Stock Exchange Release
4 August 2009

Stronger balance sheet, stronger net cash, repositioning the business, driving down costs

Operational cash generation and performance

- **On target to generate £450m of net cash in 2009**
  Net cash generated in H1 of £302m (FY 2008: £320m)
- **Cost reduction programme on track**
  £50m annualised cost reduction expected by year end
- **IFRS operating profit £31m (H1 2008: £391m)**
  Result reduced by negative investment variances of £351m
- **EEV operating profit £657m (H1 2008: £589m), up 12%**
- **New business APE £746m (H1 2008: £806m)**
  Sales robust - action on product mix, pricing and commissions
  Improved EEV margin on UK new business
- **Capital and cash flow outlook supports reduced dividend of 1.11p (H1 2008: 2.01p)**
  10% progression from rebased 2008 dividend

Balance sheet

- **IGD surplus £1.9bn at 30 June 2009, after dividend of £65m**
  Excludes £0.3bn of qualifying lower tier 2 bonds issued in July
  Proforma coverage ratio increased to 192% (FY 2008: 169%)
- **Non profit annuity credit default provisions increased to £1.3bn (FY 2008: £1.2bn)**
  Available release of short term default provision retained in reserves
  Aggregate provision 74bp p.a. over the run off of the portfolio (FY 2008: 68bp)

Group Chief Executive, Tim Breedon, said:

"We have made strong progress in improving our net cash generation, strengthening our balance sheet and reducing costs. Management actions in the first half ensured that Risk and Investment management remain strongly cash generative and the Savings business has turned the corner. We have strengthened the balance sheet with proforma IGD surplus at £2.2bn and we expect to realise annualised cost savings of £50m by the end of 2009. IFRS operating profit has been reduced by £351m of negative investment variances in the period.

The Board has therefore decided to pay an interim dividend of 1.11p reflecting our growing confidence in cash generation and our continued determination to strengthen the balance sheet during the ongoing economic uncertainty while rewarding shareholders.

Our focus remains on capital strength, net cash generation and cost reduction. As a Group we benefit and continue to exploit substantial synergies between Risk, Savings and Investment management to service our customers and create value for shareholders. Confidence has started to return to markets but we expect some continued uncertainty for the remainder of 2009. As a result of the actions we have taken in the first half of this year and will continue to take in the second half of the year, Legal & General is better positioned to take advantage of new opportunities to grow profitably as the economy recovers."

NEWS

Financial highlights £m	H1 2009	H1 2008
IFRS operating profit	**31**	391
IFRS loss from ordinary activities after tax	**(91)**	(27)
IFRS shareholders' equity per share (p)	**56.2**	78.2
Interim dividend (p)	**1.11**	2.01
EEV operating profit	**657**	589
EEV (loss)/profit from ordinary activities after tax	**(720)**	73
EEV shareholders' equity per share (p)	**94.8**	124.7

All references to IGD amounts are based on draft, unaudited regulatory returns

Group Chief Executive's Statement

In the first half of 2009 we made significant progress on cash generation, balance sheet strength and cost management. We are writing new business on more capital efficient terms, achieving a shorter payback profile and better returns. We have actively reduced sales in less economically attractive lines of business, reflecting our view of the need to recognise the increased scarcity and cost of capital since the start of the credit crisis. These actions have driven a significant improvement in the cash dynamics of our business, generating £302m of net cash in the first half.

We are very clear on the characteristics of the businesses we want at the heart of the company. We like businesses with high scale operations in large markets, strong client and distribution franchises, rapid cash generation and long term customer relationships. Most of our businesses already possess these characteristics and we are focused on developing strong positions across our markets.

Our Investment management business is continuing to diversify its product range in line with customer needs, but remains committed to good value products and excellent customer service. The strength of our franchise can be seen in continued strong net inflows to LGIM of £7.9bn, which have increased assets under management despite investment market conditions. Particularly encouraging is the progress being made by our core fixed income and LDI products. LGIM continues to be strongly cash generative, profitable and uniquely positioned to support and benefit from our other Group businesses.

Our Risk business is highly cash generative, making a contribution of £229m in the first half to the Group. Despite the operational challenges of a weaker housing market and the uncertain economic outlook for corporate customers, the protection and annuity businesses continue to build further on their clear competitive advantages of scale, risk management and diverse product offering. We continue to invest in market leading operational capability, underwriting and distribution in order to build these businesses further.

Our Savings business has turned the corner in 2009 and the second half should see a further improvement in the underlying net operational cash contribution. We have improved product mix, driven out costs relentlessly, reduced commissions and redesigned products to improve returns despite lower market values impacting revenues. There is more to be done and we are pursuing further initiatives vigorously.

In International, our established operations are responding to the challenges of the current economic climate and remain well positioned to capitalise when recovery comes. We have also been planting the seeds of long term growth in new and exciting markets. In India we have received "R1" regulatory clearance and expect to be operational in the new-year. Our Gulf joint venture is already up and running.

We believe we have the right businesses and we see great value in the multiple layers of synergy that result from an integrated strategy. LGIM manages £20bn of assets for our annuities business. More than half of BPA customers in the first half were clients of LGIM. Our Savings business has a growing pool of individual pension savings which generated more than £150m of annuity sales in the period. The Savings business has also capitalised on LGIM's range of expertise in broadening our unit trust offering to specialist intermediaries. All of our businesses benefit from the strength of our brand and balance sheet.

Our business remains strongly underpinned by our capital base. Our IGD surplus strengthened to £1.9bn at the end of June. This is before the benefit of £0.3bn of qualifying lower tier 2 debt securities issued in July. We estimate a proforma IGD coverage ratio of 192% (FY 2008: 169%). Capital strength remains a key focus for us and we will continue to take management action where appropriate to ensure our balance sheet remains strong and resilient.

Earlier in the year we announced increased provisioning against credit default risk in our UK non profit annuities portfolio. Actual defaults in the first half of the year were just £1m net of expected recoveries. However, the decision has been taken not to release any favourable experience from the short term default provision, but instead to further strengthen long term default provisions, to reflect the continued risk level in the global economy. The aggregate provision now represents 74bp p.a. across the life of the portfolio, up from 68bp at the end of 2008. In addition we have reduced exposure to some credits, including reducing junior subordinated bank debt to 2.5% of the UK non profit annuities portfolio from 6.5% at the end of 2008.

Our priorities for 2009 remain balance sheet strength, supported by strong improvement in net cash generation and further progress on cost reduction. We are clearly on target to deliver our full year 2009 net cash target of £450m.

Dividend

In considering the interim dividend for 2009, the Board has taken into account the current and prospective economic conditions and its focus on capital strength and net cash generation.

The interim dividend has been reduced by 45% to 1.11p per share, a cost of £65m. This represents 10% progression from the rebased 2008 dividend, indicating growing confidence in sustainable cash flow generation, balanced with our commitment to a strong balance sheet. Subject to satisfaction with the strength and resilience of our capital position, we will be looking to grow the dividend in line with expected medium term growth in operational cash.

Outlook

We have the right strategy and our model, grounded in our three key businesses, is in place. At the same time our strategic execution is progressing well despite difficult markets. We are very clear on the sort of business we want to be and we are making good progress in the markets that are important to us. The turnaround in Savings is progressing well, but there is still a lot more to do. We are comfortably on track to deliver our operational cash target. The balance sheet is stronger, IGD surplus has increased, and is resilient to further shocks. The medium term outlook for our core markets is positive. We are well positioned for the future.

Current market conditions remain challenging, with weakness in the economy and volatility in investment markets putting pressure on consumer confidence. However, these conditions highlight the importance to our customers of a financially strong, integrated Risk, Savings and Investment management business with a focus on value for money products and a long term commitment to customers and shareholders.

Our industry has a vital role to play in securing a successful economic recovery. As well as helping millions of customers to manage their financial future, we provide a significant share of the equity and debt funding of Corporate UK. The interests of every stakeholder in this industry are best served by confidence in markets and consistency in regulation and taxation. We will therefore remain fully engaged in securing the best outcomes for savers, pensioners and companies in the UK.

Group financial results

In November 2008 we set out the key metrics by which we manage and monitor our businesses. This puts greater emphasis on IFRS. Supplementary EEV financial results are discussed later in this document.

Net cash generation

Net cash is defined as the operational cash generation of our businesses, less new business strain.

Operational cash

Operational cash is the expected release from in-force for the UK non profit Risk and Savings businesses, the shareholders' share of bonuses on With-profits business and the post-tax IFRS operating profit on other UK businesses.

Operational cash generation £m	**H1 2009**	FY 2008
Risk	**216**	379
Savings	**43**	138
Investment management	**51**	115
Group capital and financing	**23**	22
	333	654
New business strain £m		
Risk	**13**	(173)
Savings	**(44)**	(161)
	(31)	(334)
Net cash £m	**302**	320

Net cash

Net cash generated was £302m in the first half of the year, showing rapid progress in comparison with £320m for the full year 2008 as a result of action to substantially reduce new business strain. This result has benefited in particular from the initial effects of our Savings transformation programme, stronger pricing conditions seen in the annuities market since Q3 2008 and the delivery of our cost reduction programme. We remain cautious that pricing conditions may not be as favourable in the second half of the year, however action on cost savings give us confidence that we are on track to deliver our stated target of £450m net cash for the full year 2009. Our cost reduction programme has already been successful in the first half of the year, and actions taken have already reduced UK headcount. We indicated earlier this year that, on top of a 10% reduction in UK headcount in 2008, we expect to deliver a similar reduction in 2009. We remain confident in delivering at least this full year target based on announcements already made, which will lead to a £50m reduction in annualised costs.

Non profit product level net cash generation(1), new business IRR(2) and payback periods(2)

H1 2009 £m	Protection	Annuities	Pensions	Unit linked bonds	Total non profit
Net cash generated(1)	**31**	**188**	**(14)**	**2**	**207**
IRR/payback					
IRR on new business written (%)	16	n/a(3)	7	6	
Payback period (years)	5	n/a(3)	12	9	

Notes: (1) Includes analysis of results for Legal & General Assurance Society and Legal & General Pensions Limited.
(2) IRR = Internal Rate of Return on new business. Payback period is calculated on an undiscounted basis
(3) Given negative strain on annuity business in the first half of 2009 and an immediate IFRS payback, IRR calculations are not applicable.

IFRS profit before tax

Summary income statement £m	H1 2009	H1 2008(1)
Risk	**(128)**	75
Savings	**(5)**	111
Investment management	**70**	91
International	**65**	48
Group capital and financing	**29**	66
Operating profit	**31**	391
Variation from longer term investment return	**(154)**	(422)
Property losses attributable to minority interests	**(20)**	(13)
Loss from ordinary activities before tax	**(143)**	(44)
Tax	**52**	17
Loss from ordinary activities after tax	**(91)**	(27)

Notes:1: Reclassified to reflect IFRS 8 segmental analysis

Balance sheet £m	H1 2009	FY 2008
Shareholders' equity	3,295	3,588
Shareholders' equity per share (p)	56.2	61.2

IFRS operating profit was £31m (H1 2008: £391m). The result for H1 2009 includes aggregate non profit assumption changes, experience variances and non-cash items of negative £322m compared to positive £97m in H1 2008.

These effects are seen clearly in the Risk business operating result, a loss of £128m (H1 2008: profit of £75m). The Savings business operating result was a loss of £5m (H1 2008: profit of £111m); the year on year reduction reflects lower income from the in-force book on the back of lower asset values and the absence in 2009 of one-off reserving benefits in the first half of 2008. The transfer in respect of the With-profits business also reduced.

Below the operating profit line, the effect of variations from longer term investment returns was negative £154m (H1 2008: negative £422m) reflecting the effect of adverse investment markets on shareholders' assets. The post tax result from ordinary activities of a loss of £91m fully reflects this mark to market on investment positions (H1 2008: loss of £27m).

Allowing for the post tax loss, exchange rate losses and £120m of dividends paid in the period, shareholders' equity reduced from £3.6bn at year end 2008 to £3.3bn at 30 June 2009.

UK Risk and Savings

Financial highlights £m	H1 2009	H1 2008
Analysis of UK Risk and Savings business result		
Risk business operating result	**(128)**	75
Savings business operating result	**(5)**	111
	(133)	186
Further analysed as:		
- Operational cash generation	**238**	234
- New business strain	**(31)**	(233)
- Other non profit business operating result	**(322)**	97
- Tax gross-up	**(46)**	39
- Non profit business operating (loss)/profit	**(161)**	137
- With-profits	**29**	60
- General Insurance	**6**	(4)
- Core retail investments	**(1)**	2
- Other[1]	**(6)**	(9)
UK Risk and Savings business result	**(133)**	186

Notes:1: Includes result for Nationwide Life and Suffolk Life

The operational cash generation from the in-force non profit business was £238m (H1 2008: £234m), reflecting the unwind of margins on UK non profit business written in prior years. New business strain was materially lower at £31m (H1 2008: £233m) as a result of the extensive management actions highlighted at our preliminary results to improve the pricing, mix and cash profile of our sales. The balance of strain and release in the period was strongly positive at £207m (H1 2008: £1m).

Other non profit business contributions – including experience variances, assumption changes and non-cash items – were negative £322m (H1 2008: positive £97m). The most significant effect in H1 2009 was £351m of investment variances in the assets backing the liabilities of the non profit business. There are three main elements to this variance:

1) Cash and overlay effects - £206m

Our annuities business is underpinned by a globalised credit investment management strategy. This includes overlay strategies used to mitigate currency and overseas interest rate risks. The globalisation and associated risk diversification of the portfolio have delivered significant value added to the annuity business in comparison with the more traditional approach used until recently. Since the start of 2008 our global bond strategy would have materially outperformed the equivalent duration Sterling portfolio. There are however a number of frictional effects associated with the overlay strategy which create volatility in reported earnings.

During the first half, volatile market and currency movements impacted on our cash and overlay strategy to create a number of yield effects on IFRS profit, the three most significant of which were:

- £85m yield impact from settling overlay forward foreign exchange hedging contracts in January.
- £88m from receiving larger than normal cash settlements associated with our foreign exchange hedging programme. Volatile market conditions resulted in a lower yield on reinvestment.
- £30m from earned cash interest rates being below assumptions.

We have taken steps to mitigate the impact of these interactions in future.

2) Action taken to sell a number of corporate credits - £75m

In the period we have taken advantage of the UK banks' tenders of junior subordinated debt at above market price and reinvested the proceeds without incurring a loss in yield. Additionally, and despite minimal actual defaults in the first half of the year, we have actively pursued a programme of disposal of less attractive credits. For example our holdings of tier 1 and upper tier 2 bank securities have fallen to 2.5% of the portfolio at the end of June, compared to 6.5% at the end of 2008. In aggregate there has been a small reduction in yield from these actions which has contributed to a £75m negative investment variance in the IFRS operating result.

3) The net effect of the strengthening of UK non profit annuity credit default provision - £55m

Our UK non profit annuity portfolio default reserves were £1.3bn at the end of June, including the £650m short term default provision which we have maintained within these results despite favourable default experience. In the first half of 2009, default losses in our UK annuity portfolio amounted to just £1m net of expected recoveries. This amounts to just 0.005% of the total market value of the UK non profit annuities portfolio. Within these results, we have increased the long term default assumption for statutory and IFRS reporting to 36bp from 30bp previously. This increase reflects the effect of applying the credit rating downgrades experienced during 2009 to our default model. These provisions represent 74bp p.a. (previously 68bp) across the life of the UK non profit annuity credit portfolio.

After grossing up for tax, the aggregate non profit business result was negative £161m (H1 2008: positive £137m).

The shareholders' share of with-profits bonuses was £29m, lower than the level reported for H1 2008 (£60m) due to lower bonus rates on maturities and lower surrender activity this year. 2008 was also a peak year for maturities.

General insurance gross written premiums reduced by 4% to £136m (H1 2008: £142m) in difficult market conditions for mortgage related sales. However overall performance has improved in the period, with an operating profit of £6m (H1 2008: loss of £4m).

Investment management

Operating profits were 23% lower at £70m (H1 2008: £91m), reflecting the impact of volatile investment markets on asset balances in the first half of the year, and consequent pressure on fee income. This result is discussed in more detail in the Business Review section.

International

IFRS operating profit was £65m, up 35% (H1 2008: £48m). This reflects the positive impact of strain and expense management in our USA and Netherlands businesses, offset by lower margins in our French business. This result is discussed in more detail in the Business Review section.

Group capital and financing

IFRS operating profit £m	H1 2009	H1 2008
Investment return	**95**	164
Interest expense	**(65)**	(70)
Investment expenses	**(2)**	(3)
Unallocated corporate expenses	**(3)**	(6)
Defined benefits pension scheme	**4**	(19)
Total	**29**	66

The Group capital and financing operating result largely reflects smoothed investment returns on shareholder assets in our UK Risk and Savings businesses, shareholder assets held at Group level and interest charges. In previous periods both investment return and interest expenses were presented including the returns on and cost of internal contingent loans. These figures are now stated excluding the contingent loan, the effect of which amounted to £26m of both investment return and interest cost in H1 2008.

Investment return decreased to £95m (H1 2008: £164m). Investment returns are calculated on the basis of a smoothed investment return (aggregate rate for six months: H1 2009: 3%; H1 2008: 3%) on a quarterly average balance of assets of £3.2bn in H1 2009 (H1 2008: £4.9bn). The balance of assets at the end of the period was £2.7bn, and we expect this balance of assets to increase in the second half as a result of debt issued in July, offset by payment of the interim dividend. The reduction in the average balance of assets reflects lower investment markets and £650m moved into short term default reserves as announced earlier this year. The investment return also reflects the effect of equity sales made in the early part of this year and the latter part of 2008.

Interest expenses reduced to £65m (H1 2008: £70m), including the effect of lower floating rates on short term debt.

New business

New business APE £m	H1 2009	H1 2008
UK Risk	**223**	288
UK Savings	**448**	456
Total UK Risk and Savings	**671**	744
International	**75**	62
Worldwide Risk and Savings	**746**	806
Investment management new mandates	**15,137**	17,645

Headline UK sales in the first half of 2009 were 10% lower at £671m of APE (H1 2008: £744m). Q2 sales, however, at £338m were ahead of Q1 and in line with the quarterly average for the last 18 months, but below last year's very strong second quarter. This reduction in sales reflects slower closure rates of bulk purchase annuity contracts in Q2 and management action to reduce sales of less attractive Savings products.

Balance sheet management

Capital resources

As at 30 June 2009 the Insurance Groups Directive (IGD) capital resources were £4.3bn, while the capital resources requirement was £2.4bn generating a surplus of £1.9bn and a coverage ratio of 179%.

	H1 2009 £bn	FY 2008 £bn
IGD capital resources	**4.3**	4.4
Capital resources requirement	**2.4**	2.6
IGD Surplus	**1.9**	1.8
Coverage ratio	**179%**	169%

IGD surplus at 30 June was £1.9bn, up from £1.8bn at 31 December 2008 and £1.6bn at 31 March 2009.

In July 2009 we issued £300m of lower tier 2 debt with a coupon of 10%. As a result the proforma IGD surplus stands at £2.2bn, with a coverage ratio of 192%. All figures are net of dividend costs.

For With-profits business, the realistic capital position has strengthened over the first half of 2009. On a Peak 1 basis, the regulatory surplus capital has decreased by £0.2bn, due primarily to market conditions in the first half and maturities in our mortgage endowment portfolio. As a result, the Peak 1 basis was more onerous than Peak 2 at 30 June and therefore the With-profits Insurance Capital Component is zero (FY 2008: £0.2bn).

We estimate that a 40% fall in equities would reduce the IGD surplus at the end of June by £0.7bn, in line with the year end estimated impact.

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 net 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 first half of 2009 we maintained a daily average cash balance in excess of £1bn of overnight cash deposits and significant holdings of liquid assets such as Gilts.

Our Group liquidity position is also strong. We have a circa £1bn undrawn committed syndicated credit facility which matures in December 2012. We also have access to liquid funds under our US$2bn Commercial Paper programme. In addition the Group holds the proceeds of the recent £300m lower tier 2 bond issue in liquid short term investments.

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 our debt or liquidity position.

Business review - Risk

Financial highlights £m	**H1 2009**	FY 2008
Total new business APE	**223**	488
Total Gross Written Premium	**2,089**	4,334
Operational cash generation	**216**	379
New business strain	**13**	(173)
Net cash	**229**	206
Protection new business EEV margin	**7.0%**	6.2%
IFRS operating loss	**(128)**	(603)

Overview

We have made progress in the operational performance of our business in the first half of the year. Risk made a contribution to Group operational cash generation of £216m before new business strain (FY 2008: £379m) reflecting the scale and growth of the business over recent years. Net cash generation from the Risk business increased to £229m, being higher in the first half of 2009 than the entirety of 2008 (FY 2008: £206m).

The IFRS operating loss of £128m (H1 2008: profit £75m) reflects these strong underlying cash dynamics, offset by negative experience variances and assumption changes. In particular the Risk business reflects the majority of negative investment variances which are discussed earlier in "Group Financial Results".

New business APE of £223m was 23% lower (H1 2008: £288m), with protection sales impacted by conditions in the mortgage market and some deferral of BPA closure by clients in volatile markets. We continue to re-focus our annuity appetite into the individual market where pricing conditions have been favourable. Gross written premiums in our General Insurance business of £136m (H1 2008: £142m) were 4% lower, as economic conditions caused a downturn in mortgage related sales; however operating profitability improved.

Operational cash generation and operating profit

Protection business: net cash generation was £31m in the first half of the year. New business strain fell, reflecting our focus on higher margin business, discipline in pricing and cost management. The new business EEV margin was 7.0% in H1 2009 (FY 2008: 6.2%; H1 2008: 6.9%) despite continued price competition.

Annuity business: net cash generated was significantly ahead of that delivered in 2008 at £188m (FY 2008: £108m). This reflects the growing size of the annuity portfolio and better pricing and risk selection capability which has significantly reduced the expense of writing new business, resulting in a negative strain. Net cash does not include any release from the short term default provision.

Strain levels in our annuities business will naturally depend on pricing conditions in any future period. Despite narrowing credit spreads and some signs of increasing competition towards the end of the period we maintained target profitability whilst fully reflecting the risks we are assuming.

General Insurance business: the household and accident, sickness and unemployment ("ASU") businesses delivered an improved combined operating ratio of 99% (H1 2008: 107%) and an operating profit of £6m (H1 2008: loss of £4m). Within this result the household business delivered improved operating profit of £6m (H1 2008: loss of £7m). This more than offset an increase in claims cost within our smaller ASU business.

IFRS Operating Profit: an operating loss of £128m in the first half of the year (H1 2008: profit of £75m) reflects much stronger underlying cash profitability, offset by the impact of experiences and assumption changes in the in-force portfolio. The detail of these changes is included in the Group Financial Results section.

New Business

Protection: APE was 18% lower at £90m (H1 2008: £110m).

Individual protection: sales of £30m of APE in each quarter this year are comparable to quarterly sales reported for H2 2008 (Q4 2008: £33m; Q3 2008: £34m). Application volumes remain resilient, with some decrease in average case sizes. We continue to diversify away from mortgage related business with continued successes in high net worth, family and business protection sales. Overall H1 individual protection volumes fell by 18% comparing favourably with an almost 60% drop in gross mortgage lending (Council of Mortgage Lenders data). Our distribution partnership with Nationwide Building Society continues to perform well with sales up 40% and direct sales increased by 14%.

Group protection: sales of £30m fell period on period due to the unusually high volume of business in Q2 2008 when we closed several large schemes (H1 2008: £37m). The competitive environment remains dynamic. There are new entrants emerging, and some existing companies are exiting the market, with the overall result of intensified pricing activity. There are segments of this market which have seen unsustainable pricing in our view and we have stepped away from them. Opportunities remain to build new business further in some areas, although we expect continued pressure on incremental premiums as tough economic conditions impact our corporate customers.

Despite lower new business volumes, the scale of our protection business was maintained with overall gross written premium being modestly higher £561m (H1 2008: £555m).

Annuities: APE 25% lower at £133m (H1 2008: £178m)

Bulk purchase annuities ("BPA"): we maintained our prudent and selective approach to pricing, reflecting the significantly increased cost of capital in this market. Sales in the first half were £74m (H1 2008: £138m). Quotation activity remains robust but the more uncertain economic environment has impacted decision making for a number of schemes and sponsoring companies.

Individual annuities: favourable conditions in Q1 2009 have largely continued in Q2 with sales for the first six months of £59m being 48% higher than the same period in 2008.

Outlook

In protection we have made further developments in our product offering which are due to come online in H2 2009, but we do not expect a rapid recovery in volumes or pricing. The sector continues to be highly competitive with significant pressure on commission terms particularly in the IFA market. Our strong and diversified distribution capability provides resilience in such conditions. As the economy recovers our scale and strength in the protection market position us excellently for profitable growth.

Our appetite for annuity business remains unchanged, with significant long term opportunities for Legal & General in this market. We expect some continuing uncertainty in the BPA market as potential customers' attitude to current economic conditions is reflected in their decision making. As spreads reduce, competitive pressure in the individual market is increasing.

Business review - Savings

Financial Highlights £m	H1 2009	FY 2008
New business APE	**448**	879
Operational cash generation	**43**	138
New business strain	**(44)**	(161)
Net cash	**(1)**	(23)
IFRS operating (loss)/profit	**(5)**	66
Assets under administration £bn	**46**	46
Net fund flows £bn	**0.7**	0.4

Overview

During 2009 our key focus has been to accelerate the repositioning of the Savings product portfolio towards more modern, fee-based, flexible products with lower strain and shorter payback periods. This has improved net operational cash generation substantially. We are rebasing our operating costs, mainly through the rationalisation of headcount, and pursuing our strategy to build a low-cost, scalable savings platform.

New business APE of £448m (H1 2008: £456m) was marginally lower than last year. New business strain is significantly lower at £44m.

Operational cash generation and operating profit

We are moving towards a distribution model which relies less on upfront commission payments and is more focused on trail commissions and fees set by distributors and customers. Initiatives to reduce new business strain and improve cash flow have resulted in a managed reduction in volumes in some product lines.

In particular, in non profit bonds and some legacy retail pension products we have reduced initial commission and simplified our trail commission options.

These actions have improved overall net cash generation to negative £1m in first half of 2009 (FY 2008: negative £23m). This was achieved through a significant reduction in new business strain to £44m (2008: FY £161m) and despite a reduced contribution from the existing book driven by lower assets values and lower income from the With-profits business.

Despite market volatility, overall Savings assets under administration of £46bn have been maintained at 2008 year end levels. Investment market volatility was offset by positive net fund flows of £0.7bn.

New business strain in the onshore unit linked bond business fell significantly. A materially reduced appetite for this business has contributed to lower commission strain and management actions to reduce infrastructure in line with lower volumes have mitigated pressure on unit costs.

In non profit pensions we have also reduced new business strain through actions on product mix, commission terms and expenses.

The IFRS operating loss of £5m before tax was partially attributable to a £31m decrease in the income from the with-profits business. This decrease was directly related to actions on bonuses and Market Value Reductions in response to sustained adverse investment conditions. 2008 was also a peak year for maturities. H1 2009 also did not see a repeat of one-off reserving benefits in the Savings business result in H1 2008.

New business

Non profit pensions: APE sales 9% lower at £147m (H1 2008: £162m).

Lower sales reflect a drive to improve the economics of a number of traditional product lines. This has in some areas led to lower volumes, but an overall improvement in the mix and profitability of our portfolio of pension sales.

Our more modern pension products, including SIPPs, have performed well. SIPP sales grew by 32% in H1 2009 and now represent 68% of all new non profit retail sales. We have capitalised on the acquisition of Suffolk Life in 2008 and have grown in this market, which offers more attractive economics than more traditional pension products.

We have made good progress in providing Group Pensions, including Group SIPP products to corporate clients and new business tender activity remains strong. Our proposition remains focused on fee based intermediaries where we have been successful despite downward pressure on charges for nil commission terms. 84% of non profit corporate pension sales are now made on a fee basis.

Core retail investments: APE sales up 31% to £151m (H1 2008: £115m).

This strong expansion in sales reflects good progress in the distribution of products through Nationwide Building Society, the delivery of a wider range of products to specialist IFAs and increased direct sales.

With-profits products: APE 13% higher at £118m (H1 2008: £104m)

This reflects continued growth of with-profits bond sales which were 182% higher at £31m (H1 2008: £11m). We have increased our with-profits bonds market share reflecting the success of our leading protected capital offering.

Unit linked bonds: APE sales 57% lower at £32m (H1 2008: £75m)

Sales in this market have declined as anticipated reflecting continued adverse market and fiscal conditions and management actions to reduce sales of products incurring higher initial commissions.

Outlook

We will continue to focus on cash generation ahead of sales growth. We are targeting low strain business with lower risk to capital. Overall, we expect further declines in volumes in less economically attractive areas of our pensions and bonds businesses, but aim to continue to grow in business lines where the capital and cash flow dynamics are more favourable.

The actions taken will deliver a better and more profitable mix of business overall. Improvements in non profit new business strain, relative to the level of new business sales, should continue as initiatives to change the focus of our distribution model to trail commissions and fees, as opposed to upfront commission, take fuller effect as the year progresses.

In order to ensure our Savings business is rebased to reflect changes in market conditions and lower volumes, we have embarked on a cost reduction programme during H1 2009. We expect to recognise significant headcount reductions by the end of the year and the full benefits will be realised throughout 2010, positioning the business well for the future.

Business review - Investment management

Investment management includes our institutional investment management business ("LGIM"), and institutional sales of unit trust contracts.

Financial Highlights	**H1 2009**	FY 2008
Operational cash generation £m	**51**	115
IFRS operating profit £m	**70**	165
Gross new fund management mandates £bn	**15.1**	33.1
Highlights for LGIM		
Average fee margin (bp)	**10.3**	10.6
Average expense margin (bp)	**5.5**	5.2
Average UK funds under management £bn	**268**	280
Closing UK funds under management £bn	**271**	264
Gross new fund management mandates £bn	**14.2**	30.9
Redemptions £bn	**(6.3)**	(20.8)
Net fund flows £bn	**7.9**	10.1

Operational cash generation and operating profit

Investment management generated operational cash of £51m despite the downturn in market conditions over the last 12 months. Continued market volatility in 2009 reduced operating profits by 23% to £70m (H1 2008: £91m). Of this total, £12m was generated by the management of assets internal to the Legal & General Group companies. LGIM's fee to fund ratio of 10.3bp remained resilient, being broadly stable when compared with the 10.6bp delivered in 2008. The expense margin has increased from 5.2bp in 2008 to 5.5bp reflecting the combination of lower average asset balances and continued investment in diversifying our product offering.

New business

Investment management continued a very strong performance in the generation of gross new business, with £15.1bn of new mandates being only modestly lower than last year (H1 2008: £17.6bn). Within LGIM, gross inflows were £14.2bn, with strong net flows of £7.9bn supported by record persistency, retaining 94% of client money despite unsettled market conditions. We are pleased that in such a challenging environment, such strong gross and net fund flows have supported UK funds under management, growing by 3% in the first half to £271bn (FY 2008: £264bn). Particularly encouraging is that LGIM's core index tracking products are increasingly complemented by sales of active bonds and our market leading LDI products. We now have a comprehensive range of LDI funds (both pooled and segregated) resulting in funds under management increasing by 43% to £22.5bn (H1 2008: £15.7bn).

Outlook

LGIM remains a leader in its market and the outlook looks positive, with strong inflows of new business in the pipeline. We continue to evolve the product range and to develop solutions to meet client demands. Under current market conditions, we remain well positioned for significant further progress.

Business review - International

Financial Highlights £m	H1 2009	FY 2008
IFRS operating profit		
- USA	**45**	39
- Netherlands	**16**	6
- France	**4**	14
Total international operating profit	**65**	59
New business APE		
- USA	**29**	51
- Netherlands	**13**	29
- France[1]	**33**	39
Total	**75**	119

Note: (1) Includes core retail investments

Operating profit

Total IFRS operating profit was £65m, up 35% (H1 2008: £48m). This reflects the positive impact of strain and expense management in our USA and Netherlands businesses, offset by lower margins in our French business.

Operating profit in the USA rose 50% (H1 2008: £30m), having taken action to reduce expenses and new business strain and benefiting from currency movements.

In the Netherlands the profit turnaround since H1 2008 has been driven by more stable investment markets and focus on expense control in a lower volume environment, which has contributed to lower new business strain.

In France operating profit is lower than the same period of last year due in part to reduced margins on savings products, and the switch away from unit linked products.

New business

In the USA we have taken a measured approach to sales in the first half, preferring to implement selected price rises to improve profitability rather than pursuing higher volumes. However, sales momentum has been maintained despite the difficult trading conditions, with regular premiums of $43m (H1 2008: $47m).

Our Netherlands business continues to operate in very challenging industry conditions. Our unit linked business has been affected by low consumer sentiment. A decline in term sales reflects the downturn in the mortgage market and increased competition during the period. Overall new business APE was 29% lower compared to last year at €15m.

In France our Group Insurance business continues to expand ahead of the market in terms of total premium income despite difficult market and economic conditions. Euro-fund saving new business increased in H1, however customer sentiment towards unit linked savings products was lower. Headline APE was €37m (H1 2008: €28m).

Outlook

In the USA we expect our performance to remain resilient for the remainder of the year based on our distribution strength and our position as a leader in the individual protection market, despite difficult trading conditions and some signs of increased price competition. Our focus will however remain on margin rather than volume growth.

European markets will continue to be challenging until consumer confidence starts to improve for equity-style investments. In the Netherlands we have introduced a more sophisticated term insurance pricing approach backed by improved point of sale technology and we expect to see these supporting sales in H2 2009.

In India, we have received the important R1 approval from the Insurance Regulatory and Development Authority (IRDA) for our joint venture with Bank of Baroda and Andhra Bank. This allows us to push ahead aggressively to complete launch preparations and we are on track to launch in the first quarter of 2010.

Our joint venture in the Gulf has launched with group life and credit life products. Full operations through the retail branches of our partner, Ahli United Bank, will commence in Q4 2009.

Asset portfolio

Shareholders have direct exposure to 10% of total assets under management, or £28bn. The portfolio remains of high quality. Over the half-year period to 30 June 2009 there have been three defaults on our bond portfolio backing the UK non profit annuity business, amounting to £1m, or 0.005% of assets. This is well below our long term default assumption – currently set at 36bp per annum.

In the following table we have separately identified assets backing our UK non profit annuity business within Legal & General Pensions Limited ("LGPL") which represents the majority of our fixed interest exposure:

Asset class £bn	LGPL	Total
Equities	-	0.8
Bonds	18.1	22.2
Derivative assets	0.8	1.7
Property	-	0.2
Cash (including cash equivalents)	1.3	3.1
	20.2	**28.0**

Equity investments

Shareholders' exposure to UK and overseas equities was £0.8bn as at 30 June 2009 (FY 2008: £1.4bn). We indicated at the time of the preliminary results that we had disposed of £1.1bn of equities mostly in 2008 and some in 2009.

Bond investments

The following table expands on the credit structure of bond investments to which shareholders are exposed:

Rating band £bn	LGPL	Total
AAA	2.6	4.5
AA	1.8	2.3
A	6.7	7.7
BBB	4.9	5.4
BB or below	0.5	0.6
Not rated (including CDO investments classified as not rated)	1.6	1.7
	18.1	**22.2**

The credit quality of our portfolio of bonds remains good, with 97% of the rated bonds in investment grade credit. This is a lower proportion than at the year-end, reflecting credit rating downgrades in the period.

In addition we hold approximately £723m of credit default protection on the portfolio.

As we have described in previous statements, we have increased the sector and geographic diversification of our annuity portfolio in the last three years. Exposure to overseas currency and interest rate risk is actively managed through the use of derivative programmes. 59% of the LGPL credit portfolio assets are now domiciled outside the UK including 32% held in North America and 23% in Europe. This compares with 55% domiciled outside the UK as at the end of 2008 and 33% just over three years ago.

Banks securities

We have continued to diversify the portfolio in 2009, actively reducing our exposure to the junior subordinated bonds of UK banks since the start of this year and maintaining our relative underweight position in banks in comparison to both global and local market index weightings.

Details of exposures to non-Senior tierings of bank securities as at 30 June 2009 are summarised below. In aggregate the market value of non-Senior bank debt has reduced by 36% in the UK and 28% worldwide reflecting a combination of market price movements and active disposals:

Tiering £m	UK	North America	Europe	Other	Total
Lower tier 2	737	541	280	81	1,639
Upper tier 2	101	-	46	5	152
Tier 1 (including preference stock)	242	66	84	9	401
	1,080	**607**	**410**	**95**	**2,192**

Collateralised Debt Obligations ("CDO")

The value of our CDO investments at 30 June 2009 was £1.1bn. This is an increase of 8% compared to year end 2008 resulting from the improvement in credit markets over the period. No further CDO investments were made in the period. Of this total, £0.9bn 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. During the period, there were no defaults on the underlying credits in these bespoke portfolios.

Asset Backed Securities ("ABS")

Within our bond portfolio, ABS investments stood at a market value of £3.8bn at 30 June 2009 compared to £3.4bn at the end of 2008. ABS holdings are analysed in detail in the schedules to these results. Our 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 quality, long duration and risk diversification.

Within this total, £1.3bn is categorised as traditional ABS investments, including RMBS and CMBS. The average rating of these classes is AAA. We have just £21m of sub-prime RMBS, of which 81% is of AAA quality.

Enquiries

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Notes

- A copy of this announcement can be found in "Results", under the "Financial information" section of our shareholder website at http://investor.legalandgeneral.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. UK investors should dial 0800 073 8912 and overseas investors should dial +44 1452 568 060. The conference ID number is 19788199.

Basis of preparation

The European Union requires all listed companies to prepare their consolidated financial statements using standards issued by the International Accounting Standards Board. The Group's statutory results have therefore been reported on an International Financial Reporting Standards basis. The Group's directors continue to believe that the supplementary accounts prepared using European Embedded Value principles provide shareholders with a good understanding of the value which has been generated by the Group.

The following financial statements were approved by a sub-committee of the Board on 3 August 2009 and constitute non statutory accounts within the meaning of Section 435 of the Companies Act 2006. The Group's financial statements for the 2008 financial year include the auditors' unqualified report and do not contain a statement under either Sections 498(2) or 498(3) of the Companies Act 2006.

Financial calendar 2009:

Event	Date
Ex-dividend date	2 September 2009
Payment date for 2009 Interim Dividend (to members registered on 04/09/09)	1 October 2009
Q3 Interim Management Statement 2009	4 November 2009

A Dividend Re-investment Plan is available to shareholders.

Forward-looking statements

This document may contain certain forward-looking statements with respect to certain of Legal & General Group Plc's (and its subsidiary undertakings') plans and its (and their) current goals and expectations relating to future financial condition, performance and results. By their nature forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Legal & General Group'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 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 Legal & General Group's forward-looking statements and persons reading this announcement should not place reliance on forward-looking statements. These forward-looking statements are made only as at the date on which such statements are made and Legal & General Group Plc does not undertake to update forward-looking statements contained in this document or any other forward-looking statement it may make.

Principal risks and uncertainties

Legal & General's business involves the controlled acceptance and management of exposures to market, insurance, credit, liquidity and operational risks. In addition to these inherent risks, the following risk factors may impact the Group's strategic objectives, profitability or capital.

	Business Environment	**Risk Factors & Uncertainties**
Legislation and Regulation	The financial services markets in which the Group operates are highly regulated. Government fiscal policy also influences product design, business retention and required reserves.	The Group engages with regulatory and legislative authorities to assist in the evaluation of change on the sector and its stakeholders. However, sudden changes and/or retrospection in legislation and fiscal policy without prior consultation, or the differing interpretation and application of regulation over time, may have a detrimental effect on the Group's strategy and profitability.
Financial Market and Economic Conditions	The earnings and profitability of Legal & General's businesses are influenced by a broad range of factors including the performance and liquidity of investment markets, interest rate movements and inflation	The Group uses a range of risk management strategies to manage volatility in returns from investment assets and the broader effects of adverse market conditions. However, extreme market conditions can impact the execution of these strategies. Economic conditions also influence the purchase of financial services products and the period over which business is retained.
Counterparty and Third Party Risks	The Group is exposed to counterparty risk in respect the issuers of corporate debt and financial instruments, and through money market and reassurance transactions. Third party risk arises with regard to critical suppliers.	The Group seeks to limit exposure to loss from counterparty and third party failure through selection criteria, pre-defined risk based limits on concentrations of exposures and monitoring positions. However, in extreme conditions an event causing widespread default may impact the Group's profitability.

UK Financial Services Sector Contagion Risks	As a significant participant in the UK retail financial services sector, the earnings of the Group are influenced by the perception and confidence of the retail investor with the sector as a whole.	The Group seeks to differentiate itself from its competitors, however, factors such as investment market performance, actions by regulators and shock events such as significant market failures can impact the confidence of retail investors. Participation in the Financial Services Compensation Scheme may also impact the Group should financial services organisations fail.
Mortality, Catastrophe and Other Assumption Uncertainties	In writing insurance business the Group uses its pricing capabilities to assess and charge an appropriate premium for known risk factors.	Stress testing is undertaken to validate the key assumptions underpinning long term liabilities and to assess the adequacy of capital. However, scenarios such as a rapid advance in medical science leading to significantly enhanced annuitant longevity or an event causing widespread mortality or morbidity, coupled with a reinsurer default may impact profitability and capital. Extreme shifts in financial markets and in the broader economic environment may also require other assumptions for persistency, valuation interest rates or credit defaults to be recalibrated.
Future Development of Savings Market	The reasons customers save and make provision for old age is influenced by a number of factors including government policy, social conditions and the general economic environment.	Consumer uncertainty in factors influencing the incentive to save may have a detrimental effect on the markets in which the Group operate and potential earnings. A protracted period of low growth in asset values or low interest rate returns, may lead to a re-assessment by consumers of the way they plan for retirement and their requirements for long term saving products.
Resources	The Group's ranges of products include those targeted at specific market segments which require specialist knowledge to design and support.	The Group actively focuses on retaining the best personnel and deploys strategies to ensure that key dependencies do not arise. However, sudden unanticipated loss of teams of expertise may, in the short term, impact certain segments of Legal & General's businesses.

Supplementary EEV disclosure

Financial highlights	PVNBP (£m)		Margin (%)		Contribution (£m)	
	H1 2009	H1 2008	**H1 2009**	H1 2008	**H1 2009**	H1 2008
Contribution from new business						
Protection	**427**	553	**7.0**	6.9	**30**	38
Annuities	**1,328**	1,776	**11.1**	7.6	**148**	135
Unit linked bonds	**319**	749	**(1.6)**	(0.5)	**(5)**	(4)
Pensions – Stakeholder and other non profit	**1,007**	1,047	**(0.4)**	(0.2)	**(4)**	(2)
With-profits savings	**734**	711	**2.2**	1.5	**16**	11
UK (Risk and Savings)	**3,815**	4,836	**4.8**	3.7	**185**	178
International	**551**	465	**2.0**	3.5	**11**	16
Worldwide total	**4,366**	5,301	**4.5**	3.7	**196**	194
Contribution from in-force business – expected return[1]					**304**	227
UK business in-force variances and assumption changes						
- Persistency					**(5)**	(11)
- Mortality/longevity/morbidity					**5**	11
- Expenses					**(36)**	40
- Other					**113**	(22)
International in-force variances and assumption changes					**8**	(13)
Total in-force variances and assumption changes					**85**	5
Development costs					**(18)**	(22)
Contribution from shareholder net worth[1]					**69**	160
Operating profit						
Risk					**460**	267
Savings					**28**	87
Investment management[2]					**58**	72
International					**87**	58
Group capital and financing					**24**	105
Operating profit					**657**	589
Variation from longer term investment return					**(1,019)**	(474)
Effect of economic assumption changes					**(630)**	(12)
Property losses attributable to minority interests					**(20)**	(13)
(Loss)/profit from ordinary activities before tax					**(1,012)**	90
(Loss)/profit from ordinary activities after tax					**(720)**	73
Diluted earnings per share based on operating profit after tax (p)					**8.27**	6.84
Shareholders' equity					**5,556**	7,458
Shareholders' equity per share (p)					**95**	125

Note:

(1) From full year 2008, the treatment of our internal contingent loan has been changed. Its value and unwind of assumptions are now accounted for as part of the UK in-force results, having been included as part of shareholder net worth in H1 2008.

(2) From full year 2008, our Pensions Management Company ("PMC") is no longer classified as covered business. As a result it is now reported on an IFRS basis within the EEV results and H1 2008 figures have been restated.

The EEV operating profit of £657m was 12% up year on year (H1 2008: £589m). This includes new business contribution of £196m (H1 2008: £194m) reflecting higher average new business margins and overall positive experience variances and operating assumption changes of £85m (H1 2008: £5m).

The EEV result before tax also includes the effects of economic assumption changes and investment variances totalling negative £1,649m which are discussed below.

New business contribution

Worldwide PVNBP reduced by 18% to £4,366m (H1 2008: £5,301m). This reflects a decrease of 21% in the UK to £3,815m (H1 2008: £4,836m) and an 18% increase in our International businesses. The worldwide new business margin of 4.5% was higher than the 3.1% at the full year 2008 stage.

Our UK new business margin was 4.8% (FY 2008: 3.1%):

- **Protection**: margin of 7.0% (FY 2008: 6.2%). This increase reflects changes in mix towards higher margin business and lower expenses. The IRR on new business was 16% with a payback period of 5 years.
- **Annuities**: margin of 11.1% (FY 2008: 7.4%). The improved pricing conditions noted in the IFRS results analysis above are reflected also in EEV new business margins. Given negative strain on this business in the first half annuities has an immediate IFRS payback and IRR calculations are not applicable.
- **Unit linked bonds**: margin of negative 1.6% (FY 2008: negative 1.0%). The underlying mix of business and pricing improved in the first half with an increased proportion of Portfolio Bond sales and reduced allocation rates. However this was more than offset by the higher risk discount rate and unit expenses as sales continued to decline. IRR was 6% with a payback period of 9 years.
- **Non profit pensions**: margin of negative 0.4% (FY 2008: negative 0.4%). The underlying mix of business and pricing effects were positive in the period with a higher proportion of SIPP sales, but this was offset by the higher risk discount rate. IRR was 7% with a payback period of 12 years.
- **With-profits**: margin of 2.2% (FY 2008: 1.2%). The mix of business has shifted further towards with-profits bonds, improving the margin of business sold in the period.

As a result of these movements, UK new business contribution increased to £185m (H1 2008: £178m; FY 2008: £265m). New business contribution from our International business, at £11m, was lower than the prior year (H1 2008: £16m) with a margin of 2.0% compared to 3.5% in the first half of 2008. This includes the effect of higher risk discount rates in the calculation of EEV results which reduced USA new business contribution.

In-force contribution

The expected return from in-force business increased to £304m (H1 2008: £227m) due to the unwind of a higher discount rate (8.3% vs 7.5%) on a higher opening in-force value.

The contribution from shareholder net worth of £69m decreased from £160m in the prior year. The opening balance of the UK shareholder net worth, at £1,878m for 2009 was materially lower than the opening balance for 2008 at £3,837m.

Experience variances and assumption changes in our UK Risk and Savings businesses of £77m (H1 2008: £18m) included:

- **Persistency**: negative £5m (H1 2008: negative £11m). Reflects small negative variances from lapse experience in our individual protection business.
- **Mortality/morbidity/longevity**: £5m (H1 2008: £11m). Reflects better than expected claims in group protection.
- **Expenses**: negative £36m (H1 2008: positive £40m). Good expense experience in our individual protection business was offset by higher unit costs in our smaller unit linked bonds business and higher investment expenses impacting our annuities business.
- **Other**: £113m (H1 2008: negative £22m). Reflects predominantly £57m of one off modelling improvements and £39m reflecting a reassessment of future reserve releases as data is loaded onto the BPA system and other reserve releases.

Development costs decreased to £18m (H1 2008: £22m) as expenditure on developments in prior periods reduced or was not repeated in 2009.

Investment management

From the 2008 preliminary results, 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. H1 2008 comparatives have been restated accordingly. The change in the reporting basis has reduced H1 2008 operating profit before tax by £37m, increased profit after tax by £17m and reduced shareholders' equity by £323m. Investment management operating profit excludes £12m (H1 2008: £19m) 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.

Profit before tax

Worldwide operating profit was £657m (H1 2008: £589m). Below the operating line there were negative contributions from investment variances (£1,019m) and economic assumption changes (£630m).

The H1 2009 variation from longer term investment return includes:

- £(511)m variance reflecting the EEV impact of asset allocation decisions made during the period. Of this amount, £(335)m is the EEV impact of swap transactions undertaken to improve the IFRS matching of annuity business which reduced the assumed future yield on the annuity assets for EEV purposes, £(96)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 £(80)m is the EEV impact of holding additional cash balances, largely to back the short term default provision.
- The remaining amount reflects the EEV impact of investment performance relative to assumptions, including £(228)m due to the sale of corporate credits and holdings in cash during a period when credit spreads have narrowed, £(117)m for Group capital and financing and £(103)m for with-profits business.

Economic assumption changes amounted to negative £630m (H1 2008: negative £12m). This included:

- UK risk discount rate increase by 50bp – negative £221m
- USA risk discount rate increase by 120bp – negative £129m
- Increased cost of capital on increased annuity reserves – negative £119m
- EEV impact of increase in realistic and statutory long term default provision – negative £179m

Profit on ordinary activities after tax reflects the combination of operating profit with investment effects and economic assumption changes, and was negative £720m, compared to a profit of £73m in H1 2008. After allowing for £120m of dividends paid in the period, shareholders' equity was £5,556m at 30 June 2009, a reduction of 15% from the year end. This translates into embedded value per share of 95p (FY 2008: 111p).

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New Business

2.01 New business summary

	Notes	**APE[1] 30.06.09 £m**	**PVNBP[2] 30.06.09 £m**	**Margin[3] 30.06.09 %**	APE 30.06.08 £m	PVNBP 30.06.08 £m	Margin 30.06.08 %
Risk	2.02	**223**	**1,755**	**10.1**	288	2,329	7.4
Savings[4]	2.02	**297**	**2,060**	**0.3**	341	2,507	0.2
International[4]	2.04	**72**	**551**	**2.0**	59	465	3.5
		592	**4,366**	**4.5**	688	5,301	3.7
UK core retail investments	2.07	**151**			115		
International retail investments	2.07	**3**			3		
Total core retail investments		**154**			118		
Total		**746**			806		

	Notes	**30.06.09 £m**	30.06.08 £m
Investment management	2.10	**15,137**	17,645

	Notes	APE Full year 31.12.08 £m	PVNBP Full year 31.12.08 £m	Margin Full year 31.12.08 %
Risk	2.02	488	3,811	7.1
Savings[4]	2.02	650	4,722	(0.1)
International[4]	2.04	113	896	3.6
		1,251	9,429	3.1
UK core retail investments	2.07	229		
International retail investments	2.07	6		
Total core retail investments		235		
Total		1,486		

	Notes	31.12.08 £m
Investment management	2.10	33,091

1. 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.
2. 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.
3. The new business margin is defined as the contribution from new business (including the cost of solvency capital) divided by the PVNBP.
4. Excludes core retail investments.

2.02 Analysis of Risk and Savings[1] new business by product

For the six months ended 30 June 2009	APE £m	Contribution from new business[2] £m	PVNBP £m	Margin %
Protection	**90**	**30**	**427**	**7.0**
Annuities	**133**	**148**	**1,328**	**11.1**
Total Risk	**223**	**178**	**1,755**	**10.1**
Unit linked bonds	**32**	**(5)**	**319**	**(1.6)**
Pensions, stakeholder and other non profit	**147**	**(4)**	**1,007**	**(0.4)**
With-profits	**118**	**16**	**734**	**2.2**
Total Savings	**297**	**7**	**2,060**	**0.3**
Total Risk and Savings	**520**	**185**	**3,815**	**4.8**
Cost of capital[3]		**32**		
Contribution from new business before cost of capital		**217**		
For the six months ended 30 June 2008				
Protection	110	38	553	6.9
Annuities	178	135	1,776	7.6
Total Risk	288	173	2,329	7.4
Unit linked bonds	75	(4)	749	(0.5)
Pensions, stakeholder and other non profit	162	(2)	1,047	(0.2)
With-profits	104	11	711	1.5
Total Savings	341	5	2,507	0.2
Total Risk and Savings	629	178	4,836	3.7
Cost of capital[3]		12		
Contribution from new business before cost of capital		190		
For the year ended 31 December 2008				
Protection	207	62	1,005	6.2
Annuities	281	209	2,806	7.4
Total Risk	488	271	3,811	7.1
Unit linked bonds	131	(13)	1,306	(1.0)
Pensions, stakeholder and other non profit	328	(8)	2,183	(0.4)
With-profits	191	15	1,233	1.2
Total Savings	650	(6)	4,722	(0.1)
Total Risk and Savings	1,138	265	8,533	3.1
Cost of capital[3]		65		
Contribution from new business before cost of capital		330		

1. Excludes core retail investments.
2. 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.
3. For H1 09, the cost of capital relating to new business reflects a risk margin of 4.5% in the risk discount rate and an equity backing ratio for the assets backing the solvency capital of 41% (H1 08: risk margin of 3.0% and equity backing ratio of 77%; FY 08: risk margin of 4.5% and equity backing ratio of 55%).

2.03 Analysis of Risk and Savings[1] PVNBP

	Annual premiums 30.06.09 £m	Present value of annual premiums 30.06.09 £m	Capital-isation factor[2] 30.06.09	Single premiums 30.06.09 £m	PVNBP 30.06.09 £m	PVNBP 30.06.08 £m	PVNBP Full year 31.12.08 £m
Protection	**90**	**427**	**4.7**	**-**	**427**	553	1,005
Annuities	**-**	**-**	**-**	**1,328**	**1,328**	1,776	2,806
Total Risk	**90**	**427**	**4.7**	**1,328**	**1,755**	2,329	3,811
Unit linked bonds	**-**	**-**	**-**	**319**	**319**	749	1,306
Pensions, stakeholder and other non profit	**77**	**304**	**3.9**	**703**	**1,007**	1,047	2,183
With-profits	**68**	**241**	**3.5**	**493**	**734**	711	1,233
Total Savings	**145**	**545**	**3.8**	**1,515**	**2,060**	2,507	4,722
Total Risk and Savings	**235**	**972**	**4.1**	**2,843**	**3,815**	4,836	8,533

1. Excludes core retail investments.
2. The capitalisation factor is the present value of annual premiums divided by the amount of new annual premiums.

2.04 Analysis of International[1] new business

For the six months ended 30 June 2009	APE £m	Contri-bution from new business[2] £m	Cost of capital £m	PVNBP £m	Margin %
USA	**29**	**8**	**4**	**204**	**4.2**
Netherlands	**13**	**1**	**2**	**113**	**0.6**
France	**30**	**2**	**3**	**234**	**0.9**
Total	**72**	**11**	**9**	**551**	**2.0**
For the six months ended 30 June 2008					
USA	24	12	3	166	7.0
Netherlands	16	2	2	138	1.7
France	19	2	3	161	1.5
Total	59	16	8	465	3.5
For the year ended 31 December 2008					
USA	51	24	6	372	6.3
Netherlands	29	7	4	241	3.1
France	33	1	4	283	0.5
Total	113	32	14	896	3.6

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

2.05 Analysis of International[1] new business in local currency

For the six months ended 30 June 2009	APE m	Contri-bution from new business[2] m	Cost of capital m	PVNBP m	Margin %
USA	**$43**	**$13**	**$6**	**$301**	**4.2**
Netherlands	**€15**	**€1**	**€2**	**€128**	**0.6**
France	**€33**	**€2**	**€3**	**€264**	**0.9**
For the six months ended 30 June 2008					
USA	$47	$23	$6	$327	7.0
Netherlands	€21	€3	€3	€181	1.7
France	€25	€3	€4	€209	1.5
For the year ended 31 December 2008					
USA	$94	$44	$11	$691	6.3
Netherlands	€36	€9	€6	€305	3.1
France	€42	€2	€5	€354	0.5

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

2.06 Analysis of International[1] PVNBP in local currency

	Annual premiums 30.06.09 m	Present value of annual premiums 30.06.09 m	Capital-isation factor 30.06.09	Single premiums 30.06.09 m	PVNBP 30.06.09 m	PVNBP 30.06.08 m	PVNBP Full year 31.12.08 m
USA	**$43**	**$301**	**7.0**	**-**	**$301**	$327	$691
Netherlands	**€5**	**€32**	**6.5**	**€96**	**€128**	€181	€305
France	**€21**	**€142**	**6.7**	**€122**	**€264**	€209	€354

1. Excludes core retail investments.

2.07 Analysis of core retail investments new business

	Annual premiums 30.06.09 £m	Single premiums 30.06.09 £m	APE 30.06.09 £m	Annual premiums 30.06.08 £m	Single premiums 30.06.08 £m	APE 30.06.08 £m
UK	**18**	**1,331**	**151**	19	953	115
France	**-**	**32**	**3**	-	26	3
Total	**18**	**1,363**	**154**	19	979	118

	Annual premiums Full year 31.12.08 £m	Single premiums Full year 31.12.08 £m	APE Full year 31.12.08 £m
UK	41	1,879	229
France	-	63	6
Total	41	1,942	235

2.08 Analysis of UK Risk and Savings new business premiums

	Annual premiums 30.06.09 £m	**Single premiums 30.06.09 £m**	**APE 30.06.09 £m**	Annual premiums 30.06.08 £m	Single premiums 30.06.08 £m	APE 30.06.08 £m	APE Full year 31.12.08 £m
Protection							
- Individual	**60**	**-**	**60**	73	-	73	140
- Group	**30**	**-**	**30**	37	-	37	67
Annuities							
- Individual (non profit)	**-**	**583**	**58**	-	384	38	84
- Individual (with-profits)	**-**	**7**	**1**	-	15	2	3
- Bulk purchase	**-**	**738**	**74**	-	1,377	138	194
Total Risk	**90**	**1,328**	**223**	110	1,776	288	488
Non profit savings							
- Unit linked bonds	**-**	**319**	**32**	-	749	75	131
- Individual pensions	**77**	**699**	**147**	94	675	162	327
- DWP rebates	**-**	**4**	**-**	-	4	-	1
With-profits savings							
- Bonds	**-**	**305**	**31**	-	112	11	28
- Individual pensions	**67**	**123**	**79**	56	290	85	149
- DWP rebates	**-**	**65**	**7**	-	71	7	12
- Group pensions	**1**	**-**	**1**	1	2	1	2
	145	**1,515**	**297**	151	1,903	341	650
Core retail investments							
- Unit trusts	**5**	**1,061**	**111**	5	698	75	159
- ISAs	**13**	**270**	**40**	14	255	40	70
Total Savings	**163**	**2,846**	**448**	170	2,856	456	879
Total Risk and Savings new business	**253**	**4,174**	**671**	280	4,632	744	1,367

2.09 Analysis of total UK Risk and Savings APE

	APE 30.06.09 £m	APE 30.06.08 £m	APE Full year 31.12.08 £m
Independent financial advisers	**377**	421	827
Tied	**137**	129	243
Direct	**52**	18	34
Total Individual Risk and Savings	**566**	568	1,104
Individual Risk and Savings[1]	**415**	453	875
Core retail investments	**151**	115	229
Total Individual Risk and Savings	**566**	568	1,104
Group Risk and Savings	**105**	176	263
Total Risk and Savings new business premiums	**671**	744	1,367

1. Excludes core retail investments.

2.10 Analysis of Investment management new business

	30.06.09 £m	30.06.08 £m	Full year 31.12.08 £m
Managed pension funds[1]			
Pooled funds	**11,788**	13,562	26,733
Segregated funds	**1,247**	364	841
Total managed funds	**13,035**	13,926	27,574
Other funds[2]	**2,102**	3,719	5,517
Total	**15,137**	17,645	33,091
Attributable to:			
Legal & General Investment Management	**14,182**	16,224	30,873
Legal & General Retail Investments	**955**	1,421	2,218

1. New monies from pension fund clients of Legal & General Assurance (Pensions Management) exclude £2.4bn (H1 08: £4.6bn; FY 08: £7.4bn) held through the period 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.

2.11 Legal & General Investment Management new business by investment approach

	30.06.09 %	30.06.08 %	Full year 31.12.08 %
Index equities	**51.9**	46.6	45.2
Index bonds (including index linked funds and cash)	**27.4**	39.2	41.2
Active bonds (including index linked funds and cash)	**15.5**	6.7	7.2
Structured solutions	**5.0**	7.4	6.2
Property	**0.2**	0.1	0.2
Total	**100.0**	100.0	100.0

Operating profit income statement

For the six months ended 30 June 2009

	Notes	**30.06.09 £m**	30.06.08 £m	Full year 31.12.08 £m
From continuing operations				
Risk[1]	3.01(a)	**(128)**	75	(603)
Savings[2]	3.01(b)	**(5)**	111	66
Investment management	3.02	**70**	91	165
International	3.03	**65**	48	59
Group capital and financing	3.04	**29**	66	124
Operating profit/(loss)		**31**	391	(189)
Variation from longer term investment return	3.06	**(154)**	(422)	(1,239)
Property losses attributable to minority interests		**(20)**	(13)	(63)
Loss from continuing operations before tax attributable to equity holders of the Company		**(143)**	(44)	(1,491)
Tax credit attributable to equity holders of the Company	3.07	**52**	17	361
Loss from ordinary activities after tax		**(91)**	(27)	(1,130)
Loss attributable to minority interests	3.15	**20**	13	63
Loss attributable to equity holders of the Company		**(71)**	(14)	(1,067)

		p	p	p
Earnings per share	3.08			
Based on operating profit/(loss) from continuing operations after tax attributable to equity holders of the Company		**0.58**	4.61	(2.18)
Based on loss attributable to equity holders of the Company		**(1.22)**	(0.23)	(17.88)
Diluted earnings per share	3.08			
Based on operating profit/(loss) from continuing operations after tax attributable to equity holders of the Company		**0.58**	4.59	(2.18)
Based on loss attributable to equity holders of the Company		**(1.22)**	(0.23)	(17.88)

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.

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 operating profit of our General insurance business. This incorporates the total investment return on assets backing the liabilities of the non profit Risk businesses. General insurance operating profit includes a longer term expected investment return on shareholders' funds.

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 operating profit of our core retail investments business.

Operating profit for the Investment management and International segments incorporates 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.

1. The H1 09 Risk operating loss includes negative investment experience variances of £359m which primarily reflect the net effect of strengthening the credit default provision (£55m), the impact of action taken to sell a number of credits (£75m) and the impact on investment performance of the holdings in cash during a period when credit spreads have narrowed (£206m). The FY 08 Risk operating loss included £650m of additional reserves for non profit annuity credit default.

2. The H1 08 Savings operating profit included one-off reserving benefits that have not been repeated in H1 09.

Consolidated income statement

For the six months ended 30 June 2009

	Notes	30.06.09 £m	30.06.08 £m	Full year 31.12.08 £m
Revenue				
Gross written premiums	3.09	**3,110**	3,301	5,895
Outward reinsurance premiums		**(283)**	(269)	(569)
Net change in provision for unearned premiums		**3**	(1)	1
Net premiums earned		**2,830**	3,031	5,327
Fees from fund management and investment contracts		**345**	358	740
Investment return		**(1,778)**	(17,196)	(37,749)
Operational income		**44**	22	38
Total revenue		**1,441**	(13,785)	(31,644)
Expenses				
Claims and change in insurance liabilities		**3,132**	1,748	3,287
Reinsurance recoveries		**(345)**	(370)	(587)
Net claims and change in insurance liabilities		**2,787**	1,378	2,700
Change in provisions for investment contract liabilities		**(2,209)**	(15,434)	(33,313)
Acquisition costs		**358**	354	776
Finance costs		**148**	189	379
Other expenses		**401**	425	773
Transfers from unallocated divisible surplus		**30**	(313)	(806)
Total expenses		**1,515**	(13,401)	(29,491)
Loss before income tax		**(74)**	(384)	(2,153)
Income tax (expense)/credit attributable to policyholder returns		**(69)**	340	662
Loss from continuing operations before income tax attributable to equity holders of the Company		**(143)**	(44)	(1,491)
Total income tax (expense)/credit		**(17)**	357	1,023
Income tax expense/(credit) attributable to policyholder returns		**69**	(340)	(662)
Income tax credit attributable to equity holders	3.07	**52**	17	361
Loss from ordinary activities after income tax		**(91)**	(27)	(1,130)
Loss from ordinary activities after income tax attributable to:				
Minority interests		**(20)**	(13)	(63)
Equity holders of the Company		**(71)**	(14)	(1,067)
Dividend distributions to equity holders of the Company during the period		**120**	248	367
Dividend distributions to equity holders of the Company proposed after the period end		**65**	115	120
		p	p	p
Earnings per share				
Based on loss attributable to equity holders of the Company	3.08	**(1.22)**	(0.23)	(17.88)
Diluted earnings per share				
Based on loss attributable to equity holders of the Company	3.08	**(1.22)**	(0.23)	(17.88)

Consolidated statement of comprehensive income

For the six months ended 30 June 2009

	30.06.09 £m	30.06.08 £m	Full year 31.12.08 £m
Loss from ordinary activities after income tax	**(91)**	(27)	(1,130)
Other comprehensive income after tax			
Exchange differences on translation of overseas operations	**(75)**	8	139
Actuarial (losses)/gains on defined benefit pension schemes	**(89)**	20	18
Actuarial (gains)/losses on defined benefit pension schemes transferred to unallocated divisible surplus	**36**	(8)	(8)
Net change in financial investments designated as available-for-sale	**20**	(19)	(56)
Total comprehensive expense	**(199)**	(26)	(1,037)
Total comprehensive expense attributable to:			
Minority interests	**(20)**	(13)	(63)
Equity holders of the Company	**(179)**	(13)	(974)

Consolidated balance sheet

As at 30 June 2009

	Notes	At 30.06.09 £m	At 30.06.08 £m	At 31.12.08 £m
Assets				
Investment in associates		**21**	13	14
Plant and equipment		**71**	78	75
Investment property		**3,501**	5,595	3,969
Financial investments	3.11	**237,771**	251,247	234,514
Reinsurers' share of contract liabilities		**2,125**	1,981	1,997
Purchased interest in long term businesses and other intangible assets		**205**	225	227
Deferred acquisition costs		**1,985**	1,795	2,112
Deferred tax asset		**1,081**	276	988
Income tax recoverable		**11**	5	8
Other assets		**2,398**	2,432	2,135
Cash and cash equivalents		**11,138**	10,819	10,688
Total assets		**260,307**	274,466	256,727
Equity				
Share capital		**147**	149	147
Share premium account		**936**	934	936
Employee scheme shares		**(42)**	(46)	(46)
Capital redemption and other reserves		**3**	(65)	(42)
Retained earnings		**2,251**	3,703	2,593
Shareholders' equity	3.13	**3,295**	4,675	3,588
Minority interests	3.15	**149**	175	144
Total equity		**3,444**	4,850	3,732
Liabilities				
Subordinated borrowings	3.14	**1,552**	1,444	1,657
Participating insurance contracts		**8,881**	10,386	9,384
Participating investment contracts		**6,689**	7,099	6,992
Unallocated divisible surplus		**902**	1,411	913
Value of in-force non-participating contracts		**(268)**	(255)	(171)
Participating contract liabilities		**16,204**	18,641	17,118
Non-participating insurance contracts		**26,720**	24,879	25,841
Non-participating investment contracts		**201,032**	216,405	196,698
Non-participating contract liabilities		**227,752**	241,284	222,539
Senior borrowings	3.14	**1,933**	1,742	2,314
Provisions		**855**	742	741
Deferred tax liabilities		**252**	197	259
Income tax liabilities		**155**	18	5
Payables and other financial liabilities		**6,168**	3,805	6,613
Other liabilities		**835**	819	997
Net asset value attributable to unit holders		**1,157**	924	752
Total liabilities		**256,863**	269,616	252,995
Total equity and liabilities		**260,307**	274,466	256,727

Consolidated statement of changes in equity

For the six months ended 30 June 2009	Share capital £m	Share premium account £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**
Total comprehensive expense for the period	**-**	**-**	**-**	**(55)**	**(124)**	**(179)**	**(20)**	**(199)**
Net movement in employee scheme shares	**-**	**-**	**4**	**7**	**(5)**	**6**	**-**	**6**
Dividends	**-**	**-**	**-**	**-**	**(120)**	**(120)**	**-**	**(120)**
Movement in third party interests	**-**	**-**	**-**	**-**	**-**	**-**	**25**	**25**
Currency translation differences	**-**	**-**	**-**	**93**	**(93)**	**-**	**-**	**-**
As at 30 June	**147**	**936**	**(42)**	**3**	**2,251**	**3,295**	**149**	**3,444**

For the six months ended 30 June 2008								
As at 1 January	157	927	(42)	59	4,345	5,446	178	5,624
Total comprehensive expense for the period	-	-	-	(11)	(2)	(13)	(13)	(26)
Share buyback[1]	(8)	-	-	8	(408)	(408)	-	(408)
Closed period share buyback reserve	-	-	-	(100)	-	(100)	-	(100)
Options exercised under share option scheme	-	7	-	-	-	7	-	7
Net movement in employee scheme shares	-	-	(4)	(9)	4	(9)	-	(9)
Dividends	-	-	-	-	(248)	(248)	-	(248)
Movement in third party interests	-	-	-	-	-	-	10	10
Currency translation differences	-	-	-	(12)	12	-	-	-
As at 30 June	149	934	(46)	(65)	3,703	4,675	175	4,850

For the year ended 31 December 2008								
As at 1 January	157	927	(42)	59	4,345	5,446	178	5,624
Total comprehensive income/(expense) for the period	-	-	-	83	(1,057)	(974)	(63)	(1,037)
Share buyback[1]	(11)	-	-	11	(523)	(523)	-	(523)
Options exercised under share option scheme	1	9	-	-	-	10	-	10
Net movement in employee scheme shares	-	-	(4)	(3)	3	(4)	-	(4)
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 (H1 08: £408m) including expenses.

Consolidated cash flow statement

For the six months ended 30 June 2009

	Notes	**30.06.09 £m**	30.06.08 £m	Full year 31.12.08 £m
Cash flows from operating activities				
Loss from ordinary activities after income tax		**(91)**	(27)	(1,130)
Adjustments for non cash movements in net loss for the period				
Realised and unrealised losses on financial investments and investment properties		**6,553**	22,801	48,376
Investment income		**(4,656)**	(5,304)	(10,086)
Interest expense		**148**	189	379
Income tax expense/(credit)		**17**	(357)	(1,023)
Other adjustments		**36**	38	77
Net (increase)/decrease in operational assets				
Investments designated as held for trading or fair value through profit or loss		**(7,763)**	167	2,161
Investments designated as available-for-sale		**(54)**	(44)	(93)
Other assets		**(711)**	(950)	(1,702)
Net increase/(decrease) in operational liabilities				
Insurance contracts		**858**	(579)	(1,479)
Transfer to unallocated divisible surplus		**(15)**	(305)	(798)
Investment contracts		**(728)**	(20,186)	(43,485)
Value of in-force non-participating contracts		**(97)**	20	105
Other liabilities		**2,905**	1,292	541
Cash used in operating activities		**(3,598)**	(3,245)	(8,157)
Interest paid		**(148)**	(196)	(377)
Interest received		**2,529**	2,609	5,214
Income tax received/(paid)		**91**	(165)	(208)
Dividends received		**2,096**	2,463	4,614
Net cash flows from operating activities		**970**	1,466	1,086
Cash flows from investing activities				
Net acquisition of plant and equipment		**(5)**	(10)	(14)
Acquisitions (net of cash acquired)	3.10	**-**	1,004	1,004
Capital injection into Gulf joint venture		**(8)**	-	-
Net cash flows from investing activities		**(13)**	994	990
Cash flows from financing activities				
Dividend distributions to equity holders of the Company during the year		**(120)**	(248)	(367)
Proceeds from issue of share capital		**-**	7	10
Purchase of employee scheme shares		**(2)**	(8)	(9)
Purchase of shares under share buyback programme		**-**	(408)	(523)
Proceeds from borrowings		**1,451**	983	3,568
Repayment of borrowings		**(1,768)**	(723)	(2,960)
Net cash flows from financing activities		**(439)**	(397)	(281)
Net increase in cash and cash equivalents		**518**	2,063	1,795
Exchange (losses)/gains on cash and cash equivalents		**(68)**	19	156
Cash and cash equivalents at 1 January		**10,688**	8,737	8,737
Cash and cash equivalents at 30 June / 31 December		**11,138**	10,819	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

3.01 Risk and Savings operating profit

(a) Risk operating profit

	30.06.09 £m	30.06.08 £m	Full year 31.12.08 £m
Non profit Risk[1]	**(141)**	86	(602)
General insurance	**6**	(4)	(2)
Other[2]	**7**	(7)	1
Total Risk operating (loss)/profit	**(128)**	75	(603)

1. The H1 09 Risk operating loss includes negative investment experience variances of £359m which primarily reflect the net effect of strengthening the credit default provision (£55m), the impact of action taken to sell a number of credits (£75m) and the impact on investment performance of the holdings in cash during a period when credit spreads have narrowed (£206m). FY 08 included £650m of additional reserves for non profit annuity credit default.
2. 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 £2m (H1 08 £1m; FY 08: £3m) allocated to the Risk business.

(b) Savings operating profit

	30.06.09 £m	30.06.08 £m	Full year 31.12.08 £m
Non profit Savings[1]	**(20)**	51	(20)
With-profits business[2]	**29**	60	107
	9	111	87
Core retail investments	**(1)**	2	-
Other[3]	**(13)**	(2)	(21)
Total Savings operating (loss)/profit	**(5)**	111	66

1. Non profit Savings businesses includes non profit investment bonds and non profit pensions (including SIPPs). The H1 08 Savings operating profit included one-off reserving benefits that have not been repeated in H1 09.
2. With-profits business operating profit is the shareholders' share of policyholder bonuses.
3. Other includes Suffolk Life, operations in Ireland, Nationwide Life Savings business and business unit costs of £2m (H1 08: £1m; FY 08: £3m), allocated to the Savings business.

(c) Analysis of net capital released from Risk and Savings non profit business

	Notes	30.06.09 £m	30.06.08 £m	Full year 31.12.08 £m
Non profit business operating (loss)/profit comprises:				
Operational cash generation		**238**	234	453
New business strain		**(31)**	(233)	(334)
Experience variances	3.01(d)	**(352)**	(23)	(315)
Changes to valuation assumptions	3.01(e)	**13**	(8)	(660)
Changes to FSA reporting and capital rules		**38**	-	-
Movements in non-cash items	3.01(f)	**25**	92	380
Other		**(46)**	36	31
		(115)	98	(445)
Tax gross-up		**(46)**	39	(177)
		(161)	137	(622)
Attributable to:				
Non profit Risk businesses		**(141)**	86	(602)
Non profit Savings businesses		**(20)**	51	(20)

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.

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 are eliminated from IFRS reporting and the corresponding reduction is reported through Other.

Notes to the Financial Statements

3.01 Risk and Savings operating profit (continued)

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

(d) Experience variances

	30.06.09 £m	30.06.08 £m	Full year 31.12.08 £m
Persistency	**(11)**	-	7
Mortality/morbidity	**(2)**	11	25
Expenses	**(24)**	5	11
BPA data loading	**35**	23	22
Project and development costs[1]	**(26)**	(29)	(95)
Investment[2]	**(351)**	24	(296)
Other	**27**	(57)	11
	(352)	(23)	(315)

1. Project and development costs of £26m (H1 08: £29m; FY 08: £95m) relate to continued investment in internal and other customer facing systems.
2. H1 09 includes £351m of negative investment variances which primarily reflect the net effect of strengthening the credit default provision (£55m), the impact of action taken to sell a number of credits (£75m) and the impact on investment performance of the holdings in cash during a period when credit spreads have narrowed (£206m). FY 08 included £296m of negative investment variances, of which more than half arose from the deferral of tax relief on expenses as a result of movements in investment markets and was fully offset by a movement in the deferred tax asset element of non cash items. The remainder related to the annuity business where the valuation basis was strengthened due to the reduction in gilt yields.

(e) Changes to valuation assumptions

	30.06.09 £m	30.06.08 £m	Full year 31.12.08 £m
Persistency	**-**	-	12
Mortality/morbidity	**-**	(4)	(26)
Expenses	**(1)**	(10)	(57)
Short term default allowance[1]	**-**	-	(650)
Other	**14**	6	61
	13	(8)	(660)

1. FY 08 included a £650m increase in the non profit annuity credit default reserve. The tax effect of the short term default allowance was included in the deferred tax element of non-cash items.

(f) Movement in non-cash items

	30.06.09 £m	30.06.08 £m	Full year 31.12.08 £m
Deferred tax	**9**	77	413
Deferred acquisition costs	**(4)**	33	20
Deferred income liabilities	**27**	(1)	30
Other	**(7)**	(17)	(83)
	25	92	380

Notes to the Financial Statements

3.02 Investment management operating profit

	30.06.09 £m	30.06.08 £m	Full year 31.12.08 £m
Managed pension funds	**55**	63	117
Private equity	**(1)**	-	(1)
Property	**1**	4	4
Other income[1]	**19**	27	52
Legal & General Investment Management	**74**	94	172
Institutional unit trusts[2]	**(4)**	(3)	(7)
Total Investment management operating profit	**70**	91	165

1. Other income includes £12m of profits arising from the provision of investment management services charged to the Group's Risk and Savings businesses (H1 08: £19m; FY 08: £35m).
2. Investment management operating profit excludes core retail investments, of £(1)m (H1 08: £2m; FY 08: £nil), which has been disclosed as part of Savings. The comparatives have been reclassified accordingly.

3.03 International operating profit

	30.06.09 £m	30.06.08 £m	Full year 31.12.08 £m
USA	**45**	30	39
Netherlands	**16**	8	6
France	**4**	10	14
Total International operating profit	**65**	48	59

Exchange rates are provided in Note 3.20.

3.04 Group capital and financing operating profit

	30.06.09 £m	30.06.08 Restated £m	Full year 31.12.08 Restated £m
Investment return[1,2]	**95**	164	298
Interest expense[2,3]	**(65)**	(70)	(145)
Investment expenses	**(2)**	(3)	(5)
Unallocated corporate expenses	**(3)**	(6)	(9)
Defined benefit pension scheme[4]	**4**	(19)	(15)
Total Group capital and financing operating profit	**29**	66	124

1. The longer term expected investment return of £95m (H1 08: £164m; FY 08: £298m) reflects an average return of 3% (H1 08: 3%; FY 08: 7%) on the average balance of invested assets held within Group capital and financing calculated on a quarterly basis. The invested assets held within Group capital and financing amounted to £2.7bn at 30 June 2009 (30 June 2008: £4.5bn; 31 December 2008: £3.9bn).
2. The smoothed investment return has been restated to exclude interest received on intra group balances of £26m at 30 June 2008 and £53m at 31 December 2008, with a corresponding reduction in interest expense.
3. Interest expense excludes interest on non-recourse financing (see note 3.14).
4. The defined benefit pension scheme income/(expense) includes the actuarial gains and losses arising on annuity assets held by the schemes that have been purchased from Legal & General Assurance Society Limited. Under IFRS, these annuity assets cannot be classified as plan assets in accordance with IAS 19 and so the associated actuarial gains and losses cannot be taken to the statement of comprehensive income (H1 09 income: £4m; H1 08 expense: £19m; FY 08 expense: £15m).

Notes to the Financial Statements

3.05 General insurance operating profit, underwriting result and combined operating ratios

(a) Operating profit

	30.06.09 £m	30.06.08 £m	Full year 31.12.08 £m
Household	**6**	(7)	(12)
Other business	**-**	3	10
	6	(4)	(2)

(b) Underwriting result

	30.06.09 £m	30.06.08 £m	Full year 31.12.08 £m
Household	**-**	(14)	(26)
Other business	**(1)**	3	8
	(1)	(11)	(18)

(c) Combined operating ratio

	30.06.09 %	30.06.08 %	Full year 31.12.08 %
Household	**98**	110	110
Other business	**103**	88	86
	99	107	108

The combined operating ratio is:

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

3.06 Variation from longer term investment return

	30.06.09 £m	30.06.08 £m	Full year 31.12.08 £m
General insurance	**(10)**	(11)	(29)
Investment management	**(1)**	(4)	7
Netherlands	**(10)**	(13)	4
Group capital and financing[1]	**(133)**	(394)	(1,221)
	(154)	(422)	(1,239)

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.

1. Comprises £(157)m (H1 08: £(425)m; FY 08: £(1,096)m) relating to Society shareholder capital and £24m (H1 08: £31m; FY 08: £(125)m) predominantly relating to the Group's treasury function.

Notes to the Financial Statements

3.07 Analysis of tax

	Profit/(loss) before tax 30.06.09 £m	**Tax (expense)/ credit 30.06.09 £m**	Profit/(loss) before tax 30.06.08 £m	Tax (expense)/ credit 30.06.08 £m	Profit/(loss) before tax Full year 31.12.08 £m	Tax (expense)/ credit Full year 31.12.08 £m
From continuing operations						
Risk	**(128)**	**37**	75	(22)	(603)	164
Savings	**(5)**	**1**	111	(28)	66	(7)
Investment management	**70**	**(19)**	91	(25)	165	(50)
International	**65**	**(21)**	48	(15)	59	(20)
Group capital and financing	**29**	**5**	66	(21)	124	(28)
Operating profit/(loss)	**31**	**3**	391	(111)	(189)	59
Variation from longer term investment return	**(154)**	**49**	(422)	128	(1,239)	302
Property losses attributable to minority interests	**(20)**	**-**	(13)	-	(63)	-
Loss from continuing operations before tax / Tax	**(143)**	**52**	(44)	17	(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 expenses in the operating profit income statement.

No deferred tax is provided at the incremental rate on the undeclared surplus of £456m (H1 08: £1,892m; FY 08: £527m) in Legal & General Assurance Society Limited's long term fund (LTF) represented by the Shareholder Retained Capital (SRC), on the grounds that, at the balance sheet date, no obligation to make a declaration of surplus actually exists and there is no expectation that such a declaration will occur. The maximum amount of incremental tax which would crystallise on such a declaration of surplus is estimated to be £nil (H1 08:£nil; FY 08: £nil).

At 30 June 2009 and at 31 December 2008, a partial provision is held for an issue which Legal & General Assurance Society Limited has been in dispute with HM Revenue & Customs, in relation to the application of certain tax legislation specific to life assurance companies for the years 1999 to 2006. The maximum exposure in relation to this issue is £230m plus interest (FY 08: £230m plus interest). In the 30 June 08 accounts, this issue was disclosed as a contingent liability.

Notes to the Financial Statements

3.08 Earnings per share

(a) Earnings per share

	Profit/(loss) before tax 30.06.09 £m	Tax (expense)/ credit 30.06.09 £m	Profit/(loss) after tax 30.06.09 £m	Earnings per share 30.06.09 p	Profit/(loss) before tax 30.06.08 £m	Tax (expense)/ credit 30.06.08 £m	Profit/(loss) after tax 30.06.08 £m	Earnings per share 30.06.08 p
Operating profit from continuing operations	**31**	**3**	**34**	**0.58**	391	(111)	280	4.61
Variation from longer term investment return	**(154)**	**49**	**(105)**	**(1.80)**	(422)	128	(294)	(4.84)
Earnings per share based on loss attributable to equity holders	**(123)**	**52**	**(71)**	**(1.22)**	(31)	17	(14)	(0.23)

	Loss before tax Full year 31.12.08 £m	Tax (expense)/ credit Full year 31.12.08 £m	Loss after tax Full year 31.12.08 £m	Earnings per share Full year 31.12.08 p
Operating loss from continuing operations	(189)	59	(130)	(2.18)
Variation from longer term investment return	(1,239)	302	(937)	(15.70)
Earnings per share based on loss attributable to equity holders	(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 30.06.09 £m	Number of shares[1] 30.06.09 m	Earnings per share 30.06.09 p	Profit after tax 30.06.08 £m	Number of shares[1] 30.06.08 m	Earnings per share 30.06.08 p
Operating profit from continuing operations after tax	**34**	**5,822**	**0.58**	280	6,073	4.61
Net shares under options allocable for no further consideration	**-**	**8**	**-**	-	22	(0.02)
Diluted earnings per share	**34**	**5,830**	**0.58**	280	6,095	4.59

	Loss after tax Full year 31.12.08 £m	Number of shares[1] Full year 31.12.08 m	Earnings per share Full year 31.12.08 p
Operating loss from continuing operations after tax	(130)	5,968	(2.18)
Net shares under options allocable for no further consideration	-	22	-
Diluted earnings per share	(130)	5,990	(2.18)

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

	Loss after tax 30.06.09 £m	Number of shares[1] 30.06.09 m	Earnings per share 30.06.09 p	Loss after tax 30.06.08 £m	Number of shares[1] 30.06.08 m	Earnings per share 30.06.08 p
Loss attributable to equity holders of the Company	**(71)**	**5,822**	**(1.22)**	(14)	6,073	(0.23)
Net shares under options allocable for no further consideration	**-**	**8**	**-**	-	22	-
Diluted earnings per share	**(71)**	**5,830**	**(1.22)**	(14)	6,095	(0.23)

	Loss after tax 31.12.08 £m	Number of shares[1] 31.12.08 m	Earnings per share 31.12.08 p
Loss attributable to equity holders of the Company	(1,067)	5,968	(17.88)
Net shares under options allocable for no further consideration[2]	-	22	-
Diluted earnings per share	(1,067)	5,990	(17.88)

The number of shares in issue at 30 June 2009 was 5,861,679,365 (30.06.08: 5,979,009,914; 31.12.08: 5,861,627,994).

1. Weighted average number of shares.
2. Net shares under options allocable for no further consideration are anti-dilutive and have therefore been excluded from the diluted earnings per share calculation.

Notes to the Financial Statements

3.09 Gross written premiums

	30.06.09 £m	30.06.08 £m	Full year 31.12.08 £m
From continuing operations			
Risk			
Non-participating Risk business	**1,953**	2,391	4,038
General insurance			
- Household	**123**	129	267
- Other business	**13**	13	29
Total Risk	**2,089**	2,533	4,334
Savings			
Non-participating Savings business	**21**	27	49
Participating business	**416**	249	551
Total Savings	**437**	276	600
International			
USA	**251**	182	397
Netherlands	**153**	158	278
France	**180**	152	286
Total International	**584**	492	961
Total gross written premiums	**3,110**	3,301	5,895

3.10 Acquisitions

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.

3.11 Financial investments

	At 30.06.09 £m	At 30.06.08 £m	At 31.12.08 £m
Equities	**109,015**	133,566	107,408
Unit trusts	**5,398**	4,716	5,456
Debt securities	**116,140**	107,501	112,013
Accrued interest	**1,446**	1,425	1,607
Derivative assets[1]	**3,823**	2,600	6,130
Loans and receivables	**1,949**	1,439	1,900
	237,771	251,247	234,514

1. Derivative assets include £2,068m (H1 08: £1,165m; FY 08: £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.

3.12 Ordinary shares

	Number of shares 30.06.09	Number of shares 30.06.08	Number of shares 31.12.08
As at 1 January	**5,861,627,994**	6,296,321,160	6,296,321,160
Shares cancelled under share buyback programme	**-**	(329,936,896)	(449,891,914)
Options exercised under share option schemes	**51,371**	12,625,650	15,198,748
As at 30 June / 31 December	**5,861,679,365**	5,979,009,914	5,861,627,994

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

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

Notes to the Financial Statements

3.13 Segmental analysis of shareholders' equity

	At 30.06.09 £m	At 30.06.08 £m	At 31.12.08 £m
Risk			
General insurance	**95**	98	99
Other	**(1)**	3	2
Total Risk	**94**	101	101
Savings			
Core retail investments	**57**	72	59
Other	**13**	14	14
Total Savings	**70**	86	73
Investment management	**369**	397	322
International			
USA	**858**	650	932
Netherlands	**124**	110	135
France	**171**	146	193
Emerging markets	**10**	2	12
Total International	**1,163**	908	1,272
Group capital and financing	**1,599**	3,183	1,820
Shareholders' equity	**3,295**	4,675	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, (set out in the Operating profit income statement). 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.

The Group considers additional performance measures in assessing the performance of the segments. These include new business levels (Notes 2.01-2.11) and EEV Reporting (Notes 4.01-4.16).

Notes to the Financial Statements

3.14 Analysis of borrowings

	At 30.06.09 £m	At 30.06.08 £m	At 31.12.08 £m
Subordinated borrowings			
6.385% Sterling perpetual capital securities	**659**	589	692
5.875% Sterling undated subordinated notes	**425**	427	426
4.0% Euro subordinated notes 2025	**468**	428	539
Total subordinated borrowings	**1,552**	1,444	1,657
Senior borrowings			
Sterling medium term notes 2031-2041	**602**	602	608
Euro commercial paper 2009	**428**	347	609
Bank loans 2009	**17**	54	160
Non-recourse financing			
- US Dollar Triple X securitisation 2025	**322**	266	369
- US Dollar Triple X securitisation 2037	**269**	223	308
- Sterling property partnership loans 2011	**97**	98	101
- Suffolk Life borrowings	**157**	152	159
- LGV 6 Private Equity Fund Limited Partnership	**41**	-	-
Total senior borrowings	**1,933**	1,742	2,314
Total borrowings	**3,485**	3,186	3,971
Total borrowings (excluding non-recourse financing)	**2,599**	2,447	3,034

At 30 June 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. Short term assets available at the holding company level exceeded the amount of short term borrowings of £445m (Euro Commercial Paper and Bank Loans).

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% per annum. 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% per annum. For regulatory purposes these securities are treated as innovative tier I 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% per annum. These notes are treated as upper tier II 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% per annum. These notes mature on 8 June 2025 and are treated as lower tier II capital for regulatory purposes.

Post balance sheet event

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% per annum. These notes mature on 23 July 2041 and are treated as lower tier II capital for regulatory purposes.

Non-recourse financing

US Dollar Triple X securitisation 2025

In 2004, a subsidiary of Legal & General America Inc issued US$550m of non-recourse debt in the US capital markets to meet the Triple X reserve requirements of part of the US term insurance written up to 2005. It is secured on the cash flows related to that tranche of business.

Notes to the Financial Statements
3.14 Analysis of borrowings (continued)

Non-recourse financing (continued)

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 borrowings

These borrowings relate solely to client investments.

LGV6 Private Equity Fund Limited Partnership

These borrowings are non-recourse bank borrowings.

3.15 Minority interests

Minority interests represent third party interests in property investment entities which are consolidated in the Group's results.

3.16 Value of policyholder assets held in Society and LGPL

	At 30.06.09 £bn	At 30.06.08 £bn	At 31.12.08 £bn
With-profits business	**23.2**	26.8	24.0
Non profit business	**32.0**	31.3	30.4
	55.2	58.1	54.4

Notes to the Financial Statements

3.17 Non-linked business and Society shareholder capital invested asset mix and investment return

As at 30 June 2009	Investment return %	With-profits asset share %	With-profits non par %	With-profits other %	Non profit %	Society shareholder capital %
Equities	**(1)**	**35**	**4**	**(56)**	**-**	**32**
Bonds	**1**	**44**	**86**	**137**	**94**	**31**
Property	**(10)**	**14**	**1**	**-**	**-**	**7**
Cash	**1**	**7**	**9**	**19**	**6**	**30**
		100	**100**	**100**	**100**	**100**
Investment return (% pa)	**-**	**(1)**	**-**	**(4)**	**3**	**(4)**
Invested assets (£bn) net of derivative liabilities		**12.1**	**2.2**	**1.8**	**20.3**	**2.2**
Invested assets (£bn) gross of derivative liabilities		**12.1**	**2.2**	**1.8**	**21.7**	**2.2**
As at 30 June 2008						
Equities	(10)	43	4	(41)	-	67
Bonds	(3)	37	80	131	98	14
Property	(6)	17	2	-	-	8
Cash	3	3	14	10	2	11
		100	100	100	100	100
Investment return (% pa)	(5)	(7)	(4)	1	(3)	(8)
Invested assets (£bn) net of derivative liabilities		14.8	2.3	1.7	18.2	3.7
Invested assets (£bn) gross of derivative liabilities		14.9	2.3	1.7	18.5	3.7
As at 31 December 2008						
Equities	(25)	39	3	(51)	-	43
Bonds	(5)	40	83	121	97	24
Property	(27)	16	1	-	-	6
Cash	4	5	13	30	3	27
		100	100	100	100	100
Investment return (% pa)	(11)	(18)	(2)	27	(7)	(23)
Invested assets (£bn) net of derivative liabilities		12.5	2.3	2.1	18.8	2.9
Invested assets (£bn) gross of derivative liabilities		12.6	2.3	2.1	20.6	2.9

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

At 30 June 2009, the percentage of Group capital invested in equities and property was 19% and 4% (FY 08: 25% and 4%) respectively. An analysis of Group capital can be found in Note 6.05.

Notes to the Financial Statements

3.18 Pension cost

The Legal & General Group UK Pension and Assurance Fund and the Legal & General Group UK Senior Pension Scheme are defined benefit pension arrangements and account for all UK and the majority of worldwide assets of, and contributions to, such arrangements. At 30 June 2009, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Society) has been estimated at £179m (H1 08: £135m; FY 08: £101m). These amounts have been recognised in the financial statements with £106m charged against shareholder equity (H1 08: £80m; FY 08: £59m) and £73m against unallocated divisible surplus (H1 08: £55m; FY 08: £42m).

3.19 Contingent liabilities, guarantees and indemnities

Provision for the liabilities arising under contracts with policyholders is based on certain assumptions. The variance of actual experience from that assumed may result in such liabilities differing from the provisions made for them. Liabilities may also arise in respect of claims relating to the interpretation of such contracts, or the circumstances in which policyholders have entered into them (together in this paragraph "liabilities"). The extent of such liabilities is influenced by a number of factors including the actions and requirements of the FSA, ombudsman rulings, industry compensation schemes and court judgments. The continuing general profile and emphasis being given by the FSA and other bodies to the suitability of the past sales of endowment policies, in the context of some mortgage transactions, has led to the continuing receipt of claims from holders of endowment policies.

Various Group companies receive claims and become involved in actual or threatened litigation and regulatory issues from time to time. Provision for liabilities continues to be made and is regularly reviewed. However, it is not possible to predict, with certainty, the extent and the timing of the financial impact to which these claims, litigation or issues may give rise to. The relevant members of the Group nevertheless ensure that each makes prudent provision, as and when circumstances calling for such provision become clear, and that each has adequate capital and reserves to meet all reasonably foreseeable eventualities.

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 operating activities or in relation to capital market transactions.

3.20 Foreign exchange rates

Period end exchange rates	**At 30.06.09**	At 30.06.08	At 31.12.08
United States Dollar	**1.65**	1.99	1.44
Euro	**1.17**	1.26	1.03

Average exchange rates	**01.01.09-30.06.09**	01.01.08-30.06.08	01.01.08-31.12.08
United States Dollar	**1.49**	1.97	1.85
Euro	**1.12**	1.29	1.26

European Embedded Value

Consolidated income statement

For the six months ended 30 June 2009

	Notes	30.06.09 £m	30.06.08 Restated[5,6] £m	Full year 31.12.08 £m
From continuing operations[1]				
Risk	4.01	**460**	267	439
Savings	4.01	**28**	87	50
Investment management	4.02	**58**	72	130
International	4.03	**87**	58	100
Group capital and financing[2]	4.04	**24**	105	151
Operating profit		**657**	589	870
Variation from longer term investment return[3]	4.07	**(1,019)**	(474)	(1,579)
Effect of economic assumption changes[4]	4.08	**(630)**	(12)	(609)
Property losses attributable to minority interests		**(20)**	(13)	(63)
(Loss)/profit from continuing operations before tax attributable to equity holders of the Company		**(1,012)**	90	(1,381)
Tax credit/(expense) on (loss)/profit from ordinary activities	4.10	**292**	(17)	327
Tax impact of corporate restructure		**-**	-	81
(Loss)/profit from ordinary activities after tax		**(720)**	73	(973)
Loss attributable to minority interests	3.15	**20**	13	63
(Loss)/profit attributable to equity holders of the Company		**(700)**	86	(910)

		p	Restated p	p
Earnings per share	4.11			
Based on operating profit from continuing operations after tax attributable to equity holders of the Company		**8.28**	6.87	10.66
Based on (loss)/profit attributable to equity holders of the Company		**(12.02)**	1.42	(15.25)
Diluted earnings per share	4.11			
Based on operating profit from continuing operations after tax attributable to equity holders of the Company		**8.27**	6.84	10.62
Based on (loss)/profit attributable to equity holders of the Company		**(12.02)**	1.41	(15.25)

1. IFRS 8 segmentation was adopted for 2008 year end reporting to further improve shareholders' understanding of the Group's performance. The H1 08 comparatives have been reclassified to reflect these changes.

2. Group capital and financing includes 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.

3. The H1 09 variation from longer term investment return includes a £(511)m variance reflecting the EEV impact of asset allocation decisions made during the period. Of this amount, £(335)m is the EEV impact of swap transactions undertaken to improve the IFRS matching of annuity business which reduced the assumed future yield on the annuity assets for EEV purposes, £(96)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 £(80)m is the EEV impact of holding additional cash balances, largely to back the short term default provision. The remaining amount reflects the EEV impact of investment performance relative to assumptions, including £(228)m due to the impact of action taken to sell a number of credits and the impact on investment performance of the holdings in cash during a period when credit spreads have narrowed, £(117)m for Group capital and financing and £(103)m for with-profit business.

4. H1 09 economic assumption changes include £(221)m relating to the increase in the UK risk discount rate in the first half of 2009 from 8.3% to 8.8%, £(129)m reflecting the increase in the US risk discount rate from 6.8% to 8.0% and £(119)m as a result of the higher cost of capital on increased annuity reserves. In addition, further increases in the realistic and statutory long term default provisions for the assets backing annuity business had an EEV impact of £(179)m. FY 08 economic assumption changes includes £(361)m relating to the 0.8% increase in the UK risk discount rate from 7.5% to 8.3% during the period. It also includes £(272)m to reflect the in-force element of an additional reserve for non profit annuity credit default.

5. A contingent loan has been advanced within the Group to finance the non profit pensions and annuity business subject to an internal reinsurance arrangement. From FY 08 the loan asset has been treated as part of the value of in-force business in order to directly offset the liability. Previously the loan asset had been included in free surplus, and the expected return on the loan included in contribution from shareholder net worth. H1 08 comparatives have been restated accordingly.

6. From FY 08 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. Investment management operating profit excludes £12m (H1 08: £19m; FY 08: £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 Risk, Savings and Group capital and financing covered business on an EEV basis. H1 08 comparatives have been restated accordingly. This change has reduced H1 08 operating profit before tax by £37m, shareholders' equity by £323m and increased profit after tax by £17m.

Consolidated statement of comprehensive income

For the six months ended 30 June 2009

	30.06.09 £m	30.06.08 Restated £m	Full year 31.12.08 £m
(Loss)/profit from ordinary activities after tax	**(720)**	73	(973)
Other comprehensive income, after tax			
Exchange differences on translation of overseas operations	**(93)**	19	196
Actuarial (losses)/gains on defined benefit pension schemes	**(52)**	12	12
Actuarial losses/(gains) on defined benefit pension schemes transferred to unallocated divisible surplus	**36**	(8)	(8)
Total comprehensive (expense)/income	**(829)**	96	(773)
Total comprehensive (expense)/income attributable to:			
Minority interests	**(20)**	(13)	(63)
Equity holders of the Company	**(809)**	109	(710)

Consolidated balance sheet

As at 30 June 2009

	Notes	At 30.06.09 £m	At 30.06.08 Restated £m	At 31.12.08 £m
Assets				
Investments		**252,431**	267,674	249,185
Long term in-force business asset		**2,466**	3,008	3,160
Other assets		**7,671**	6,567	7,315
		262,568	277,249	259,660
Equity and liabilities				
Shareholders' equity	4.13/4.14	**5,556**	7,458	6,521
Minority interests	3.15	**149**	175	144
Total equity		**5,705**	7,633	6,665
Subordinated borrowings	3.14	**1,552**	1,444	1,657
Unallocated divisible surplus		**902**	1,411	913
Participating contract liabilities		**15,302**	17,230	16,205
Non-participating contract liabilities		**227,752**	241,284	222,539
Senior borrowings	3.14	**1,933**	1,742	2,314
Other liabilities and provisions		**9,422**	6,505	9,367
		262,568	277,249	259,660

Notes to the Financial Statements

4.01 (Loss)/profit from ordinary activities after tax

For the six months ended 30 June 2009	Notes	Risk and Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Business reported on an EEV basis:						
Contribution from new business after cost of capital		**185**		**11**		**196**
Contribution from in-force business:						
- expected return[1]		**244**		**60**		**304**
- experience variances	4.05	**114**		**3**		**117**
- operating assumption changes	4.06	**(37)**		**5**		**(32)**
Development costs		**(18)**		**-**		**(18)**
Contribution from shareholder net worth[2]				**8**	**61**	**69**
Operating profit on covered business		**488**	**-**	**87**	**61**	**636**
Business reported on an IFRS basis:						
General insurance	3.05	**6**				**6**
Core retail investments		**(1)**				**(1)**
Investment management[3]	4.02		**58**			**58**
Group capital and financing	4.04				**(37)**	**(37)**
Other[4]		**(5)**				**(5)**
Total operating profit		**488**	**58**	**87**	**24**	**657**
Variation from longer term investment return	4.07	**(885)**	**(1)**	**(16)**	**(117)**	**(1,019)**
Effect of economic assumption changes	4.08	**(515)**	**-**	**(112)**	**(3)**	**(630)**
Property losses attributable to minority interests		**-**	**-**	**-**	**(20)**	**(20)**
(Loss)/profit from continuing operations before tax		**(912)**	**57**	**(41)**	**(116)**	**(1,012)**
Tax credit/(expense) on (loss)/profit from ordinary activities		**254**	**(16)**	**15**	**39**	**292**
(Loss)/profit from ordinary activities after tax		**(658)**	**41**	**(26)**	**(77)**	**(720)**
Operating profit attributable to:						
Risk		**460**				
Savings		**28**				

1. The expected return on in-force is based on the unwind of the 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 £41m to give an adjusted opening base VIF of £4,309m. This is then multiplied by the opening risk discount rate of 8.3% for half a year and the result grossed up at the notional attributed tax rate of 28% to give a return of £244m.

2. The H1 09 Group capital and financing contribution from shareholder net worth (SNW) of £61m comprises of the average return of 3% on the average balance of invested assets of £2.2bn (£65m) and an adjustment for opening tax and other modelling changes of £1m, less pre-tax corporate expenses charged to shareholders' funds of £(5)m.

3. H1 09 Investment management operating profit excludes £12m (H1 08: £19m; FY 08: £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 Nationwide Life, 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.

Notes to the Financial Statements

4.01 (Loss)/profit from ordinary activities after tax (continued)

For the six months ended 30 June 2008	Notes	Risk and Savings Restated £m	Investment management Restated £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		178		16		194
Contribution from in-force business:						
- expected return		180		47		227
- experience variances	4.05	-		(13)		(13)
- operating assumption changes	4.06	18		-		18
Development costs		(22)		-		(22)
Contribution from shareholder net worth				8	152	160
Operating profit on covered business		354	-	58	152	564
Business reported on an IFRS basis:						
General insurance	3.05	(4)				(4)
Core retail investments		2				2
Investment management[1]	4.02		72			72
Group capital and financing	4.04				(47)	(47)
Other[2]		2				2
Total operating profit		354	72	58	105	589
Variation from longer term investment return	4.07	13	(4)	(48)	(435)	(474)
Effect of economic assumption changes	4.08	-	-	(16)	4	(12)
Property losses attributable to minority interests		-	-	-	(13)	(13)
Profit/(loss) from continuing operations before tax		367	68	(6)	(339)	90
Tax (expense)/credit on profit/(loss) from ordinary activities		(99)	(19)	3	98	(17)
Profit/(loss) from ordinary activities after tax		268	49	(3)	(241)	73

Operating profit attributable to:	
Risk	267
Savings	87

1. H1 09 Investment management operating profit excludes £12m (H1 08: £19m; FY 08: £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 Nationwide Life, 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.

Notes to the Financial Statements

4.01 (Loss)/profit from ordinary activities after tax (continued)

For the year ended 31 December 2008	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		265		32		297
Contribution from in-force business:						
- expected return		370		100		470
- experience variances	4.05	12		(34)		(22)
- operating assumption changes	4.06	(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	3.05	(2)				(2)
Core retail investments		-				-
Investment management[1]	4.02		130			130
Group capital and financing	4.04				(105)	(105)
Other[2]		(5)				(5)
Total operating profit		489	130	100	151	870
Variation from longer term investment return	4.07	(175)	7	(110)	(1,301)	(1,579)
Effect of economic assumption changes	4.08	(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 (loss)/profit from ordinary activities		54	(42)	37	278	327
Tax impact of corporate restructure[3]		53	-	-	28	81
(Loss)/profit from ordinary activities after tax		(84)	95	(83)	(901)	(973)
Operating profit attributable to:						
Risk		439				
Savings		50				

1. H1 09 Investment management operating profit excludes £12m (H1 08: £19m; FY 08: £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 Nationwide Life, 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 Society's 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

4.02 Investment management operating profit

	30.06.09 £m	30.06.08 Restated £m	Full year 31.12.08 £m
Managed pension funds[1]	**55**	63	117
Private equity	**(1)**	-	(1)
Property	**1**	4	4
Other income[2]	**7**	8	17
Legal & General Investment Management	**62**	75	137
Institutional unit trusts[3]	**(4)**	(3)	(7)
Total Investment management operating profit	**58**	72	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. H1 08 comparatives have been restated accordingly.

2. Other income excludes £12m (H1 08: £19m; FY 08: £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 £(1)m (H1 08: £2m; FY 08: £nil), which has been disclosed as part of Savings. The H1 08 comparatives have been reclassified accordingly.

4.03 International operating profit

	30.06.09 £m	30.06.08 £m	Full year 31.12.08 £m
USA	**58**	26	70
Netherlands	**9**	17	8
France	**20**	15	22
Total International operating profit	**87**	58	100

4.04 Group capital and financing operating profit[1]

	30.06.09 £m	30.06.08 Restated £m	Full year 31.12.08 £m
Business reported on an EEV basis	**61**	152	256
Business reported on an IFRS basis:			
Investment return	**30**	29	47
Interest expense[2]	**(65)**	(66)	(138)
Unallocated corporate expenses	**(3)**	(6)	(9)
Defined benefit pension scheme[3]	**1**	(4)	(5)
	(37)	(47)	(105)
Total Group capital and financing operating profit	**24**	105	151

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 3.14).

3. The defined benefit pension scheme income/(expense) includes the actuarial gains and losses arising on annuity assets held by the schemes that have been purchased from Legal & General Assurance Society Limited relating to the non-covered business. Under IFRS, these annuity assets cannot be classified as plan assets in accordance with IAS 19 and so the associated actuarial gains and losses cannot be taken to the statement of comprehensive income.

Notes to the Financial Statements

4.05 Analysis of experience variances

For the six months ended 30 June 2009	Risk and Savings £m	International £m	Total £m
Persistency	**(4)**	**1**	**(3)**
Mortality/morbidity	**5**	**4**	**9**
Expenses	**(5)**	**(1)**	**(6)**
Other	**118**	**(1)**	**117**
	114	**3**	**117**

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

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

For the six months ended 30 June 2008	Risk and Savings Restated £m	International £m	Total Restated £m
Persistency	3	1	4
Mortality/morbidity	11	(1)	10
Expenses	(3)	(1)	(4)
Other	(11)	(12)	(23)
	-	(13)	(13)

For the year ended 31 December 2008	Risk and Savings £m	International £m	Total £m
Persistency	(12)	(5)	(17)
Mortality/morbidity	27	(12)	15
Expenses	(9)	1	(8)
Other	6	(18)	(12)
	12	(34)	(22)

Notes to the Financial Statements

4.06 Analysis of operating assumption changes

For the six months ended 30 June 2009	Risk and Savings £m	Inter-national £m	Total £m
Persistency	**(1)**	**-**	**(1)**
Mortality/morbidity	**-**	**6**	**6**
Expenses	**(31)**	**(4)**	**(35)**
Other	**(5)**	**3**	**(2)**
	(37)	**5**	**(32)**

Full experience investigations are not undertaken at the half-year. A conservative approach is taken when revising any future operating assumptions.

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

For the six months ended 30 June 2008	Risk and Savings £m	Inter-national £m	Total £m
Persistency	(14)	-	(14)
Mortality/morbidity	-	-	-
Expenses	43	-	43
Other	(11)	-	(11)
	18	-	18

Risk and Savings expense assumption changes primarily reflect unit cost efficiencies in the individual protection business.

For the year ended 31 December 2008	Risk and Savings £m	Inter-national £m	Total £m
Persistency	(114)	(2)	(116)
Mortality/morbidity	(49)	8	(41)
Expenses	35	(9)	26
Other	28	(12)	16
	(100)	(15)	(115)

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

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.

4.07 Variation from longer term investment return

	30.06.09 £m	30.06.08 Restated £m	Full year 31.12.08 £m
Business reported on an EEV basis:			
Risk and Savings[1]	**(875)**	24	(146)
International	**(16)**	(48)	(110)
Group capital and financing	**(141)**	(466)	(1,176)
	(1,032)	(490)	(1,432)
Business reported on an IFRS basis:			
General insurance	**(10)**	(11)	(29)
Investment management	**(1)**	(4)	7
Group capital and financing	**24**	31	(125)
	(1,019)	(474)	(1,579)

1. Risk and Savings H1 09 variation from longer term investment return includes a £(511)m variance reflecting the EEV impact of asset allocation decisions made during the period. Of this amount, £(335)m is the EEV impact of swap transactions undertaken to improve the IFRS matching of annuity business which reduced the assumed future yield on the annuity assets for EEV purposes, £(96)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 £(80)m is the EEV impact of holding additional cash balances, largely to back the short term default provision.
The remaining amount reflects the EEV impact of investment performance relative to assumptions, including £(228)m due to the impact of action taken to sell a number of credits and the impact on investment performance of the holdings in cash during a period when credit spreads have narrowed and £(103)m for with-profit business.

Notes to the Financial Statements

4.08 Effect of economic assumption changes

	30.06.09 £m	30.06.08 Restated £m	Full year 31.12.08 £m
Business reported on an EEV basis:			
Risk and Savings[1]	**(515)**	-	(505)
International	**(112)**	(16)	(110)
Group capital and financing	**(3)**	4	6
	(630)	(12)	(609)

1. H1 09 economic assumption changes include £(221)m relating to the increase in the UK risk discount rate in the first half of 2009 from 8.3% to 8.8%, £(129)m reflecting the increase in the US risk discount rate from 6.8% to 8.0% and £(119)m as a result of the higher cost of capital on increased annuity reserves. In addition, further increases in the realistic and statutory long term default provisions for the assets backing annuity business had an EEV impact of £(179)m. FY 08 economic assumption changes includes £(361)m relating to the 0.8% increase in the UK risk discount rate from 7.5% to 8.3% during the period. It also includes £(272)m to reflect the in-force element of an additional reserve for non profit annuity credit default.

4.09 Time value of options and guarantees

	30.06.09 £m	30.06.08 £m	Full year 31.12.08 £m
Risk and Savings[1]	**27**	1	46
International	**12**	11	13
	39	12	59

1. Includes £23m (H1 08: £1m; FY 08: £21m) relating to the cost of guarantees on UK with-profits business, and £4m (H1 08: £nil; FY 08: £25m) relating to UK non profit business, due to the allowance for negative inflation within the annuity business.

4.10 Tax

	Profit/(loss) before tax 30.06.09 £m	Tax (expense)/ credit 30.06.09 £m	Profit/(loss) before tax 30.06.08 Restated £m	Tax (expense)/ credit 30.06.08 Restated £m	Profit/(loss) before tax Full year 31.12.08 £m	Tax (expense)/ credit Full year 31.12.08 £m
From continuing operations						
Risk	**460**	**(129)**	267	(74)	439	(125)
Savings	**28**	**(8)**	87	(21)	50	(11)
Investment management	**58**	**(16)**	72	(20)	130	(40)
International	**87**	**(29)**	58	(18)	100	(35)
Group capital and financing	**24**	**7**	105	(39)	151	(23)
Operating profit	**657**	**(175)**	589	(172)	870	(234)
Variation from longer term investment return	**(1,019)**	**282**	(474)	150	(1,579)	385
Effect of economic assumption changes	**(630)**	**185**	(12)	5	(609)	176
Property losses attributable to minority interests	**(20)**	**-**	(13)	-	(63)	-
(Loss)/profit from continuing operations before tax / Tax	**(1,012)**	**292**	90	(17)	(1,381)	327

Notes to the Financial Statements

4.11 Earnings per share

(a) Earnings per share

	Profit/(loss) before tax 30.06.09 £m	Tax (expense)/ credit 30.06.09 £m	Profit/(loss) after tax 30.06.09 £m	Per share 30.06.09 p	Profit/(loss) before tax 30.06.08 Restated £m	Tax (expense)/ credit 30.06.08 Restated £m	Profit/(loss) after tax 30.06.08 Restated £m	Per share 30.06.08 Restated p
Operating profit from continuing operations	**657**	**(175)**	**482**	**8.28**	589	(172)	417	6.87
Variation from longer term investment return	**(1,019)**	**282**	**(737)**	**(12.66)**	(474)	150	(324)	(5.33)
Effect of economic assumption changes	**(630)**	**185**	**(445)**	**(7.64)**	(12)	5	(7)	(0.12)
Earnings per share based on (loss)/profit attributable to equity holders	**(992)**	**292**	**(700)**	**(12.02)**	103	(17)	86	1.42

	Profit/(loss) before tax Full year 31.12.08 £m	Tax (expense)/ credit Full year 31.12.08 £m	Profit/(loss) after tax Full year 31.12.08 £m	Per share Full year 31.12.08 p
Operating profit from continuing operations	870	(234)	636	10.66
Variation from longer term investment return	(1,579)	385	(1,194)	(20.01)
Effect of economic assumption changes	(609)	176	(433)	(7.26)
Tax impact of corporate restructure	-	81	81	1.36
Earnings per share based on loss attributable to equity holders	(1,318)	408	(910)	(15.25)

(b) Diluted earnings per share

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

	Profit after tax 30.06.09 £m	Number of shares[1] 30.06.09 m	Per share 30.06.09 p	Profit after tax 30.06.08 Restated £m	Number of shares[1] 30.06.08 m	Per share 30.06.08 Restated p
Operating profit from continuing operations after tax	**482**	**5,822**	**8.28**	417	6,073	6.87
Net shares under options allocable for no further consideration	**-**	**8**	**(0.01)**	-	22	(0.03)
Diluted earnings per share	**482**	**5,830**	**8.27**	417	6,095	6.84

	Profit after tax Full year 31.12.08 £m	Number of shares[1] Full year 31.12.08 m	Per share Full year 31.12.08 p
Operating profit from continuing operations after tax	636	5,968	10.66
Net shares under options allocable for no further consideration	-	22	(0.04)
Diluted earnings per share	636	5,990	10.62

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

	Loss after tax 30.06.09 £m	Number of shares[1] 30.06.09 m	Per share 30.06.09 p	Profit after tax 30.06.08 Restated £m	Number of shares[1] 30.06.08 m	Per share 30.06.08 Restated p
(Loss)/profit attributable to equity holders of the Company	**(700)**	**5,822**	**(12.02)**	86	6,073	1.42
Net shares under options allocable for no further consideration[2]	**-**	**8**	**-**	-	22	(0.01)
Diluted earnings per share	**(700)**	**5,830**	**(12.02)**	86	6,095	1.41

	Loss after tax Full year 31.12.08 £m	Number of shares[1] Full year 31.12.08 m	Per share Full year 31.12.08 p
Loss attributable to equity holders of the Company	(910)	5,968	(15.25)
Net shares under options allocable for no further consideration[2]	-	22	-
Diluted earnings per share	(910)	5,990	(15.25)

The number of shares in issue at 30 June 2009 was 5,861,679,365 (30.06.08: 5,979,009,914; 31.12.08: 5,861,627,994).

1. Weighted average number of shares.
2. For H1 09 and FY 08 net shares under options allocable for no further consideration are anti-dilutive and have therefore been excluded from the diluted earnings per share calculation.

Notes to the Financial Statements

4.12 Group embedded value reconciliation

For the six months ended 30 June 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	-	-	-	-	(177)	84	(93)
	509	1,369	4,268	6,146	1,286	(1,004)	6,428
Operating profit for the period:							
- New business contribution[1]	(119)	95	157	133			
- Expected return on VIF	-	-	175	175			
- Expected transfer from Non profit VIF to SNW[2]	304	(61)	(243)	-			
- With-profits transfer	21	-	(21)	-			
- Experience variances	(54)	(4)	133	75			
- Operating assumption changes	49	4	(75)	(22)			
- Development costs	(13)	-	-	(13)			
- Expected return on SNW	20	25	-	45			
Operating profit	208	59	126	393	58	31	482
Non-operating (loss)/profit:							
- Investment variances	(588)	(4)	(144)	(736)			
- Economic assumption changes	123	24	(521)	(374)			
Non-operating (loss)/profit for the period	(465)	20	(665)	(1,110)	(84)	(8)	(1,202)
(Loss)/profit for the period[3]	(257)	79	(539)	(717)	(26)	23	(720)
Intra-group dividends	-	-	-	-	(2)	2	-
Dividends to equity holders of the Company	-	-	-	-	-	(120)	(120)
Net movements in employee share schemes	-	-	-	-	-	6	6
Loss attributable to minority interests	-	-	-	-	-	20	20
Transfer to non-covered business[4]	(8)	-	-	(8)	-	8	-
Other reserve movements including pension deficit	(36)	-	(6)	(42)	-	(16)	(58)
Embedded value	208	1,448	3,723	5,379	1,258	(1,081)	5,556
Represented by:							
Non profit			3,386				
With-profits			337				
Value of in-force business	-	-	3,723	3,723	935	-	4,658
Shareholder net worth	208	1,448	-	1,656	323	(1,081)	898

1. The free surplus reduction of £119m to finance new business includes £31m IFRS new business strain (note 3.01 (c)) and £95m additional required capital. Other items have a net positive impact of £7m.

2. The increase in free surplus of £304m from the expected return on the in-force non profit business includes £238m of IFRS operational cash generation (note 3.01 (c)) and a £61m reduction in required capital. Other items have a net positive impact of £5m.

3. Included in the loss for the period is a non profit inter-fund transfer from free surplus to VIF of £127m.

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

Notes to the Financial Statements

4.12 Group embedded value reconciliation (continued)

For the six months ended 30 June 2008	Covered business: UK free surplus Restated £m	Covered business: UK required capital Restated £m	Covered business: UK value of in-force Restated £m	Covered business: Total UK Restated £m	Covered business: International £m	Non-covered business £m	Total £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	-	-	-	-	34	(15)	19
Opening adjustment	27	-	(27)	-	-	-	-
	2,666	1,198	3,433	7,297	1,140	(290)	8,147
Operating profit for the period:							
- New business contribution	(304)	98	334	128			
- Expected return on VIF	-	-	130	130			
- Expected transfer from Non profit VIF to SNW	264	(47)	(217)	-			
- With-profits transfer	43	-	(43)	-			
- Experience variances	(10)	(11)	38	17			
- Operating assumption changes	(13)	4	19	10			
- Development costs	(16)	-	-	(16)			
- Expected return on SNW	69	16	-	85			
Operating profit	33	60	261	354	40	23	417
Non-operating (loss)/profit:							
- Investment variances	(375)	(5)	79	(301)			
- Economic assumption changes	37	-	(34)	3			
Non-operating (loss)/profit for the period	(338)	(5)	45	(298)	(43)	(3)	(344)
(Loss)/profit for the period[1]	(305)	55	306	56	(3)	20	73
Capital movements[2]	(252)	-	-	(252)	-	(63)	(315)
Embedded value of business acquired[3]	71	85	143	299	-	-	299
Intra-group dividends	-	-	-	-	(3)	3	-
Dividends to equity holders of the Company	-	-	-	-	-	(248)	(248)
Issue of share capital	-	-	-	-	-	7	7
Share buyback	-	-	-	-	-	(508)	(508)
Net movements in employee share schemes	-	-	-	-	-	(9)	(9)
Loss attributable to minority interests	-	-	-	-	-	13	13
Transfer to non-covered business[4]	(14)	-	-	(14)	-	14	-
Other reserve movements including pension deficit	(2)	-	-	(2)	-	1	(1)
Embedded value	2,164	1,338	3,882	7,384	1,134	(1,060)	7,458
Represented by:							
Non profit			3,201				
With-profits			681				
Value of in-force business	-	-	3,882	3,882	838	-	4,720
Shareholder net worth	2,164	1,338	-	3,502	296	(1,060)	2,738

1. Included in the profit for the period is a non profit inter-fund transfer from free surplus to VIF of £44m.

2. Capital movements comprise the £252m cost of acquiring Nationwide Life by the UK SNW and the £63m cost of acquiring Suffolk Life by the non-covered business element of Group capital and financing.

3. The embedded value of business acquired on the date of acquisition comprises £235m from the acquisition of Nationwide Life on 31 January 2008 and £64m from the acquisition of Suffolk Life on 6 May 2008.

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

Notes to the Financial Statements

4.12 Group embedded value reconciliation (continued)

For the year ended 31 December 2008	Covered business UK free surplus £m	Covered business UK required capital £m	Covered business UK value of in-force £m	Covered business Total UK £m	Covered business International £m	Non-covered business £m	Total £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 period:							
- 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	23	636
Non-operating (loss)/profit:							
- 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 for the period	(1,595)	(86)	417	(1,264)	(148)	(197)	(1,609)
(Loss)/profit for the period[2]	(1,503)	86	701	(716)	(83)	(174)	(973)
Capital movements[3]	(260)	-	-	(260)	60	(115)	(315)
Embedded value of business acquired	71	85	143	299	-	-	299
Intra-group dividends	(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[4]	(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 (note 3.01 (c)) and £232m additional required capital. Other items have a net positive impact of £6m.

2. Included in the loss for the period is a non profit inter-fund transfer from free surplus to VIF of £710m.

3. 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.

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

Notes to the Financial Statements

4.13 Analysis of shareholders' equity

As at 30 June 2009	Risk and Savings £m	Investment management £m	International £m	Group capital and financing £m	Total £m
Analysed as:					
IFRS basis shareholders' equity[1]	**164**	**369**	**1,163**	**1,599**	**3,295**
Additional retained profit/(loss) on an EEV basis	**3,723**	**-**	**105**	**(1,567)**	**2,261**
Shareholders' equity on an EEV basis	**3,887**	**369**	**1,268**	**32**	**5,556**
Comprising:					
Business reported on an IFRS basis	**164**	**369**	**10**	**(1,624)**	**(1,081)**
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus[2]			**84**	**208**	**292**
- Required capital to cover solvency margin			**239**	**1,448**	**1,687**
Value of in-force					
- Value of in-force business	**4,128**		**1,028**		**5,156**
- Cost of capital[3]	**(405)**		**(93)**		**(498)**

As at 30 June 2008	Risk and Savings £m	Investment management Restated £m	International £m	Group capital and financing £m	Total Restated £m
Analysed as:					
IFRS basis shareholders' equity[1]	187	397	908	3,183	4,675
Additional retained profit/(loss) on an EEV basis	3,882	-	228	(1,327)	2,783
Shareholders' equity on an EEV basis	4,069	397	1,136	1,856	7,458
Comprising:					
Business reported on an IFRS basis	187	397	2	(1,646)	(1,060)
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus[2]			95	2,164	2,259
- Required capital to cover solvency margin			201	1,338	1,539
Value of in-force					
- Value of in-force business	4,002		903		4,905
- Cost of capital[3]	(120)		(65)		(185)

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[3]	(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.

3. For H1 09 the cost of capital reflects a risk margin of 4.5% (H1 08: 3.0%; FY 08: 4.5%) in the risk discount rate and an equity backing ratio for the assets backing the solvency capital of 41% (H1 08: 77%; FY 08: 55%).

Further analysis of shareholders' equity is included in Note 4.14.

Notes to the Financial Statements

4.14 Segmental analysis of shareholders' equity

	Covered business EEV basis At 30.06.09 £m	**Other business IFRS basis At 30.06.09 £m**	**Total At 30.06.09 £m**	Covered business EEV basis At 30.06.08 Restated £m	Other business IFRS basis At 30.06.08 Restated £m	Total At 30.06.08 Restated £m
Risk						
- Risk reported on an EEV basis	**2,688**	**-**	**2,688**	2,327	-	2,327
- General insurance	**-**	**95**	**95**	-	98	98
- Other	**-**	**(1)**	**(1)**	-	3	3
Total Risk	**2,688**	**94**	**2,782**	2,327	101	2,428
Savings						
- Savings reported on an EEV basis	**1,035**	**-**	**1,035**	1,555	-	1,555
- Core retail investments	**-**	**57**	**57**	-	72	72
- Other	**-**	**13**	**13**	-	14	14
Total Savings	**1,035**	**70**	**1,105**	1,555	86	1,641
Investment management	**-**	**369**	**369**	-	397	397
International						
- USA	**777**	**-**	**777**	647	-	647
- Netherlands	**278**	**-**	**278**	291	-	291
- France	**203**	**-**	**203**	196	-	196
- Emerging markets	**-**	**10**	**10**	-	2	2
Total International	**1,258**	**10**	**1,268**	1,134	2	1,136
Group capital and financing	**1,656**	**(1,624)**	**32**	3,502	(1,646)	1,856
	6,637	**(1,081)**	**5,556**	8,518	(1,060)	7,458

	Covered business EEV basis At 31.12.08 £m	Other business IFRS basis At 31.12.08 £m	Total At 31.12.08 £m
Risk			
- Risk reported on an EEV basis	3,138	-	3,138
- General insurance	-	99	99
- Other	-	2	2
Total Risk	3,138	101	3,239
Savings			
- Savings reported on an EEV basis	1,130	-	1,130
- Core retail investments	-	59	59
- Other	-	14	14
Total Savings	1,130	73	1,203
Investment management	-	322	322
International			
- USA	937	-	937
- Netherlands	305	-	305
- France	221	-	221
- Emerging markets	-	12	12
Total International	1,463	12	1,475
Group capital and financing	1,878	(1,596)	282
	7,609	(1,088)	6,521

Notes to the Financial Statements

4.15 Reconciliation of shareholder net worth

	UK covered business At 30.06.09 £m	**Total At 30.06.09 £m**	UK covered business At 30.06.08 Restated £m	Total At 30.06.08 Restated £m	UK covered business At 31.12.08 £m	Total At 31.12.08 £m
SNW of long term operations (IFRS basis)	**3,223**	**4,376**	4,829	5,735	3,415	4,676
Other liabilities (IFRS basis)	**-**	**(1,081)**	-	(1,060)	-	(1,088)
Shareholders' equity on the IFRS basis	**3,223**	**3,295**	4,829	4,675	3,415	3,588
Purchased interests in long term business	**(161)**	**(183)**	(183)	(198)	(171)	(202)
Deferred acquisition costs/deferred income liabilities	**(246)**	**(1,089)**	(221)	(871)	(233)	(1,160)
Contingent loan[1]	**(692)**	**(692)**	(670)	(670)	(786)	(786)
Deferred tax[2]	**(391)**	**(112)**	(467)	(257)	(354)	(51)
Other[3]	**(77)**	**(321)**	214	59	7	(195)
Shareholder net worth on the EEV basis	**1,656**	**898**	3,502	2,738	1,878	1,194

1. On an EEV basis the contingent loan advanced within the Group to finance non profit pensions and annuity business subject to an internal reinsurance arrangement 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 annuities and non profit pensions results under EEV compared with IFRS. Total business also includes the different treatment of the US Triple X securitisations on an EEV and IFRS basis.

4.16 Assumptions

UK assumptions

The assumed future pre-tax returns on fixed interest and RPI linked securities are set by reference to redemption yields available in the market at the end of the reporting period.

For annuities, separate returns are calculated for new and existing business. This reflects a change in investment policy applicable to the 2007 and later business, which has the aim of increasing the expected return whilst not increasing the level of asset risk compared with the historic policy. This has been achieved through improved investment efficiency and increased diversification through use of additional asset classes. The calculated return takes account of derivatives and other credit instruments in the investment portfolio. From the second half of 2007, the revised strategy was also applied to the assets backing the in-force annuity business.

Where interest rate swaps are used to reduce risk, it is assumed that these swaps will be sold before expiry and the proceeds reinvested in corporate bonds with a redemption yield 0.70% p.a. (0.70% p.a. at 30.06.08 and 0.70% at 31.12.08) greater than the swap rate at that time.

The returns on fixed and index-linked securities are calculated net of an allowance for long term default risk which takes account of the outstanding term of the securities. These allowances for default risk are set separately for the asset portfolios supporting fixed and index-linked securities, and average 0.19% p.a. and 0.15% p.a. respectively across the portfolios as a whole (0.12% and 0.09% at 30.06.08 and; 0.11% p.a. and 0.12% p.a. at 31.12.2008). At the 2008 year-end Legal & General Pensions Limited reserved an additional £313m before discounting to allow for our best estimate of the credit defaults over the following four years. At H1 09 this reserve was increased to £352m.

Economic assumptions

	30.06.09 % p.a.	30.06.08 % p.a.	31.12.08 % p.a.	31.12.07 % p.a.
Equity risk premium	**3.5**	3.0	3.5	3.0
Property risk premium	**2.0**	2.0	2.0	2.0
Investment return				
- Gilts:				
- Fixed interest	**4.3**	4.9	3.8	4.5
- RPI linked	**4.2**	5.1	3.7	4.5
- Non gilts:				
- Fixed interest	**4.4 – 7.6**	5.4 – 7.1	4.2 – 8.2	4.9 – 6.1
- RPI linked	**4.9 – 6.1**	5.8 – 6.8	4.7 – 5.9	4.9 – 5.3
- Equities	**7.8**	7.9	7.3	7.5
- Property	**6.3**	6.9	5.8	6.5
Risk margin	**4.5**	3.0	4.5	3.0
Risk discount rate (net of tax)	**8.8**	7.9	8.3	7.5
Inflation				
- Expenses/earnings	**4.2**	5.2	3.6	4.4
- Indexation	**3.2**	4.2	2.6	3.4

UK covered business

i. Assets are valued at market value.

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

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

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

4.16 Assumptions (continued)

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 25.2 years (30.06.08: 25.1 years and 31.12.08: 25.2 years). The expectation of life on the regulatory reserving basis is 26.4 years (30.06.08: 26.2 years; 31.12.08: 26.4 years).

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

International

vi. Key assumptions:

	30.06.09	30.06.08	31.12.08	31.12.07
	% p.a.	% p.a.	% p.a.	% p.a.
USA				
Reinvestment rate	**5.3**	5.6	5.4	5.4
Risk margin	**4.5**	3.0	4.5	3.0
Risk discount rate (net of tax)	**8.0**	7.1	6.8	7.1
Europe				
Government bond return	**3.8**	4.8	3.5	4.4
Risk margin	**4.5**	3.0	4.5	3.0
Risk discount rate (net of tax)	**8.3**	7.8	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% (H1 08: 28%; FY 08: 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 Money 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

4.16 Assumptions (continued)

Summary statistics:

The following table sets out means and standard deviations (StDev) of future returns as at 30 June 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	3.9%	4.3%	5.2%	4.8%
Corporate bonds	6.3%	4.5%	7.0%	5.2%
Property (excess returns)	1.9%	14.6%	2.1%	15.0%
Equities (excess returns)	3.5%	20.2%	3.6%	19.9%
European Business (Euro)				
Long Government bonds[3]	4.2%	5.2%	5.1%	5.3%
Short Government bonds[4]	4.2%	4.6%	5.2%	9.2%
US Business (US Dollar)				
Long Government bonds[3]	4.1%	6.3%	5.0%	5.9%

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.

5.01 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 (half-year figures are estimates).

	At 30.06.09 £bn	At 30.06.08 £bn	At 31.12.08 £bn
Core tier 1	**3.8**	5.7	3.9
Innovative tier 1	**0.6**	0.6	0.6
Upper tier 2	**0.4**	0.4	0.4
Lower tier 2[1,2]	**0.5**	0.4	0.6
Deductions[3]	**(1.0)**	(0.8)	(1.1)
Group capital resources	**4.3**	6.3	4.4
Group capital resources requirement[4]	**2.4**	2.9	2.6
IGD surplus[5]	**1.9**	3.4	1.8
Coverage ratio (Group capital resources / Group capital resources requirement)	**1.79 times**	2.17 times	1.69 times

1. The decrease in H1 09 and increase in H2 08 in lower tier 2 capital reflects foreign exchange movements.
2. In July 2009, a further £0.3bn lower tier 2 capital was raised. The proceeds of this transaction are not included in the IGD surplus at 30 June 2009.
3. At 31 December 2008 deductions of inadmissible assets were reclassified in line with FSA rules. They now comprise deductions made for L&G America of £0.8bn (H1 08: £0.6bn; FY 08: £0.8bn) which were previously deducted from Core tier 1 capital resources. The 2008 figures reflect this reclassification. Other deductions comprise inadmissible assets in Society of £0.1bn (H1 08: £0.2bn; FY 08: £0.2bn) and other subsidiaries of £0.1bn (H1 08: £nil; FY 08: £0.1bn).
4. Group capital resources requirement includes a With-profits Insurance Capital Component (WPICC) of £nil (H1 08: £0.5bn; FY 08: £0.2bn). The decrease in the WPICC reflects the convergence of the peak 1 and peak 2 surpluses in the with-profits part of the LTF.
5. The IGD surplus is stated after accruing for the period end dividend of £65m (H1 08: £119m, FY 08: £120m).

A segmental analysis is given below.

	At 30.06.09 £bn	At 30.06.08 £bn	At 31.12.08 £bn
Society long term fund[1]	**1.8**	2.5	1.9
Society shareholder capital	**1.6**	3.2	1.6
General insurance	**0.1**	0.1	0.1
France	**0.1**	0.1	0.2
Netherlands	**0.2**	0.2	0.2
Nationwide Life	**0.1**	-	0.1
USA	**0.1**	0.1	0.1
Investment management	**0.3**	0.4	0.3
Other[2]	**1.1**	0.8	1.3
Innovative tier 1	**0.6**	0.6	0.6
Tier 2	**0.9**	0.8	1.0
Debt	**(2.6)**	(2.5)	(3.0)
Group capital resources	**4.3**	6.3	4.4
Society long term fund[1]	**2.0**	2.5	2.1
Other	**0.4**	0.4	0.5
Group capital resources requirement	**2.4**	2.9	2.6

1. The Society long term fund (LTF) capital requirement of £2.0bn (H1 08: £2.5bn; FY 08: £2.1bn) is met by £1.8bn (H1 08: £2.5bn; FY 08: £1.9bn) of capital resources in the LTF and £0.2bn (H1 08: £nil; FY 08: £0.2bn) from other Society shareholder capital.
2. Other includes corporate assets held within the Group's Treasury function.

5.01 Regulatory capital resources (continued)

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

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

	At 30.06.09 £bn	At 30.06.08 £bn	At 31.12.08 £bn
Capital and reserves attributable to equity holders on an IFRS basis	**3.3**	4.7	3.6
Innovative tier 1	**0.6**	0.6	0.6
Tier 2	**0.9**	0.8	1.0
Proposed dividends	**(0.1)**	(0.1)	(0.1)
Additional capital available from Society	**0.3**	0.9	0.3
Adjustment to reflect regulatory value of the USA operation	**(0.8)**	(0.6)	(0.8)
Other regulatory adjustments	**0.1**	-	(0.2)
Group capital resources	**4.3**	6.3	4.4

(b) With-profits realistic balance sheet

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

	At 30.06.09 £m	At 30.06.08 £m	At 31.12.08 £m
With-profits surplus	**644**	928	641
Risk capital margin	**257**	185	373
Surplus	**387**	743	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 £190m (H1 08: £330m; FY 08: £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 (half-year figures are estimates).

	At 30.06.09 Long term business £bn	**At 30.06.09 General insurance £bn**	At 30.06.08 Long term business £bn	At 30.06.08 General insurance £bn	At 31.12.08 Long term business £bn	At 31.12.08 General insurance £bn
Available capital resources - Tier 1	**3.8**	**0.1**	6.6	0.1	4.0	0.1
Insurance capital requirement	**2.0**	**0.1**	2.0	0.1	1.9	0.1
Capital requirements of regulated related undertakings	**0.2**	**-**	0.2	-	0.3	-
With-profits Insurance Capital Component	**-**	**-**	0.5	-	0.2	-
Capital resources requirement	**2.2**	**0.1**	2.7	0.1	2.4	0.1
Regulatory capital surplus	**1.6**	**-**	3.9	-	1.6	-

On a regulatory basis (peak 1), Society long term business regulatory capital surplus of £1.6bn (H1 08: £3.9bn; FY 08: £1.6bn) comprises capital resources within the long term fund of £1.8bn (H1 08: £2.5bn; FY 08: £1.9bn) and capital resources outside the long term fund of £2.0bn (H1 08: £4.1bn; FY 08: £2.1bn) less the capital resources requirement of £2.2bn (H1 08: £2.7bn; FY 08: £2.4bn).

The capital resources requirement of £2.2bn (H1 08: £2.7bn; FY 08: £2.4bn) comprises the long term insurance capital requirement of £2.0bn (H1 08: £2.0bn; FY 08: £1.9bn), capital requirements of regulated undertakings of £0.2bn (H1 08: £0.2bn; FY 08: £0.3bn) and the With-profits Insurance Capital Component (WPICC) of £nil (H1 08: £0.5bn; FY 08: £0.2bn).

The 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 above. A further adjustment is made to the Peak 2 surplus to remove the present value of future shareholder transfers which is treated as a liability in Society's with-profits realistic surplus. At 30 June 2009, this adjustment amounted to £190m (H1 08: £330m; FY 08: £212m); however the adjustment to the WPICC has been restricted by £65m as the Peak 1 surplus is lower than the Peak 2 surplus.

5.02 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.

Six months ended 30 June 2009	Operational cash generation £m	New business strain £m	International[2] £m	Variances[3] £m	Investment gains and losses[4] £m	Other £m	IFRS profit after tax £m
Total Risk operating profit	**216**	**13**	**-**	**(320)**	**-**	**-**	**(91)**
Total Savings operating profit	**43**	**(44)**	**-**	**(3)**	**-**	**-**	**(4)**
Investment management operating profit	**51**	**-**	**-**	**-**	**-**	**-**	**51**
International	**-**	**-**	**44**	**-**	**-**	**-**	**44**
Group capital and financing	**23**	**-**	**-**	**-**	**11**	**-**	**34**
Variation from longer term investment return	**-**	**-**	**-**	**-**	**(105)**	**-**	**(105)**
Property losses attributable to minority interests	**-**	**-**	**-**	**-**	**-**	**(20)**	**(20)**
Total	**333**	**(31)**	**44**	**(323)**	**(94)**	**(20)**	**(91)**
Year ended 31 December 2008							
Total Risk operating profit	379	(173)	-	(645)	-	-	(439)
Total Savings operating profit	138	(161)	-	82	-	-	59
Investment management operating profit	115	-	-	-	-	-	115
International	-	-	39	-	-	-	39
Group capital and financing	22	-	-	-	74	-	96
Variation from longer term investment return	-	-	-	-	(937)	-	(937)
Property losses attributable to minority interests	-	-	-	-	-	(63)	(63)
Total	654	(334)	39	(563)	(863)	(63)	(1,130)

1. The operational cash generation analysed above is available to replenish the capital stock, reinvest back into the business and finance the dividend. At H1 09, the business generated operational cashflow of £333m (FY 08: £654m) before investing £31m (FY 08: £334m) in non profit new business strain, resulting in net cash generated of £302m (FY 08: £320m). In H1 09, £65m has been used to pay the interim dividend (FY 08: £239m to pay the full year dividend), and £237m (FY 08: £81m) has been retained as capital within the IGD surplus.
2. Profits arising in the international businesses are retained locally to support growth and are treated as not being available for distribution.
3. Includes non-recurring experience variances, assumption changes and non-cash items from the Risk and Savings businesses. 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.
4. Investment gains and losses have been excluded from operational cash generation in order to reflect an expected net of tax income on shareholders' investments.

6.01 Investment portfolio

	Notes	**Market value At 30.06.09 £bn**	Market value At 31.12.08 £bn
Worldwide funds under management		**287**	280
Client and policyholder assets		**(241)**	(233)
Non-unit linked with-profits assets[1]		**(18)**	(19)
Assets to which shareholders are directly exposed		**28**	28

	Notes	**Market value At 30.06.09 £bn**	Market value At 31.12.08 £bn
Comprising:			
Assets held to back the UK non-linked non profit business:			
Legal & General Pensions Limited (LGPL)		**20.2**	18.7
Other UK non profit insurance business		**1.5**	1.9
	3.17	**21.7**	20.6
Assets held to back other insurance businesses (including Triple-X reserves)		**2.2**	2.5
Society shareholder capital	3.17/6.05	**2.2**	2.9
Other Group capital	6.05	**1.9**	2.3
		28.0	28.3

1. Includes assets backing participating business in France of £2bn (FY 08: £2bn).

Analysed by asset class:

	Notes	**LGPL At 30.06.09 £bn**	**Other UK non profit insurance business At 30.06.09 £bn**	**Other insurance business At 30.06.09 £bn**	**Society shareholder capital At 30.06.09 £bn**	**Other Group capital At 30.06.09 £bn**	**Total At 30.06.09 £bn**	Total At 31.12.08 £bn
Equities		**-**	**0.1**	**-**	**0.7**	**-**	**0.8**	1.4
Bonds	6.02	**18.1**	**0.5**	**1.9**	**0.7**	**1.0**	**22.2**	21.4
Derivative assets[1]		**0.8**	**0.6**	**-**	**-**	**0.3**	**1.7**	2.3
Property		**-**	**-**	**-**	**0.2**	**-**	**0.2**	0.2
Cash (including cash equivalents)		**1.3**	**0.3**	**0.3**	**0.6**	**0.6**	**3.1**	3.0
		20.2	**1.5**	**2.2**	**2.2**	**1.9**	**28.0**	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.

6.02 Bond portfolio summary

(i) Analysed by sector

	Notes	LGPL At 30.06.09 £m	LGPL At 30.06.09 %	Total At 30.06.09 £m	Total At 30.06.09 %	Total At 31.12.08 £m	Total At 31.12.08 %
Sovereigns, Supras and Sub-Sovereigns		1,422	8	**2,456**	**11**	2,517	12
Banks - Tier 1[1]	6.04	358	2	**401**	**2**	650	3
- Tier 2 and other subordinated	6.04	1,641	9	**1,791**	**8**	2,410	11
- Senior		1,319	7	**1,972**	**9**	1,815	8
Utilities		2,259	12	**2,419**	**11**	2,291	11
Consumer Services & Goods		1,913	11	**2,051**	**9**	1,829	8
Financial Services		673	4	**884**	**4**	989	5
Technology & Telecoms		1,199	7	**1,426**	**7**	1,172	5
Insurance		818	4	**917**	**4**	904	4
Industrials		701	4	**923**	**4**	784	4
Oil & Gas		754	4	**921**	**4**	611	3
Health Care		652	4	**730**	**3**	541	3
Property		375	2	**430**	**2**	516	2
ABS	6.03	2,965	16	**3,775**	**17**	3,389	16
CDO		1,072	6	**1,080**	**5**	1,004	5
Total		18,121	100	**22,176**	**100**	21,422	100

1. Tier 1 holdings include £65m (FY 08: £75m) of preference shares.

(ii) Analysed by domicile

	LGPL At 30.06.09 £m	LGPL At 30.06.09 %	Total At 30.06.09 £m	Total At 30.06.09 %	Total At 31.12.08 £m	Total At 31.12.08 %
United Kingdom	7,363	41	**8,585**	**39**	8,996	42
North America	5,785	32	**7,674**	**35**	6,833	32
Europe	4,289	23	**5,146**	**23**	4,821	22
Other	684	4	**771**	**3**	772	4
Total	18,121	100	**22,176**	**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 At 30.06.09 £m	LGPL At 30.06.09 %	Total At 30.06.09 £m	Total At 30.06.09 %	Total At 31.12.08 £m	Total At 31.12.08 %
AAA	2,571	14	**4,469**	**20**	4,616	22
AA	1,833	10	**2,322**	**11**	2,359	11
A	6,664	37	**7,678**	**35**	8,180	38
BBB	4,908	27	**5,449**	**25**	4,385	20
BB or below	512	3	**551**	**2**	183	1
Unrated: Bespoke CDOs	974	5	**974**	**4**	878	4
Other	659	4	**733**	**3**	821	4
	18,121	100	**22,176**	**100**	21,422	100

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

6.02 Bond portfolio summary (continued)

(iv) CDOs

The Group holds collateralised debt obligations (CDO) with a market value of £1,080m at 30 June 2009 (31 December 2008: £1,004m).

These holdings include £106m (FY 08: £126m) in traded CDOs and £40m (FY 08: £34m) exposure to an equity tranche of a bespoke CDO. The current market value of the equity tranche is approximately equal to the present value of future interest payable on the notes.

The balance of £934m (FY 08: £844m) relates to a further four CDOs that were constructed in 2007 and 2008 in accordance with terms specified by Legal & General. These CDOs mature in 2017 and 2018. The Group selects the reference portfolios underlying the CDOs to give exposure to globally diversified portfolios of investment grade corporate bonds.

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 reached if default losses to the reference portfolios exceeded 30% or if 44% of the names in the diversified global investment grade portfolio defaulted, with an average 30% recovery rate. (All figures are averages across the four CDOs.)

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

These CDOs are valued using an internal valuation which is based on 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.

6.03 Asset backed securities summary

(i) By security

	LGPL At 30.06.09 £m	LGPL At 30.06.09 %	Total At 30.06.09 £m	Total At 30.06.09 %	Total At 31.12.08 £m	Total At 31.12.08 %
Traditional ABS:						
RMBS - Prime[1]	286	10	**549**	**15**	593	17
RMBS - Sub-prime[2]	-	-	**21**	**1**	30	1
CMBS	144	5	**273**	**7**	284	8
Credit Card	34	1	**287**	**8**	267	8
Auto	-	-	**84**	**2**	82	2
Consumer Loans	42	1	**50**	**1**	-	-
Student Loan	19	1	**38**	**1**	30	1
	525	**18**	**1,302**	**35**	1,286	37
Other:						
Secured Bond	1,107	37	**1,113**	**29**	1,068	31
Commercial Property Backed Bonds	175	6	**175**	**5**	155	5
Infrastructure / PFI / Social housing	939	32	**942**	**25**	641	19
Whole Business Securitisation	191	6	**191**	**5**	221	7
Other secured holdings[3]	28	1	**52**	**1**	18	1
	2,440	**82**	**2,473**	**65**	2,103	63
Total	**2,965**	**100**	**3,775**	**100**	3,389	100

1. 78% (FY 08: 87%) of Prime RMBS holdings relate to UK mortgages.

2. 81% (FY 08: 90%) of Sub-prime RMBS holdings have a credit rating of AAA and 53% (FY 08: 49%) relate to the UK.

3. Other includes covered bonds of £11m (FY 08: £9m).

(ii) By credit rating

	LGPL At 30.06.09 £m	LGPL At 30.06.09 %	Total At 30.06.09 £m	Total At 30.06.09 %	Total At 31.12.08 £m	Total At 31.12.08 %
AAA	1,031	35	**1,746**	**46**	1,703	51
AA	568	19	**581**	**16**	581	17
A	718	24	**765**	**20**	721	21
BBB	549	19	**575**	**15**	359	11
BB or below	12	-	**17**	**1**	16	-
Unrated	87	3	**91**	**2**	9	-
Total	**2,965**	**100**	**3,775**	**100**	3,389	100

Of the £777m of traditional ABS holdings held outside of LGPL, 91% are rated AAA (FY 08: £801m of which 93% are rated AAA).
The credit ratings of monoline wrapped bonds are based on the rating of the underlying securities. No credit is taken for the wrap.

6.04 Group subordinated bank exposures

	Market value At 30.06.09 £m	**Total At 30.06.09 %**	Market value At 31.12.08 £m	Total At 31.12.08 %
Tier 1				
United Kingdom[1]	**242**	**11**	448	15
North America	**66**	**3**	102	3
Europe	**84**	**4**	88	3
Others	**9**	**-**	12	-
Total tier 1	**401**	**18**	650	21
Lower tier 2				
United Kingdom	**737**	**33**	760	25
North America	**541**	**25**	668	22
Europe	**280**	**13**	255	8
Others	**81**	**4**	71	2
Upper tier 2				
United Kingdom	**101**	**5**	474	16
North America	**-**	**-**	3	-
Europe	**46**	**2**	142	5
Others	**5**	**-**	9	-
Other subordinated				
United Kingdom	**-**	**-**	10	-
North America	**-**	**-**	18	1
Europe	**-**	**-**	-	-
Others	**-**	**-**	-	-
Total tier 2 and other subordinated	**1,791**	**82**	2,410	79
Total	**2,192**	**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.

Over the period, 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.

6.05 Group capital asset mix

	Society shareholder capital At 30.06.09 %	**Other Group capital At 30.06.09 %**	**Total At 30.06.09 %**	Society shareholder capital At 31.12.08 %	Other Group capital At 31.12.08 %	Total At 31.12.08 %
Equities	**32**	**3**	**19**	43	2	25
Bonds	**30**	**56**	**42**	23	50	35
Derivative assets	**1**	**15**	**8**	1	12	6
Property	**7**	**-**	**4**	6	-	4
Cash (including cash equivalents)	**30**	**26**	**27**	27	36	30
	100	**100**	**100**	100	100	100
Invested assets (£bn)	**2.2**	**1.9**	**4.1**	2.9	2.3	5.2

6.06 Analysis of fair value measurement bases

	Fair value measurement at the end of the reporting period based on:			
As at 30 June 2009	**Level 1 £bn**	**Level 2 £bn**	**Level 3 £bn**	**Total £bn**
Group capital and other insurance business				
Equities	0.6	0.1	-	**0.7**
Bonds	1.0	2.6	-	**3.6**
Derivative assets	-	0.3	-	**0.3**
	1.6	3.0	-	**4.6**
Non profit non-unit linked				
Equities	0.1	-	-	**0.1**
Bonds	1.4	17.2	-	**18.6**
Derivative assets	0.2	1.2	-	**1.4**
	1.7	18.4	-	**20.1**

	Fair value measurement at the end of the reporting period based on:			
As at 31 December 2008	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 and property investments of £3.3bn (FY 08: £3.2bn) (Note 6.01).

6.06 Analysis of fair value measurement bases (continued)

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).

Level 1 financial instruments principally include listed equity instruments, government and certain supranational institution bonds and exchange traded futures and options.

Level 2 financial instruments principally include listed corporate bonds, commercial paper, and derivative instruments which are not exchange traded.

Level 3 financial instruments principally include unquoted equities, including investments in venture capital, and suspended securities.

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 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 represent a small proportion of assets to which shareholders are exposed and reflect unquoted equities including investments in venture capital, and suspended securities.

Appendices

I UK funds under management

	At 30.06.09 £m	At 30.06.08 £m	At 31.12.08 £m
Total investments	**270,899**	285,785	264,228
Represented by			
Index tracking funds:			
- UK equities	**55,595**	73,117	54,780
- Overseas equities	**56,715**	60,794	54,366
- Fixed interest	**34,798**	35,989	35,912
- Index linked	**31,514**	30,958	30,704
- Cash/deposits	**1,939**	523	(186)
Total index tracking funds	**180,561**	201,381	175,576
Actively managed funds	**67,864**	69,287	65,872
Structured solutions	**22,474**	15,117	22,780
	270,899	285,785	264,228
By investment approach			
Index equities	**112,310**	133,910	109,146
Index bonds (including index linked funds and cash)	**68,252**	67,470	66,430
Active bonds (including index linked funds and cash)	**54,453**	51,447	51,439
Structured solutions	**22,474**	15,117	22,780
Active equities	**7,290**	9,155	7,576
Property	**5,899**	8,568	6,646
Private equity	**221**	118	211
	270,899	285,785	264,228
By source of business			
Institutional funds under management[1]:			
- Managed pension funds pooled	**163,875**	181,279	160,946
- Structured solutions	**22,474**	15,117	22,780
- Other	**9,055**	8,473	8,631
- Managed pension funds segregated	**6,378**	6,769	3,832
Total institutional funds under management	**201,782**	211,638	196,189
UK businesses (life and general insurance funds)	**58,198**	63,198	57,688
UK businesses (unit trusts - excluding life fund investment)	**10,919**	10,949	10,351
	270,899	285,785	264,228

1. Excludes institutional investments in unit trust funds.

II New business

a) Risk and Savings[1] new business APE by quarter

	3 months 30.06.09 £m	3 months 31.03.09 £m	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m
Protection	**46**	**44**	49	48	60	50
Annuities	**50**	**83**	58	45	87	91
Total Risk	**96**	**127**	107	93	147	141
Unit linked bonds	**14**	**18**	30	26	35	40
Pensions, stakeholder and other non profit	**71**	**76**	82	84	93	69
With-profits	**66**	**52**	40	47	61	43
Total Savings	**151**	**146**	152	157	189	152
Total UK Risk and Savings	**247**	**273**	259	250	336	293

1. Excludes core retail investments.

b) Risk and Savings[1] new business annual premiums by quarter

	3 months 30.06.09 £m	3 months 31.03.09 £m	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m
Protection	**46**	**44**	49	48	60	50
Annuities	**-**	**-**	-	-	-	-
Total Risk	**46**	**44**	49	48	60	50
Unit linked bonds	**-**	**-**	-	-	-	-
Pensions, stakeholder and other non profit	**37**	**40**	44	43	51	43
With-profits	**36**	**32**	25	26	32	25
Total Savings	**73**	**72**	69	69	83	68
Total UK Risk and Savings	**119**	**116**	118	117	143	118

1. Excludes core retail investments.

c) Risk and Savings[1] new business single premiums by quarter

	3 months 30.06.09 £m	3 months 31.03.09 £m	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m
Protection	**-**	**-**	-	-	-	-
Annuities	**498**	**830**	573	457	871	905
Total Risk	**498**	**830**	573	457	871	905
Unit linked bonds	**144**	**175**	297	260	347	402
Pensions, stakeholder and other non profit	**345**	**358**	385	404	418	261
With-profits	**290**	**203**	155	208	304	171
Total Savings	**779**	**736**	837	872	1,069	834
Total UK Risk and Savings	**1,277**	**1,566**	1,410	1,329	1,940	1,739

1. Excludes core retail investments.

d) International[1] new business APE by quarter

	3 months 30.06.09 £m	3 months 31.03.09 £m	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m
USA	**13**	**16**	15	12	12	12
Netherlands	**6**	**7**	6	6	8	9
France	**6**	**24**	6	8	4	15
Total	**25**	**47**	27	26	24	36

1. Excludes core retail investments.

II New business (continued)

e) International[1] new business annual premiums by quarter

	3 months 30.06.09 £m	3 months 31.03.09 £m	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m
USA	**13**	**16**	15	12	12	12
Netherlands	**2**	**2**	3	4	3	3
France	**-**	**19**	2	5	-	10
Total	**15**	**37**	20	21	15	25

1. Excludes core retail investments.

f) International[1] new business single premiums by quarter

	3 months 30.06.09 £m	3 months 31.03.09 £m	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m
USA	**-**	**-**	-	-	-	-
Netherlands	**31**	**55**	29	32	37	59
France	**61**	**49**	38	34	43	49
Total	**92**	**104**	67	66	80	108

1. Excludes core retail investments.

g) Core retail investments new business APE by quarter

	3 months 30.06.09 £m	3 months 31.03.09 £m	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m
UK	**91**	**60**	61	53	73	42
France	**1**	**2**	2	1	2	1
Total	**92**	**62**	63	54	75	43

h) Core retail investments new business annual premiums by quarter

	3 months 30.06.09 £m	3 months 31.03.09 £m	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m
UK	**9**	**9**	10	12	14	5
France	**-**	**-**	-	-	-	-
Total	**9**	**9**	10	12	14	5

i) Core retail investments new business single premiums by quarter

	3 months 30.06.09 £m	3 months 31.03.09 £m	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m
UK	**818**	**513**	510	416	577	376
France	**16**	**16**	19	18	19	7
Total	**834**	**529**	529	434	596	383

II New business (continued)

j) Analysis of total Risk and Savings APE

	3 months 30.06.09 £m	3 months 31.03.09 £m	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m
Independent financial advisers	**186**	**191**	207	199	234	187
Tied	**86**	**51**	57	57	76	53
Direct	**25**	**27**	9	7	10	8
Total individual Risk and Savings[1]	**297**	**269**	273	263	320	248
Individual Risk and Savings[1]	**206**	**209**	212	210	247	206
Core retail investments	**91**	**60**	61	53	73	42
Total individual Risk and Savings	**297**	**269**	273	263	320	248
Group Risk and Savings	**41**	**64**	47	40	90	86
Total Risk and Savings	**338**	**333**	320	303	410	334

1. Excludes core retail investments.

k) Investment management new business by quarter

	3 months 30.06.09 £m	3 months 31.03.09 £m	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m
Managed pension funds[1]						
Pooled funds	**5,763**	**6,025**	3,423	9,748	8,254	5,308
Segregated funds	**533**	**714**	430	47	141	223
Total managed funds	**6,296**	**6,739**	3,853	9,795	8,395	5,531
Other funds[2]	**1,382**	**720**	890	908	3,151	568
Total	**7,678**	**7,459**	4,743	10,703	11,546	6,099
Attributable to:						
Legal & General Investment Management	**7,166**	**7,016**	4,185	10,464	10,611	5,613
Legal & General Retail Investments	**512**	**443**	558	239	935	486

1. New monies from pension fund clients of Legal & General Assurance (Pensions Management) Limited exclude £2.4bn (H1 08: £4.6bn; FY 08: £7.4bn) held through the period 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.

III IFRS basis of preparation

Basis of preparation
The Group's financial information for the period ended 30 June 2009 has been prepared in accordance with the Listing Rules of the Financial Services Authority. The 2009 Half-year Report has also been prepared in accordance with IAS 34, 'Interim Financial Reporting'. The Group's financial information has been prepared in accordance with the accounting policies and methods of computation which the Group expects to adopt for the 2009 year end. These policies are consistent with the principal accounting policies which were set out in the Group's 2008 consolidated financial statements which were consistent with IFRSs issued by the International Accounting Standards Board as adopted by the European Commission for use in the European Union.

The preparation of the Half-year Report includes the use of estimates and assumptions which affect items reported in the consolidated balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial information. The economic and non-economic actuarial assumptions used to establish the liabilities in relation to insurance and investment contracts are significant. For half-year financial reporting, economic assumptions have been updated to reflect market conditions. Non-economic assumptions are consistent with those used in the 31 December 2008 financial statements except for higher expense assumptions on unit pensions and non profit annuity contracts, and lower expense assumptions for our term assurance business. Claims in payment expense assumptions for our group permanent health insurance business have also been reviewed and strengthened. All of these changes reflect experience to date in 2009.

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 chose to adopt IFRS 8, 'Operating segments' from the 31 December 2008 financial statements. IFRS 8 supercedes the disclosure requirements of IAS 14, 'Segment reporting' and reflects the basis on which the business is managed. In accordance with the provisions of the standard, the half-year comparatives have been reclassified. There is no impact on profit or net assets resulting from the adoption of this standard, as its provisions relate to disclosure.

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 to those that are not attributable to shareholders. The changes are purely presentational and the comparatives have been restated to reflect the new presentation.

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, (set out in the Operating profit income statement). 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.

IV European Embedded Value 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.

In 2008, business written in our UK managed pension funds company was removed from covered business and the result of the managed pension funds business reported on an IFRS basis. Half-year 2008 comparatives have been restated accordingly.

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.

IV European Embedded Value Methodology (continued)

Department of Work and Pensions rebates have not been treated as recurrent 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 realistic 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. This includes tax which would arise if surplus assets within the covered business were eventually to be distributed. The benefit of certain current UK tax rules on the apportionment of income has not been reflected as it is expected that these rules will be amended before such benefit is realised.

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

IV European Embedded Value Methodology (continued)

investment return, net of tax, on that capital is less than the risk discount rate, there is a resulting cost of capital which is reflected in the value of new business.

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

For Legal & General Netherlands, required capital has been set at 100% of EU minimum solvency margin for all products without FOGs. For those products with FOGs, capital of between 100% and 175% of the EU minimum solvency margin has been used. The level of capital has been determined using risk based capital techniques.

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

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

Financial options and guarantees

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

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

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

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

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

In the US, FOGs relate to guaranteed minimum crediting rates and surrender values on a range of contracts. The guaranteed surrender value of the contract is based on the accumulated value of the contract including accrued interest. The crediting rates are discretionary but related to the accounting income for the amortising bond portfolio. The majority of the guaranteed minimum crediting rates are between 4% and 5%. The assets backing these contracts are invested in US Dollar denominated fixed interest securities.

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

IV European Embedded Value 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 and debt, and the proportion of equity to debt in the Group's capital structure measured using market values. Each of these three parameters are 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 FY 08 reporting the risk margin was increased to 4.5% (H1 08: 3.0%). This 1.5% increase included a 0.5% increase in the equity risk premium and a further 1% increase to reflect increased market perceived company specific risks in the current dislocated market conditions. The risk margin has been maintained at 4.5% for the 2009 Half-year results.

Key assumptions are summarised below:

Risk free rate	Derived from gross redemption yield on the 20 year gilt index
Equity risk premium	3.5% (UK only)
Property risk premium	2.0% (UK only)
Risk margin	4.5%

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.

IV European Embedded Value Methodology (continued)

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

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

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

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

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

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

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

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

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

V Statement of Directors' Responsibilities (extracted from the Half-year Report)

We confirm to the best of our knowledge that:

- the condensed set of financial statements have been prepared in accordance with IAS 34 as adopted by the European Union; and

- the Interim Management Report includes a fair review of the information required by DTR 4.2.7, namely important events that have occurred during the first six months of the financial period and their impact on the condensed set of financial statements, as well as a description of the principal risks and uncertainties faced by the Company and the undertakings included in the consolidation taken as a whole for the remaining six months of the financial year;

- the Interim Management Report includes, as required by DTR 4.2.8, a fair review of material related party transactions that have taken place in the first six months of the financial period and any material changes in the related party transactions described in the last Annual Report; and

- the European Embedded Value basis consolidated income statement, the consolidated statement of comprehensive income and the consolidated balance sheet and associated notes have been prepared on the European Embedded Value basis as set out in Notes 22 and 33.

The directors of Legal & General Group Plc are listed in the Legal & General Group Plc Annual Report for 31 December 2008, except Dame Clara Furse who was appointed as a non-executive director of the Company on 1 June 2009. A list of current directors is maintained on the Legal & General Group Plc website: www.legalandgeneralgroup.com.

By order of the Board

Tim Breedon	Andrew Palmer
Group Chief Executive	Group Director (Finance)
3 August 2009	3 August 2009

VI Independent review report to Legal & General Group Plc (extracted from the Half-year Report)

Introduction

We have been engaged by the Company to review the condensed consolidated half-year financial information in the half-year financial report for the six months ended 30 June 2009, which comprises:

- the condensed consolidated income statement, consolidated statement of comprehensive income, condensed consolidated balance sheet as at 30 June 2009, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes, prepared in accordance with the accounting policies set out in Note 8 ("the condensed set of financial statements", together "the half-year financial information").

- the consolidated income statement, the consolidated balance sheet as at 30 June 2009 and related notes prepared on the European Embedded Value ("EEV") basis ("the supplementary half-year financial information"); and

We have read the other information contained in the half-year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated half-year financial information.

Directors' responsibilities

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

As disclosed in Note 8, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated half-year financial information included in this half-year financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

The directors are responsible for preparing the supplementary half-year financial information in accordance with the EEV basis set out in Notes 22 and 33.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed consolidated financial information in the half-year financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose.

Our responsibility on the supplementary half-year financial information in the half-year financial report is to express to the Company a conclusion based on our review. This report on the supplementary half-year financial information, including the conclusion, has been prepared for and only for the Company in accordance with our letter of engagement dated 22 July 2009 and for no other purpose.

We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

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

VI Independent review report to Legal & General Group Plc (extracted from the Half-year Report)

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that:

- the condensed consolidated half-year financial information in the half-year financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority; and,
- the supplementary half-year financial information in the half-year financial report for the six months ended 30 June 2009 are not prepared, in all material respects, in accordance with the EEV basis set out in Notes 22 and 33.

PricewaterhouseCoopers LLP
Chartered Accountants
3 August 2009
London

Notes:

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

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