[2]	**315**	264
Savings	**55**	46
Annuities (non profit)	**22**	19

BALANCE SHEET - IGD SURPLUS UP 72%

£bn	2009	2008
IGD surplus[3]	**3.1**	1.8
Coverage ratio %	**224**	169
Total credit default provision	**1.5**	1.2

EEV RESULTS – EMBEDDED VALUE PER SHARE 114P

£m	2009	2008
Worldwide PVNBP	**7,280**	9,429
Worldwide new business margin %	**4.5**	3.1
EEV Operating profit	**1,319**	875
Number of shares – year end (m)	**5,862**	5,862
Shareholders' equity	**6,695**	6,521
Equity per share (pence)	**114.2**	111.2

1 2008 reported IFRS operating loss of £189m has been restated to largely remove from non profit Risk and Savings businesses the impact of investment variance which is now reported below the line in Variation from longer term investment return.

2. Includes Annuities and some Savings assets

3. Estimated unaudited IGD surplus after accrual of the final dividend of £160 million (2008: £120m).

GROUP RESULTS

Summary IFRS income statement £m	2009	2008 restated
Risk	**735**	222
Savings	**55**	7
Investment Management	**167**	165
International	**127**	59
Group capital and financing	**57**	139
Group projects	**(32)**	-
Operating profit	**1,109**	592
Variation from longer term investment return	**(16)**	(2,020)
Property losses attributable to minority interests	**(19)**	(63)
Profit/(Loss) from ordinary activities before tax	**1,074**	(1,491)
Net cash	**699**	320

IFRS OPERATING PROFIT UP 87%

The Risk division made significant progress in an environment of exceptionally adverse economic conditions and volatile markets. Its contribution to Group operational cash generation was £454 million. This reflected its scale and the growth achieved in recent years. Net cash generation was 145 per cent up on last year at £504 million after positive new business strain of £50 million resulting from favourable pricing conditions in the annuity market. Operating profit of £735 million (2008: £222m) reflects the improved underlying cash dynamics of both the Protection and Annuity businesses and the higher contribution from General Insurance.

UK corporate pension clients continue to be attracted to LGIM's range of good value, passive funds, active fixed income funds and excellent service proposition. LGIM has continued to diversify into non-UK markets with new business gains in Ireland, Continental Europe and America during the year. Market recovery and strong new business flows in the second half contributed to an Investment management IFRS operating profit of £167 million (2008: £165m). Encouragingly the contribution from the active fixed income and LDI businesses increased to 21 per cent of full year operating profits (2008: 12%). Investment management net cash improved by 5 per cent to £121 million (2008: £115m).

In 2009 the Savings division took a series of key repositioning steps to transform the business. This produced a strong business performance with all key business indicators reflecting improvement. New business volumes have grown 3 per cent, net fund flows have increased materially and net cash generation has improved to £33 million (2008: negative £23m). Operating profit was significantly higher at £55 million (2008: £7m). Underpinning these improvements has been a continuing shift in the sales mix towards more modern, less capital intensive offerings allied with significant cost rationalisation and commission reductions.

During the year substantial progress was made in international operations. The bancassurance joint ventures in India and the Gulf States were launched and the search for similar opportunities in attractive emerging markets is ongoing. The three established international businesses performed well delivering £127 million of operating profit in 2009 (2008: £59m) and generated positive net cash in the form of dividend payments of £8 million to the Group.

Below operating profit, the recovery in economic markets in the second half of the year has led to a reduction in the variation from longer term investment return to negative £16 million from negative £2,020 million last year. After allowing for the payment of £185 million of dividends in the year, shareholders' equity increased by 17 per cent to £4.2 billion (2008: £3.6bn) equating to 71.6 pence per share (2008: 61.2p per share).

NET CASH UP 118%

During 2009 Legal & General has made material progress in cash generation and cost management. A 17 per cent reduction in UK headcount was the primary cause for an overall annual reduction in costs of £69 million. Action to reduce commission and focus on capital efficient new business led to a material reduction in new business strain to only £27 million (2008: £334m). These effects and improvements in the operating profit of LGIM, General Insurance and Retail Investments produced operational cash generation of £726 million (2008: £654m) and net cash generation of £699 million in 2009, a 118 per cent improvement on 2008 (£320m) and substantially ahead of the £450 million target set in Q1 2009. At the end of 2009, the undiscounted value in force (VIF) of the back book amounted to £10.2 billion and further details of its monetisation are disclosed on page 12.

COST BASE

In 2009, the continued examination of the cost base resulted in a further reduction in UK headcount of 17 per cent. The largest impact was experienced in the Savings business which dramatically changed the economics of that business. This has enabled the Savings business to deliver IFRS profits in 2009. Overall, the cost measures have reduced the core Risk and Savings cost base by £69 million against a target of £50 million representing 11 per cent of the 2008 business as usual cost base.

FINAL DIVIDEND INCREASED BY 33% TO 2.73 PENCE PER SHARE

The strength of the Groups medium term cash generation underpinned the Board's decision to increase the final dividend by 33 per cent to 2.73 pence per share at a cost of £160 million (08 Final: £120m), making the full year dividend 3.84 pence per share. The Board is confident in our ability to continue to deliver healthy operational cash and we intend to grow future dividends reflecting the strong cash generation of the Group. We expect the dividend to continue to be comfortably covered by net cash.

BALANCE SHEET AND CAPITAL – IGD COVERAGE RATIO 224%

The Group maintains and benefits from a strong balance sheet. The asset portfolio backing the annuity business continues to perform well and remains of high quality. Worldwide assets under management at the end of 2009 were £334 billion. Shareholders have direct exposure to 9 per cent of worldwide assets under management, of £30 billion. Of this, the assets within Legal & General Pensions Limited (LGPL) which back the UK non profit annuity business represent £22.5 billion and make up the majority of fixed interest exposure.

In the first half of 2009, the bonds backing the non profit annuity liabilities experienced downgrades, mainly as a consequence of the deteriorating outlook for UK and Irish banks. As a result the long term default assumption for statutory and IFRS reporting was increased to 36bps (2008: 30bps). The second half of the year saw a significant improvement in the credit markets and a consequential narrowing of spreads. There was a limited reversal of the downgrade experience and the long term default provision was therefore maintained at 36bps. Despite challenging financial conditions in 2009 for the non profit annuity portfolio, the actual default loss amounted to just £1m net of expected recoveries. Given our view that credit markets have not completely normalised, there have been no material releases of the provisions established at end 2008. As a consequence of new business, strengthening the long term provision and market movements, the total credit default provision in LGPL has increased to £1.5 billion from £1.2 billion at end 2008. This is equivalent to 68bps in 2009 (2008: 68bps) of defaults per annum over the life of the non profit annuity credit portfolio.

Substantial profit and cash generation together with recovery in financial markets helped increase the estimated IGD surplus to £3.1 billion (after accrual of the final dividend). This includes the benefit of the £0.3 billion of qualifying lower tier two securities issued in July. IGD coverage ratio at end 2009 was 224 per cent, up from 169 per cent at the end of 2008.

The impact of Solvency II is a key uncertainty for the business. Legal & General is actively engaged in promoting understanding of the potential impact of Solvency II on the UK and European insurance sector and its customers. Discussions have intensified with the UK Government and Opposition, the FSA and with the European Commission. These discussions have been productive and progress over the past six months is encouraging.

STRATEGY AND OUTLOOK

Legal & General's Risk, Savings and Investment management model continues to be successful with multiple levels of synergies across our businesses. The sharing of customers and distribution across the Group continues. For instance, over 40 per cent of BPA new business customers were previously customers of LGIM and over 40 per cent of individual annuity customers come from the Savings business. A primary focus of cost management has been central services which have reduced by almost a fifth during 2009.

Legal & General is a balanced manufacturer of Risk, Savings, and Investment management products. In Risk, market leading positions in Protection and Annuities are generating significant, sustainable cash flows. Investment management has established a top ranked position in the UK pensions fund market. The turnaround in Savings is ahead of schedule with emergence of sustainable cash flow and profit in the second half of 2009. The General Insurance business is now delivering healthy returns. We expect to generate around £600 million of net cash in 2010.

Recovery in the UK economy in 2010 is likely to be slow and we expect the UK housing market to remain subdued. UK unemployment is unlikely to fall which will restrict growth in our markets. Nonetheless we expect our core UK Risk and Savings markets to recover in 2010 from depressed levels in 2009. We are optimistic about the Group's medium term growth prospects. We aim to capitalise on our market leading positions in Risk, further build the LGIM franchise in the UK and overseas, deliver additional improvements in Savings and continue to develop our existing International portfolio whilst exploring opportunities to expand into other attractive markets.

BUSINESS REVIEW – RISK

Financial Highlights £m	2009	2008
IFRS Operating profit	**735**	222
Operational cash	**454**	379
New business strain	**50**	(173)
Net cash	**504**	206
Protection new business EEV margin (%)	**7.9**	6.2
Protection Gross Premiums (£m)	**1,109**	1,090
Non profit annuity earned interest margin on new business (bps)	**124**	101
Non profit annuity assets under administration (£bn)	**22.5**	19.4

OPERATIONAL CASH GENERATION AND OPERATING PROFIT

The increase of over half a billion pounds in Risk operating profit was driven by exceptional pricing conditions in the first half of the year for Annuities and lower volumes in the second half compared to those achieved in the prior year. Total net cash generated in the Risk business increased by 145 per cent to £504 million in 2009.

The Protection business generated a 31 per cent increase in net cash to £124 million (2008: £95m) while gross premiums increased by 2 per cent in 2009. New business strain was 36 per cent lower in 2009 compared with 2008 reflecting reduced volumes (reflecting a weakened housing market and the effect of economic conditions on levels of employment), a focus on lower strain products and the benefits of cost management initiatives. Operating profit of £172 million (2008: £263m) was impacted by adverse changes in mortality assumptions and one off expense charges that occurred in 2008 not being repeated. Despite continued price competition, the new business EEV margin increased to 7.9 per cent (2008: 6.2%) benefiting from cost management initiatives and higher margin product mix together with improved reinsurance terms. Lapses in 2009 were higher than assumptions due to the impact of economic conditions on individual and corporate customers.

The net cash generated in the Annuity business was significantly ahead of that delivered in 2008 at £364 million (2008: £108m). In the first half of the year, atypical pricing conditions allowed business to be secured without generating new business strain which materially enhanced net cash generation. The strength of the cash flow and higher than assumed mortality in 2009 contributed to a turnaround of nearly £600 million in operating profit to £545 million (2008: £40m loss).

The General insurance and other risk businesses contributed a further £16 million to net cash (2008: £3m). In General insurance the result of management action on costs, a review of underwriting criteria and the introduction of a new claims management approach contributed to profits of £17 million in 2009 (2008: £2m loss).

OUTLOOK

The housing market is expected to remain depressed this year and this will impact sales of mortgage related protection products. Returning employer confidence will drive growth in the Group protection market. New systems implementations are expected to drive further efficiency gains in the protection businesses and build on the cost savings delivered in 2009, however delivering volume growth will remain challenging.

More normal Annuity pricing conditions are expected to return in 2010. As pension scheme deficits reduce, trustees are expected to return to a de-risking strategy generating growth across the pension buyout, buy-in and the longevity swap markets.

BUSINESS REVIEW - INVESTMENT MANAGEMENT

Financial highlights £m	2009	2008
Investment management IFRS Operating profit	**167**	165
Net cash	**121**	115
LGIM highlights		
Total revenue	**316**	313
Total costs	**(144)**	(141)
IFRS Operating profit	**172**	172
Average ad valorem fee margin (bps)	**9.8**	9.7
Average expense margin (bps)	**5.2**	5.2
Gross new fund management mandates (£bn)	**31.5**	30.9
Closing funds under management (£bn)	**315**	264

OPERATIONAL CASH GENERATION AND OPERATING PROFIT

Investment management operating profit increased to £167 million despite the impact of market volatility on revenues in early 2009. Within this result, LGIM's profit in the second half was 32 per cent higher than in the first half of the year as markets rallied and gross inflows increased.

Average ad valorem fee margin increased from 9.7bps to 9.8bps due to change in business mix. LGIM's strategy continues to support the growth of its passive management business whilst diversifying its revenue streams through the delivery of superior active fixed income performance and innovative liability driven investment (LDI) solutions. In 2009 24 per cent of new business inflows came from non-index fund clients up from 14 per cent in 2008. LGIM has continued to diversify into non-UK markets with new mandate wins from Europe, the Gulf and America. Total funds under management ended the year at a record £315 billion, 19 per cent up on last year (2008: £264bn).

During the year, LGIM continued to invest in strategic initiatives, in particular enhancing its LDI proposition and broadening its UK and US distribution capability. In other areas business efficiency programs and appropriate cost control meant that overall expense margin remained stable at 5.2bps and despite LGIM changing business mix, the operational focus on pooled products ensured that the cost income ratio remained unchanged at 49 per cent.

Fifty eight per cent of unitised fund returns were above the benchmark performance over one year. The UK Alpha fund remained in the first percentile for investment performance over 1 and 3 years while the Growth Trust performance was ranked in the top quartile for 3 and 5 years. LGIM's new fixed income funds, Dynamic Bond Trust and Diversified Absolute Return Trust, were both above benchmark and continue to attract client monies.

OUTLOOK

Driven by markets, regulation and affordability, UK pension scheme's appetite for risk continues to diminish, placing LGIM's scalable product set of passive, active fixed interest and LDI at the heart of the opportunities that are likely to arise. LGIM enters 2010 with record assets under management of £315 billion and will look to maintain the momentum in attracting overseas clients and capitalise on cross-selling opportunities. It will also seek to benefit from strong active retail equity and fixed income fund performance across a broad product range.

BUSINESS REVIEW - SAVINGS

Financial highlights £m	2009	2008
IFRS Operating profit	**55**	7
Operational cash	**110**	138
New business strain	**(77)**	(161)
Net cash	**33**	(23)
Assets under Administration £bn	**55**	46

OPERATING PROFIT AND OPERATIONAL CASH GENERATION

The transformation of the Savings business accelerated through 2009 and is clearly evidenced by positive net cash generation of £33 million from negative £23 million in 2008 and an increase in IFRS operating profit to £55 million (2008: £7m) and growth in net fund inflows to £1.7 billion.

The £56 million turnaround in net cash was delivered largely through a substantial reduction in new business strain from £161 million in 2008 to £77 million in 2009. Operational cash reduced to £110 million (2008: £138m) with improvements in non insured business lines partially offsetting a reduced With-profits contribution. The costs of running the Savings division have been reduced materially during the year driven by reductions in direct headcount of approximately 700. Excluding With Profits, expenses now represent 72bps of assets under administration (2008: 109bps).

More specifically, net cash flow from non profit products (pensions and unit linked bonds) improved from negative £84 million in 2008 to negative £19 million in 2009. This improvement was the result of significantly reduced operating expenditure, lower commission terms and de-listing certain products with unattractive payback characteristics. Total net flows into non profit products of £0.5 billion contributed to assets under administration of £20.4 billion. Management actions limited the sale of older style Stakeholder pension products with a continued focus on SIPP sales. The changes to commission structures and a focus on fee based intermediaries continue across the Corporate Pensions business.

The With-profits contribution to net cash fell to £46 million in 2009 (2008: £77m) in line with lower bonuses paid to policyholders. Net outflows of With-profits assets reduced to £0.9 billion (2008: outflow £1.6bn) whilst overall With-profits assets under administration grew 10 per cent to £21.4 billion.

The significant growth of 64 per cent in the Unit Trusts, ISAs and Structured Products new business volumes resulted in assets under administration increasing substantially to £13 billion and a contribution to net cash of £9 million (2008: nil).

OUTLOOK

The Savings market is expected to experience a subdued recovery in 2010. Legal & General has the scale in assets to deliver sustained profits and the focus will continue to be growing sales in profitable business lines. The shift in business mix, towards modern capital efficient SIPP, Unit Trust and Structured products will accelerate. To support the growth strategy, further investment in building additional infrastructure capabilities for platform driven business will be required.

BUSINESS REVIEW - INTERNATIONAL

Financial highlights £m	2009	2008
USA	**86**	39
Europe (France and Netherlands)	**46**	20
Middle East and Asia (Egypt, the Gulf and India)	**(5)***	-
IFRS Operating profit	**127**	59
Net cash	**8**	-

TRADING PERFORMANCE AND OPERATING PROFIT

Operating profits of £127 million were more than double those reported in the previous year.

In the US, an operating profit of £86 million was up 121 per cent on 2008. The underlying improvement was driven by the return to more normal investment conditions and positive mortality experience. L&G America, trading as Banner Life and William Penn, is the 8th largest term life insurer in the US and a leading player in the Broker General Agent channel.

Profits in European operations also more than doubled in 2009. In the Netherlands, a focus on term insurance and unit linked savings contracts has helped weather the financial storms better than many larger market players. Sales were down across the board, but despite this a 5 per cent market share in the valuable term insurance market and 22 per cent share of the single premium unit linked market segment were achieved. The increase in profit came from higher interest margins and favourable mortality experience. In France, margins in the savings business were squeezed by competitive pressures, despite total written premiums growing by 25 percent, over twice the market rate. In Group Protection, total premium income was maintained at 2008 levels despite difficult trading conditions as employers shed staff and payrolls reduced. Profitability of the Group risk business was maintained by a combination of strong pricing and underwriting.

In the final quarter of 2009, new businesses in India and the Gulf were launched. In India, IndiaFirst is a joint venture with Bank of Baroda and Andhra Bank (both majority state owned banks) with a combined network of 4,500 branches. National coverage is a key differentiator for the business. The business is performing well ahead of its launch plan and achieved Rs100 Crores of premium income in its first 100 days of operations, making it the fastest start ever for an Indian life insurer. In Q1, the joint venture with Ahli United Bank (AUB) in the Gulf was launched and in December retail bancassurance distribution commenced in AUB's branches in Bahrain. This business has both Takaful and conventional licenses and is set to expand throughout the Gulf region over time.

The International businesses contribution to operational cash is represented by dividends remitted from sustainable operational cash flows. In 2009 the USA paid a dividend of $6 million and the Netherlands also paid a dividend of €5 million.

OUTLOOK

Investments in the International businesses and the disciplined approaches consistently taken to pricing, underwriting and asset liability management are now paying off both in terms of reported profits and cash flow to the Group. As the mature businesses gain scale, they are generating cash to fund their own new business growth and that of the current joint venture businesses in emerging markets.

Mature markets are expected to remain subdued in 2010. An encouraging start in the emerging markets of India and the Gulf coupled with an established and profitable Egyptian business is proving the benefits of expanding using a bancassurance model built on Legal & General's expertise in the UK. Bancassurance is likely to be at the heart of further developments in emerging markets.

* Including head office costs

BUSINESS REVIEW – GROUP

GROUP CAPITAL AND FINANCING

£m	2009	2008 restated
Investment return	**191**	298
Interest expense	**(127)**	(145)
Investment expenses	**(3)**	(5)
Unallocated corporate expenses	**(4)**	(9)
Group capital and financing	**57**	139

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 decreased to £191 million (2008: £298m) and is calculated by taking the average smoothed investment return of 6 per cent (2008: 7%) on the average balance of invested assets of £3 billion (2008: £4.5bn). The amount of invested assets at the end of the year was £2.8 billion (2008: £3.9bn). The decrease in invested assets is the result of equity sales made in 2008 and early 2009 plus the £650 million moved into short term default reserves at the end of 2008.

VARIATION FROM LONGER TERM INVESTMENT RETURN

£m	2009	2008 restated
Operating profit	**1,109**	592
Variation from longer term investment return	**(16)**	(2,020)
Property losses attributable to minority interests	**(19)**	(63)
Profit from ordinary activities before tax	**1,074**	(1,491)

Below the operating profit line, the 2009 investment variance was £16 million negative (2008: negative £2,020m), a significant improvement from 2008 and the first half of 2009.

At half-year 2009 the non profit annuity business reported a small reduction in yield from action taken to sell some holdings, primarily of Tier 1 and Upper tier 2 bank securities. These actions account for £75 million of the negative investment variance. The cash and overlay strategy executed on the non profit annuity portfolio would, in normal conditions, have an immaterial impact on the yield assumption. However, in volatile market conditions such as those experienced in the first half of 2009 the strategy had a negative effect on the assumed yields which were reflected within IFRS profit. As expected these negative half-year yield impacts have been largely reversed. As a consequence of the 2009 experience, the opportunity was taken to strengthen the assumptions for reinvestment of cash flows, variability in currency hedging costs and inflation.

The effect of variations from longer term investment returns in the other businesses was positive, reflecting the impact from recovering investment markets over the second half of the year.

RESTATEMENT OF IFRS OPERATING PROFIT

As indicated at the half year, we have reviewed the definition of operating profit on an IFRS basis which is one of the Group's key performance indicators.

These changes do not affect the underlying performance of the Group but better reflect the profit which is under management's control.

Under the new definition, IFRS operating profit provides a more accurate measure of management performance, more closely aligning with operating profit on the European Embedded Value (EEV) basis. Operating profit reflects the long term nature of operations within the businesses. There are four components to the restatement:

REMOVAL OF INVESTMENT VARIANCES

For the non profit Risk and Savings businesses, the difference between the actual investment return (net of the corresponding liability movement) and the expected investment return will be reported below operating profit in the Variation from longer term investment return. For 2008 this includes removing the £650 million credit default provision from Risk operating profit. This is consistent with the treatment of investment return on shareholder assets and the treatment of investment return on an EEV basis.

REMOVAL OF DEFERRED TAX VARIANCES

IFRS reporting requires deferred tax balances to be presented on an undiscounted basis. This, coupled with market value unit pricing structure, creates an accounting mismatch within unit linked funds which will be presented below operating profit.

REMOVAL OF PENSION SCHEME MOVEMENTS

Movements in the accounting value of annuities held by defined benefit pension schemes are driven by interest rate changes which are outside of management control. These will be removed from the Group capital and financing element of operating profit on an IFRS and EEV basis.

REMOVAL OF OWN DEBT HOLDINGS

The impact of eliminating own debt holdings is reflected below operating profit. This arises from the difference between the carrying value of the debt and the fair value of the asset held in the balance sheet. In previous reporting periods this amount has been nil.

The financial effect of the adjustments is provided below.

IFRS profit restatement £m	**H1 2009 Restated**	H1 2009 Reported	**FY 2008 Restated**	FY 2008 Reported
Risk	**223**	(128)	**222**	(603)
Savings	**21**	(5)	**7**	66
Investment management	**70**	70	**165**	165
International	**65**	65	**59**	59
Group capital and financing	**25**	29	**139**	124
Operating profit/(loss)	**404**	31	**592**	(189)
Variation from longer term investment return	**(527)**	(154)	**(2,020)**	(1,239)
Property losses attributable to minority interests	**(20)**	(20)	**(63)**	(63)
Loss from continuing operations before tax	**(143)**	(143)	**(1,491)**	(1,491)
Tax credit	**52**	52	**361**	361
Loss for the period	**(91)**	(91)	**(1,130)**	(1,130)

BUSINESS REVIEW - CASH GENERATION & SUSTAINABILITY

SUSTAINABILITY OF CASH GENERATION

1. LONG TERM RISK AND SAVINGS BUSINESS

The sustainability of future operational cash generation is underpinned by the monetisation profile of the in-force business; at the end of 2009 the undiscounted value of the worldwide value in force (VIF) amounted to £10.2 billion. This value crystallises in the following way:

- The expected **cash** flows from UK non profit business – this is broadly equivalent to the release of profit from the non profit Risk and Savings business using best estimate assumptions;
- The modelled **capital** releases from UK non profit business – these are one-off, separately identifiable items which are modelled within the EEV reporting but are generally short term in nature and have the characteristics of experience variances. These are therefore taken directly to the capital stock;
- For UK With-profits business – the shareholders' share of With-profits bonuses; and
- For international in-force business – this cash release is used to fund the investment in international new business and to pay dividends to Group.

MONETISATION OF WORLDWIDE VALUE IN FORCE (VIF)

The profile in the table below shows that around £860 million of the worldwide VIF is expected to monetise in 2010. This comprises the business in-force at the end of 2008 plus new cash flows from business written in 2009. The 2010 total comprises £710 million relating to the total expected release from UK non profit business, £60 million from the With-profits business (from which the shareholders' share of policyholders bonuses are paid) and £90 million from the international businesses (from which dividends are remitted to Group).

Estimated monetisation of worldwide VIF (undiscounted)[1] £m	Total	2010	2011	2012
Business in-force at start of year[2]	7,200	700	630	560
2009 new business cash flows	700	70	50	50
UK VIF monetisation	**7,900**	770	680	610
International VIF monetisation	2,300	90	90	80
Total	**10,200**	860	770	690
UK VIF monetisation:				
Non profit	7,000	710	620	540
With-profits	900	60	60	70
Total	**7,900**	770	680	610

1. Management estimates

2. Based on 2009 year end assumptions.

In 2009, the undiscounted release from non profit business was £701 million split between expected cash flow of £496 million and the modelled capital release of £205 million. The estimated 2010 expected release of £710 million results in operational cash generated of £520 million and an enhancement to the IGD surplus of £190 million.

Analysis of estimated non profit monetisation £m	2009	2010
Expected cash release (operational cash generated)	**496**	520
Modelled capital release (capital stock)[1]	**205**	190
Total expected release (VIF monetisation)	**701**	710

2. OTHER RISK AND SAVINGS BUSINESSES

Other Risk and Savings operational cash is primarily generated by the General insurance and Retail investments businesses. The focus on cost and claims management in the General insurance business and the continuation of the trend towards sales of unit trusts and ISAs will, if successful, deliver greater profitability and cash in future periods.

3. LGIM

Legal & General's Investment management franchise has achieved strong growth in funds under management to date. Its strong track record suggests that it can continue winning new mandates, retain existing clients and benefit from the recovery in markets. Future growth in the operational cash generation of Investment management depends primarily on the net fee income on funds under management.

4. INTERNATIONAL

The mature International businesses have previously been managed as self funding. In future periods, we anticipate the monetisation of VIF from the International businesses will allow us to start remitting dividends to Group from sustainable cash flow. These dividends are expected to exceed the investment in the current portfolio of new international business over the medium term.

RECONCILIATION OF OPERATIONAL CASH GENERATION TO IFRS OPERATING PROFIT

The following table shows the relevance of the £496 million expected cash release in 2009 in the composition of total operational cash generation.

Reconciliation of non profit expected cash release to Group operational cash £m	2009
Expected cash release – non profit	**496**
Investment management	121
With-profits	46
Other Risk and Savings businesses	22
International dividends	8
Group capital and financing	33
Operational cash	**726**

[1]These capital items primarily relate to the mechanical release of the margins in the short term default provision and the brought forward tax position in Society resulting in zero assumed tax charges on investment return in 2009.

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 to operating profit after tax £m	2009
Operational cash	726
New business strain	(27)
Net cash	**699**
International profit (less dividends paid)	78
Experience variances, assumptions changes and movements in non-cash items	43
Investment gains and losses	16
Investment projects and other	(31)
Operating profit (net of tax)	**805**
Investment variance	58
Property losses attributable to minority interests	(19)
Profit after tax	**844**

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 increased to 17 per cent (2008: 14%) reflecting an increased proportion of higher margin new business volumes and lower expenses. The favourable pricing in the annuities market resulted in an infinite IRR and immediate payback.

In unit linked bonds, the focus in sales of more profitable products coupled with lower initial commissions improved the IRR to 8 per cent (2008: 6%) and decreased the payback period to 9 years (2008: 10 years). In pensions, whilst business mix and pricing initiatives have improved the margin, the reductions in new business expenses are yet to fully compensate for the volume reductions resulting in a decrease in IRR and a longer payback period.

New business IRR and payback periods	2009 PVNBP £m	2009 Internal Rate of Return[1] %	2009 Undiscounted payback period (years)	2008 PVNBP £m	2008 Internal Rate of Return[2] %	2008 Undiscounted payback period(years)
Protection	**866**	**17**	**5**	1,005	14	5
Annuities	**1,862**	**>30[2]**	**<0[2]**	2,806	>15	6
Unit linked bonds	**677**	**8**	**9**	1,306	6	10
Pensions	**1,804**	**6**	**14**	2,183	7	12

1. Internal Rate of Return on new business.

2. Given negative strain on annuity business in 2009 and an immediate IFRS payback, the IRR was infinite

BUSINESS REVIEW – BALANCE SHEET

CAPITAL RESOURCES – HEALTHY IGD[1] COVERAGE RATIO OF 224%

As at 31 December 2009 the Insurance Groups Directive (IGD) capital resources were £5.6 billion, while the capital resources requirement was £2.5 billion generating an estimated surplus of £3.1 billion and a coverage ratio of 224 per cent.

Capital £bn	2009	2008
Group capital resources	**5.6**	4.4
Group capital resources requirement	**2.5**	2.6
IGD surplus	**3.1**	1.8
Coverage ratio %	**224**	169

The year end 2009 IGD surplus of £3.1 billion increased from £1.8 billion at the end of 2008 due to retained profits in the Group and the issue of £300 million of lower Tier 2 debt in July 2009. The reconciliation from 2008 to 2009 is shown below.

IGD Surplus £bn	2009	2008
At 1 January	**1.8**	4.1
Net cash generated	**0.7**	0.3
Profit after tax less net cash	**0.2**	(1.4)
Lower tier II debt	**0.3**	-
Dividends	**(0.2)**	(0.2)
Other[2]	**0.3**	(1.0)
At 31 December	**3.1**	1.8

For the With-profits business, the surplus calculated on both a Peak 1 and Peak 2 basis both increased with Peak 2 particularly benefiting from the reduction in credit spreads and actions taken during 2009 to reduce capital requirements. As a result within the group's IGD calculation Peak 1 became the more onerous basis and therefore the With-profits insurance capital component (WPICC) is nil (2008: £0.2bn).

Other includes regulatory changes in the USA have enabled the business to apply updated mortality tables to the existing in-force book. This has resulted in a release of reserves of £0.1 billion ($0.1bn).

A 40 per cent fall in equities would reduce the IGD surplus by an estimated £0.6 billion.

1. All IGD amounts are estimated, unaudited and after accrual of the final dividend of £160m (2008: £120m).

2. Includes changes in solvency capital, and in 2008 the impact of the share buyback (-£0.5bn) and acquisitions (-£0.3bn).

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	**2009**	2008	Change
Risk	**1.4**	1.2	0.2
Savings	**0.1**	0.1	-
With-profits	**0.6**	0.6	-
With-profits insurance capital component (WPICC)	**-**	0.2	(0.2)
Society long term fund	**2.1**	2.1	-
Other subsidiaries	**0.4**	0.5	(0.1)
Group capital resources requirement	**2.5**	2.6	(0.1)

The increase in the Risk capital requirement to £1.4 billion (2008: £1.2bn) is primarily due to the increase in annuity reserves and the integration of the Nationwide Life risk business into Legal & General Assurance Society. This was previously reported in other subsidiaries.

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 2009 a daily average cash balance in excess of £1 billion of overnight cash deposits and significant holdings of liquid assets such as Gilts was maintained.

The Group liquidity position is also very strong with circa £1 billion of an undrawn committed syndicated bank credit facility maturing in December 2012. The Group also has access to liquid funds under our US$2 billion Commercial Paper programme as well as holdings of £0.6 billion 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.

BUSINESS REVIEW - ASSET PORTFOLIO

Worldwide assets under management at 31 December 2009 were £334 billion of which shareholders have direct exposure to 9 per cent or circa £30 billion. The shareholder portfolio remains of high quality. The assets backing the UK non profit annuity business within Legal & General Pensions Limited (LGPL) represent the majority of Group fixed interest exposure.

Asset classes £bn	LGPL	Other UK non profit insurance business	Other insurance business	Society shareholder capital	Other Group capital	**Total**
Bonds	21.4	0.4	2.0	0.8	1.1	25.7
Equities	-	-	-	0.9	-	0.9
Derivative assets	0.8	0.5	-	-	0.2	1.5
Property	-	-	-	0.1	-	0.1
Cash (including cash equivalents)	0.3	0.3	0.4	0.5	0.6	2.1
Total	**22.5**	**1.2**	**2.4**	**2.3**	**1.9**	**30.3**

BOND INVESTMENTS

The credit quality of the portfolio remains high, with the vast majority of the rated bonds being investment grade following credit rating downgrades during 2009. The sector and geographic diversification of the annuity portfolio has been broadened in the last three years. Of the LGPL credit portfolio assets, 64 per cent are now domiciled outside the UK including 33 per cent held in North America and 25 per cent in Europe. This compares with just over half being domiciled outside the UK as at the end of 2008. Exposure to overseas currency and interest rate risk is managed through the use of derivative programmes.

BANK SECURITIES

The strategy of diversifying the portfolio continued in 2009, actively reducing exposure to the junior subordinated bonds of UK banks since the start of the year and maintaining a relative underweight position in banks in comparison to both global and local market index weightings. At the end of 2009 total Group subordinated bank exposure was £2,549 million compared to £3,060 million at the end of 2008.

COLLATERALISED DEBT OBLIGATIONS (CDO)

The value of our CDO investments at 31 December 2009 was £1.2 billion. Of this total, £1.1 billion relates to internally managed CDOs which are super senior tranches of bespoke structures constructed and managed by Legal & General to provide enhanced yield with significant protection against default. Despite the difficult financial conditions earlier in 2009, the underlying reference portfolios have experienced no reference entity defaults in 2009.

ASSET BACKED SECURITIES (ABS)

Within the bond portfolio, ABS investments stood at a market value of £4.4 billion at 31 December 2009 compared to £3.4 billion at the end of 2008. The portfolio of ABS investments remains defensive, with the majority of the structured finance exposure to either UK based infrastructure or secured bonds. These are high quality assets that were selected for their long duration and risk diversification. Within this total, £1.5 billion are categorised as traditional ABS investments, including RMBS (of which only £22m is sub prime) and CMBS.

SUPPLEMENTARY EEV DISCLOSURE

Analysis of EEV results £m	PVNBP		Margin (%)		Contribution	
	2009	2008	**2009**	2008	**2009**	2008
Risk	**2,728**	3,811	**10.4**	7.1	**285**	271
Savings	**3,676**	4,722	**0.5**	(0.1)	**20**	(6)
International	**876**	896	**2.6**	3.6	**23**	32
Total	**7,280**	9,429	**4.5**	3.1		
Contribution from new business					**328**	297
Expected return from in-force business					**614**	470
Persistency					**(62)**	(133)
Mortality / morbidity					**147**	(26)
Expenses					**22**	18
Other					**113**	4
Experience variances and assumption changes					**220**	(137)
Development costs					**(30)**	(51)
Contribution from shareholder net worth (international)					**16**	17
Other Risk and Savings operations					**17**	(7)
Operating profit					**1,165**	589

	H1 2009[1]	H2 2009	**2009**	2008[1]
Risk	460	453	**913**	439
Savings	28	54	**82**	50
International	87	83	**170**	100
	575	590	**1,165**	589
Investment management	58	81	**139**	130
Group capital and financing	23	24	**47**	156
Group projects	-	(32)	**(32)**	-
Operating profit	656	663	**1,319**	875
Variation from longer term investment return	(1,018)	605	**(413)**	(1,584)
Effect of economic assumption changes	(630)	295	**(335)**	(609)
Property losses attributable to minority interests	(20)	1	**(19)**	(63)
Profit from ordinary activities before tax	(1,012)	1,564	**552**	(1,381)
Tax and other	292	(347)	**(55)**	408
Profit from ordinary activities after tax	(720)	1,217	**497**	(973)
Diluted earnings per share based on operating profit after tax (p)			**16.19**	10.68
Shareholders' equity			**6,695**	6,521
Number of shares (m)			**5,862**	5,862
Shareholders' equity per share (p)	94.8	114.2	**114.2**	111.2

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

OPERATING PROFIT

The EEV operating profit increased by 51 per cent to £1,319 million in 2009 (2008: £875m). This increase reflects the unwind of a higher opening discount rate on a higher opening in-force value in the UK coupled with favourable mortality experience in the Risk business. Operating profit from the international businesses grew to £170 million (2008: £100m) in part due to favourable currency movements.

NEW BUSINESS CONTRIBUTION

Contribution from worldwide new business increased to £328 million (2008: £297m), growth of 10 per cent. The margin on this business improved significantly from 3.1 per cent in 2008 to 4.5 per cent in 2009 benefiting from favourable annuity pricing in the year.

Risk: margin of 10.4 per cent (2008: 7.1%). Protection new business margin of 7.9 per cent in 2009 compares to 6.2 per cent in 2008 reflecting a change in mix towards higher margin business and lower expenses. The IRR on protection new business was 17 per cent (2008: 14%) with a payback period of 5 years (2008: 5 years). The annuities margin increased to 11.7 per cent (2008: 7.4%). The improved pricing conditions noted in the IFRS results analysis above are reflected in EEV new business margins. Given positive strain on this business, annuities has an immediate IFRS payback.

Savings: margin of 0.5 per cent (2008: negative 0.1%). The underlying mix of unit linked bond business improved in the second half with an increased proportion of Portfolio Bond sales coupled with reduced commission and allocation rates resulting in a negative margin of 0.6 per cent (2008: negative 1%). IRR was 8 per cent (2008: 6%) with a payback period of 9 years (2008: 10 years). The pensions margin of negative 0.6 per cent in 2009 compares to negative 0.4 per cent in 2008. Whilst business mix and pricing initiatives have improved the margin, the reductions in new business expenses are yet to fully compensate for the volume reductions. The IRR on this business was 6 per cent (2008: 7%) with a payback period of 14 years (2008: 12 years). The With-profits margin improved to 2.9 per cent (2008: 1.2%) buoyed by the volume of With-profits bonds business written in the period.

International: margin of 2.6 per cent (2008: 3.6%). The decrease in the new business margin is primarily due to the increase in the risk discount rate in the USA and depressed market conditions in the Netherlands.

IN-FORCE CONTRIBUTION

The expected return from in-force business increased to £614 million (2008: £470m) due primarily to the unwind of a higher opening discount rate (8.3% vs 7.5%) on a higher opening in-force value in the UK.

Experience variances and assumption changes in our worldwide Risk and Savings businesses of £220 million (2008: negative £137m) included:

Persistency: negative £62 million (2008: negative £133m). Reflects the strengthening of lapse assumptions for individual protection and unit linked bond business.

Mortality/morbidity/longevity: £147 million (2008: negative £26m). Reflects favourable mortality experience in the UK and France.

Expenses: £22 million (2008: £18m). Reflects the capitalisation of the 2009 cost reductions partially offset by higher assumed future investment expenses.

Other: £113 million (2008: £4m). Reflects a reassessment of future BPA reserve release as data is loaded onto the BPA system (£44m) and one off modelling improvements (£43m).

INVESTMENT MANAGEMENT

The Investment management business is reported on an IFRS basis; operating profit of £139 million (2008: £130m) excludes £28 million (2008: £35m) 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 fell to £47 million in 2009 (2008: £156m) as a result of lower average invested assets throughout 2009.

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 £552 million (2008: loss of £1,381m)

The variation from longer term investment return improved by £605 million during the second half of 2009 as a result of investment actions taken within the non profit annuity credit portfolios and the general improvements in all investment markets. The reported negative variance of £413 million (2008: negative £1,584m) includes an adverse variance of £335 million relating to the EEV impact of swap transactions undertaken in the first half to improve the IFRS matching of annuity business which reduced the assumed future yield on the annuity assets for EEV purposes, £77 million loss is due to the increased cost of capital arising from de-risking activity to reduce the equity ratio for assets backing solvency capital and £50 million is the negative EEV impact of holding additional cash balances, largely to back the short term default provision. This is partially offset by the impact of investment performance relative to assumptions and investment transactions within the credit portfolios in the second half of the year.

The negative effect of economic assumption changes amounted to £335 million (2008: negative £609m) includes £125 million relating to the decrease in the UK risk discount rate in 2009 from 8.3 per cent to 8.0 per cent offset by higher assumed future inflation and higher cost of capital on increased annuity reserves (negative £250m), increases in the realistic and statutory long term default provisions for the assets backing annuity business (negative £124m) and the increase in the US risk discount rate in 2009 from 6.8 per cent to 7.4 per cent (negative £62m).

ENQUIRIES

INVESTORS:

Matt Hotson	Director, Investor Relations and Strategy	020 3124 2150
Damian O'Reilly	Investor Relations Manager	020 3124 2151
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 5754. The passcode is "Results".

There will be a further teleconference at 14.00 GMT (09.00 EST) to answer specific technical and accounting questions. Investors should dial +44 (0)20 7075 1520.

FINANCIAL CALENDAR 2010	Date
Ex dividend date	14 April 2010
Record date	16 April 2010
Q1 Interim Management Statement 2010	5 May 2010
Annual General Meeting	26 May 2010
Payment date of 2009 final dividend	1 June 2010
Half Year Interim Management Statement 2010	4 August 2010

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.

PRINCIPLE RISKS AND UNCERTAINTIES

REGULATION AND LEGISLATION	**Changes in regulation or legislation may have a detrimental effect on our strategy or profitability.** 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. Current areas of significant regulatory change include Solvency II and the Retail Distribution Review. In addition to these known areas of change, there remains potential for new regulation in response to recent market events as well as possible changes in the regulatory landscape following the 2010 general election. Legislation and government fiscal policy can also influence our product design, the retention of existing business and our required reserves for future liabilities. Areas of new insurance law include that being developed by the Law Commission. Potential changes to personal and corporate taxation also present uncertainty with respect to the profitability and continued attractiveness of our products.	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.
FINANCIAL MARKET AND ECONOMIC CONDITIONS	**Investment market performance or conditions in the broader economy may adversely impact our results.** 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. Whilst 2009 has seen a recovery of major markets from their position in 2008, broader economic conditions remain less certain, with possible consequences to investment values. Investment markets may also suffer considerable disruption should a significant macro-economic event e.g. a sovereign debt crisis occur within a developed world economy.	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.
COUNTERPARTY AND THIRD PARTY RISKS	**In dealing with issuers of debt and other types of counterparty, the Group is exposed to the risk of default.** As part of our strategies to 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 development services.	Recent market events have demonstrated the importance of sound counterparty management. In this context 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.
UK FINANCIAL SERVICES SECTOR CONTAGION RISKS	**As a UK based Group, earnings are influenced by the perception of the UK financial services sector as a whole.** Factors such as investment market performance, actions by regulators against organisations operating in the 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.	2009 has seen a general downturn in business volumes across the sectors in which the Group operates. 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, further details of which are set out on pages 2 and 3, and a broad distribution mix. In addition, as set out on page 32, we are focused on developing our international businesses, with joint ventures in India and the Gulf being established in 2009, complementing our existing portfolio of overseas activities, as well as our investment management business winning its first mandates in the US.
MORTALITY CATASTROPHE AND OTHER ASSUMPTION UNCERTAINTIES	**Revisions to assumptions may require adjustments to reserves.** The writing of long term insurance business necessarily requires the setting of assumptions for long term trends in factors such as mortality, persistency, valuation interest rates and credit defaults. The writing of household insurance business also requires assumptions to be set for factors such as extreme weather and other catastrophic events. Whilst a prudent approach is taken to evaluating required reserves for these risks, extreme events, such as a rapid advance in medical science leading to significantly enhanced annuitant longevity or an event causing widespread mortality/morbidity, coupled with a reinsurer default may require assumptions to be recalibrated impacting profitability and capital.	The Group uses its pricing capabilities and the significant experience data it has accumulated 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 seeks to validate the appropriateness of key assumptions to combinations of extreme events, including economic conditions, investment performance and product specific matters.
INDUSTRY CHANGE	**The Group may not maximise opportunities from structural changes within the financial services sector.** 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. Recent examples have included the merger of banks and building societies resulting in a change to the distribution landscape. 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.	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. In response to consolidation by banks and building societies, we have established a number of new distribution partnerships. Within our annuities business, a disciplined and selective approach to pension buyout business was maintained throughout 2009, and whilst we continue to lead in the traditional smaller schemes bulk purchase market,

increased product and pricing sophistication and increased distribution opportunities helped individual annuities sales to grow. Our savings business has seen a transformation of the mix of products sold towards more modern, less capital intensive offerings.

DIRECTORS' RESPONSIBILITY STATEMENT (EXTRACTED FROM THE 2009 ANNUAL REPORT AND ACCOUNTS)

Each of the directors listed below confirms that to the best of their knowledge:

(a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group as a whole; and

(b) the directors' report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company and Group as a whole, together with a description of the principal risks and uncertainties that they face.

J. M Stewart	-	Chairman
T.J. Breedon	-	Group Chief Executive
Dame C Furse	-	Non-Executive Director
F.A. Heaton	-	Non-Executive Director
M.J. Gregory	-	Group Executive Director (Savings)
R.H.P. Markham	-	Non-Executive Director
J.B. Pollock	-	Group Executive Director (Risk)
Dr. R.H Schmitz	-	Non-Executive Director
H.E. Staunton	-	Non-Executive Director
J.M. Strachan	-	Non-Executive Director
Sir D Walker	-	Vice Chairman
N.D. Wilson	-	Group Chief Financial Officer

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Operating profit income statement

For the year ended 31 December 2009

	Notes	2009 £m	2008 Restated £m
From continuing operations			
Risk	2.02(a)	**735**	222
Savings	2.03(a)	**55**	7
Investment management	2.04	**167**	165
International	2.05	**127**	59
Group capital and financing	2.07	**57**	139
Investment projects[1]		**(32)**	-
Operating profit		**1,109**	592
Variation from longer term investment return	2.08	**(16)**	(2,020)
Property losses attributable to minority interests		**(19)**	(63)
Profit/(loss) from continuing operations before tax attributable to equity holders of the Company		**1,074**	(1,491)
Tax (expense)/credit attributable to equity holders of the Company	2.09	**(230)**	361
Profit/(loss) for the year		**844**	(1,130)
Loss attributable to minority interests	2.17	**19**	63
Profit/(loss) attributable to equity holders of the Company		**863**	(1,067)

	Notes	p	p
Earnings per share	2.10		
Based on operating profit from continuing operations after tax attributable to equity holders of the Company		**13.82**	7.19
Based on profit/(loss) attributable to equity holders of the Company		**14.82**	(17.88)
Diluted earnings per share	2.10		
Based on operating profit from continuing operations after tax attributable to equity holders of the Company		**13.74**	7.16
Based on profit/(loss) attributable to equity holders of the Company		**14.73**	(17.88)

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 has been amended during the year. Note 2.01 provides more detail on the restatement.

Operating profit for the Risk segment represents the net capital invested/released 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 net capital invested/released 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 core 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 reflects the profits from these operations and 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 quarterly 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.

Consolidated income statement

For the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Revenue			
Gross written premiums	2.11	**5,275**	5,895
Outward reinsurance premiums		**(574)**	(569)
Net change in provision for unearned premiums		**11**	1
Net premiums earned		**4,712**	5,327
Fees from fund management and investment contracts		**786**	740
Investment return		**38,201**	(37,749)
Operational income		**91**	38
Total revenue		**43,790**	(31,644)
Expenses			
Claims and change in insurance liabilities		**7,614**	3,287
Reinsurance recoveries		**(520)**	(587)
Net claims and change in insurance liabilities		**7,094**	2,700
Change in provisions for investment contract liabilities		**33,186**	(33,313)
Acquisition costs		**780**	776
Finance costs		**179**	379
Other expenses		**882**	773
Transfers to/(from) unallocated divisible surplus		**430**	(806)
Total expenses		**42,551**	(29,491)
Profit/(loss) before income tax		**1,239**	(2,153)
Income tax (expense)/credit attributable to policyholder returns		**(165)**	662
Profit/(loss) from continuing operations before income tax attributable to equity holders of the Company		**1,074**	(1,491)
Total income tax (expense)/credit		**(395)**	1,023
Income tax expense/(credit) attributable to policyholder returns		**165**	(662)
Income tax (expense)/credit attributable to equity holders	2.09	**(230)**	361
Profit/(loss) for the year		**844**	(1,130)
Attributable to:			
Minority interests		**(19)**	(63)
Equity holders of the Company		**863**	(1,067)
Dividend distributions to equity holders of the Company during the year		**185**	367
Dividend distributions to equity holders of the Company proposed after the year end		**160**	120

		p	p
Earnings per share			
Based on profit/(loss) attributable to equity holders of the Company	2.10	**14.82**	**(17.88)**
Diluted earnings per share			
Based on profit/(loss) attributable to equity holders of the Company	2.10	**14.73**	**(17.88)**

Consolidated statement of comprehensive income

For the year ended 31 December 2009

	2009 £m	2008 £m
Profit/(loss) for the year	**844**	(1,130)
Other comprehensive income after tax		
Exchange differences on translation of overseas operations	**(63)**	139
Actuarial (losses)/gains on defined benefit pension schemes	**(154)**	18
Actuarial losses/(gains) on defined benefit pension schemes transferred to unallocated divisible surplus	**62**	(8)
Net change in financial investments designated as available-for-sale	**66**	(56)
Total comprehensive income/(expense) for the year	**755**	(1,037)

Total comprehensive income/(expense) attributable to:		
Minority interests	**(19)**	(63)
Equity holders of the Company	**774**	(974)

Consolidated balance sheet

As at 31 December 2009

	Notes	2009 £m	2008 £m
Assets			
Investment in associates		**45**	14
Plant and equipment		**61**	75
Investment property		**3,839**	3,969
Financial investments	2.13	**276,016**	234,514
Reinsurers' share of contract liabilities		**2,093**	1,997
Purchased interest in long term businesses and other intangible assets		**146**	227
Deferred acquisition costs		**1,957**	2,112
Deferred tax asset		**796**	988
Income tax recoverable		**1**	8
Other assets		**1,440**	2,135
Cash and cash equivalents		**10,650**	10,688
Total assets		**297,044**	256,727
Equity			
Share capital	2.14	**147**	147
Share premium	2.14	**936**	936
Employee scheme shares		**(38)**	(46)
Capital redemption and other reserves		**41**	(42)
Retained earnings		**3,110**	2,593
Shareholders' equity	2.15	**4,196**	3,588
Minority interests	2.17	**2**	144
Total equity		**4,198**	3,732
Liabilities			
Subordinated borrowings	2.16	**1,870**	1,657
Participating insurance contracts	2.18	**9,404**	9,384
Participating investment contracts	2.19	**7,139**	6,992
Unallocated divisible surplus		**1,284**	913
Value of in-force non-participating contracts		**(367)**	(171)
Participating contract liabilities		**17,460**	17,118
Non-participating insurance contracts	2.18	**28,583**	25,841
Non-participating investment contracts	2.19	**234,502**	196,698
Non-participating contract liabilities		**263,085**	222,539
Senior borrowings	2.16	**1,407**	2,314
Provisions	2.21	**757**	555
Deferred tax liabilities		**303**	259
Income tax liabilities		**140**	5
Payables and other financial liabilities		**5,003**	6,799
Other liabilities		**892**	997
Net asset value attributable to unit holders		**1,929**	752
Total liabilities		**292,846**	252,995
Total equity and liabilities		**297,044**	256,727

Consolidated statement of changes in equity

For the year ended 31 December 2009	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
As at 1 January	**147**	**936**	**(46)**	**(42)**	**2,593**	**3,588**	**144**	**3,732**
Profit/(loss) for the year	**-**	**-**	**-**	**-**	**863**	**863**	**(19)**	**844**
Exchange differences on translation of overseas operations	**-**	**-**	**-**	**(63)**	**-**	**(63)**	**-**	**(63)**
Actuarial (losses) on defined benefit pension schemes	**-**	**-**	**-**	**-**	**(154)**	**(154)**	**-**	**(154)**
Actuarial losses on defined benefit pension schemes transferred to unallocated divisible surplus	**-**	**-**	**-**	**-**	**62**	**62**	**-**	**62**
Net change in financial investments designated as available-for-sale	**-**	**-**	**-**	**66**	**-**	**66**	**-**	**66**
Total comprehensive income/(expense) for the year	**-**	**-**	**-**	**3**	**771**	**774**	**(19)**	**755**
Options exercised under share option schemes:								
- Executive share option schemes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Savings related share option scheme	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Shares purchased	**-**	**-**	**(2)**	**-**	**-**	**(2)**	**-**	**(2)**
Shares vested	**-**	**-**	**10**	**(18)**	**-**	**(8)**	**-**	**(8)**
Employee share schemes:								
- Value of employee services	**-**	**-**	**-**	**21**	**-**	**21**	**-**	**21**
Transfer to retained earnings	**-**	**-**	**-**	**-**	**8**	**8**	**-**	**8**
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**
For the year ended 31 December 2008								
As at 1 January	157	927	(42)	59	4,345	5,446	178	5,624
Loss for the year	-	-	-	-	(1,067)	(1,067)	(63)	(1,130)
Exchange differences on translation of overseas operations	-	-	-	139	-	139	-	139
Actuarial gains on defined benefit pension schemes	-	-	-	-	18	18	-	18
Actuarial (gains) on defined benefit pension schemes transferred to unallocated divisible surplus	-	-	-	-	(8)	(8)	-	(8)
Net change in financial investments designated as available-for-sale	-	-	-	(56)	-	(56)	-	(56)
Total comprehensive income/(expense) for the year	-	-	-	83	(1,057)	(974)	(63)	(1,037)
Share buyback[1]	(11)	-	-	11	(523)	(523)	-	(523)
Options exercised under share option schemes:								
- Executive share option schemes	-	1	-	-	-	1	-	1
- Savings related share option scheme	1	8	-	-	-	9	-	9
Shares purchased	-	-	(10)	-	-	(10)	-	(10)
Shares vested	-	-	6	(17)	-	(11)	-	(11)
Employee share schemes:								
- Value of employee services	-	-	-	14	-	14	-	14
Transfer to retained earnings	-	-	-	-	3	3	-	3
Dividends	-	-	-	-	(367)	(367)	-	(367)
Movement in third party interests	-	-	-	-	-	-	29	29
Currency translation differences	-	-	-	(192)	192	-	-	-
As at 31 December	147	936	(46)	(42)	2,593	3,588	144	3,732

1. During 2008, shares were repurchased and cancelled under a share buyback programme at a cost of £523m including expenses.

Consolidated cash flow statement

For the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Cash flows from operating activities			
Profit/(loss) for the year		**844**	(1,130)
Adjustments for non cash movements in net profit/(loss) for the year			
Realised and unrealised (gains)/losses on financial investments and investment properties		**(29,180)**	48,376
Investment income		**(8,813)**	(10,086)
Interest expense		**179**	379
Income tax expense/(credit)		**395**	(1,023)
Other adjustments		**104**	77
Net (increase)/decrease in operational assets			
Investments designated as held for trading or fair value through profit or loss		**(5,822)**	2,161
Investments designated as available-for-sale		**(61)**	(93)
Other assets		**477**	(1,702)
Net increase/(decrease) in operational liabilities			
Insurance contracts		**3,143**	(1,479)
Transfer to/(from) unallocated divisible surplus		**368**	(798)
Investment contracts		**29,337**	(43,485)
Value of in-force non-participating contracts		**(196)**	105
Other liabilities		**1,121**	541
Cash used in operations		**(8,104)**	(8,157)
Interest paid		**(160)**	(377)
Interest received		**5,074**	5,214
Income tax received/(paid)		**52**	(208)
Dividends received		**3,896**	4,614
Net cash flows from operating activities		**758**	1,086
Cash flows from investing activities			
Net acquisition of plant and equipment		**(7)**	(14)
Acquisitions (net of cash acquired)	2.12	**-**	1,004
Capital injection into overseas joint ventures		**(36)**	-
Net cash flows from investing activities		**(43)**	990
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the Company during the year		**(185)**	(367)
Proceeds from issue of ordinary share capital		**-**	10
Purchase of employee scheme shares		**(2)**	(9)
Purchase of shares under share buyback programme	2.14	**-**	(523)
Proceeds from borrowings		**2,124**	3,568
Repayment of borrowings		**(2,629)**	(2,960)
Net cash flows from financing activities		**(692)**	(281)
Net increase in cash and cash equivalents		**23**	1,795
Exchange (losses)/gains on cash and cash equivalents		**(61)**	156
Cash and cash equivalents at 1 January		**10,688**	8,737
Cash and cash equivalents at 31 December		**10,650**	10,688

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

Notes to the Financial Statements

2.01 Changes to the definition of supplementary operating profit

Supplementary IFRS operating profit is one of the Group's key performance indicators. We provide this measure because we believe it gives shareholders a better understanding of the Group's underlying performance. In order to further enhance this understanding, we have amended the definition of IFRS operating profit to remove the impact of investment volatility from the non profit Risk and Savings and the Group capital and financing results.

The key changes to our definition of IFRS operating profit are:
i. Operating profit for the Risk and Savings businesses is now based on the investment returns that the Group expects to make on the financial investments that back the non profit business over the reporting period, rather than the actual returns on these investments. The difference between the expected return and the actual return on investments, and the corresponding impact on liabilities, is shown below the operating profit line. This adjustment includes the removal of accounting volatility arising from the mismatch of asset and liability valuations for deferred tax balances within unit linked funds under IFRS.
ii. Group capital and financing operating profit now excludes the profit or loss arising from actuarial gains and losses on annuities held by the Group's defined benefit pension schemes. As this is driven by bond market yields the effect has been classified as variation from longer term investment return.
iii. The profit or loss impact arising from the elimination of own debt holdings is reflected below operating profit. In previous reporting periods this amount has been £nil.

The amended definition more closely aligns the results of non profit Risk and Savings and Group capital and financing with our other UK businesses and is closer to the European Embedded Value (EEV) definition of operating profit. It changes the allocation of profit between operating and non-operating elements, but it does not affect underlying performance, the economics of our business, the profit before tax attributable to shareholders or the profit for the year.

The table below sets out the effect of the above changes to IFRS supplementary operating profit for the year ended 31 December 2008, and the six months ended 30 June 2009:

	As reported 2008 £m	**Effect of restating the definition of IFRS operating profit £m**	**Restated 2008 £m**	As reported 30.06.09 £m	Effect of restating the definition of IFRS operating profit £m	Restated 30.06.09 £m
From continuing operations						
Risk	**(603)**	**825**	**222**	(128)	351	223
Savings	**66**	**(59)**	**7**	(5)	26	21
Investment management	**165**	**-**	**165**	70	-	70
International	**59**	**-**	**59**	65	-	65
Group capital and financing	**124**	**15**	**139**	29	(4)	25
Operating (loss)/profit	**(189)**	**781**	**592**	31	373	404
Variation from longer term investment return	**(1,239)**	**(781)**	**(2,020)**	(154)	(373)	(527)
Property losses attributable to minority interests	**(63)**	**-**	**(63)**	(20)	-	(20)
Loss from continuing operations before tax attributable to equity holders of the Company	**(1,491)**	**-**	**(1,491)**	(143)	-	(143)
Tax credit attributable to equity holders of the Company	**361**	**-**	**361**	52	-	52
Loss for the period	**(1,130)**	**-**	**(1,130)**	(91)	-	(91)
Loss attributable to minority interests	**63**	**-**	**63**	20	-	20
Loss attributable to equity holders of the Company	**(1,067)**	**-**	**(1,067)**	(71)	-	(71)

Notes to the Financial Statements

2.02 Risk

(a) Risk operating profit

	Notes	2009 £m	2008 Restated £m
Non profit Risk	2.02(b)	**717**	223
General insurance	2.02(f)	**17**	(2)
Other[1]		**1**	1
Total Risk operating profit		**735**	222

1. Other comprises estate agencies and housing related business conducted through our regulated mortgage network. It also includes Nationwide Life Risk business and business unit costs of £3m (2008: £3m) allocated to the Risk business.

(b) Analysis of net capital released from non profit Risk business

	Notes	2009 £m	2008 Restated £m
Non profit business operating profit comprises:			
Operational cash generation		**438**	376
New business strain		**50**	(173)
Net cash generation		**488**	203
Experience variances	2.02(c)	**113**	2
Changes to valuation assumptions	2.02(d)	**169**	(42)
Changes to FSA reporting and capital rules		**15**	-
Movements in non-cash items	2.02(e)	**(229)**	16
Other		**(41)**	(20)
		515	159
Tax gross-up		**202**	64
		717	223

Non profit business operational cash generation represents the capital and profit expected to be generated in the period from the in-force non profit business if the embedded value and valuation assumptions are borne out in practice. The experience variances are calculated with reference to embedded value assumptions, including the apportionment of investment return and tax in the EEV model.

The 2008 net capital released analysis has been restated in accordance with the new definition of operating profit (see Note 2.01).

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, a Part VII 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

	2009 £m	2008 Restated £m
Persistency	**(9)**	(5)
Mortality/morbidity	**(9)**	26
Expenses	**1**	18
BPA data loading	**48**	22
Project and development costs[1]	**(21)**	(53)
Tax[2]	**79**	(15)
Other	**24**	9
	113	2

1. Project and development costs in 2009 relate to continued investment in internal and other customer facing systems (£15m) and redundancy costs (£6m).
2. The current tax charge was lower than expected due to the utilisation of brought forward tax losses.

Notes to the Financial Statements

2.02 Risk (continued)

(d) Changes to valuation assumptions

	2009 £m	2008 Restated £m
Persistency	**(5)**	4
Mortality/morbidity	**101**	(25)
Expenses	**54**	(55)
Other	**19**	34
	169	(42)

(e) Movements in non-cash items

	2009 £m	2008 Restated £m
Deferred tax[1]	**(221)**	19
Other	**(8)**	(3)
	(229)	16

1. The movement in deferred tax reflects the profitability of the non profit Risk business in 2009 and the consequent utilisation of brought forward losses from 2008.

(f) General insurance operating profit, underwriting result and combined operating ratios

	Operating profit 2009 £m	Under-writing result 2009 £m	Combined operating ratio 2009 %	Operating (loss)/ profit 2008 £m	Under-writing result 2008 £m	Combined operating ratio 2008 %
From continuing operations						
Household	**12**	**1**	**98**	(12)	(26)	110
Other business	**5**	**4**	**79**	10	8	86
	17	**5**	**96**	(2)	(18)	108

The combined operating ratio is:

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

Notes to the Financial Statements
2.03 Savings

(a) Savings operating profit

	Notes	2009 £m	2008 Restated £m
Non profit Savings[1]	2.03(b)	**(4)**	(79)
With-profits business[2]		**64**	107
		60	28
Core retail investments		**9**	-
Other[3]		**(14)**	(21)
Total Savings operating profit		**55**	7

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. Other includes Suffolk Life, International (Ireland), Nationwide Life Savings business and business unit costs of £3m (2008: £3m), allocated to the Savings business.

(b) Analysis of net capital released from non profit Savings business

	Notes	2009 £m	2008 Restated £m
Non profit business operating profit/(loss) comprises:			
Operational cash generation		**58**	77
New business strain		**(77)**	(161)
Net cash generation		**(19)**	(84)
Experience variances	2.03(c)	**(1)**	(35)
Changes to valuation assumptions	2.03(d)	**9**	32
Changes to FSA reporting and capital rules		**50**	-
Movements in non-cash items	2.03(e)	**(64)**	(14)
Other		**22**	45
		(3)	(56)
Tax gross-up		**(1)**	(23)
		(4)	(79)

Non profit business operational cash generation represents the capital and profit expected to be generated in the period from the in-force non profit business if the embedded value and valuation assumptions are borne out in practice. The experience variances are calculated with reference to embedded value assumptions, including the apportionment of investment return and tax in the EEV model.

The 2008 net capital released analysis has been restated in accordance with the new definition of operating profit (see Note 2.01).

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 2009, the Group has chosen 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.

Notes to the Financial Statements
2.03 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

	2009 £m	2008 Restated £m
Persistency	**(1)**	12
Mortality/morbidity	**-**	(1)
Expenses	**-**	(7)
Project and development costs[1]	**(23)**	(42)
Tax[2]	**22**	3
Other	**1**	-
	(1)	(35)

1. Project and development costs in 2009 relate to continued investment in internal and other customer facing systems (£16m) and redundancy costs (£7m).
2. The current tax charge was lower than expected due to the utilisation of brought forward tax losses.

(d) Changes to valuation assumptions

	2009 £m	2008 £m
Persistency	**1**	8
Mortality/morbidity	**(2)**	(1)
Expenses	**(1)**	(2)
Other	**11**	27
	9	32

(e) Movements in non-cash items

	2009 £m	2008 Restated £m
Deferred tax	**(33)**	16
Deferred acquisition costs	**(5)**	20
Deferred income liabilities	**35**	30
Other[1]	**(61)**	(80)
	(64)	(14)

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

Notes to the Financial Statements

2.04 Investment management

	2009 £m	2008 £m
Managed pension funds	**128**	117
Private equity	**(1)**	(1)
Property	**4**	4
Other income[1]	**41**	52
Legal & General Investment Management	**172**	172
Institutional unit trusts[2]	**(5)**	(7)
Total Investment management operating profit	**167**	165

1. Other income includes £28m of profits arising from the provision of investment management services charged to the Group's Risk and Savings businesses (2008: £35m).
2. Investment management operating profit excludes core retail investments of £9m (2008: £nil), which has been disclosed as part of Savings.

2.05 International

	2009 £m	2008 £m
USA	**86**	39
Netherlands	**42**	6
France	**4**	14
Other[1]	**(5)**	-
Total International operating profit	**127**	59

1. Other includes our joint venture operations in Egypt, the Gulf and India.

2.06 Foreign exchange rates

Principal rates of exchange used for translation are:

	01.01.09-31.12.09 Average	2009 Year end	01.01.08-31.12.08 Average	2008 Year end
United States Dollar	**1.57**	**1.62**	1.85	1.44
Euro	**1.12**	**1.13**	1.26	1.03

2.07 Group capital and financing

	2009 £m	2008 Restated £m
Investment return[1]	**191**	298
Interest expense[2]	**(127)**	(145)
Investment expenses	**(3)**	(5)
Unallocated corporate expenses	**(4)**	(9)
Total Group capital and financing operating profit	**57**	139

1. The longer term expected investment return of £191m (2008: £298m) reflects an average return of 6% (2008: 7%) on the average balance of invested assets of £3.0bn (2008: £4.5bn) held within Group capital and financing calculated on a quarterly basis. The invested assets held within Group capital and financing amounted to £2.8bn at 31 December 2009 (31 December 2008: £3.9bn).
2. Interest expense excludes interest on non-recourse financing (see Note 2.16).

Notes to the Financial Statements

2.08 Variation from longer term investment return

	2009 £m	2008 Restated £m
Risk[1]	**(218)**	(854)
Savings[2]	**127**	59
Investment management	**(4)**	7
International	**26**	4
Group capital and financing[3]	**53**	(1,236)
Total variation from longer term investment return	**(16)**	(2,020)

1. At half-year 2009, non profit Risk business reflected a small reduction in yield from action taken to sell some of the Group's holdings of tier 1 and upper tier 2 bank securities. These actions have contributed £75m to the negative investment variance. The cash and overlay strategy executed on the portfolio resulted in adverse effects on the assumed yields at the half year which are reflected within IFRS profit. As expected these half-year yield impacts have been reversed by action taken in further diversifying the credit portfolio in the second half of the year. The impact of strengthening assumptions for reinvestment of cash flows, variability in currency hedging costs and inflation is also reflected here, in addition to the negative impact from default provisioning of £50m. The 2008 Risk investment return variance includes £(650)m relating to the increase in the non profit annuity credit default reserve.
2. Savings investment variances reflect management action taken in the second half of the year to optimise the tax position of unit linked business.
3. Comprises £7m (2008: £(1,096)m) relating to Society shareholder capital, £26m (2008: £(125)m) relating to the Group's treasury function, £14m (2008: £(15)m) actuarial gains and losses arising on annuity assets held by the defined benefit pension schemes that have been purchased from Legal & General Assurance Society Limited and £6m (2008: £nil) from the impact of Legal & General debt owned by the Group.

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.

2.09 Analysis of tax

	Profit/(loss) before tax 2009 £m	Tax (expense)/ credit 2009 £m	Profit/(loss) before tax 2008 Restated £m	Tax (expense)/ credit 2008 Restated £m
From continuing operations				
Risk	**735**	**(204)**	222	(71)
Savings	**55**	**(14)**	7	10
Investment management	**167**	**(46)**	165	(50)
International	**127**	**(41)**	59	(20)
Group capital and financing	**57**	**(8)**	139	(32)
Investment projects	**(32)**	**9**	-	-
Operating profit/(loss)	**1,109**	**(304)**	592	(163)
Variation from longer term investment return	**(16)**	**74**	(2,020)	524
Property losses attributable to minority interests	**(19)**	**-**	(63)	-
Profit/(loss) for the year/Tax	**1,074**	**(230)**	(1,491)	361

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.

A surplus of £469m has been declared in the period by Society's LTF, which represents the full balance of the Shareholder Retained Capital (SRC). As such, no deferred tax liability exists at the balance sheet date.

At 31 December 2009, 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.

Notes to the Financial Statements

2.10 Earnings per share

(a) Earnings per share

	Profit before tax 2009 £m	Tax expense 2009 £m	Profit after tax 2009 £m	Earnings per share 2009 p	Loss before tax 2008 Restated £m	Tax credit 2008 Restated £m	Loss after tax 2008 Restated £m	Earnings per share 2008 Restated p
Operating profit/(loss) from continuing operations	**1,109**	**(304)**	**805**	**13.82**	592	(163)	429	7.19
Variation from longer term investment return	**(16)**	**74**	**58**	**1.00**	(2,020)	524	(1,496)	(25.07)
Earnings per share based on profit/(loss) attributable to equity holders	**1,093**	**(230)**	**863**	**14.82**	(1,428)	361	(1,067)	(17.88)

(b) Diluted earnings per share

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

	Profit after tax 2009 £m	Number of shares[1] 2009 m	Earnings per share 2009 p	Profit after tax 2008 Restated £m	Number of shares[1] 2008 m	Earnings per share 2008 Restated p
Operating profit/(loss) from continuing operations after tax	**805**	**5,824**	**13.82**	429	5,968	7.19
Net shares under options allocable for no further consideration[2]	**-**	**33**	**(0.08)**	-	22	(0.03)
Diluted earnings per share	**805**	**5,857**	**13.74**	429	5,990	7.16

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

	Profit after tax 2009 £m	Number of shares[1] 2009 m	Earnings per share 2009 p	Loss after tax 2008 £m	Number of shares[1] 2008 m	Earnings per share 2008 p
Profit/(loss) attributable to equity holders of the Company	**863**	**5,824**	**14.82**	(1,067)	5,968	(17.88)
Net shares under options allocable for no further consideration[2]	**-**	**33**	**(0.09)**	-	22	-
Diluted earnings per share	**863**	**5,857**	**14.73**	(1,067)	5,990	(17.88)

The number of shares in issue at 31 December 2009 was 5,862,216,780 (31 December 2008: 5,861,627,994).

1. Weighted average number of shares.
2. At 31 December 2008, net shares under options allocable for no further consideration were anti-dilutive and were therefore excluded from the diluted earnings per share calculation.

Notes to the Financial Statements

2.11 Gross written premiums on insurance contracts

	2009 £m	2008 £m
From continuing operations		
Risk		
Non-participating Risk business	**3,057**	4,038
General insurance		
- Household	**247**	267
- Other business	**26**	29
Total Risk	**3,330**	4,334
Savings		
Non-participating Savings business	**45**	49
Participating business	**772**	551
Total Savings	**817**	600
International		
USA	**487**	397
Netherlands	**270**	278
France	**371**	286
Total International	**1,128**	961
Total gross written premiums	**5,275**	5,895

2.12 Acquisitions

Company name	Date of acquisition	Cash paid £m	Transaction costs £m	Total cost £m	Total net assets acquired £m
Nationwide Life Limited	**31/01/08**	**250**	**2**	**252**	**252**
Nationwide Unit Trust Managers Limited	**31/01/08**	**49**	**1**	**50**	**50**
Suffolk Life Group Plc	**06/05/08**	**62**	**1**	**63**	**63**

On 31 January 2008, the Group acquired 100% of the shares of Nationwide Life Limited and Nationwide Unit Trust Managers Limited. In addition, on 6 May 2008 the Group acquired 100% of the shares of Suffolk Life Group Plc. The total cost of these acquisitions was £365m. Full details are provided in the 2008 full year financial statements.

Notes to the Financial Statements

2.13 Financial investments

	2009 £m	2008 £m
Equities	**139,296**	107,408
Unit trusts	**6,329**	5,456
Debt securities	**123,511**	112,013
Accrued interest	**1,688**	1,607
Derivative assets[1]	**3,749**	6,130
Loans and receivables	**1,443**	1,900
	276,016	234,514

1. Derivative assets include £2,160m (2008: £3,765m) held on behalf of unit linked policyholders. 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.

2.14 Share capital and share premium

Authorised share capital	2009 Number of shares	2009 £m	2008 Number of shares	2008 £m
At 31 December: ordinary shares of 2.5p each	**9,200,000,000**	**230**	9,200,000,000	230

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2009	**5,861,627,994**	**147**	**936**
Options exercised under share option schemes			
- Executive share option scheme	**20,000**	**-**	**-**
- Savings related share option scheme	**568,786**	**-**	**-**
As at 31 December 2009	**5,862,216,780**	**147**	**936**

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2008	6,296,321,160	157	927
Shares cancelled under share buyback programme[1]	(449,891,914)	(11)	-
Options exercised under share option schemes			
- Executive share option scheme	640,846	-	1
- Savings related share option scheme	14,557,902	1	8
As at 31 December 2008	5,861,627,994	147	936

1. During 2008, 449,891,914 shares were repurchased and cancelled under the share buyback programme representing 7.1% of opening issued share capital, at a cost of £523m including expenses.

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

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

Notes to the Financial Statements

2.15 Segmental analysis of shareholders' equity

	2009 £m	2008 £m
Risk		
General insurance	**120**	99
Other	**-**	2
Total Risk	**120**	101
Savings		
Core retail investments	**66**	59
Other	**13**	14
Total Savings	**79**	73
Investment management	**339**	322
International		
USA	**1,002**	932
Netherlands	**158**	135
France	**178**	193
Emerging markets	**34**	12
Total International	**1,372**	1,272
Group capital and financing	**2,286**	1,820
Shareholders' equity	**4,196**	3,588

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

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

The Savings segment comprises non profit investment bonds, non profit pensions (including SIPPs), ISAs, retail unit trusts, and all with-profits products. 'Other' principally comprises the Group's interest in Cofunds.

The Investment management segment comprises institutional fund management and institutional unit trust business.

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 operating profit before tax. Segmental IFRS operating profit before tax is reconciled to the consolidated profit from continuing operations before tax attributable to equity holders and consolidated profit from ordinary activities after income tax.

Notes to the Financial Statements

2.16 Analysis of borrowings

	2009 £m	2008 £m
Subordinated borrowings		
6.385% Sterling perpetual capital securities (Tier 1)	**666**	692
5.875% Sterling undated subordinated notes (Tier 2)	**425**	426
4.0% Euro subordinated notes 2025 (Tier 2)	**498**	539
10% Sterling subordinated notes 2041 (Tier 2)	**308**	-
Client fund holdings of Group debt[1]	**(27)**	-
Total subordinated borrowings	**1,870**	1,657
Senior borrowings		
Sterling medium term notes 2031-2041	**608**	608
Euro Commercial paper 2010	**98**	609
Bank loans 2010	**12**	160
Non recourse financing		
- US Dollar Triple X securitisation 2025	**262**	369
- US Dollar Triple X securitisation 2037	**274**	308
- Sterling property partnership loans 2011	**-**	101
- Suffolk Life unit linked borrowings	**158**	159
- LGV 6 Private Equity Fund Limited Partnership	**40**	-
Client fund holdings of Group debt[1]	**(45)**	-
Total senior borrowings	**1,407**	2,314
Total borrowings	**3,277**	3,971
Total borrowings (excluding non recourse financing)	**2,543**	3,034

1. £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 prior year 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.

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.

Notes to the Financial Statements

2.16 Analysis of borrowings (continued)

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.

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 31 December 2009, 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 £107m (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 reduction in the minority interest in 2009 arises from the dilution of the Group's ownership of St Giles Limited Partnership and The Leisure Fund Limited Partnership below 50%.

Notes to the Financial Statements

2.18 Insurance contract liabilities

(a) Analysis of insurance contract liabilities

	Notes	Gross 2009 £m	Reinsurance 2009 £m	Gross 2008 £m	Reinsurance 2008 £m
Participating insurance contracts	2.18(b)	**9,404**	**(1)**	9,384	(1)
Non-participating insurance contracts[1]	2.18(c)	**28,353**	**(1,902)**	25,582	(1,847)
General insurance contracts	2.08(d)	**230**	**(9)**	259	(11)
Insurance contract liabilities		**37,987**	**(1,912)**	35,225	(1,859)

1. Excluding General insurance contracts.

(b) Movement in participating insurance contract liabilities

	Gross 2009 £m	Reinsurance 2009 £m	Gross 2008 £m	Reinsurance 2008 £m
As at 1 January	**9,384**	**(1)**	11,663	(1)
New liabilities in the year	**658**	**-**	333	-
Liabilities discharged in the year	**(1,157)**	**-**	(1,628)	-
Unwinding of discount rates	**92**	**-**	383	-
Effect of change in non-economic assumptions	**48**	**-**	58	-
Effect of change in economic assumptions	**430**	**-**	(1,348)	-
Other	**(51)**	**-**	(77)	-
As at 31 December	**9,404**	**(1)**	9,384	(1)

(c) Movement in non-participating insurance contract liabilities

	Gross 2009 £m	Reinsurance 2009 £m	Gross 2008 £m	Reinsurance 2008 £m
As at 1 January	**25,582**	**(1,847)**	22,568	(1,302)
New liabilities in the year	**2,339**	**(312)**	3,020	(262)
Liabilities discharged in the year	**(2,004)**	**136**	(1,493)	79
Unwinding of discount rates	**1,233**	**(103)**	1,022	(88)
Effect of change in non-economic assumptions	**(319)**	**188**	(87)	121
Effect of change in economic assumptions[1]	**1,871**	**(2)**	(1,366)	(26)
Foreign exchange adjustments	**(363)**	**33**	946	(82)
Acquisitions	**-**	**-**	1,172	(286)
Other	**14**	**5**	(200)	(1)
As at 31 December	**28,353**	**(1,902)**	25,582	(1,847)

1. The economic assumptions changes in 2009 principally reflect the narrowing of credit spreads. Movements in credit spreads also increased the value of the corresponding backing assets.

In 2008, the Effect of changes in economic assumptions includes the impact arising from the prevailing interest rate environment and increased credit spreads reducing liabilities, partially offset by £650m of additional reserves for non profit annuity credit default.

Notes to the Financial Statements

2.18 Insurance contract liabilities (continued)

(d) Analysis of General insurance contract liabilities

	Gross 2009 £m	Reinsurance 2009 £m	Gross 2008 £m	Reinsurance 2008 £m
Outstanding claims	**87**	**(3)**	99	(4)
Claims incurred but not reported	**23**	**-**	29	-
Unearned premiums	**120**	**(6)**	131	(7)
General insurance contract liabilities	**230**	**(9)**	259	(11)

(e) Movement in General insurance claim liabilities

	Gross 2009 £m	Reinsurance 2009 £m	Gross 2008 £m	Reinsurance 2008 £m
As at 1 January	**128**	**(4)**	172	(12)
Claims arising	**188**	**(1)**	231	(4)
Claims paid	**(177)**	**2**	(235)	6
Adjustments to prior year liabilities	**(29)**	**-**	(40)	6
As at 31 December	**110**	**(3)**	128	(4)

2.19 Investment contract liabilities

(a) Analysis of investment contract liabilities

	Gross 2009 £m	Reinsurance 2009 £m	Gross 2008 £m	Reinsurance 2008 £m
Participating investment contracts	**7,139**	**(1)**	6,992	(12)
Non-participating investment contracts	**234,502**	**(180)**	196,698	(126)
Investment contract liabilities	**241,641**	**(181)**	203,690	(138)

(b) Movement in investment contract liabilities

	Gross 2009 £m	Reinsurance 2009 £m	Gross 2008 £m	Reinsurance 2008 £m
As at 1 January	**203,690**	**(138)**	232,368	(208)
Reserves in respect of new business	**37,618**	**(750)**	38,583	(741)
Amounts paid on surrenders and maturities during the year	**(32,382)**	**571**	(36,852)	504
Investment return and related benefits	**33,221**	**136**	(33,500)	307
Management charges	**(313)**	**-**	(378)	-
Foreign exchange adjustments	**(193)**	**-**	527	-
Acquisitions	**-**	**-**	2,942	-
As at 31 December	**241,641**	**(181)**	203,690	(138)

Notes to the Financial Statements
2.20 Sensitivity analysis

UK long term business	Impact on pre-tax profit net of reinsurance 2009 £m	Impact on equity net of reinsurance 2009 £m
Sensitivity test		
1% increase in interest rates	**(92)**	**(66)**
1% decrease in interest rates	**71**	**51**
Credit spread widens by 100 bps with no change in expected defaults	**(141)**	**(101)**
1% increase in inflation	**(3)**	**(2)**
Default of largest reinsurer	**(589)**	**(424)**
5% decrease in annuitant mortality	**(281)**	**(202)**

* In calculating the alternative values, all other assumptions are left unchanged. In practice, items of the Group's experience may be correlated.
* The Group seeks to actively manage its asset and liability position. A change in market conditions may lead to changes in the asset allocation or charging structure which may have a more, or less, significant impact on the value of the liabilities. The analysis also ignores any second order effects of the assumption change, including the potential impact on the Group asset and liability position and any second order tax effects.
* These stresses use the assets that back the liabilities. Any excess assets have not been stressed in these calculations.
* The sensitivity of the profit to changes in assumptions may not be linear. They should not be extrapolated to changes of a much larger order.
* The change in interest rate test assumes a 100 basis point change in the gross redemption yield on fixed interest securities together with a 100 basis point change in the real yields on variable securities. Valuation interest rates are assumed to move in line with market yields adjusted to allow for the impact of FSA regulations.
* In the sensitivity for credit spreads corporate bond yields have increased by 100bps, gilt and approved security yields unchanged, and there has been no adjustment to the default assumptions.
* The inflation stress adopted is a 1% pa increase in inflation resulting in a 1% pa reduction in real yield and no change to the nominal yield. In addition the expense inflation rate is increased by 1% pa.
* The reinsurer stress shown is equal to the technical provisions ceded to that insurer.
* The annuitant mortality stress is a 5% reduction in the mortality rates for immediate and deferred annuitants with no change to the mortality improvement rates (so for example a rate that was 80% of a standard table would become 76% of that standard table).

General insurance	Impact on pre-tax profit net of reinsurance 2009 £m	Impact on equity net of reinsurance 2009 £m
Sensitivity test		
Single storm event with 1 in 200 year probability	**(50)**	**(36)**
Subsidence event – worst claims ratio in last 30 years	**(41)**	**(29)**
Economic downturn	**(39)**	**(28)**
5% decrease in overall claims ratio	**8**	**6**
5% surplus over claims liabilities	**5**	**4**

Notes to the Financial Statements

2.21 Provisions

(i) Analysis of provisions

	Notes	2009 £m	2008 £m
Retirement benefit obligations	(ii)	**746**	551
Other provisions		**11**	4
		757	555

(ii) Retirement benefit obligations

	Fund and Scheme 2009 £m	Overseas 2009 £m	Fund and Scheme 2008 £m	Overseas 2008 £m
Gross pension obligations included in provisions	**(747)**	**1**	(551)	-
Annuity obligations insured by Society	**465**	**-**	411	-
Gross defined benefit pension deficit	**(282)**	**1**	(140)	-
Deferred tax on defined benefit pension deficit	**79**	**-**	39	-
Net defined benefit pension deficit	**(203)**	**1**	(101)	-

The Legal & General Group UK Pension and Assurance Fund and the Legal & General Group UK Senior Pension Scheme are defined benefit pension arrangements and account for all UK and the majority of worldwide assets of, and contributions to, such arrangements. At 31 December 2009, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Society) has been estimated at £203m (2008: £101m). These amounts have been recognised in the financial statements with £121m charged against shareholder equity (2008: £59m) and £82m against the unallocated divisible surplus (2008: £42m).

2.22 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.

Notes to the Financial Statements

2.23 Basis of preparation

Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and as adopted by the European Commission (EC) for use in the European Union. The Group's financial statements also comply with IFRS as issued by the IASB.

The Group presents its balance sheet broadly in order of liquidity. Given the long term nature of the Group's core business, this is considered to be more relevant than a presentation that distinguishes between before or after twelve months. However, for each asset and liability line item which combines amounts expected to be recovered or settled before and after twelve months from the balance sheet date, disclosure of the split is made by way of notes in the annual report and accounts.

Financial assets and financial liabilities are disclosed gross in the balance sheet unless a legally enforceable right of offset exists and there is an intention to settle recognised amounts on a net basis. Income and expenses are not offset in the income statement unless required or permitted by an accounting standard or International Financial Reporting Interpretations Committee (IFRIC) interpretation, as detailed in the applicable accounting policies of the Group.

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.

The Group has adopted the revised presentation under Revised IAS 1, 'Presentation of financial statements' and accordingly included a separate statement of comprehensive income. The revision prohibits the presentation of items of income and expenses in the statement of changes in equity and requires changes in equity attributable to shareholders to be presented separately from those that are not attributable to shareholders. The changes are purely presentational and the comparatives have been restated to reflect the new presentation.

In 2009, the Group adopted amendments to IFRS 2 'Share-based payments' and IAS 23 'Borrowing costs' with no impact to the Group's results.

Reportable segments

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

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

The Savings segment comprises non profit investment bonds, non profit pensions (including SIPPs), ISAs, retail unit trusts, and all with-profits products. 'Other' principally comprises the Group's interest in Cofunds.

The Investment management segment comprises institutional fund management and institutional unit trust business.

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 operating profit before tax. Segmental IFRS 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.

3.01 Operational cash generation[1]

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.

Year ended 31 December 2009	Operational cash generation £m	New business strain £m	Net cash £m	International[2] £m	Variances £m	Investment gains and losses[3] £m	Other[4] £m	IFRS profit after tax £m
Total Risk operating profit	**454**	**50**	**504**	**-**	**27**	**-**	**-**	**531**
Total Savings operating profit	**110**	**(77)**	**33**	**-**	**16**	**-**	**(8)**	**41**
Investment management operating profit	**121**	**-**	**121**	**-**	**-**	**-**	**-**	**121**
International	**8**	**-**	**8**	**78**	**-**	**-**	**-**	**86**
Group capital and financing	**33**	**-**	**33**	**-**	**-**	**16**	**-**	**49**
Investment projects	**-**	**-**	**-**	**-**	**-**	**-**	**(23)**	**(23)**
Operating profit	**726**	**(27)**	**699**	**78**	**43**	**16**	**(31)**	**805**
Investment variance	**-**	**-**	**-**	**-**	**-**	**58**	**-**	**58**
Property losses attributable to minority interests	**-**	**-**	**-**	**-**	**-**	**-**	**(19)**	**(19)**
Total	**726**	**(27)**	**699**	**78**	**43**	**74**	**(50)**	**844**
Dividends paid in the year			**(185)**					
Net cash available for reinvestment			**514**					

Year ended 31 December 2008	Operational cash generation £m	New business strain £m	Net cash £m	International[2] £m	Variances £m	Investment gains and losses[3] £m	Other[4] £m	IFRS profit after tax £m
Total Risk operating profit	379	(173)	206	-	(44)	-	(11)	151
Total Savings operating profit	138	(161)	(23)	-	28	-	12	17
Investment management operating profit	115	-	115	-	-	-	-	115
International	-	-	-	39	-	-	-	39
Group capital and financing	22	-	22	-	-	74	11	107
Operating profit	654	(334)	320	39	(16)	74	12	429
Investment variance	-	-	-	-	-	(1,496)	-	(1,496)
Property losses attributable to minority interests	-	-	-	-	-	-	(63)	(63)
Total	654	(334)	320	39	(16)	(1,422)	(51)	(1,130)
Dividends paid in the year			(239)					
Net cash available for reinvestment			81					

Variances[5]

	Notes	**Risk £m 2009**	**Savings £m 2009**	**Total NP £m 2009**	Risk £m 2008	Savings £m 2008	Total NP £m 2008
Experience variances	2.02(b)/2.03(b)	**113**	**(1)**	**112**	2	(35)	(33)
Changes to valuation assumptions	2.02(b)/2.03(b)	**169**	**9**	**178**	(42)	32	(10)
Changes to FSA reporting and capital rules	2.02(b)/2.03(b)	**15**	**50**	**65**	-	-	-
Movements in non-cash items	2.02(b)/2.03(b)	**(229)**	**(64)**	**(293)**	16	(14)	2
Other	2.02(b)/2.03(b)	**(41)**	**22**	**(19)**	(20)	45	25
Total		**27**	**16**	**43**	(44)	28	(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 2009, the business generated operational cashflow of £726m (2008: £654m) before investing £27m (2008: £334m) in non profit new business strain, resulting in net cash generated of £699m (2008: £320m). In 2009, £120m has been used to pay the 2008 final dividend and £65m to pay the half-year dividend, resulting in £514m (2008: £81m) 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 for 2009. Costs relating to one-off investment projects are also excluded for 2009. Other in 2008 reflects adjustments arising on restatement of the 2008 operating profit and minor definitional changes in net cash.
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.

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 based on unaudited regulatory returns.

	2009 £bn	2008 £bn
Core tier 1	**4.8**	3.9
Innovative tier 1	**0.6**	0.6
Upper tier 2	**0.4**	0.4
Lower tier 2[1]	**0.8**	0.6
Deductions[2]	**(1.0)**	(1.1)
Group capital resources	**5.6**	4.4
Group capital resources requirement	**2.5**	2.6
IGD surplus[3]	**3.1**	1.8
Coverage ratio (Group capital resources / Group capital resources requirement)	**2.24 times**	1.69 times

1. The increase in lower tier 2 capital reflects £0.3bn of capital raised in July 2009 , which has been offset by foreign exchange movements in translating the Group's euro denominated lower tier 2 debt.
2. Deductions comprises inadmissible assets in L&G America of £0.8bn (2008: £0.8bn), in Society of £0.1bn (2008: £0.2bn) and in other subsidiaries of £0.1bn (2008: £0.1bn).
3. The IGD surplus is stated after accruing for the period end dividend.

A segmental analysis is given below.

	2009 £bn	2008 £bn
Society long term fund[1]	**2.1**	1.9
Society shareholder capital	**2.2**	1.6
General insurance	**0.1**	0.1
France	**0.2**	0.2
Netherlands	**0.2**	0.2
Nationwide Life	**0.1**	0.1
USA	**0.2**	0.1
Investment management	**0.3**	0.3
Other[2]	**0.9**	1.3
Innovative tier 1	**0.6**	0.6
Tier 2	**1.2**	1.0
Debt	**(2.5)**	(3.0)
Group capital resources	**5.6**	4.4
Society long term fund[1]	**2.1**	2.1
Other	**0.4**	0.5
Group capital resources requirement	**2.5**	2.6

1. The Society long term fund (LTF) capital requirement of £2.1bn (2008: £2.1bn) is met by £2.1bn (2008: £1.9bn) of capital resources in the LTF and £nil (2008: £0.2bn) from other Society shareholder capital.
2. Other includes corporate assets held within the Group's Treasury function.

3.02 Regulatory capital resources (continued)

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

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

	2009 £bn	2008 £bn
Capital and reserves attributable to equity holders on an IFRS basis	**4.2**	3.6
Innovative tier 1	**0.6**	0.6
Tier 2	**1.2**	1.0
Proposed dividends	**(0.2)**	(0.1)
Additional capital available from Society	**0.6**	0.3
Adjustment to reflect regulatory value of the USA operation	**(0.8)**	(0.8)
Other regulatory adjustments	**-**	(0.2)
Group capital resources	**5.6**	4.4

(b) With-profits realistic balance sheet

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

	2009 £m	2008 £m
With-profits surplus	**841**	641
Risk capital margin	**241**	373
Surplus	**600**	268

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 £326m (2008: £212m) as a liability in the calculation.

(c) Society capital surplus

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

	2009 Long term business £bn	2009 General insurance £bn	2008 Long term business £bn	2008 General insurance £bn
Available capital resources - Tier 1	**4.8**	**0.1**	4.0	0.1
Insurance capital requirement	**2.1**	**0.1**	1.9	0.1
Capital requirements of regulated related undertakings	**0.2**	**-**	0.3	-
With-profits Insurance Capital Component	**-**	**-**	0.2	-
Capital resources requirement	**2.3**	**0.1**	2.4	0.1
Regulatory capital surplus	**2.5**	**-**	1.6	-

Movement in Society long term insurance capital requirement

Pillar 1 capital requirement	2009 £bn	2008 £bn	Change £bn
Protection	**0.6**	0.5	0.1
Annuities	**0.8**	0.7	0.1
Non profit pensions and unit linked bonds	**0.1**	0.1	-
Non profit	**1.5**	1.3	0.2
With-profits	**0.6**	0.6	-
Long term insurance capital requirement	**2.1**	1.9	0.2

On a regulatory basis (peak 1), Society long term business regulatory capital surplus of £2.5bn (2008: £1.6bn) comprises capital resources within the long term fund of £2.1bn (2008: £1.9bn) and capital resources outside the long term fund of £2.7bn (2008: £2.1bn) less the capital resources requirement of £2.3bn (2008: £2.4bn).

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 31 December 2009, this adjustment amounted to £326m (2008: £212m); however the adjustment to the WPICC has been restricted by £178m as the Peak 1 surplus is lower than the Peak 2 surplus.

3.03 Group capital resources

As at 31 December 2009	UK with-profits £m	UK non profit and SRC[1] £m	LGPL £m	Overseas and PMC £m	Total life £m	Shareholders' equity and other activities £m	**Total £m**
Ordinary shareholders' equity outside the LTF	-	157	703	1,553	2,413	492	**2,905**
Ordinary shareholders' equity in the LTF	-	1,291	-	-	1,291	-	**1,291**
Capital and reserves attributable to equity holders of the Company	-	1,448	703	1,553	3,704	492	**4,196**
Adjustments onto regulatory basis:							
Unallocated divisible surplus	1,249	-	-	35	1,284	-	**1,284**
Other[2]	(408)	(609)	-	(763)	(1,780)	(227)	**(2,007)**
Other qualifying capital:							
Subordinated borrowings	-	-	-	-	-	1,815	**1,815**
Internal loans[3]	-	-	981	-	981	(981)	**-**
Proposed dividend	-	-	-	-	-	(160)	**(160)**
Total available capital resources	841	839	1,684	825	4,189	939	**5,128**
IFRS liability analysis:							
UK participating liabilities on realistic basis							
- Options and guarantees	723	-	-	-	723	-	**723**
- Other policyholder obligations	13,447	33	-	-	13,480	-	**13,480**
Overseas participating liabilities	-	-	-	2,340	2,340	-	**2,340**
Unallocated divisible surplus	1,249	-	-	35	1,284	-	**1,284**
Value of in-force non-participating contracts	(367)	-	-	-	(367)	-	**(367)**
Participating contract liabilities	15,052	33	-	2,375	17,460	-	**17,460**
Unit linked non-participating life assurance liabilities	554	491	-	1,404	2,449	-	**2,449**
Non-linked non-participating life assurance liabilities	1,953	21,878	-	2,073	25,904	-	**25,904**
Unit linked non-participating investment contract liabilities	8,152	18,341	-	208,009	234,502	-	**234,502**
General insurance liabilities	-	-	-	-	-	230	**230**
Non-participating contract liabilities	10,659	40,710	-	211,486	262,855	230	**263,085**

1. UK non profit and SRC includes Nationwide Life Limited and Suffolk Life Annuities Limited.
2. Other consists of shareholders' share in realistic liabilities of £307m and changes to the values of assets and liabilities on a regulated basis of £1,700m.
3. Internal loans wholly comprises the contingent loan (£981m) from Society shareholders' equity to LGPL, which is reflected in the value of LGPL for regulatory purposes.

3.04 Movements in life business capital resources

	UK with-profits £m	UK non profit and SRC £m	LGPL £m	Overseas and PMC £m	**Total life £m**
As at 1 January 2009	641	673	565	687	**2,566**
Effect of investment variations	241	75	(47)	3	**272**
Effect of changes in valuation assumptions	11	52	121	-	**184**
Changes in regulatory requirements	-	26	39	139	**204**
New business	(44)	(95)	67	(75)	**(147)**
Cash distributions	-	(108)	-	(87)	**(195)**
Capital contributions	-	-	600	48	**648**
Other factors	(8)	216	339	110	**657**
As at 31 December 2009	841	839	1,684	825	**4,189**

Asset Disclosures

4.01 Investment portfolio

	Notes	Market value 2009 £bn	Market value 2008 £bn
Worldwide funds under management		**334**	280
Client and policyholder assets		**(284)**	(233)
Non-unit linked with-profits assets[1]		**(20)**	(19)
Assets to which shareholders are directly exposed		**30**	28

	Notes	2009 £bn	2008 £bn
Comprising:			
Assets held to back the UK non-linked non profit business:			
Legal & General Pensions Limited (LGPL)		**22.5**	18.7
Other UK non profit insurance business		**1.2**	1.9
		23.7	20.6
Assets held to back other insurance businesses (including Triple-X reserves)		**2.4**	2.5
Society shareholder capital	4.05	**2.3**	2.9
Other Group capital	4.05	**1.9**	2.3
		30.3	28.3

1. Includes assets backing participating business in France of £2bn (2008: £2bn).

Analysed by asset class:

	Notes	LGPL 2009 £bn	Other UK non profit insurance business 2009 £bn	Other insurance business 2009 £bn	Society shareholder capital 2009 £bn	Other Group capital 2009 £bn	Total 2009 £bn	Total 2008 £bn
Equities		**-**	**-**	**-**	**0.9**	**-**	**0.9**	1.4
Bonds	4.02	**21.4**	**0.4**	**2.0**	**0.8**	**1.1**	**25.7**	21.4
Derivative assets[1]		**0.8**	**0.5**	**-**	**-**	**0.2**	**1.5**	2.3
Property		**-**	**-**	**-**	**0.1**	**-**	**0.1**	0.2
Cash (including cash equivalents)		**0.3**	**0.3**	**0.4**	**0.5**	**0.6**	**2.1**	3.0
		22.5	**1.2**	**2.4**	**2.3**	**1.9**	**30.3**	28.3

1. Derivative assets are shown gross of derivative liabilities. Exposures arise from:
a. The use of derivatives for efficient portfolio management, especially the use of interest rate swaps, inflation swaps, credit default swaps and foreign exchange forward contracts for asset and liability management.
b. Derivatives matching Guaranteed Equity Bonds within the Nationwide Life portfolio.

4.02 Bond portfolio summary

(i) Analysed by sector

	Notes	LGPL 2009 £m	LGPL 2009 %	Total 2009 £m	Total 2009 %	Total 2008 £m	Total 2008 %
Sovereigns, Supras and Sub-Sovereigns		1,241	6	**2,382**	**9**	2,517	12
Banks - Tier 1[1]	4.04	459	2	**508**	**2**	650	3
- Tier 2 and other subordinated	4.04	1,854	9	**2,041**	**8**	2,410	11
- Senior		1,539	7	**2,191**	**9**	1,815	8
Utilities		2,811	13	**2,985**	**12**	2,291	11
Consumer Services & Goods		2,286	11	**2,606**	**10**	1,829	8
Financial Services		906	4	**1,111**	**4**	989	5
Technology & Telecoms		1,463	7	**1,639**	**6**	1,172	5
Insurance		1,067	5	**1,192**	**5**	904	4
Industrials		893	4	**1,072**	**4**	784	4
Oil & Gas		984	5	**1,151**	**5**	611	3
Health Care		590	3	**605**	**2**	541	3
Property		509	2	**582**	**2**	516	2
ABS	4.03	3,546	16	**4,441**	**17**	3,389	16
CDO		1,205	6	**1,212**	**5**	1,004	5
Total		21,353	100	**25,718**	**100**	21,422	100

1. Tier 1 holdings include £45m (2008: £75m) of preference shares.

(ii) Analysed by domicile

	LGPL 2009 £m	LGPL 2009 %	Total 2009 £m	Total 2009 %	Total 2008 £m	Total 2008 %
United Kingdom	7,825	36	**9,150**	**36**	8,996	42
North America	6,958	33	**8,931**	**35**	6,833	32
Europe	5,361	25	**6,313**	**24**	4,821	22
Other	1,209	6	**1,324**	**5**	772	4
Total	21,353	100	**25,718**	**100**	21,422	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 2009 £m	LGPL 2009 %	Total 2009 £m	Total 2009 %	Total 2008 £m	Total 2008 %
AAA	2,324	11	**4,282**	**17**	4,616	22
AA	1,867	9	**2,312**	**9**	2,359	11
A	8,312	38	**9,395**	**36**	8,180	38
BBB	6,397	30	**7,093**	**28**	4,385	20
BB or below	591	3	**680**	**3**	183	1
Unrated: Bespoke CDOs	1,104	5	**1,104**	**4**	878	4
Other	758	4	**852**	**3**	821	4
	21,353	100	**25,718**	**100**	21,422	100

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

Credit ratings have been presented using the lowest of the available agency ratings.

4.02 Bond portfolio summary (continued)

(iv) CDOs

The Group holds collateralised debt obligations (CDO) with a market value of £1,212m at 2009 (2008: £1,004m).

These holdings include £108m (2008: £126m) in traded CDOs and £41m (2008: £34m) exposure to an equity tranche of a bespoke CDO.

The balance of £1,063m (2008: £844m) relates to a further 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. A breakdown of the underlying CDO reference portfolio by sector is provided below:

Sector

	2009 %	2008 %
Banks	**14**	13
Utilities	**10**	10
Consumer Services & Goods	**26**	27
Financial Services	**6**	6
Technology & Telecoms	**9**	9
Insurance	**6**	6
Industrials	**20**	20
Oil & Gas	**6**	6
Health Care	**3**	3
	100	100

The CDOs are termed as super senior since default losses on the reference portfolio have to exceed 27%, on average across the four CDOs, before the CDOs incur any default losses. Assuming an average recovery rate of 30%, then over 39% of the reference names would have to default before the CDOs incur any default losses.

Beyond 27% of default losses on the reference portfolio, losses to the CDO would occur at a rate that is a multiple of the loss rate on the reference portfolio. For illustration a £200m loss could be incurred if default losses to the reference portfolios exceeded 30% or if 43% 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.

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 2009 (2008: £155m).

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.

4.03 Asset backed securities summary

(i) By security

	LGPL 2009 £m	LGPL 2009 %	Total 2009 £m	Total 2009 %	Total 2008 £m	Total 2008 %
Traditional ABS:						
RMBS - Prime[1]	365	11	**646**	**15**	593	17
RMBS - Sub-prime[2]	-	-	**22**	**-**	30	1
CMBS	230	7	**376**	**8**	284	8
Credit Card	17	-	**297**	**7**	267	8
Auto	2	-	**83**	**2**	82	2
Consumer Loans	47	1	**56**	**1**	-	-
Student Loan	31	1	**51**	**1**	30	1
	692	**20**	**1,531**	**34**	1,286	37
Other:						
Secured Bond	1,413	39	**1,431**	**32**	1,068	31
Commercial Property Backed Bonds	211	6	**211**	**5**	155	5
Infrastructure / PFI / Social housing	945	27	**946**	**21**	641	19
Whole Business Securitisation	250	7	**250**	**6**	221	7
Other secured holdings[3]	35	1	**72**	**2**	18	1
	2,854	**80**	**2,910**	**66**	2,103	63
Total	**3,546**	**100**	**4,441**	**100**	3,389	100

1. 64% (2008: 87%) of Prime RMBS holdings relate to UK mortgages.

2. 43% (2008: 90%) of Sub-prime RMBS holdings have a credit rating of AAA and 57% (2008: 49%) relate to the UK.

3. Other secured holdings include covered bonds of £11m (2008: £9m).

(ii) By credit rating

	LGPL 2009 £m	LGPL 2009 %	Total 2009 £m	Total 2009 %	Total 2008 £m	Total 2008 %
AAA	1,129	32	**1,821**	**41**	1,703	51
AA	636	18	**675**	**15**	581	17
A	1,047	29	**1,120**	**25**	721	21
BBB	528	15	**563**	**13**	359	11
BB or below	79	2	**107**	**2**	16	-
Unrated	127	4	**155**	**4**	9	-
Total	**3,546**	**100**	**4,441**	**100**	3,389	100

Of the £839m of traditional ABS holdings held outside of LGPL, 79% are rated AAA (2008: £801m of which 93% are rated AAA).
The credit ratings of monoline wrapped bonds are based on the rating of the underlying securities.

4.04 Group subordinated bank exposures

	Market value 2009 £m	Total 2009 %	Market value 2008 £m	Total 2008 %
Tier 1				
United Kingdom[1]	**220**	**9**	448	15
North America	**101**	**4**	102	3
Europe	**158**	**6**	88	3
Others	**29**	**1**	12	-
Total tier 1	**508**	**20**	650	21
Lower tier 2				
United Kingdom	**846**	**33**	760	25
North America	**561**	**22**	668	22
Europe	**292**	**11**	255	8
Others	**79**	**3**	71	2
Upper tier 2				
United Kingdom	**89**	**4**	474	16
North America	**24**	**1**	3	-
Europe	**70**	**3**	142	5
Others	**4**	**-**	9	-
Other subordinated				
United Kingdom	**3**	**-**	10	-
North America	**72**	**3**	18	1
Europe	**1**	**-**	-	-
Others	**-**	**-**	-	-
Total tier 2 and other subordinated	**2,041**	**80**	2,410	79
Total	**2,549**	**100**	3,060	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.

4.05 Group capital asset mix

	Society shareholder capital 2009 %	Other Group shareholder assets 2009 %	Total 2009 %	Society shareholder capital 2008 %	Other Group shareholder assets 2008 %	Total 2008 %
Equities	**39**	**-**	**21**	43	2	25
Bonds	**35**	**58**	**46**	23	50	35
Derivative assets	**-**	**11**	**5**	1	12	6
Property	**4**	**-**	**2**	6	-	4
Cash (including cash equivalents)	**22**	**31**	**26**	27	36	30
	100	**100**	**100**	100	100	100
Invested assets (£bn)	**2.3**	**1.9**	**4.2**	2.9	2.3	5.2

4.06 Value of policyholder assets held in Society and LGPL

	2009 £bn	2008 £bn
With-profits business	**25.6**	24.0
Non profit business	**35.9**	30.4
	61.5	54.4

4.07 Non-linked business invested asset mix and investment return

As at 31 December 2009	Investment return %	UK With-profits asset share %	UK With-profits non par %	UK With-profits other %	UK non linked non profit business %
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**
As at 31 December 2008					
Equities	(25)	39	3	(51)	-
Bonds	(5)	40	83	121	97
Property	(27)	16	1	-	-
Cash	4	5	13	30	3
		100	100	100	100
Investment return (% pa)	(11)	(18)	(2)	27	(7)
Invested assets (£bn):					
Net of derivative liabilities		12.5	2.3	2.1	18.8
Gross of derivative liabilities		12.6	2.3	2.1	20.6

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

4.08 Analysis of fair value measurement bases

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	**0.9**	**3.0**	**-**	**3.9**
Derivative assets	**-**	**0.2**	**-**	**0.2**
	1.6	**3.3**	**0.1**	**5.0**
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.

As at 31 December 2008	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	1.1	-	0.2	1.3
Bonds	1.2	2.6	-	3.8
Derivative assets	-	0.3	-	0.3
	2.3	2.9	0.2	5.4
Non profit non-unit linked				
Equities	0.1	-	-	0.1
Bonds	1.1	16.5	-	17.6
Derivative assets	-	2.0	-	2.0
	1.2	18.5	-	19.7

The analysis excludes cash, loans and receivables and property investments of £2.2bn (2008: £3.2bn) (Note 4.01).

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 less 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 no or limited observable market data for these assets and liabilities. Fair value estimates for financial instruments deemed to be in an illiquid market are based on judgments regarding current economic conditions, liquidity discounts, currency, credit and interest rate risks, loss experience and other factors. These fair values are estimates and involve considerable uncertainty and variability as a result of the inputs selected and may differ significantly from the values that would have been used had a ready market existed, and the differences could be material. As a result, such calculated fair value estimates may not be realisable in an immediate sale or settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique could significantly affect these fair value estimates.

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

European Embedded Value

Consolidated income statement

For the year ended 31 December 2009

	Notes	2009 £m	2008 Restated[1] £m
From continuing operations			
Risk	5.01	**913**	439
Savings	5.01	**82**	50
Investment management	5.08	**139**	130
International	5.09	**170**	100
Group capital and financing	5.10	**47**	156
Investment projects[2]		**(32)**	-
Operating profit		**1,319**	875
Variation from longer term investment return	5.11	**(413)**	(1,584)
Effect of economic assumption changes	5.12	**(335)**	(609)
Property losses attributable to minority interests		**(19)**	(63)
Profit/(loss) from continuing operations before tax attributable to equity holders of the Company		**552**	(1,381)
Tax (expense)/credit on profit/(loss) from ordinary activities	5.14	**(114)**	327
Tax impact of corporate restructure	5.01	**59**	81
Profit/(loss) for the year		**497**	(973)
Loss attributable to minority interests	2.17	**19**	63
Profit/(loss) attributable to equity holders of the Company		**516**	(910)

		p	p
Earnings per share	5.15		
Based on operating profit from continuing operations after tax attributable to equity holders of the Company		**16.28**	10.72
Based on profit/(loss) attributable to equity holders of the Company		**8.86**	(15.25)
Diluted earnings per share	5.15		
Based on operating profit from continuing operations after tax attributable to equity holders of the Company		**16.19**	10.68
Based on profit/(loss) attributable to equity holders of the Company		**8.81**	(15.25)

1. The EEV comparatives have been restated to reflect the impact of the change in definition of IFRS operating profit on non covered business (see Note 2.01). The change has increased 2008 EEV operating profit by £5m and reduced variation from longer term investment return by £5m. There is no impact on profit after tax or shareholders' equity.

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

Consolidated statement of comprehensive income

For the year ended 31 December 2009

	2009 £m	2008 £m
Profit/(loss) for the year	**497**	(973)
Other comprehensive income after tax		
Exchange differences on translation of overseas operations	**(88)**	196
Actuarial (losses)/gains on defined benefit pension schemes	**(90)**	12
Actuarial losses/(gains) on defined benefit pension schemes transferred to unallocated divisible surplus	**62**	(8)
Total comprehensive income/(expense) for the year	**381**	(773)
Total comprehensive income/(expense) attributable to:		
Minority interests	**(19)**	(63)
Equity holders of the Company	**400**	(710)

Consolidated balance sheet

As at 31 December 2009

	Notes	2009 £m	2008 £m
Assets			
Investments		**290,550**	249,185
Long term in-force business asset		**2,645**	3,160
Other assets		**6,348**	7,315
Total assets		**299,543**	259,660
Equity			
Shareholders' equity	5.17/5.18	**6,695**	6,521
Minority interests	2.17	**2**	144
Total equity		**6,697**	6,665
Liabilities			
Subordinated borrowings	2.16	**1,870**	1,657
Unallocated divisible surplus		**1,284**	913
Participating contract liabilities		**16,176**	16,205
Non-participating contract liabilities		**263,085**	222,539
Senior borrowings	2.16	**1,407**	2,314
Other liabilities and provisions		**9,024**	9,367
Total liabilities		**292,846**	252,995
Total equity and liabilities		**299,543**	259,660

Notes to the Financial Statements

5.01 Profit/(loss) for the year

For the year ended 31 December 2009	Notes	Risk and Savings £m	Investment manage-ment £m	Inter-national £m	Group capital and financing £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.03/5.05	**305**		**23**		**328**
Contribution from in-force business:						
- expected return[1]		**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[2]				**16**	**125**	**141**
Operating profit on covered business		**973**	**-**	**175**	**125**	**1,273**
Business reported on an IFRS basis:						
General insurance	2.02(f)	**17**				**17**
Core retail investments		**9**				**9**
Investment management[3]	5.08		**139**			**139**
Group capital and financing	5.10				**(78)**	**(78)**
Investment projects					**(32)**	**(32)**
Other[4]		**(4)**		**(5)**		**(9)**
Total operating profit		**995**	**139**	**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		**245**	**135**	**135**	**37**	**552**
Tax (expense)/credit on profit from ordinary activities		**(68)**	**(36)**	**(43)**	**33**	**(114)**
Tax impact of corporate restructure[5]		**-**	**-**	**-**	**59**	**59**
Profit for the year		**177**	**99**	**92**	**129**	**497**

Operating profit attributable to:		
Risk		**913**
Savings		**82**

1. The expected return on in-force is based on the unwind of the risk discount rate on the opening, adjusted base value of in-force (VIF). The opening base VIF of the Risk and Savings business was £4,268m in 2009. This is adjusted for the effects of opening model changes of £31m to give an adjusted opening base VIF of £4,299m. This is then multiplied by the opening risk discount rate of 8.3% and the result grossed up at the notional attributed tax rate of 28% to give a return of £496m.

2. The 2009 Group capital and financing contribution from shareholder net worth (SNW) of £125m comprises the average return of 7% on the average balance of invested assets of £2.1bn (£138m); offset by an adjustment for opening tax and other modelling changes of £(2)m and pre-tax corporate expenses charged to shareholders' funds of £(11)m.

3. Investment management operating profit excludes £28m (2008: £35m) 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. On an EEV basis, Suffolk Life, operations in Ireland and business unit costs allocated to the Risk and Savings business are included in the covered business operating profit. These are included within Other Risk and Other Savings within IFRS operating profit.

5. 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.

Notes to the Financial Statements

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

For the year ended 31 December 2008	Notes	Risk and Savings £m	Investment management £m	International £m	Group capital and financing Restated £m	Total Restated £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital	5.03/5.05	265		32		297
Contribution from in-force business:						
- expected return		370		100		470
- experience variances	5.07	12		(34)		(22)
- operating assumption changes	5.07	(100)		(15)		(115)
Development costs		(51)		-		(51)
Contribution from shareholder net worth				17	256	273
Operating profit on covered business		496	-	100	256	852
Business reported on an IFRS basis:						
General insurance	2.02(f)	(2)				(2)
Core retail investments		-				-
Investment management[1]	5.08		130			130
Group capital and financing	5.10				(100)	(100)
Other[2]		(5)		-		(5)
Total operating profit		489	130	100	156	875
Variation from longer term investment return	5.11	(175)	7	(110)	(1,306)	(1,584)
Effect of economic assumption changes	5.12	(505)	-	(110)	6	(609)
Property losses attributable to minority interests		-	-	-	(63)	(63)
(Loss)/profit from continuing operations before tax		(191)	137	(120)	(1,207)	(1,381)
Tax credit/(expense) on profit from ordinary activities		54	(42)	37	278	327
Tax impact of corporate restructure[3]		53	-	-	28	81
(Loss)/profit for the year		(84)	95	(83)	(901)	(973)

Operating profit attributable to:						
Risk		439				
Savings		50				

1. 2008 investment management operating profit excludes £35m 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. On an EEV basis, Suffolk Life, operations in Ireland and business unit costs allocated to the Risk and Savings business are included in the covered business operating profit. These are included within Other Risk and Other Savings within IFRS operating profit.

3. In 2008 £0.9bn was transferred from Shareholder Retained Capital to shareholder capital held outside the long term fund. This transfer did not give rise to any incremental tax and therefore resulted in an £81m benefit to embedded value.

Notes to the Financial Statements

5.02 New business summary[1]

	Notes	APE[2] 2009 £m	PVNBP[3] 2009 £m	Margin[4] 2009 %	APE 2008 £m	PVNBP 2008 £m	Margin 2008 %
Risk	5.03	**366**	**2,728**	**10.4**	488	3,811	7.1
Savings	5.03	**532**	**3,676**	**0.5**	650	4,722	(0.1)
International	5.05	**109**	**876**	**2.6**	113	896	3.6
		1,007	**7,280**	**4.5**	1,251	9,429	3.1

1. Excludes core retail investments.
2. Annual Premium Equivalent (APE) is calculated for total new business, including core retail investments but excluding investment management new business, and comprises the new annual premiums together with 10% of single premiums.
3. The present value of new business premiums (PVNBP) on the EEV basis is defined as the present value of annual premiums plus single premiums for any given period. It is calculated using the same assumptions as for the contribution from new business but determined as at the point of sale.
4. The new business margin is defined as the contribution from new business (including the cost of solvency capital) divided by the PVNBP.

5.03 Risk and Savings[1] new business by product

For the year ended 31 December 2009	Annual premiums £m	Present value of annual premiums £m	Capital-isation factor[2]	Single premiums £m	PVNBP £m	Contri-bution from new business[3] £m	Margin %
Protection	**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[4]						**40**	
Contribution from new business before cost of capital						**345**	

For the year ended 31 December 2008	Annual premiums £m	Present value of annual premiums £m	Capital-isation factor	Single premiums £m	PVNBP £m	Contri-bution from new business £m	Margin %
Protection	207	1,005	4.9	-	1,005	62	6.2
Annuities	-	-	-	2,806	2,806	209	7.4
Total Risk	207	1,005	4.9	2,806	3,811	271	7.1
Unit linked bonds	-	-	-	1,306	1,306	(13)	(1.0)
Pensions, stakeholder and other non profit	181	715	4.0	1,468	2,183	(8)	(0.4)
With-profits savings	108	395	3.7	838	1,233	15	1.2
Total Savings	289	1,110	3.8	3,612	4,722	(6)	(0.1)
Total Risk and Savings	496	2,115	4.3	6,418	8,533	265	3.1
Cost of capital						65	
Contribution from new business before cost of capital						330	

1. Excludes core retail investments.
2. The capitalisation factor is the present value of annual premiums divided by the amount of annual premiums.
3. The contribution from new business is defined as the present value at point of sale of assumed profits from new business written in the period and then rolled forward to the end of the financial period using the risk discount rate applicable at the end of the reporting period.
4. The 2009 cost of capital is lower than 2008 primarily reflecting the impact of lower volumes of protection and annuity business and the higher proportion of immediate annuities.

Notes to the Financial Statements

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

	IRR 2009 %	Payback period 2009 years	IRR 2008 %	Payback period 2008 years
Protection	**17**	**5**	14	5
Annuities[2]	**>30**	**<0**	>15	6
Unit linked bonds	**8**	**9**	6	10
Pensions, stakeholder and other non profit	**6**	**14**	7	12

1. The payback period is calculated on an undiscounted basis.
2. Given negative strain on annuity business in 2009 and an immediate IFRS payback, the IRR calculation is infinite.

5.05 International[1] new business

For the year ended 31 December 2009	APE £m	PVNBP £m	Contribution from new business[2] £m	Cost of capital £m	Margin %
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**
For the year ended 31 December 2008					
USA	51	372	24	6	6.3
Netherlands	29	241	7	4	3.1
France	33	283	1	4	0.5
Total	113	896	32	14	3.6

1. Excludes core retail investments.
2. Contribution from new business is reported after the cost of capital.

5.06 International[1] new business in local currency

For the year ended 31 December 2009	Annual premiums m	Present value of annual premiums m	Capitalisation factor	Single Premiums m	PVNBP m	Contribution from new business[2] m	Cost of capital m	Margin %
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**
For the year ended 31 December 2008								
USA	$94	$691	7.4	-	$691	$44	$11	6.3
Netherlands	€16	€106	6.6	€199	€305	€9	€6	3.1
France	€21	€148	7.1	€206	€354	€2	€5	0.5

1. Excludes core retail investments.
2. Contribution from new business is reported after the cost of capital.

Notes to the Financial Statements

5.07 Analysis of experience variances and operating assumption changes

	Risk and Savings			International		
	Experience variances	Operating assumption changes	Total	Experience variances	Operating assumption changes	Total
For the year ended 31 December 2009	£m	£m	£m	£m	£m	£m
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**

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.

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.

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 of £(17)m and exceptional project expenses and other items of £(8)m; partially offset by the impact of lower maintenance expenses than assumed of £6m.

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.

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

	Risk and Savings			International		
	Experience variances	Operating assumption changes	Total	Experience variances	Operating assumption changes	Total
For the year ended 31 December 2008	£m	£m	£m	£m	£m	£m
Persistency	(12)	(114)	(126)	(5)	(2)	(7)
Mortality/morbidity	27	(49)	(22)	(12)	8	(4)
Expenses	(9)	35	26	1	(9)	(8)
Other	6	28	34	(18)	(12)	(30)
	12	(100)	(88)	(34)	(15)	(49)

2008 Risk and Savings persistency operating assumption changes of £(114)m relate primarily to the strengthening of lapse assumptions for unit linked bond policies.

2008 Risk and Savings mortality assumption changes relate primarily to annuitant mortality where the assumption has been updated to reflect the latest three year average experience where lighter 2008 experience replaced heavier 2005 experience in the calculation.

Notes to the Financial Statements

5.08 Investment management operating profit

	2009 £m	2008 £m
Managed pension funds[1]	**128**	117
Private equity	**(1)**	(1)
Property	**4**	4
Other income[2]	**13**	17
Legal & General Investment Management	**144**	137
Institutional unit trusts[3]	**(5)**	(7)
Total Investment management operating profit	**139**	130

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 £28m (2008: £35m) 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.

3. Investment management operating profit excludes core retail investments, of £9m (2008: £nil), which has been disclosed as part of Savings.

5.09 International operating profit

	2009 £m	2008 £m
USA	**109**	70
Netherlands	**29**	8
France	**37**	22
Other[1]	**(5)**	-
Total International operating profit	**170**	100

1. Other includes our joint venture operations in Egypt, the Gulf and India.

5.10 Group capital and financing operating profit[1]

	2009 £m	2008 Restated £m
Business reported on an EEV basis	**125**	256
Business reported on an IFRS basis:		
Investment return	**53**	47
Interest expense[2]	**(127)**	(138)
Unallocated corporate expenses	**(4)**	(9)
	(78)	(100)
Total Group capital and financing operating profit	**47**	156

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).

Notes to the Financial Statements

5.11 Variation from longer term investment return

	2009 £m	2008 Restated £m
Business reported on an EEV basis:		
Risk and Savings[1]	**(513)**	(146)
International	**62**	(110)
Group capital and financing	**(8)**	(1,176)
	(459)	(1,432)
Business reported on an IFRS basis:		
Risk and Savings	**12**	(29)
Investment management	**(4)**	7
Group capital and financing	**38**	(130)
	(413)	(1,584)

1. The 2009 Risk and Savings covered business variation from longer term investment return improved significantly during the second half of 2009 as a result of the investment actions taken within the non profit annuity credit portfolios and the general improvements in all investment markets.
The reported adverse variance of £(513)m is primarily due to the £(335)m EEV impact of swap transactions undertaken in the first half of 2009 to improve the IFRS matching of annuity business which reduced the assumed future yield on the annuity assets for EEV purposes, £(77)m is due to an increased cost of capital arising from de-risking activity to reduce the equity ratio for assets backing solvency capital and £(50)m is the EEV impact of holding additional cash balances, largely to back the short term default provision. These effects were all reported in the half-year 2009 results.

5.12 Effect of economic assumption changes

	2009 £m	2008 £m
Business reported on an EEV basis:		
Risk and Savings[1]	**(249)**	(505)
International[2]	**(97)**	(110)
Group capital and financing	**11**	6
	(335)	(609)

1. 2009 Risk and Savings economic assumption changes include £125m relating to the decrease in the UK risk discount rate in 2009 from 8.3% to 8.0%, and £(250)m as a result of higher assumed future inflation and higher cost of capital on increased annuity reserves. In addition, increases in the realistic and statutory long term default provisions for the assets backing annuity business had an EEV impact of £(124)m.

2. 2009 International economic assumption changes primarily reflect the increase in the US risk discount rate in 2009 from 6.8% to 7.4%.

5.13 Time value of options and guarantees

	2009 £m	2008 £m
Risk and Savings[1]	**13**	46
International	**19**	13
	32	59

1. Includes £9m (2008: £21m) relating to UK with-profits business, reflecting the impact of rising investment markets, and £4m (2008: £25m) relating to UK non profit business, due to a higher inflation environment than 2008 and its impact on the allowance for negative inflation within the annuity business.

Notes to the Financial Statements

5.14 Tax

	Profit/(loss) before tax 2009 £m	Tax (expense)/ credit 2009 £m	Profit/(loss) before tax 2008 Restated £m	Tax (expense)/ credit 2008 Restated £m
From continuing operations				
Risk	**913**	**(254)**	439	(125)
Savings	**82**	**(24)**	50	(11)
Investment management	**139**	**(37)**	130	(40)
International	**170**	**(57)**	100	(35)
Group capital and financing	**47**	**(8)**	156	(24)
Investment projects	**(32)**	**9**	-	-
Operating profit	**1,319**	**(371)**	875	(235)
Variation from longer term investment return	**(413)**	**158**	(1,584)	386
Effect of economic assumption changes	**(335)**	**99**	(609)	176
Property losses attributable to minority interests	**(19)**	**-**	(63)	-
Profit/(loss) from continuing operations before tax / Tax	**552**	**(114)**	(1,381)	327

5.15 Earnings per share

(a) Earnings per share

	Profit/(loss) before tax 2009 £m	Tax (expense)/ credit 2009 £m	Profit/(loss) after tax 2009 £m	Per share 2009 p	Profit/(loss) before tax 2008 Restated £m	Tax (expense)/ credit 2008 Restated £m	Profit/(loss) after tax 2008 Restated £m	Per share 2008 Restated p
Operating profit from continuing operations	**1,319**	**(371)**	**948**	**16.28**	875	(235)	640	10.72
Variation from longer term investment return	**(413)**	**158**	**(255)**	**(4.38)**	(1,584)	386	(1,198)	(20.07)
Effect of economic assumption changes	**(335)**	**99**	**(236)**	**(4.05)**	(609)	176	(433)	(7.26)
Tax impact of corporate restructure	**-**	**59**	**59**	**1.01**	-	81	81	1.36
Earnings per share based on profit/(loss) attributable to equity holders	**571**	**(55)**	**516**	**8.86**	(1,318)	408	(910)	(15.25)

(b) Diluted earnings per share

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

	Profit after tax 2009 £m	Number of shares[1] 2009 m	Per share 2009 p	Profit after tax 2008 Restated £m	Number of shares[1] 2008 m	Per share 2008 Restated p
Operating profit from continuing operations after tax	**948**	**5,824**	**16.28**	640	5,968	10.72
Net shares under options allocable for no further consideration	**-**	**33**	**(0.09)**	-	22	(0.04)
Diluted earnings per share	**948**	**5,857**	**16.19**	640	5,990	10.68

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

	Profit after tax 2009 £m	Number of shares[1] 2009 m	Per share 2009 p	Loss after tax 2008 £m	Number of shares[1] 2008 m	Per share 2008 p
Profit/(loss) attributable to equity holders of the Company	**516**	**5,824**	**8.86**	(910)	5,968	(15.25)
Net shares under options allocable for no further consideration	**-**	**33**	**(0.05)**	-	22	-
Diluted earnings per share	**516**	**5,857**	**8.81**	(910)	5,990	(15.25)

The number of shares in issue at 31 December 2009 was 5,862,216,780 (31 December 2008: 5,861,627,994).

1. Weighted average number of shares.

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5.16 Group embedded value reconciliation

For the year ended 31 December 2009	Covered business UK free surplus £m	UK required capital £m	UK value of in-force £m	Total UK £m	International £m	Non-covered business £m	Total £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	-	-	-	-	(153)	65	(88)
	509	1,369	4,268	6,146	1,310	(1,023)	6,433
Operating profit/(loss) 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	(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	(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[3]	(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 negative impact of £7m.

2. The increase in free surplus of £648m from the expected transfer from 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. 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.

Notes to the Financial Statements

5.16 Group embedded value reconciliation (continued)

	Covered business						
	UK free surplus	UK required capital	UK value of in-force	Total UK	International	Non-covered business Restated	Total Restated
For the year ended 31 December 2008	£m	£m	£m	£m	£m	£m	£m
At 1 January							
Value of in-force business (VIF)	-	-	3,460	3,460	782	-	4,242
Shareholder net worth (SNW)	2,639	1,198	-	3,837	324	(275)	3,886
	2,639	1,198	3,460	7,297	1,106	(275)	8,128
Exchange rate movements	-	-	-	-	386	(190)	196
Opening adjustment	27	-	(27)	-	-	-	-
	2,666	1,198	3,433	7,297	1,492	(465)	8,324
Operating profit for the year:							
- New business contribution[1]	(661)	232	620	191			
- Expected return on VIF	-	-	267	267			
- Expected transfer from Non profit VIF to SNW	565	(115)	(450)	-			
- With-profits transfer	77	-	(77)	-			
- Experience variances	39	3	(38)	4			
- Operating assumption changes	(31)	1	(38)	(68)			
- Development costs	(37)	-	-	(37)			
- Expected return on SNW	140	51	-	191			
Operating profit	92	172	284	548	65	27	640
Non-operating (loss)/profit for the year:							
- Investment variances	(1,092)	(83)	189	(986)			
- Economic assumption changes	(531)	(3)	175	(359)			
- Tax impact of corporate restructure	28	-	53	81			
Non-operating (loss)/profit	(1,595)	(86)	417	(1,264)	(148)	(201)	(1,613)
(Loss)/profit for the year	(1,503)	86	701	(716)	(83)	(174)	(973)
Capital movements[2]	(260)	-	-	(260)	60	(115)	(315)
Embedded value of business acquired	71	85	143	299	-	-	299
Intra-group distributions	(405)	-	-	(405)	(6)	411	-
Dividends to equity holders of the Company	-	-	-	-	-	(367)	(367)
Issue of share capital	-	-	-	-	-	10	10
Share buyback	-	-	-	-	-	(523)	(523)
Net movements in employee share schemes	-	-	-	-	-	(4)	(4)
Loss attributable to minority interests	-	-	-	-	-	63	63
Transfer to non-covered business[3]	(25)	-	-	(25)	-	25	-
Other reserve movements including pension deficit	(35)	-	(9)	(44)	-	51	7
Embedded value	509	1,369	4,268	6,146	1,463	(1,088)	6,521
Represented by:							
- Non profit			3,845				
- With-profits			423				
Value of in-force business	-	-	4,268	4,268	1,059	-	5,327
Shareholder net worth	509	1,369	-	1,878	404	(1,088)	1,194

1. The free surplus reduction of £661m to finance new business includes £101m of the short term default allowance, as well as £334m IFRS new business strain and £232m additional required capital. Other items have a net positive impact of £6m.

2. Capital movements within the UK comprise the £252m cost of acquiring Nationwide Life and £8m (€10m) of capital injected from Society into France. The acquisition of Suffolk Life (£63m) was funded from the non-covered business element of Group capital and financing. The International capital movements comprise £52m ($96m) of capital injected into the USA and the £8m (€10m) of capital injected into France.

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.

Notes to the Financial Statements

5.17 Analysis of shareholders' equity

As at 31 December 2009	Risk and Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Analysed as:					
IFRS basis shareholders' equity[1]	**199**	**339**	**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	**3,878**	**339**	**1,480**	**998**	**6,695**
Comprising:					
Business reported on an IFRS basis	**199**	**339**	**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)**

As at 31 December 2008	Risk and Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Analysed as:					
IFRS basis shareholders' equity[1]	174	322	1,272	1,820	3,588
Additional retained profit/(loss) on an EEV basis	4,268	-	203	(1,538)	2,933
Shareholders' equity on an EEV basis	4,442	322	1,475	282	6,521
Comprising:					
Business reported on an IFRS basis	174	322	12	(1,596)	(1,088)
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus[2]			144	509	653
- Required capital to cover solvency margin			260	1,369	1,629
Value of in-force					
- Value of in-force business	4,576		1,156		5,732
- Cost of capital	(308)		(97)		(405)

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.

Notes to the Financial Statements

5.18 Segmental analysis of shareholders' equity

	Covered business EEV basis 2009 £m	**Other business IFRS basis 2009 £m**	**Total 2009 £m**	Covered business EEV basis 2008 £m	Other business IFRS basis 2008 £m	Total 2008 £m
Risk						
- Risk reported on an EEV basis	**2,530**	**-**	**2,530**	3,138	-	3,138
- General insurance	**-**	**120**	**120**	-	99	99
- Other	**-**	**-**	**-**	-	2	2
Total Risk	**2,530**	**120**	**2,650**	3,138	101	3,239
Savings						
- Savings reported on an EEV basis	**1,149**	**-**	**1,149**	1,130	-	1,130
- Core retail investments	**-**	**66**	**66**	-	59	59
- Other	**-**	**13**	**13**	-	14	14
Total Savings	**1,149**	**79**	**1,228**	1,130	73	1,203
Investment management	**-**	**339**	**339**	-	322	322
International						
- USA	**904**	**-**	**904**	937	-	937
- Netherlands	**316**	**-**	**316**	305	-	305
- France	**226**	**-**	**226**	221	-	221
- Emerging markets	**-**	**34**	**34**	-	12	12
Total International	**1,446**	**34**	**1,480**	1,463	12	1,475
Group capital and financing	**2,588**	**(1,590)**	**998**	1,878	(1,596)	282
	7,713	**(1,018)**	**6,695**	7,609	(1,088)	6,521

5.19 Reconciliation of shareholder net worth

	UK covered business 2009 £m	**Total 2009 £m**	UK covered business 2008 £m	Total 2008 £m
SNW of long term operations (IFRS basis)	**3,876**	**5,214**	3,415	4,676
Other liabilities (IFRS basis)	**-**	**(1,018)**	-	(1,088)
Shareholders' equity on the IFRS basis	**3,876**	**4,196**	3,415	3,588
Purchased interest in long term business	**(114)**	**(126)**	(171)	(202)
Deferred acquisition costs/deferred income liabilities	**(250)**	**(1,132)**	(233)	(1,160)
Contingent loan[1]	**(421)**	**(421)**	(786)	(786)
Deferred tax[2]	**(324)**	**(33)**	(354)	(51)
Other[3]	**(179)**	**(396)**	7	(195)
Shareholder net worth on the EEV basis	**2,588**	**2,088**	1,878	1,194

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.

Notes to the Financial Statements
5.20 Sensitivities

In accordance with the guidance issued by the European Insurance CFO Forum in October 2005 the table below shows the effect of alternative assumptions on the long term embedded value and new business contribution.

Effect on embedded value as at 31 December 2009

	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
UK	6,267	376	(328)	28	(51)	106
International	1,446	107	(97)	11	(25)	3
Total covered business	7,713	483	(425)	39	(76)	109

	As published £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse rates £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
UK	6,267	(149)	77	75	(157)	59
International	1,446	(6)	13	54	n/a	89
Total covered business	7,713	(155)	90	129	(157)	148

Effect on new business contribution for the year

	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
UK	305	45	(39)	7	(12)	16
International	23	17	(14)	-	(2)	-
Total covered business	328	62	(53)	7	(14)	16

	As published £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse rates £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
UK	305	(19)	11	14	(12)	6
International	23	-	1	10	n/a	12
Total covered business	328	(19)	12	24	(12)	18

Opposite sensitivities are broadly symmetrical.

5.21 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 portfolios, 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 of or below strategic investment guidelines, 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 31.12.08) 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 40bps at 31 December 2009 (32bps at 31.12.08).

Economic assumptions

	31.12.09 % p.a.	31.12.08 % p.a.	31.12.07 % p.a.
Equity risk premium	**3.5**	3.5	3.0
Property risk premium	**2.0**	2.0	2.0
Investment return			
- Gilts:			
- Fixed interest	**4.0**	3.8	4.5
- RPI linked	**4.5**	3.7	4.5
- Non gilts:			
- Fixed interest	**4.4 – 6.2**	4.2 – 8.2	4.9 – 6.1
- RPI linked	**5.1 – 6.1**	4.7 – 5.9	4.9 – 5.3
- Equities	**8.0**	7.3	7.5
- Property	**6.5**	5.8	6.5
Risk free rate[1]	**4.5**	3.8	4.5
Risk margin	**3.5**	4.5	3.0
Risk discount rate (net of tax)	**8.0**	8.3	7.5
Inflation			
- Expenses/earnings	**4.6**	3.6	4.4
- Indexation	**3.6**	2.6	3.4

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

UK covered business

i. Assets are valued at market value.

ii. Future bonus rates have been set at levels which would fully utilise the assets supporting the policyholders' portion of the with-profits business. The proportion of profits derived from with-profits business allocated to shareholders has been assumed to be 10% throughout.

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

5.21 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 (31.12.08: 25.2 years). The expectation of life on the regulatory reserving basis is 25.7 years (31.12.08: 26.4 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:

	31.12.09	31.12.08	31.12.07
	% p.a.	% p.a.	% p.a.
USA			
Reinvestment rate	**5.1**	5.4	5.4
Risk margin	**3.5**	4.5	3.0
Risk discount rate (net of tax)	**7.4**	6.8	7.1
Europe			
Government bond return	**3.6**	3.5	4.4
Risk margin	**3.5**	4.5	3.0
Risk discount rate (net of tax)	**7.1**	8.0	7.4

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% (31.12.2008: 28%). 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 for:

– 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

5.21 Assumptions (continued)

Summary statistics:

The following table sets out means and standard deviations (StDev) of future returns as at 31 December 2009 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	4.4%	3.6%	5.0%	3.8%
Corporate bonds	6.0%	3.8%	6.4%	4.1%
Property (excess returns)	2.0%	15.2%	2.0%	14.9%
Equities (excess returns)	3.6%	20.2%	3.6%	20.5%
European Business (Euro)				
Long Government bonds[3]	3.8%	4.9%	4.8%	5.0%
Short Government bonds[4]	3.8%	4.1%	4.8%	8.6%
US Business (US Dollar)				
Long Government bonds[3]	4.3%	6.3%	5.4%	6.2%

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

Risk discount rate:

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

Sensitivity calculations

x. A number of sensitivities have been produced on alternative assumption sets to reflect the sensitivity of the embedded value and the new business contribution to changes in key assumptions. Relevant details relating to each sensitivity are:

- 1% variation in discount rate – a one percentage point increase/decrease in the risk margin has been assumed in each case (for example a 1% increase in the risk margin would result in a 4.5% risk margin).
- 1% variation in interest rate environment - a one percentage point increased/decreased parallel shift in the risk-free curve with consequential impacts on fixed asset market values, investment return assumptions, risk discount rate, including consequential changes to valuation bases.
- 1% higher equity/property yields – a one percentage point increase in the assumed equity/property investment returns, excluding any consequential changes, for example, to risk discount rates or valuation bases, has been assumed in each case (for example a 1% increase in equity returns would increase assumed total equity returns from 8.0% to 9.0%).
- 10% lower equity/property market values – an immediate 10% reduction in equity and property asset values.
- 10% lower maintenance expenses, excluding any consequential changes, for example, to valuation expense bases or potentially reviewable policy fees (a 10% decrease on a base assumption of £10 per annum would result in an £9 per annum expense assumption).
- 10% lower assumed persistency experience rates, excluding any consequential changes to valuation bases, incorporating a 10% decrease in lapse, surrender and premium cessation assumptions (a 10% decrease on a base assumption of 7% would result in a 6.3% lapse assumption).
- 5% lower mortality and morbidity rates, excluding any consequential changes to valuation bases but including assumed product repricing action where appropriate (for example if base experienced mortality is 90% of a standard mortality table then, for this sensitivity, the assumption is set to 85.5% of the standard table).

The sensitivities for life and pensions business allow for any material changes to the cost of financial options and guarantees but do not allow for any changes to reserving bases or capital requirements within the sensitivity calculation, unless indicated otherwise above.

5.22 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), which have been charged at market referenced rates since 1 January 2007, and to Legal & General Assurance Society Limited (Society), which have been charged at market referenced rates since 1 July 2007. 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.

5.22 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.

5.22 Methodology (continued)

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.

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

In the UK, all financial options and guarantees (FOGs) are within the UK covered business.

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.

5.22 Methodology (continued)

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, cost of 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%.

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 2009 results the risk margin was decreased to 3.5% (31.12.08: 4.5%). The decrease reflects the reduction in the market perceived company specific risks that were apparent in the dislocated market conditions at the 2008 year end.

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.

5.22 Methodology (continued)

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

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

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

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

New Business

6.01 Investment management new business

	2009 £m	2008 £m	Increase/ (decrease) %
Managed pension funds[1]			
Pooled funds	**25,606**	26,733	(4)
Segregated funds	**3,381**	841	302
Total managed funds	**28,987**	27,574	5
Other funds[2]	**4,297**	5,517	(22)
Total new funds	**33,284**	33,091	1
Attributable to:			
Legal & General Investment Management	**31,485**	30,873	2
Legal & General Retail Investments	**1,799**	2,218	(19)

6.02 Investment management new business quarterly progression

	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	3 months to 31.12.08 £m	3 months to 30.09.08 £m	3 months to 30.06.08 £m	3 months to 31.03.09 £m
Managed pension funds[1]								
Pooled funds	**6,742**	**7,076**	**5,763**	**6,025**	3,423	9,748	8,254	5,308
Segregated funds	**1,344**	**790**	**533**	**714**	430	47	141	223
Total managed funds	**8,086**	**7,866**	**6,296**	**6,739**	3,853	9,795	8,395	5,531
Other funds[2]	**869**	**1326**	**1,382**	**720**	890	908	3,151	568
Total new funds	**8,955**	**9,192**	**7,678**	**7,459**	4,743	10,703	11,546	6,099
Attributable to:								
Legal & General Investment Management	**8,450**	**8,853**	**7,166**	**7,016**	4,185	10,464	10,611	5,613
Legal & General Retail Investments	**505**	**339**	**512**	**443**	558	239	935	486

6.03 Legal & General Investment Management new business by investment approach

	2009 %	2008 %
Indexed equities	**49.3**	45.2
Indexed bonds (including index linked funds and cash)	**26.8**	41.2
Active bonds (including index linked funds and cash)	**13.7**	7.2
Structured solutions	**9.7**	6.2
Property	**0.5**	0.2
Total	**100.0**	100.0

1. New monies from pension fund clients of Legal & General Assurance (Pensions Management) exclude £7.9bn (2008: £7.4bn) 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.

6.04 UK funds under management

	2009 £m	2008 £m	Increase/ (decrease) %
Total investments	**315,101**	264,228	19
Represented by			
Index tracking funds:			
- UK equities	**68,971**	54,780	26
- Overseas equities	**73,858**	54,366	36
- Fixed interest	**36,534**	35,912	2
- Index linked	**28,245**	30,704	(8)
- Cash/deposits	**695**	(186)	N/A
Total index tracking funds	**208,303**	175,576	19
Actively managed funds	**76,860**	65,872	17
Structured solutions	**29,938**	22,780	31
	315,101	264,228	19
By investment approach			
Index equities	**142,828**	109,146	31
Index bonds (including index linked funds and cash)	**65,475**	66,430	(1)
Active bonds (including index linked funds and cash)	**61,167**	51,439	19
Structured solutions	**29,938**	22,780	31
Active equities	**8,788**	7,576	16
Property	**6,675**	6,646	-
Private equity	**230**	211	9
	315,101	264,228	19
By source of business			
Institutional funds under management[1]:			
- Managed pension funds pooled	**190,792**	160,946	19
- Structured solutions	**29,938**	22,780	31
- Other	**11,261**	8,631	30
- Managed pension funds segregated	**4,330**	3,832	13
Total institutional funds under management	**236,321**	196,189	20
UK businesses (life and general insurance funds)	**65,106**	57,688	13
UK businesses (unit trusts - excluding life fund investment)	**13,674**	10,351	32
	315,101	264,228	19

1. Excludes institutional investments in unit trust funds.

Additional funds under management of £19bn (2008: £16bn) derived from retail investments and funds managed overseas, take total worldwide funds under management to £334bn (2008: £280bn).

New Business

6.05 Worldwide new business

	Annual premiums 2009 £m	**Single premiums 2009 £m**	**APE 2009 £m**	Annual premiums 2008 £m	Single premiums 2008 £m	APE 2008 £m	Increase/ (decrease) %
Protection							
- Individual	**123**	**-**	**123**	140	-	140	(12)
- Group	**57**	**-**	**57**	67	-	67	(15)
	180	**-**	**180**	207	-	207	(13)
Annuities							
- Individual (non profit)	**-**	**962**	**96**	-	841	84	14
- Individual (with-profits)	**-**	**17**	**2**	-	27	3	(33)
- Bulk purchase	**-**	**883**	**88**	-	1,938	194	(55)
	-	**1,862**	**186**	-	2,806	281	(34)
Total Risk	**180**	**1,862**	**366**	207	2,806	488	(25)
Core retail investments[1]							
- Unit trusts	**10**	**2,595**	**269**	12	1,466	159	69
- ISAs	**22**	**838**	**106**	29	413	70	51
Non profit Savings							
- Unit linked bonds	**-**	**677**	**68**	-	1,306	131	(48)
- Individual pensions	**144**	**1,279**	**272**	181	1,460	327	(17)
- DWP rebates	**-**	**10**	**1**	-	8	1	-
With-profits Savings							
- Bonds	**-**	**553**	**55**	-	283	28	96
- Individual pensions	**102**	**211**	**123**	106	434	149	(17)
- DWP rebates	**-**	**115**	**12**	-	118	12	-
- Group pensions	**1**	**-**	**1**	2	3	2	(50)
Total Savings	**279**	**6,278**	**907**	330	5,491	879	3
- USA	**49**	**-**	**49**	51	-	51	(4)
- Netherlands	**8**	**142**	**22**	13	157	29	(24)
- France	**14**	**237**	**38**	17	164	33	15
	71	**379**	**109**	81	321	113	(4)
France retail investment business	**-**	**56**	**6**	-	63	6	-
Total International new business	**71**	**435**	**115**	81	384	119	(3)
Total worldwide new business	**530**	**8,575**	**1,388**	618	8,681	1,486	(7)

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).

6.06 Worldwide new business APE quarterly progression

	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**	3 months to 31.12.08 £m	3 months to 30.09.08 £m	3 months to 30.06.08 £m	3 months to 31.03.09 £m
Protection								
- Individual	**31**	**32**	**30**	**30**	33	34	37	36
- Group	**16**	**11**	**16**	**14**	16	14	23	14
	47	**43**	**46**	**44**	49	48	60	50
Annuities								
- Individual (non profit)	**16**	**22**	**25**	**33**	26	20	20	18
- Individual (with-profits)	**1**	**-**	**1**	**-**	1	-	1	1
- Bulk purchase	**9**	**5**	**24**	**50**	31	25	66	72
	26	**27**	**50**	**83**	58	45	87	91
Total Risk	**73**	**70**	**96**	**127**	107	93	147	141
Core retail investments[1]								
- Unit trusts	**85**	**73**	**65**	**46**	47	37	45	30
- ISAs	**32**	**34**	**26**	**14**	14	16	28	12
Non profit savings								
- Unit linked bonds	**23**	**13**	**14**	**18**	30	26	35	40
- Individual pensions	**60**	**65**	**71**	**76**	82	83	93	69
- DWP rebates	**-**	**1**	**-**	**-**	-	1	-	-
With-profits savings								
- Bonds	**11**	**13**	**18**	**13**	8	9	7	4
- Individual pensions	**22**	**22**	**40**	**39**	31	33	47	38
- DWP rebates	**1**	**4**	**7**	**-**	1	4	6	1
- Group pensions	**-**	**-**	**1**	**-**	-	1	1	-
Total Savings	**234**	**225**	**242**	**206**	213	210	262	194
- USA	**9**	**11**	**13**	**16**	15	12	12	12
- Netherlands	**5**	**4**	**6**	**7**	6	6	8	9
- France	**7**	**1**	**6**	**24**	6	8	4	15
	21	**16**	**25**	**47**	27	26	24	36
France retail investment business	**2**	**1**	**1**	**2**	2	1	2	1
Total International new business	**23**	**17**	**26**	**49**	29	27	26	37
Total worldwide new business	**330**	**312**	**364**	**382**	349	330	435	372

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).

6.07 Worldwide new business annual premium quarterly progression

	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	3 months to 31.12.08 £m	3 months to 30.09.08 £m	3 months to 30.06.08 £m	3 months to 31.03.09 £m
Protection								
- Individual	**31**	**32**	**30**	**30**	33	34	37	36
- Group	**16**	**11**	**16**	**14**	16	14	23	14
	47	**43**	**46**	**44**	49	48	60	50
Annuities								
- Individual (non profit)	**-**	**-**	**-**	**-**	-	-	-	-
- Individual (with-profits)	**-**	**-**	**-**	**-**	-	-	-	-
- Bulk purchase	**-**	**-**	**-**	**-**	-	-	-	-
	-	**-**	**-**	**-**	-	-	-	-
Total Risk	**47**	**43**	**46**	**44**	49	48	60	50
Core retail investments[1]								
- Unit trusts	**2**	**3**	**2**	**3**	4	3	4	1
- ISAs	**4**	**5**	**7**	**6**	6	9	10	4
Non profit savings								
- Unit linked bonds	**-**	**-**	**-**	**-**	-	-	-	-
- Individual pensions	**29**	**38**	**37**	**40**	44	43	51	43
- DWP rebates	**-**	**-**	**-**	**-**	-	-	-	-
With-profits savings								
- Bonds	**-**	**-**	**-**	**-**	-	-	-	-
- Individual pensions	**18**	**17**	**35**	**32**	25	25	31	25
- DWP rebates	**-**	**-**	**-**	**-**	-	-	-	-
- Group pensions	**-**	**-**	**1**	**-**	-	1	1	-
Total Savings	**53**	**63**	**82**	**81**	79	81	97	73
- USA	**9**	**11**	**13**	**16**	15	12	12	12
- Netherlands	**2**	**2**	**2**	**2**	3	4	3	3
- France	**-**	**(5)**	**-**	**19**	2	5	-	10
	11	**8**	**15**	**37**	20	21	15	25
France retail investment business	**-**	**-**	**-**	**-**	-	-	-	-
Total International new business	**11**	**8**	**15**	**37**	20	21	15	25
Total worldwide new business	**111**	**114**	**143**	**162**	148	150	172	148

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 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**	3 months to 31.12.08 £m	3 months to 30.09.08 £m	3 months to 30.06.08 £m	3 months to 31.03.09 £m
Protection								
- Individual	**-**	**-**	**-**	**-**	-	-	-	-
- Group	**-**	**-**	**-**	**-**	-	-	-	-
	-	**-**	**-**	**-**	-	-	-	-
Annuities								
- Individual (non profit)	**165**	**214**	**260**	**323**	263	194	209	175
- Individual (with-profits)	**6**	**4**	**4**	**3**	4	8	7	8
- Bulk purchase	**91**	**54**	**234**	**504**	306	255	655	722
	262	**272**	**498**	**830**	573	457	871	905
Total Risk	**262**	**272**	**498**	**830**	573	457	871	905
Core retail investments [1]								
- Unit trusts	**829**	**705**	**630**	**431**	424	344	404	294
- ISAs	**283**	**285**	**188**	**82**	86	72	173	82
Non profit savings								
- Unit linked bonds	**222**	**136**	**144**	**175**	297	260	347	402
- Individual pensions	**310**	**270**	**341**	**358**	385	400	414	261
- DWP rebates	**2**	**4**	**4**	**-**	-	4	4	-
With-profits savings								
- Bonds	**116**	**132**	**171**	**134**	85	86	74	38
- Individual pensions	**35**	**53**	**56**	**67**	65	79	164	126
- DWP rebates	**6**	**44**	**63**	**2**	5	42	66	5
- Group pensions	**-**	**-**	**-**	**-**	-	1	-	2
Total Savings	**1,803**	**1,629**	**1,597**	**1,249**	1,347	1,288	1,646	1,210
- USA	**-**	**-**	**-**	**-**	-	-	-	-
- Netherlands	**29**	**27**	**31**	**55**	29	32	37	59
- France	**66**	**61**	**61**	**49**	38	34	43	49
	95	**88**	**92**	**104**	67	66	80	108
France retail investment business	**13**	**11**	**16**	**16**	19	18	19	7
Total International new business	**108**	**99**	**108**	**120**	86	84	99	115
Total worldwide new business	**2,173**	**2,000**	**2,203**	**2,199**	2,006	1,829	2,616	2,230

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).

6.09 International new business in local currency

	Annual premiums 2009	Single premiums 2009	APE 2009	Annual premiums 2008	Single premiums 2008	APE 2008	Increase/ (decrease) %
USA ($m)	**76**	**-**	**76**	94	-	94	(19)
Netherlands (€m)	**9**	**157**	**25**	16	199	36	(31)
France (€m):							
- Life and pensions	**15**	**264**	**41**	21	206	42	(2)
- Unit trusts	**-**	**63**	**6**	-	79	8	(25)

6.10 UK individual APE by channel quarterly progression

	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	3 months to 31.12.08 £m	3 months to 30.09.08 £m	3 months to 30.06.08 £m	3 months to 31.03.09 £m
Independent financial advisers	**171**	**168**	**186**	**191**	207	199	234	187
Tied	**89**	**94**	**86**	**51**	57	57	76	53
Direct	**22**	**17**	**25**	**27**	9	7	10	8
Total	**282**	**279**	**297**	**269**	273	263	320	248

6.11 UK individual APE by channel

For the year ended 31 December 2009	**Annual £m**	**Single £m**	**Total APE £m**	**% of total**
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**

For the year ended 31 December 2008	Annual £m	Single £m	Total APE £m	% of total
Independent financial advisers	345	4,819	827	75
Tied	104	1,388	243	22
Direct	19	149	34	3
Total	468	6,356	1,104	100