Stock Exchange Release
25 March 2009

Management action ensuring continued strength of Legal & General in testing environment

Balance sheet

- **IGD surplus £1.9bn at 31 December 2008 before payment of final dividend (£1.8bn after final dividend of £120m)**
  - IGD capital resources of £4.4bn after dividend. Coverage ratio of 169% of required capital
  - Estimated IGD surplus £1.5bn (after final dividend) at 23 March 2009
  - Robust against stressed conditions
- **Asset portfolio - highly diversified, granular risk management**
  - 99% of rated bonds investment grade
  - Reserves for non profit annuity credit defaults under IFRS increased to £1.2bn

Performance and cash flow

- **IFRS operating loss of £189m (2007: profit £658m)**
  - Reflects increased credit default reserving
- **Strong cash generation of £654m (2007: £580m)**
  - Net cash of £320m after new business reinvestment of £334m
  - Full year recommended dividend cost £239m (2007: £369m)
- **Recommending reduced final dividend of 2.05p per share (2007: 4.10p)**

Strategy

- **Cash generation and balance sheet strength focus in 2009**
  - Targeting net cash generation after new business strain in excess of £450m in 2009
  - Continued focus on cost management, balance sheet de-risking and low capital strain products

Group Chief Executive, Tim Breedon, said:

"Today's dividend recommendation balances our strong operational cash generation and the need to promote balance sheet resilience. We took action in 2008 to improve business cashflow and strengthen capital by substantially increasing our credit default reserves, reducing our equity exposure, and managing our cost base. Our £1.8bn IGD surplus after dividend is strong and resilient to further stress scenarios.

"Balance sheet strength remains our priority in 2009 and will be underpinned by further improvement in the cash profile of our businesses and management of costs. We will be selective about sales growth and are reducing new business capital strain through product design and pricing action. Today's dividend decision reflects our realism about the current environment, but also our confidence in the business model and underlying strength of the Company to trade through current economic uncertainty and emerge stronger after the recession."

NEWS

Financial highlights £m	**2008**	2007
IFRS operating (loss)/profit	**(189)**	658
IFRS (loss)/profit from ordinary activities after tax	**(1,130)**	718
IFRS shareholders' equity per share (p)	**61.2**	86.5
Recommended full year dividend (p)	**4.06**	5.97
PVNBP	**9,429**	9,807
Worldwide contribution from new business	**297**	359
EEV operating profit	**870**	848
EEV (loss)/profit from ordinary activities after tax	**(973)**	1,153
EEV shareholders' equity per share (p)	**111.2**	129.1

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

Group Chief Executive Statement

Legal & General has experienced a decrease in IGD capital surplus to £1.8bn (post dividend) and sharply reduced IFRS profits largely as a result of investment market weakness. We have also increased non profit annuity credit default provisions to £1.2bn and responded robustly to the changing economic and market environment by de-risking across the balance sheet. These prudent measures have had a negative impact on reported business margins and profits – but they represent our realistic response to the current economic circumstances. Our decision to recommend a reduced final dividend for 2008 reflects our view that, while the business remains strongly cash generative, capital resilience must remain our immediate priority.

Capital strength is at a premium in current markets. We believe that our IGD capital resources of £4.4bn, including a surplus of £1.8bn after payment of the final dividend and a coverage ratio of 169%, represent a solid capital base for a business of our size, and with our risk profile. This is supported by our comprehensive stress testing, which when coupled with available management actions indicates our balance sheet to be resilient to further shocks across a variety of asset classes.

It is our intention to build on the actions already taken and to consolidate balance sheet strength further in the interests of our shareholders, business partners and customers. We have already substantially reduced shareholders' equity exposure over the last year, selling over £1bn of equities and investing the proceeds in cash or other liquid assets. We have also put in place increased hedging for the equity component of our With-profits fund.

Exposure to fixed income markets has come into greater focus with the widening of credit spreads since the banking crisis in the autumn. Our bond portfolio is of high quality and well-diversified, but we have reflected heightened short term risks by increasing provisions for non profit annuity credit defaults to £1.2bn. This represents a historically high rate of provisioning, above levels needed to cover the worst default levels since the Great Depression. Today, we are disclosing the analysis of our portfolio at a granular level, and outlining our provisioning methodology. In 2009 to date, we have experienced no defaults from any securities held within this portfolio.

Concerns about risk also influence our dividend recommendation. We believe the interests of shareholders are best served by prioritising capital strength, de-risking and cashflow generation while ensuring the future prosperity of the Group. This will put the Group on a sound footing ahead of emergence from the economic recession. Shareholders should expect continued caution in capital and cashflow management while markets remain volatile.

Sales held up well in 2008, even in the latter part of the year after the impact of economic slowdown and recession became apparent in the UK. We have continued to diversify protection product and sales, in particular reducing dependence on the mortgage-related individual protection sales and we are performing very strongly in group protection. In the annuity market we have been very selective in the business we have written and ensured that prices fully reflect the risks assumed. We made progress in our Savings business, albeit at a slower pace than we would have liked. Investment management performed strongly, consistent with performance in prior periods, reinforcing our position as the UK's leading pension fund investment manager.

These businesses collectively generated £654m of cash for the Group. Of this, £334m was reinvested in new business, and £239m has been allocated for dividend payments for the year. While this is a strong cash position and a realistic approach to funding the dividend, I am convinced we can substantially improve net cash generation during 2009. We will do so by writing business more selectively, focusing on lower strain products and by reducing costs, particularly in Savings. Our target for the coming year is to reduce new business strain and deliver positive operational cash generation (after new business strain) in excess of £450m.

In today's current dislocated markets, the board feels it is prudent to prioritise capital strength; hence the dividend recommendation today. From this point going forward, 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 flow.

We believe we have a fundamentally sound strategy, a strong track record, and a good opportunity to generate additional value for shareholders by taking the right decisions around risk mitigation and business development during 2009.

Business overview

Headline financial results

The IFRS operating result was a loss before tax of £189m (2007: profit £658m) which reflected the £650m cost of provision for increased short term non profit annuity credit default assumptions as announced in February. Total UK non profit annuity credit default reserves now stand at £1.2bn. IFRS result before tax was negative £1,491m (2007: profit £883m).

The EEV operating profit of £870m (2007: £848m) was reduced by £137m for in-force assumption changes and variances (2007: reduced by £162m). The EEV loss before tax of £1,381m (2007: profit £1,171m) included the impact of provisions for increased short term credit default reserving. In 2008, on a best estimate basis, Legal & General Pensions Limited has reserved an additional £313m (before discounting) to allow for increased short term credit default reserves over a four year period. Economic assumption changes include £272m to reflect the present value and cost of capital of the in-force element of the additional reserve.

Operational cash generation

Operational cash generation £m	2008	2007
Risk(1)	379	270
Savings(1)	138	153
Investment management (2)	115	100
Group capital and financing(3)	22	57
	654	580

Note:

(1) Risk and Savings operational cash generation reflects the expected release from inforce for non profit business, the shareholders' share of bonuses on With-profits business and net IFRS operating profit on other businesses.
(2) Investment management operational cash generation includes net cash profit.
(3) Group capital and financing operational cash generation includes investment income on shareholder fund assets, less Group interest payable and other corporate expenses.

Risk

Our Risk business delivered higher sales (APE sales up 14%) and increased operational cash generation.

We made significant progress in building our market leading group protection franchise – we launched new underwriting and administration platforms that have strengthened our reputation and market position. We are now a leader in this sector with defensible competitive advantage and a cash generative book of business.

Individual protection, despite obviously challenging conditions in the housing market, maintained high application volumes and saw new business decline only 13%. We are the pre-eminent business in this market with enviable distribution strengths through our business partners, IFAs and one of the UK's largest mortgage clubs.

We had a record year in annuity sales – demonstrating our strategic flexibility to participate selectively in the huge volumes of business in the open pension schemes market as well as the traditional BPA and individual annuity markets. We remain measured in our approach to this market, but we are pleased with the sales performance of the business last year.

Our Risk business made a contribution to operational cash generation of £379m (2007: £270m) reflecting the growing, mature, cash generative profile of this business.

Savings

Headline APE sales were 2% lower in 2008. However, we have made meaningful progress towards a better mix of business, and been successful in a number of key products. Our modern, capital light flexible SIPP products, for example, grew 102%, and constitute 58% of new non profit individual pension sales. Retail investments also performed strongly, up 42%, benefiting from a broader product offering, including new active retail funds and Nationwide Building Society distribution coming on stream.

Unit linked bonds had a tough year – sales dropped 48% in line with the industry. The step reduction in industry volumes – driven by fiscal changes in 2008 - highlights the benefits of a diversified strategy. We are active in the International bond market, as well as other savings products.

The non profit Savings business delivered £61m (2007: £79m) of operational cash generation, in addition to which the With-profits business transferred £77m (2007: £74m) in respect of the shareholders' share of bonuses.

Investment management

Investment management had another very strong year, with gross new fund mandates of £33.1bn (2007: £54.4bn). Of this, LGIM gross new fund mandates were £30.9bn and net new funds of £10.1bn. Assets under management at the end of 2008 were £264bn (2007: £297bn) – a very strong performance in falling markets.

We are the leading manager of UK pension fund assets and highly cash generative - operational cash generation was £115m (2007: £100m) despite lower assets under management.

Outlook

We expect difficult economic and market conditions to continue. Going forward through 2009 we are taking a prudent approach to new business – ensuring that we balance our appetite with cashflow growth and balance sheet consolidation. We will be increasingly selective of the new business we write – targeting products with low capital strain, shorter payback periods and less risk to capital.

Our direction of travel will not change. We have been moving our Savings business successfully towards more modern, flexible products. In annuities we continue to believe that long term returns for shareholders are excellent. Market demand clearly outstrips supply and we are able to choose the business we want to write. Protection remains a strong market leader and we will continue to drive diversification and risk and expense management. Investment management is seeing increasing interest in our active fixed income offering complementing the established index-tracking business. The UK economy will recover - the business will be well positioned to take advantage when that time comes.

Balance sheet management

The capital position of Legal & General Group Plc and its subsidiaries remains appropriate for its size and risk profile, being sufficient to withstand further stress scenarios. This is despite investment market weakness having significantly reduced the headline capital resources of the Group.

Capital resources

We measure and monitor capital on regulatory and economic bases. During 2008 the market has increasingly focused on the Insurance Groups Directive ("IGD") regulatory capital surplus. At the end of 2008, our IGD capital resources were £4.4bn, which covered the IGD capital requirements of £2.6bn with surplus of £1.8bn and a coverage ratio of 169% (2007: 198%). All IGD figures are stated after the deduction of a final dividend, the cost of which is £120m (2007: £248m). The structure of our capital resources is as follows:

IGD capital resources £bn	2008	2007
Core Tier 1	**3.9**	7.6
Innovative Tier 1	**0.6**	0.6
Upper Tier 2	**0.4**	0.4
Lower Tier 2	**0.6**	0.4
Deductions	**(1.1)**	(0.7)
	4.4	8.3
Capital resources requirement	**2.6**	4.2
Surplus	**1.8**	4.1

This surplus position is lower than at the start of the year (2007 IGD surplus: £4.1bn), primarily reflecting weak investment markets and our decision to strengthen non profit annuity credit default reserves to £1.2bn. Movements in IGD surplus over the year are detailed in the following table.

31 December 2007 IGD surplus £bn	4.1
Equity market movements	(0.9)
Share buy back programme	(0.5)
Society long term fund impact[1]	(0.2)
Impact of acquisitions	(0.3)
Dividends paid and proposed	(0.2)
Other items	(0.2)
31 December 2008 IGD surplus £bn (estimate)	**1.8**

Note: (1) The Society long term fund capital requirement of £2.1bn is met by £1.9bn of capital resources in the long term fund and £0.2bn of other Society Shareholder Capital.

Our IGD surplus can absorb further stress scenarios in addition to the year end position – further details will be provided in the presentation materials.

With-profits fund

We manage our With-profits business with the objective of operating within its own capital resources in further stress scenarios. There is a wide range of management actions available to us which gives us confidence that this objective remains achievable.

The With-profits Estate at the end of 2008 was £641m (2007: £1,047m). The corresponding capital requirement, the Risk Capital Margin ("RCM"), was £373m (2007: £262m). This requirement remained more onerous than the FSA's Pillar 1 Peak 1 requirement by £217m (2007: £1,978m).

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 2008 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. 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.

Asset portfolio

There are new disclosures in section 6 of this results pack, some highlights of which are included in the following table.

Shareholders have exposure to 10% of total assets under management, or £28bn. The portfolio is of high quality. In the first period of 2009 there have been no defaults on our bond portfolio. In the following table we have separately identified assets within Legal & General Pensions Limited ("LGPL") since this is where we write our UK non profit annuity business which represents the majority of our fixed interest exposure:

Asset class £bn	LGPL	Total
Equities	-	1.4
Property	-	0.2
Bonds	17.1	21.4
Derivative assets	1.3	2.3
Cash (including cash equivalents)	0.3	3.0
	18.7	**28.3**

Equity investments

Shareholders' exposure to UK and overseas equities was £1.4bn at 31 December 2008.

The Group has disposed of £1.1bn of equities, most in 2008, and some in the first quarter of 2009. The majority of these proceeds are currently being held in cash and short term liquid instruments.

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	4.6
AA	1.9	2.3
A	7.1	8.2
BBB	3.8	4.4
BB or below	01	0.2
Not rated	1.6	1.7
	17.1	**21.4**

The credit quality of our portfolio of bonds is good, with 99% of the rated bonds in investment grade credit.

We have increased the sector and geographic diversification of our annuity portfolio in the last two years. Key to this was the separation of our decision-making for liability cashflow matching and return generating strategies. This gives us flexibility to access a wider pool of globally diversified securities while ensuring cashflow matching through the use of derivatives. We have no material exposure to currency or overseas interest rate risks. 55% of securities are now held outside the UK, compared to 33% three years ago. Of this 28% are held in North America, and 23% in Europe.

A full sector analysis of our bond exposures is given in the schedules to these results.

In 2008 we saw defaults on our UK annuity portfolio of 0.3% – in line with our long term IFRS reserving assumption. This demonstrated significantly better experience than either UK or global corporate bond indices.

Banks securities

As a result of our decision to further diversify the portfolio, overall exposure to UK banks reduced in 2008. We are now significantly underweight in banks in comparison to both global and local market index weightings. There has been particular market interest in recent months in the non-Senior tierings of bank securities exposures – details are summarised here.

Tiering £m	UK	North America	Europe	Other	Total
Tier 2 lower	760	668	255	71	1,754
Tier 2 upper	474	3	142	9	628
Tier 1 (including preference stock)	448	102	88	12	650
Other subordinated	10	18	-	-	28
	1,692	791	485	92	3,060

Collateralised Debt Obligations (“CDO”)

We have separately identified our CDO investments, which have previously been classified within ABS. Of the total £1,004m of CDO investments, £844m relate 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. The bespoke CDOs were previously classified under an internal rating basis. We believe it is appropriate to identify these internally managed assets separately, and they are now reported within the not rated category. The underlying credit exposures within our CDOs are investment grade. We estimate that, given normal levels of recoveries, it would take on average more than 40% of the underlying portfolio to default over a ten year period for any loss to accrue.

Asset backed securities (“ABS”)

Within our bond portfolio, ABS investments at the end of 2008 stood at a market value of £3.4bn. 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 long duration and risk diversification.

There are £1.3bn of traditionally-categorised ABS investments. This includes prime RMBS, CMBS, student, auto and credit card loans. The average rating of these classes is AAA.

We have just £30m of sub-prime RMBS, of which 90% is of AAA quality.

Further detail is included in note 6.03 to this release.

IFRS and EEV assumptions

All assumptions under IFRS and EEV reporting are reviewed fully at each year end. Each review will affect the relative strength of the assumptions. In 2008 the overall impact of our review was to increase the strength of our assumptions to reflect the current dislocated market conditions. We have used regulatory Pillar 1 assumptions in IFRS and best estimate assumptions in EEV.

IFRS default assumptions

As announced in February 2009, we significantly increased the conservatism of our IFRS and statutory reserving assumptions for credit defaults in our UK non profit annuities business as at 31 December 2008. The aggregate effect of this reserve strengthening was to more than double our default reserves to £1.2bn. This increase represents an additional 100bp per annum for a four year period in addition to our long term default assumption of 30bp (after 15bp of recoveries). The same approach has been used for setting default assumptions in our With-profits fund.

The basis of our new assumptions followed a thorough sector-by-sector review of our portfolio, and default experiences from the 1930s and subsequent recessions. In reviewing these assumptions we cross-referenced a range of methodologies. Each approach confirmed the appropriateness of our overall assumptions. We believe that these assumptions allow for a continuation of the current challenging economic conditions. Performance of our portfolio against these stronger assumptions will be closely monitored over a period of time. It is anticipated that reserves will be retained until such time as the Board considers short term default risk to have fallen materially. This position will be reviewed on an ongoing basis.

EEV assumptions

In 2008, on a best estimate basis, Legal & General Pensions Limited has reserved an additional £313m to allow for increased short term credit default reserves over a four year period. Economic assumption changes include £272m to reflect the present value and cost of capital of the in-force element of the additional reserve.

At year end 2008 the UK risk discount rate ("RDR") has been increased to 8.3% from 7.5% at the end of 2007, resulting in a £361m charge to economic assumption changes. This increase in the RDR resulted from management's decision to increase the risk margin in the RDR from 3.0% to 4.5% (including a 0.5% increase as a result of a higher equity risk premium) to reflect the current dislocated market conditions. In isolation, this latter change has reduced the Group's new business margin by 1.5%, before taking into account the favourable impact of lower risk free rates.

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 01452 546 750 and overseas investors should dial +44 1452 562 717. The conference ID number is 88896264.

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 24 March 2008 and constitute non statutory accounts within the meaning of Section 240 of the Companies Act 1985. The Group's financial statements for 2007 include the auditors' unqualified report and do not contain a statement under either Sections 237(2) or 237(3) of the Companies Act 1985.

Financial calendar 2009:

Event	Date
Ex dividend date	15 April 2009
Q1 2009 Interim management statement	23 April 2009
Annual General Meeting at the Institution of Engineering and Technology in London	27 May 2009
Dividend payment date of 2008 final dividend	1 June 2009
Half year 2009 results	4 August 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 authorities, the impact of competition and the policies and actions of governmental and regulatory authorities, 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 undue 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.

Business review

Financial highlights

	2008	2007
IFRS basis results	**£m**	£m
Operating (loss)/profit	**(189)**	658
(Loss)/profit from continuing operations before tax attributable to equity holders	**(1,491)**	883
Diluted earnings per share based on operating profit after tax (pence)	**(2.18)**	7.13
Shareholders' equity	**3,588**	5,446
Shareholders' equity per share (pence)	**61.2**	86.5

IFRS operating result before tax has been reduced in 2008 by the £650m cost of provision for increased short term credit default assumptions as announced in February 2009. Total UK non profit credit default reserves now stand at £1.2bn. Total non profit experience variances, assumption changes and non-cash items were negative £564m net of tax (2007: positive £72m). IFRS loss before tax reflects mark to market investment variances of negative £1,239m (2007: negative £90m).

	2008	2007 (restated)[1]
EEV basis results	**£m**	£m
Operating profit	**870**	848
(Loss)/profit from continuing operations before tax attributable to equity holders	**(1,381)**	1,171
Diluted earnings per share based on operating profit after tax (pence)	**10.62**	9.02
Shareholders' equity	**6,521**	8,128
Shareholders' equity per share (pence)	**111.2**	129.1

Notes:
1: Legal & General Assurance (Pensions Management) Limited ("PMC") is no longer classified as covered business. As a result it is now reported on an IFRS basis within the EEV results and prior year figures have been restated.

EEV operating profit has been reduced by £137m (2007: £162m) for in-force assumption changes and variances. The EEV loss before tax includes the impact of provisions for increased short term credit default reserving on a best estimate basis of £313m before discounting.

	2008	2007
New business	**£m**	£m
Worldwide total PVNBP	**9,429**	9,807
Worldwide contribution from new business	**297**	359
New institutional investment management fund mandates	**33,091**	54,431

New business contribution was reduced as a result of a higher cost of capital resulting from lower equity holdings in assets backing the solvency margin, and by other negative economic assumption changes.

There have been a number of revisions to our accounting policies for year end 2008 including segmental reporting, exclusion of our pensions management business from covered business and re-presentation of the internal contingent loan. These are detailed later in this release.

IFRS basis 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 profitability for the Group and for most of our product areas. We have today, for the first time, segmented the profitability between our key businesses giving greater transparency on the financial performance of each. There is no change to operating profit, profit before tax or shareholders' equity as a result. Operating profit on the previous segmentation is provided later in this release.

Financial highlights £m	**2008**	2007[1]
Risk	**(603)**	104
Savings	**66**	112
Investment management	**165**	143
International	**59**	86
Group capital and financing	**124**	213
Operating (loss)/profit	**(189)**	**658**
Variation from longer term investment return	**(1,239)**	(90)
Release of 1996 sub-fund and other items	**(63)**	315
(Loss)/profit from ordinary activities before tax attributable to equity holders	**(1,491)**	**883**
Tax credit/(expense) attributable to equity holders	**361**	(165)
(Loss)/profit from ordinary activities after tax	**(1,130)**	**718**
Shareholders' equity	**3,588**	5,446
Shareholders' equity per share (p)	**61.2**	86.5

Notes:
1: Reclassified to reflect IFRS 8 segmental analysis

The worldwide IFRS operating result was a loss of £189m, compared to a profit of £658m in 2007. The result for 2008 includes aggregate non profit assumption changes, experience variances and non-cash items of negative £564m (net of tax) compared to positive £72m (net of tax) in 2007. The most significant effect in 2008 was the £650m (pre tax) impact of increasing non profit credit default provisions to £1.2bn, as announced in February 2009. This is reported through our Risk business segment which includes the assets backing our UK non profit annuity business. The operating result for our Risk business was a loss of £603m (2007: profit of £104m) reflecting this assumption change. Savings business operating result was a profit of £66m (2007: profit of £112m).

Risk and Savings

Financial highlights £m	2008	2007[1]
Analysis of UK Risk and Savings operating result		
Risk business operating result	**(603)**	104
Savings business operating result	**66**	112
	(537)	**216**
Further analysed as:		
- Expected capital release on existing business	***453***	*406*
- New business strain	***(334)***	*(344)*
- Other non profit business contribution	***(564)***	*72*
- Tax gross-up	***(177)***	*57*
- Non profit business operating (loss)/profit	***(622)***	***191***
- With-profits	***107***	*106*
- General Insurance	***(2)***	*(67)*
- Core retail investments	***-***	*12*
- Other[2]	***(20)***	*(26)*
UK Risk and Savings business result	***(537)***	***216***

Notes:
1: Reclassified to reflect IFRS 8 segmental analysis
2: Includes result for Nationwide Life and Suffolk Life

The expected release from the in-force non profit business was £453m (2007: £406m), reflecting growth in the UK non profit business in recent years. We expect the release in 2009 to be up to 10% higher. New business strain was £334m (2007: £344m) modestly lower, in line with new business volumes and changes in mix.

Other non profit business contributions – including experience variances, assumption changes and non-cash items were negative £564m in 2008 (2007: positive £72m).

- **Experience variance:** negative £315m (2007: positive £115m) included £296m of negative investment variances. More than half of this loss arose from the deferral of tax relief on expenses as a result of movements in investment markets over the year and is fully offset by a movement in the deferred tax element of non-cash items noted below. The remainder relates mainly to a strengthening of the valuation bases in annuities due to lower gilt yields.

  Project and development costs were £95m in 2008 (2007: £44m), reflecting internal systems development and technology developments in protection and corporate pensions.

- **Valuation assumption changes:** negative £660m (2007: negative £137m) as a result of increased credit default assumptions in our non profit annuity business of £650m pre-tax, the tax effect being reflected in non-cash items noted below.

- **Non-cash movements:** positive £380m (2007: positive £61m) includes tax offset effects of the above two items and movements in deferred acquisition costs, deferred income liabilities and other items.

- Other movements were almost unchanged at positive £31m (2007: positive £33m).

After grossing up for tax, the non profit business contribution was negative £622m (2007: positive £191m).

The shareholders' share of With-profits bonuses was stable at £107m (2007: £106m), with higher maturities being offset by the effect of reduced bonus rates during the year.

General insurance gross written premiums grew by 4% (excluding healthcare business) to £296m (2007: £285m) despite difficult market conditions and the resultant impact on mortgage related sales. We have reported an operating loss in 2008 of £2m (2007: negative £67m), the reduced loss reflecting more benign weather conditions following flooding in 2007.

Investment management

The Investment management business delivered an increase in IFRS operating profit to £165m (2007: £143m), including the profits arising from the provision of services on internal assets of £35m (2007: £23m). Underlying profits grew 8% despite a significant decline in investment markets.

IFRS operating profit £m	**2008**	2007(1)
Managed pension funds	**117**	103
Private equity	**(1)**	-
Property	**4**	6
Other income	**52**	38
LGIM total	**172**	147
Institutional unit trusts	**(7)**	(4)
Investment management total	**165**	143

Investment management new business £bn		
Pooled funds	**26.8**	49.5
Segregated funds	**0.8**	2.6
Total managed funds	**27.6**	52.1
Other funds	**5.5**	2.3
Total	**33.1**	54.4

Notes:
1:In 2007 Investment Management included £12m of operating profit from our core retail investment business, which is now included in the Savings business segment.

Legal & General Investment Management ("LGIM") had another strong year, with gross new fund mandates of £30.9bn (excluding institutional unit trusts) and net new funds of £10.1bn (2007: £36.5bn). Lower headline sales relate to the exceptional £20.3bn of funds transferred in 2007 from clients of Hermes. Persistency remained strong, with LGIM retaining 90% of client money.

The scale and efficiency of LGIM's operating model is reflected in a cash contribution to Group of £115m (2007: £100m) being cash profits after tax.

Aggregate funds under management of £264bn were lower at the end of the year reflecting strong net sales, offset by market movements. LGIM's total fee to fund ratio of 10.6bps is modestly lower (2007: 10.9bps), due to changes in business mix. LGIM's cost income ratio was 49% (2007: 46%). The 2008 ratio is marginally higher due to revenue falls as a result of global market downturn.

Our institutional unit trust business reported a loss before tax in 2008 reflecting in part the effect of lower fee income and costs associated with business acquired in the year.

International

IFRS operating profit £m	**2008**	2007
USA	**39**	59
Netherlands	**6**	11
France	**14**	16
	59	86

Operating profit in our USA business reduced by 40% to $71m (2007: $119m). This reflects adverse mortality experience of $19m (2007: positive $3m), representing a small increase in the number of deaths.

In the Netherlands, regulatory and market conditions remain challenging. Operating profit of €8m compared to €17m in 2007. In 2008 we have made a prudent provision of €9m in respect of ongoing industry-wide regulatory matters.

In France, operating profit was €18m (2007: €23m), with the reduction in profitability largely reflecting lower income from unit linked contracts as a result of lower investment markets.

Group capital and financing

IFRS operating profit £m	**2008**	2007
Investment return	**351**	387
Interest expense	**(198)**	(179)
Investment expenses	**(5)**	(5)
Unallocated corporate expenses	**(9)**	(11)
Defined benefits pension scheme	**(15)**	21
Total	**124**	213

The Group capital and financing operating result largely reflects smoothed investment returns on shareholder assets in our UK Risk and Savings businesses, assets held at Group and Group interest charges. Investment return decreased to £351m (2007: £387m). Investment returns are calculated on the basis of a smoothed investment return (aggregate rate 2008: 7%; 2007: 7%) on a quarterly average balance of assets of £5.4bn in 2008 (2007: £5.9bn). The balance of assets at the end of the period was £4.8bn.

Interest expense increased to £198m (2007: £179m), reflecting a full year's interest charge on our Tier 1 debt issued in May 2007.

IFRS profit before tax

Below the operating line, the negative impact of investment markets was seen in a mark to market variance on longer term investment returns of negative £1,239m (2007: negative £90m). This relates primarily to underperformance relative to assumptions on equity and property investment (equities: negative 31% compared to an assumed 7.5%; property: negative 27% compared to an assumed 6.5%) and reductions in the market value of bond investments in the shareholders' funds.

The post tax result from ordinary activities of a loss of £1,130m fully reflects this mark to market on investment positions (2007: profit of £718m). Allowing for this and £523m of shares repurchased in the year, shareholders' equity reduced from £5.4bn to £3.6bn during the year.

Additional analysis of IFRS operating result

Non profit strain and release by major product class

2008 key financials £m	Protection	Annuities	Pensions	Unit linked bonds	Total non profit
Expected release from in-force	219	157	30	47	453
New business strain	(124)	(49)	(83)	(78)	(334)
Sub-total	**95**	**108**	**(53)**	**(31)**	**119**
Experience variance					(315)
Assumption changes and other					(249)
Tax gross-up					(177)
IFRS operating result					**(622)**

Note:
Includes analysis of results for Legal & General Assurance Society Limited and Legal & General Pensions Limited.

2008 IRR and payback period	Protection	Annuities	Pensions	Unit linked bonds	Total non profit
IRR on new non profit business (%)	14	>15	7	6	13
Payback period (years)	5	6	12	10	7

Note:
Payback period is calculated on an undiscounted basis.

Analysis of IFRS result on previous segmentation

We have continued to provide IFRS operating profit information on the same basis as previously reported, highlights of which are included in the following table. Further detail is included in the appendices to this release.

Financial highlights £m	2008	2007
UK life and pensions	**(291)**	557
International life and pensions	**63**	86
Investment management	**165**	155
General insurance	**(2)**	(67)
Other operational income	**(124)**	(73)
Operating (loss)/profit before tax	**(189)**	658

EEV Basis Financial Results

Financial highlights	PVNBP (£m)		Margin (%)		Contribution (£m)	
	2008	2007(1)	**2008**	2007(1)	**2008**	2007(1)
Contribution from new business						
Protection	**1,005**	1,161	**6.2**	9.3	**62**	108
Annuities	**2,806**	2,045	**7.4**	9.1	**209**	187
Unit linked bonds	**1,306**	2,512	**(1.0)**	0.8	**(13)**	21
Pensions – Stakeholder and other non profit	**2,183**	1,674	**(0.4)**	(0.8)	**(8)**	(14)
With-profits savings	**1,233**	1,500	**1.2**	1.3	**15**	19
UK (Risk and Savings)	**8,533**	8,892	**3.1**	3.6	**265**	321
International	**896**	915	**3.6**	4.1	**32**	38
Worldwide total	**9,429**	9,807	**3.1**	3.7	**297**	359
Contribution from in-force business – expected return(2)					**470**	394
UK business in-force variances and assumption changes						
- Mortality/longevity/morbidity					**(22)**	(175)
- Persistency					**(126)**	(65)
- Expenses					**26**	(62)
- Other					**34**	135
International in-force variances and assumption changes					**(49)**	5
Total in-force variances and assumption changes					**(137)**	(162)
Development costs					**(51)**	(44)
Contribution from shareholder net worth(2)					**273**	309
Operating profit						
Risk					**439**	219
Savings					**50**	146
Investment management					**130**	120
International					**100**	136
Group capital and financing					**151**	227
Operating profit					**870**	848
Variation from longer term investment return					**(1,579)**	116
Effect of economic assumption changes					**(609)**	52
(Loss)/profit from ordinary activities after tax					**(973)**	1,153
Diluted earnings per share based on operating profit after tax (pence)					**10.62**	9.02
Shareholders' equity					**6,521**	8,128
Shareholders' equity per share (pence)					**111.2**	129.1

Note:
(1) Legal & General Assurance (Pensions Management) Limited ("PMC") is no longer classified as covered business. As a result it is now reported on an IFRS basis within the EEV results and prior year figures have been restated.
(2) 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, previously having been included as part of shareholder net worth.

Response to current market conditions

Risk discount rate ("RDR")

- At year end 2008 the UK RDR has been increased to 8.3% from 7.5% at the end of 2007, resulting in a £361m charge to economic assumption changes.

- This increase in the RDR resulted from management's decision to increase the risk margin in the RDR from 3.0% to 4.5% (including an increase of 0.5% as a result of a higher equity risk premium) to reflect the current dislocated market conditions. In isolation, this change has reduced the Group new business margin by 1.5%, before taking into account the favourable impact of lower risk free rates.

Short term credit default reserving

- In 2008, on a best estimate basis, Legal & General Pensions Limited has reserved an additional £313m to allow for short term credit default reserves over a four year period. Economic assumption changes include £272m to reflect the present value and cost of capital of the in-force element of the additional reserve.

Cost of capital

- As a result of changes in the portfolio of backing assets, which now have a lower equity content, the cost of capital on UK non profit new business has increased by £24m.

EEV basis financial results

Worldwide PVNBP reduced by 4% to £9,429m (2007: £9,807m). This reflects a decrease of 4% in the UK to £8,533m (2007: £8,892m), and a 2% reduction in our International businesses. Worldwide new business margin of 3.1% was lower compared to 3.7% in 2007, reflecting the items referred to above.

Our UK new business margin was 3.1% (2007: 3.6%):

- **Protection:** margin of 6.2% (2007: 9.3%). This reduction was largely due to the items referred to above. Pricing remained competitive throughout the year, but this was partly offset by better in-force expenses in our individual protection business and favourable claims experience in group protection. The IRR on new protection business was 14%, with a payback period of 5 years. Underlying new business margins improved in the second half of the year.
- **Annuities:** margin of 7.4% (2007: 9.1%). The reduction was again due to the items referred to above, which offset pricing conditions which improved during the year. The IRR on new business remained in excess of 15%, with a payback period of 6 years.
- **Unit linked bonds:** margin of negative 1.0% (2007: positive 0.8%). Reduced margins largely reflected the 48% reduction in volumes in the year. This increased unit expenses despite ongoing cost management activity. In addition the full year margins reflected increased lapse experience. The IRR on new business was 6%, with a payback period of 10 years.
- **Non profit pensions:** margin of negative 0.4% (2007: negative 0.8%). Excluding the items referred to above, non profit pensions business would have broken even in the second half of the year. The mix of business continues to improve and associated in-force expenses also had a positive effect. IRR on new business was 7%, with a 12 year payback period.
- **With-profits:** margin of 1.2% (2007: 1.3%).

As a result of these movements, UK new business contribution decreased to £265m (2007: £321m). New business contribution from our International businesses, at £32m, a similar result in H2 compared to H1 2008 (£16m), with a margin of 3.6% compared to 4.1% in 2007. International new business margin also reflected the effect of the higher risk discount rate referred to above.

The expected return from in-force business increased to £470m (2007: £394m). This was due to the unwind of a slightly lower discount rate (7.5% compared to 7.6%) on a higher opening embedded value.

The contribution from shareholder net worth of £273m decreased from £309m as contribution is based on the average asset value which declined during 2008.

Experience variances and assumption changes in our UK Risk and Savings businesses of negative £88m (2007: negative £167m) included:

- **Mortality/morbidity/longevity:** negative £22m (2007: negative £175m). We saw positive experience variances of £27m in the year, predominantly from protection. In our annuity business we adjusted our assumptions with a negative effect of £49m - we use a three year rolling average in assessing current mortality rates and 2005 – a benign year – has now fallen out of the base period. The result for 2007 included the EEV impact of £295m (restated) from strengthened longevity assumptions.
- **Persistency:** contributed negative £126m (2007: negative £65m). Experience variances in the year were negative £12m - largely in unit linked bonds - and have been reflected in future assumptions with an adverse £114m assumption change.
- **Expenses:** overall contributed a positive £26m to the result (2007: negative £62m). Negative experience variances of £9m reflected a number of small items, including project costs. Positive assumption changes of £35m were driven by cost management in our individual protection and non profit savings businesses.
- **Other:** contributed £34m to the result, largely reflecting a positive foreign tax effect.

Development costs increased to £51m (2007: £44m) as we continued to invest in internal and customer facing systems.

For 2008, 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. 2007 comparatives have been restated accordingly. The change in the reporting basis has reduced 2007 operating profit before tax by £64m, profit after tax by £59m and shareholders' equity by £340m. Investment management operating profit on an EEV basis excludes £35m (2007: £23m) 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.

Worldwide operating profit was £870m (2007: £848m). Mark to market investment variances were negative £1,579m, compared to positive £116m in 2007. This was primarily due to equity and property underperformance against long term assumptions, partially offset by favourable variances in the value of in-force due to a change in credit strategy and outperformance against long term assumptions.

Economic assumption changes amounted to negative £609m (2007: positive £52m). This was largely a result of the risk discount rate and default reserving effects outlined above.

Profit on ordinary activities after tax reflects the combination of operating profit with mark to market investment effects, and was negative £973m, compared to positive £1,153m in 2007. After allowing for £523m of shares repurchased in the period, shareholders' equity was £6,521m at the end of 2008, a reduction of 20%. This translates into a 14% reduction in embedded value per share to 111p (2007: 129p).

Revised accounting policies

IFRS – changes to segmental reporting

New IFRS 8 segmentation has been adopted for 2008 to further improve shareholders' understanding of the Group's performance. The comparatives have been reclassified to reflect these changes.

- Operating profit for the Risk segment includes protection, annuities and General insurance businesses.
- Operating profit for the Savings segment includes non profit investment bonds and pensions (including Suffolk Life), the with-profits transfer and the operating profit of our core retail investment business.
- Operating profit for the Investment management segment includes institutional fund management operating profit and the operating profit of our institutional unit trust business.
- Group capital and financing operating profit incorporates a longer term expected investment return on the average balance of Group invested assets (including interest bearing intra-group balances) calculated on a quarterly basis. This includes all shareholder assets in our UK Risk and Savings businesses (Legal & General Assurance Society Limited ("LGAS") and Legal & General Pensions Limited ("LGPL")) and those held at Group level. It also includes the cost of Group interest charges and other items.

There are a number of effects resulting from this change in presentation. The most significant is that investment return on assets within LGAS, which was previously reported in the UK life and pensions segment is now consolidated into Group capital and financing, and is not allocated to the Risk and Savings segments.

EEV – change to definition of covered business

In previous reporting periods Legal & General Assurance (Pensions Management) Limited ("PMC") results were consolidated as covered business within the EEV supplementary information. We believe that the performance of Investment management is better assessed on the IFRS basis. As a result PMC has been taken out of the covered business, and is now consolidated on an IFRS basis within our supplementary reporting. The 2007 year end embedded value and operating profit before tax have been restated down by £340m and £64m respectively to reflect this change.

The accounting treatment of PMC is now consistent under IFRS and EEV consolidation. However, the aggregate Investment management result under IFRS is £35m higher (2007: £23m higher) since it fully reflects the fees earned on internally managed funds which are reflected on a "look through" basis under EEV.

EEV – changes to segmental reporting

EEV results are now also presented under the new IFRS 8 segmentation. There are a number of effects resulting from this change in presentation. The most significant is that return on shareholder net worth, previously reported under UK life and pensions, is now consolidated into Group capital and financing and is not allocated to the Risk and Savings segments.

EEV – change in treatment of contingent loan

In previous reporting periods the balance sheet value and unwind of assumptions on our internal contingent loan were reported as part of shareholder net worth. We believe it is more appropriate to reflect this as part of the in-force business result. The expected return on this loan of £64m (2007: £51m) has been reallocated from Contribution from shareholder net worth into Contribution from in-force business. There is no effect on operating profit or shareholders' equity as a result of this change. 2007 comparatives have been restated.

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New Business

2.01 New business summary

	Notes	APE[1] 2008 £m	PVNBP[2] 2008 £m	Margin[3] 2008 %	APE 2007 £m	PVNBP 2007 £m	Margin 2007 %
Risk and savings[4]	2.02	**1,138**	**8,533**	**3.1**	1,160	8,892	3.6
International[4]	2.05	**113**	**896**	**3.6**	114	915	4.1
		1,251	**9,429**	**3.1**	1,274	9,807	3.7
UK core retail investments	2.08	**229**			161		
International retail investments	2.08	**6**			2		
Total core retail investments		**235**			163		
Total		**1,486**			1,437		

	Notes	2008 £m	2007 £m
Investment management	2.11	**33,091**	54,431

1. Annual Premium Equivalent (APE) is calculated for total new business, including core retail investments, but excluding institutional fund 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 year ended 31 December 2008	APE £m	Contri-bution from new business[2] £m	PVNBP £m	Margin %
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 savings	**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**		

For the year ended 31 December 2007	APE £m	Contri-bution from new business[2] £m	PVNBP £m	Margin %
Protection	223	108	1,161	9.3
Annuities	205	187	2,045	9.1
Total Risk	428	295	3,206	9.2
Unit linked bonds	251	21	2,512	0.8
Pensions, stakeholder and other non profit	253	(14)	1,674	(0.8)
With-profits savings	228	19	1,500	1.3
Total Savings	732	26	5,686	0.5
Total Risk and Savings	1,160	321	8,892	3.6
Cost of capital[3]		19		
Contribution from new business before cost of capital		340		

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 2008 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 55% (2007 risk margin of 3.0% and equity backing ratio of 79%).

2.03 Internal rate of return on non profit business

	2008 %	2007 %
Non profit internal rate of return (including solvency margin)	**13**	14

2.04 Analysis of Risk and Savings[1] PVNBP

	Annual premiums 2008 £m	Present value of annual premiums 2008 £m	Capital-isation factor[2] 2008	Single premiums 2008 £m	PVNBP 2008 £m	PVNBP 2007 £m
Protection	**207**	**1,005**	**4.9**	**-**	**1,005**	1,161
Annuities	**-**	**-**	**-**	**2,806**	**2,806**	2,045
Total Risk	**207**	**1,005**	**4.9**	**2,806**	**3,811**	3,206
Unit linked bonds	**-**	**-**	**-**	**1,306**	**1,306**	2,512
Pensions, stakeholder and other non profit	**181**	**715**	**4.0**	**1,468**	**2,183**	1,674
With-profits savings	**108**	**395**	**3.7**	**838**	**1,233**	1,500
Total Savings	**289**	**1,110**	**3.8**	**3,612**	**4,722**	5,686
Total Risk and Savings	**496**	**2,115**	**4.3**	**6,418**	**8,533**	8,892

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

2.05 Analysis of international[1] new business

For the year ended 31 December 2008	APE £m	Contri-bution from new business[2] £m	Cost of capital £m	PVNBP £m	Margin %
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**
For the year ended 31 December 2007					
USA	45	23	5	319	7.3
Netherlands	27	6	3	227	2.5
France	42	9	8	369	2.4
Total	114	38	16	915	4.1

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

2.06 Analysis of international[1] new business in local currency

For the year ended 31 December 2008	APE m	Contri-bution from new business[2] m	Cost of capital m	PVNBP m	Margin %
USA	**$94**	**$44**	**$11**	**$691**	**6.3**
Netherlands	**€36**	**€9**	**€6**	**€305**	**3.1**
France	**€42**	**€2**	**€5**	**€354**	**0.5**
For the year ended 31 December 2007					
USA	$90	$46	$11	$637	7.3
Netherlands	€38	€8	€5	€331	2.5
France	€60	€13	€11	€539	2.4

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

2.07 Analysis of international[1] PVNBP in local currency

	Annual premiums 2008 m	Present value of annual premiums 2008 m	Capital-isation factor 2008	Single premiums 2008 m	PVNBP 2008 m	PVNBP 2007 m
USA	**$94**	**$691**	**7.4**	**-**	**$691**	$637
Netherlands	**€16**	**€106**	**6.6**	**€199**	**€305**	€331
France	**€21**	**€148**	**7.1**	**€206**	**€354**	€539

1. Excludes retail investments.

2.08 Analysis of core retail investments new business

	Annual premiums 2008 £m	Single premiums 2008 £m	APE 2008 £m	Annual premiums 2007 £m	Single premiums 2007 £m	APE 2007 £m
UK	**41**	**1,879**	**229**	21	1,399	161
France	**-**	**63**	**6**	-	24	2
Total	**41**	**1,942**	**235**	21	1,423	163

2.09 Analysis of Risk and Savings new business premiums

	Annual premiums 2008 £m	Single premiums 2008 £m	APE 2008 £m	Annual premiums 2007 £m	Single premiums 2007 £m	APE 2007 £m
Protection						
- Individual	**140**	**-**	**140**	160	-	160
- Group	**67**	**-**	**67**	63	-	63
Annuities						
- Individual (non profit)	**-**	**841**	**84**	-	875	88
- Individual (with-profits)	**-**	**27**	**3**	-	47	5
- Bulk purchase	**-**	**1,938**	**194**	-	1,123	112
Total Risk	**207**	**2,806**	**488**	223	2,045	428
Non profit savings						
- Unit linked bonds	**-**	**1,306**	**131**	-	2,512	251
- Individual pensions	**181**	**1,460**	**327**	141	1,118	253
- DWP rebates	**-**	**8**	**1**	-	4	-
With-profits savings						
- Bonds	**-**	**283**	**28**	-	102	10
- Individual pensions	**106**	**434**	**149**	124	752	199
- DWP rebates	**-**	**118**	**12**	-	124	12
- Group pensions	**2**	**3**	**2**	6	5	7
	289	**3,612**	**650**	271	4,617	732
Core retail investments						
- Unit trusts	**12**	**1,466**	**159**	7	962	103
- ISAs	**29**	**413**	**70**	14	437	58
Total Savings	**330**	**5,491**	**879**	292	6,016	893
Total Risk and Savings new business	**537**	**8,297**	**1,367**	515	8,061	1,321

2.10 Analysis of total UK APE

	2008 £m	2007 £m
Independent financial advisers	**827**	842
Tied	**243**	261
Direct	**34**	36
Total Individual Risk and Savings	**1,104**	1,139
Individual Risk and Savings[1]	**875**	978
Core retail investments	**229**	161
Total Individual Risk and Savings	**1,104**	1,139
Group Risk and Savings	**263**	182
Total Risk and Savings new business premiums	**1,367**	1,321

1. Excludes core retail investments.

2.11 Analysis of Investment management new business

	2008 £m	2007 £m
Managed pension funds[1]		
Pooled funds	**26,733**	49,460
Segregated funds	**841**	2,603
Total managed funds	**27,574**	52,063
Other funds[2]	**5,517**	2,368
Total	**33,091**	54,431
Attributable to:		
Legal & General Investment Management	**30,873**	52,622
Legal & General Retail Investments	**2,218**	1,809

1. New monies from pension fund clients of Legal & General Assurance (Pensions Management) exclude £7.4bn (2007: £19.4bn) held through the year on a temporary basis, generally as part of portfolio reconstructions.
2. Includes segregated property, property partnerships, ventures partnerships and institutional clients funds managed by Legal & General Investment Management and institutional investments in unit trust funds managed by Legal & General Retail Investments.

2.12 Legal & General Investment Management new business by investment approach

	2008 %	2007 %
Indexed equities	**45.2**	70.9
Indexed bonds (including index linked funds and cash)	**41.2**	21.1
Active bonds (including index linked funds and cash)	**7.2**	4.0
Structured solutions	**6.2**	3.6
Property	**0.2**	0.4
Total	**100.0**	100.0

Operating profit income statement

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
From continuing operations			
Risk	3.01(a)	**(603)**	104
Savings	3.01(b)	**66**	112
Investment management	3.02	**165**	143
International	3.03	**59**	86
Group capital and financing	3.04	**124**	213
Operating (loss)/profit		**(189)**	658
Variation from longer term investment return	3.06	**(1,239)**	(90)
Release of 1996 Sub-fund		**-**	321
Property losses attributable to minority interests		**(63)**	(6)
(Loss)/profit from continuing operations before tax attributable to equity holders of the Company		**(1,491)**	883
Tax credit/(expense) attributable to equity holders of the Company	3.07	**361**	(165)
(Loss)/profit from ordinary activities after tax		**(1,130)**	718
Loss attributable to minority interests	3.15	**63**	6
(Loss)/profit attributable to equity holders of the Company		**(1,067)**	724

	Notes	p	p
Earnings per share	3.08		
Based on operating (loss)/profit from continuing operations after tax attributable to equity holders of the Company		**(2.18)**	7.17
Based on (loss)/profit attributable to equity holders of the Company		**(17.88)**	11.24
Diluted earnings per share	3.08		
Based on operating (loss)/profit from continuing operations after tax attributable to equity holders of the Company		**(2.18)**	7.13
Based on (loss)/profit attributable to equity holders of the Company		**(17.88)**	11.18

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.

New IFRS 8 segmentation has been adopted for 2008 to further improve shareholders' understanding of the Group's performance. The comparatives have been reclassified to reflect these changes. Appendix I provides a reconciliation of this segmentation basis with that provided in prior periods.

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 which in 2008 includes £650m of additional reserves for non profit annuity credit default, bringing the total reserve to £1.2bn. 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.

Consolidated income statement

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Revenue			
Gross written premiums	3.09	**5,895**	4,793
Outward reinsurance premiums		**(569)**	(517)
Net change in provision for unearned premiums		**1**	7
Net premiums earned		**5,327**	4,283
Fees from fund management and investment contracts		**740**	640
Investment return		**(37,749)**	13,225
Operational income		**38**	54
Total revenue		**(31,644)**	18,202
Expenses			
Claims and change in insurance liabilities		**3,287**	4,467
Reinsurance recoveries		**(587)**	(345)
Net claims and change in insurance liabilities		**2,700**	4,122
Change in provisions for investment contract liabilities		**(33,313)**	11,999
Acquisition costs		**776**	848
Finance costs		**379**	214
Other expenses		**773**	662
Transfers from unallocated divisible surplus [1]		**(806)**	(438)
Total expenses		**(29,491)**	17,407
(Loss)/profit before income tax		**(2,153)**	795
Income tax credit attributable to policyholder returns		**662**	88
(Loss)/profit from continuing operations before income tax attributable to equity holders of the Company		**(1,491)**	883
Total income tax credit/(expense)		**1,023**	(77)
Income tax credit attributable to policyholder returns		**(662)**	(88)
Income tax credit/(expense) attributable to equity holders	3.07	**361**	(165)
(Loss)/profit from ordinary activities after income tax		**(1,130)**	718
Attributable to:			
Minority interests		**(63)**	(6)
Equity holders of the Company		**(1,067)**	724
Dividend distributions to equity holders of the Company during the year		**367**	369
Dividend distributions to equity holders of the Company proposed after the year end		**120**	247
		p	p
Earnings per share			
Based on (loss)/profit attributable to equity holders of the Company	3.08	**(17.88)**	11.24
Diluted earnings per share			
Based on (loss)/profit attributable to equity holders of the Company	3.08	**(17.88)**	11.18

1. 2007 includes £321m release of 1996 Sub-fund.

Consolidated balance sheet

As at 31 December 2008

	Notes	2008 £m	2007 £m
Assets			
Investment in associates		**14**	14
Plant and equipment		**75**	79
Investment property		**3,969**	5,969
Financial investments	3.11	**234,514**	261,718
Reinsurers' share of contract liabilities		**1,997**	1,530
Purchased interest in long term businesses and other intangible assets		**227**	19
Deferred acquisition costs		**2,112**	1,696
Deferred tax asset		**988**	-
Income tax recoverable		**8**	4
Other assets		**2,135**	1,519
Cash and cash equivalents		**10,688**	8,737
Total assets		**256,727**	281,285
Equity			
Share capital		**147**	157
Share premium account		**936**	927
Employee scheme shares		**(46)**	(42)
Capital redemption and other reserves		**(42)**	59
Retained earnings		**2,593**	4,345
Shareholders' equity	3.13	**3,588**	5,446
Minority interests	3.15	**144**	178
Total equity	3.16	**3,732**	5,624
Liabilities			
Subordinated borrowings	3.14	**1,657**	1,461
Participating insurance contracts	3.17	**9,384**	11,663
Participating investment contracts	3.18	**6,992**	7,462
Unallocated divisible surplus		**913**	1,721
Value of in-force non-participating contracts		**(171)**	(276)
Participating contract liabilities		**17,118**	20,570
Non-participating insurance contracts	3.17	**25,841**	22,873
Non-participating investment contracts	3.18	**196,698**	224,906
Non-participating contract liabilities		**222,539**	247,779
Senior borrowings	3.14	**2,314**	1,327
Provisions		**741**	742
Deferred tax liabilities		**259**	296
Income tax liabilities		**5**	113
Payables and other financial liabilities		**6,613**	1,609
Other liabilities		**997**	852
Net asset value attributable to unit holders		**752**	912
Total liabilities		**252,995**	275,661
Total equity and liabilities		**256,727**	281,285

Consolidated statement of recognised income and expense

For the year ended 31 December 2008

	2008 £m	2007 £m
Exchange differences on translation of overseas operations	**139**	4
Actuarial gains/(losses) on defined benefit pension schemes	**18**	(40)
Actuarial (gains)/losses on defined benefit pension schemes transferred to unallocated divisible surplus	**(8)**	16
Net change in financial investments designated as available-for-sale	**(56)**	1
Income/(expense) recognised directly in equity, net of tax	**93**	(19)
(Loss)/profit from ordinary activities after income tax	**(1,130)**	718
Total recognised income and expense	**(1,037)**	699
Attributable to:		
Minority interests	**(63)**	(6)
Equity holders of the Company	**(974)**	705

Consolidated cash flow statement

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Cash flows from operating activities			
(Loss)/profit from ordinary activities after income tax		**(1,130)**	718
Adjustments for non cash movements in net (loss)/profit for the period			
Realised and unrealised losses/(gains) on financial investments and investment properties		**48,376**	(4,862)
Investment income		**(10,086)**	(7,797)
Interest expense		**379**	214
Income tax (credit)/expense		**(1,023)**	77
Other adjustments		**77**	46
Net decrease/(increase) in operational assets			
Investments designated as held for trading or fair value through profit or loss		**2,161**	(8,322)
Investments designated as available-for-sale		**(93)**	(98)
Other assets		**(1,702)**	(230)
Net (decrease)/increase in operational liabilities			
Insurance contracts		**(1,479)**	152
Transfer from unallocated divisible surplus		**(798)**	(455)
Investment contracts		**(43,485)**	17,686
Value of in-force non-participating contracts		**105**	115
Other liabilities		**541**	(73)
Cash used in operations		**(8,157)**	(2,829)
Interest paid		**(377)**	(214)
Interest received		**5,214**	4,202
Income tax paid		**(208)**	(244)
Dividends received		**4,614**	3,312
Net cash flows from operating activities		**1,086**	4,227
Cash flows from investing activities			
Net acquisition of plant and equipment		**(14)**	(58)
Acquisitions (net of cash acquired)	3.10	**1,004**	-
Net cash flows from investing activities		**990**	(58)
Cash flows from financing activities			
Dividend distributions to ordinary equity holders of the Company during the year		**(367)**	(369)
Proceeds from issue of ordinary share capital		**10**	4
Purchase of employee scheme shares		**(9)**	(5)
Purchase of shares under share buyback programme	3.12	**(523)**	(320)
Proceeds from borrowings		**3,568**	1,948
Repayment of borrowings		**(2,960)**	(1,637)
Net cash flows from financing activities		**(281)**	(379)
Net increase in cash and cash equivalents		**1,795**	3,790
Exchange gains on cash and cash equivalents		**156**	17
Cash and cash equivalents at 1 January		**8,737**	4,930
Cash and cash equivalents at 31 December		**10,688**	8,737

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

Notes to the Financial Statements

3.01 Risk and Savings operating profit

(a) Risk operating profit	**2008 £m**	2007 £m
Non profit Risk[1]	**(602)**	184
General insurance	**(2)**	(67)
Other[2]	**1**	(13)
Total Risk operating (loss)/profit	**(603)**	104

1. Includes £650m of additional reserves for non profit annuity credit default, bringing the total reserve to £1.2bn. Non profit Risk includes individual and group protection, and individual and bulk purchase annuities.
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 £3m (2007: £4m) allocated to the Risk business.

(b) Savings operating profit	**2008 £m**	2007 £m
Non profit Savings[1]	**(20)**	7
With-profits business[2]	**107**	106
	87	113
Core retail investments	**-**	12
Other[3]	**(21)**	(13)
Total Savings operating profit	**66**	112

1. Non profit Savings businesses includes non profit investment bonds and non profit pensions (including SIPPs).
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 £3m (2007: £4m), allocated to the Savings business.

(c) Analysis of net capital released from Society non profit business

	Notes	**2008 £m**	2007 £m
Non profit business operating (loss)/profit comprises:			
Expected capital release on existing business		**453**	406
New business strain		**(334)**	(344)
Experience variances	3.01(d)	**(315)**	115
Changes to non-economic assumptions	3.01(e)	**(660)**	(137)
Changes to FSA reporting and capital rules		**-**	37
Movements in non-cash items	3.01(f)	**380**	61
Other		**31**	(4)
		(445)	134
Tax gross-up		**(177)**	57
		(622)	191
Attributable to:			
Non profit Risk businesses		**(602)**	184
Non profit Savings businesses		**(20)**	7

Non profit business operating (loss)/profit represents the capital and profit generated in the period from the in-force non profit business if the embedded value 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 expected capital release exclude required solvency margin from the liability calculation as is required by the ABI SORP. On average, the capital invested in new non profit business, including solvency margin, is repaid from product cash flows in approximately 7 years.

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

	2008 £m	2007 £m
Persistency	**7**	10
Mortality/morbidity	**25**	22
Expenses	**11**	(13)
BPA data loading	**22**	3
Project and development costs[1]	**(95)**	(44)
Investment[2]	**(296)**	134
Other	**11**	3
	(315)	115

1. 2008 includes project and development costs of £95m relating to continued investment in internal and other customer facing systems.
2. 2008 includes £296m of negative investment variances, of which more than half arises from the deferral of tax relief on expenses as a result of movements in investment markets and is fully offset by a movement in the deferred tax asset element of non cash items. The remainder relates to the annuity business where the valuation basis was strengthened due to the reduction in gilt yields.

(e) Changes to valuation assumptions

	2008 £m	2007 £m
Persistency	**12**	-
Mortality/morbidity[1]	**(26)**	(121)
Expenses	**(57)**	(37)
Short term default allowance[2]	**(650)**	-
Other	**61**	21
	(660)	(137)

1. 2007 includes £(214)m relating to the strengthening of assumptions for annuitant longevity on existing business, offset by £64m relating to changes to the assumptions for the proportions married.
2. 2008 includes a £650m increase in the non profit annuity credit default reserve. The tax effect of the short term default allowance is included in the deferred tax element of non-cash items.

(f) Movements in non-cash items

	2008 £m	2007 £m
Deferred tax	**413**	(30)
Deferred acquisition costs	**20**	114
Deferred income liabilities	**30**	(72)
Other	**(83)**	49
	380	61

Notes to the Financial Statements

3.02 Investment management operating profit

	2008 £m	2007 £m
Managed pension funds	**117**	103
Private equity	**(1)**	-
Property	**4**	6
Other income[1]	**52**	38
Legal & General Investment Management	**172**	147
Institutional unit trusts[2]	**(7)**	(4)
Total Investment management operating profit	**165**	143

1. Other income includes £35m of profits arising from the provision of investment management services charged to the Group's Risk and Savings businesses (2007: £23m).
2. Investment management operating profit excludes core retail investments, of £nil (2007: £12m), which has been disclosed as part of Savings. The comparatives have been reclassified accordingly.

3.03 International operating profit

	2008 £m	2007 £m
USA	**39**	59
Netherlands	**6**	11
France	**14**	16
Total International operating profit	**59**	86

Exchange rates are provided in Note 3.24.

3.04 Group capital and financing operating profit

	2008 £m	2007 £m
Investment return[1]	**351**	387
Interest expense[2]	**(198)**	(179)
Investment expenses	**(5)**	(5)
Unallocated corporate expenses	**(9)**	(11)
Defined benefit pension scheme[3]	**(15)**	21
Total Group capital and financing operating profit	**124**	213

1. The longer term expected investment return of £351m (2007: £387m) reflects an average return of 7% (2007: 7%) on the average balance of invested assets held within Group capital and financing (including interest bearing intra-group balances) calculated on a quarterly basis. The invested assets (including interest bearing intra-group balances) held within Group capital and financing amounted to £4.8bn at 31 December 2008 (2007: £5.7bn).
2. Interest expense excludes interest on non recourse financing (see Note 3.14).
3. The defined benefit pension scheme (expense)/income 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 recognised income and expense (2008 expense: £15m; 2007 income: £4m). The 2007 comparative also includes income of £17m arising from a pension deficit reduction payment which was charged to the operating segments in 2008.

Notes to the Financial Statements

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

	Operating (loss)/ profit 2008 £m	**Under-writing result 2008 £m**	**Combined operating ratio 2008 %**	Operating (loss)/ profit 2007 £m	Under-writing result 2007 £m	Combined operating ratio 2007 %
From continuing operations						
Household[1]	**(12)**	**(26)**	**110**	(86)	(101)	145
Other business[2]	**10**	**8**	**86**	19	15	74
	(2)	**(18)**	**108**	(67)	(86)	131

1. Household business in 2007 includes a loss of £76m net of reinsurance as a result of flood related claims in June and July 2007.
2. Other business in 2007 includes £6m profit following the withdrawal from the healthcare business in the first quarter.

The combined operating ratio is:

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

3.06 Variation from longer term investment return

	2008 £m	2007 £m
General insurance	**(29)**	(9)
Investment management	**7**	4
Netherlands	**4**	(11)
Group capital and financing[1]	**(1,221)**	(74)
Total variation from longer term investment return	**(1,239)**	(90)

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 £(1,096)m (2007: £(75)m) relating to Society shareholder capital and £(125)m (2007: £1m) predominantly relating to the Group's treasury function.

Notes to the Financial Statements

3.07 Analysis of tax

	Profit/(loss) before tax 2008 £m	Tax (expense)/ credit 2008 £m	Profit/(loss) before tax 2007 £m	Tax (expense)/ credit 2007 £m
From continuing operations				
Risk	**(603)**	**164**	104	(34)
Savings	**66**	**(7)**	112	(33)
Investment management	**165**	**(50)**	143	(43)
International	**59**	**(20)**	86	(25)
Group capital and financing	**124**	**(28)**	213	(61)
Operating (loss)/profit	**(189)**	**59**	658	(196)
Variation from longer term investment return	**(1,239)**	**302**	(90)	31
Release of 1996 Sub-fund	**-**	**-**	321	-
Property losses attributable to minority interests	**(63)**	**-**	(6)	-
(Loss)/profit from continuing operations before tax/Tax	**(1,491)**	**361**	883	(165)

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 £527m (2007: £2,047m) in Society's 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 (2007: £nil).

Notes to the Financial Statements

3.08 Earnings per share

(a) Earnings per share

	Loss before tax 2008 £m	Tax credit 2008 £m	Loss after tax 2008 £m	Earnings per share 2008 p	Profit before tax 2007 £m	Tax (expense)/ credit 2007 £m	Profit after tax 2007 £m	Earnings per share 2007 p
Operating (loss)/profit from continuing operations	**(189)**	**59**	**(130)**	**(2.18)**	658	(196)	462	7.17
Variation from longer term investment return	**(1,239)**	**302**	**(937)**	**(15.70)**	(90)	31	(59)	(0.91)
Release of 1996 Sub-fund	**-**	**-**	**-**	**-**	321	-	321	4.98
Earnings per share based on (loss)/profit attributable to equity holders	**(1,428)**	**361**	**(1,067)**	**(17.88)**	889	(165)	724	11.24

(b) Diluted earnings per share

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

	Loss after tax 2008 £m	Number of shares[1] 2008 m	Earnings per share 2008 p	Profit after tax 2007 £m	Number of shares[1] 2007 m	Earnings per share 2007 p
Operating (loss)/profit from continuing operations after tax	**(130)**	**5,968**	**(2.18)**	462	6,444	7.17
Net shares under options allocable for no further consideration[2]	**-**	**22**	**-**	-	34	(0.04)
Diluted earnings per share	**(130)**	**5,990**	**(2.18)**	462	6,478	7.13

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

	Loss after tax 2008 £m	Number of shares[1] 2008 m	Earnings per share 2008 p	Profit after tax 2007 £m	Number of shares[1] 2007 m	Earnings per share 2007 p
(Loss)/profit attributable to equity holders of the Company	**(1,067)**	**5,968**	**(17.88)**	724	6,444	11.24
Net shares under options allocable for no further consideration[2]	**-**	**22**	**-**	-	34	(0.06)
Diluted earnings per share	**(1,067)**	**5,990**	**(17.88)**	724	6,478	11.18

The number of shares in issue at 31 December 2008 was 5,861,627,994 (2007: 6,296,321,160).

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

	2008 £m	2007 £m
From continuing operations		
Risk		
Non-participating Risk business	**4,038**	3,105
General insurance		
- Household	**267**	255
- Other business	**29**	52
Total Risk	**4,334**	3,412
Savings		
Non-participating Savings business	**49**	47
Participating business	**551**	382
Total Savings	**600**	429
International		
USA	**397**	345
Netherlands	**278**	259
France	**286**	348
Total International	**961**	952
Total gross written premiums	**5,895**	4,793

3.10 Acquisitions

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

The Group has acquired 100% of the shares of each company. No goodwill has arisen in respect of these acquisitions.

(i) Nationwide Life Limited

The values of the purchased interest in long term business on acquired insurance and investment contracts have been calculated using discounted cash flow methodology. These were recognised on the balance sheet at £127m and £2m gross of tax respectively (with corresponding deferred tax liabilities of £19m and £1m). These intangible assets will be amortised in line with the expected emergence of profit from the business (over 12 years). Since 31 January 2008, Nationwide Life Limited has contributed a profit of £26m to consolidated loss before tax before amortisation of the purchased interest in long term business.

(ii) Nationwide Unit Trust Managers Limited

The value of the purchased interest in long term business on acquired investment contracts has been calculated using discounted cash flow methodology and recognised on the balance sheet at £29m gross of tax, with a corresponding deferred tax liability of £8m. This intangible asset will be amortised in line with the expected emergence of profit from the business (over 10 years). Since 31 January 2008, Nationwide Unit Trust Managers Limited has contributed a loss of £3m to consolidated loss before tax before amortisation of the purchased interest in long term business.

(iii) Suffolk Life Group Plc

The value of the purchased interest in long term business on acquired investment contracts has been calculated using discounted cash flow methodology and recognised on the balance sheet at £47m gross of tax, with a corresponding deferred tax liability of £13m. The value of the acquired customer relationship intangible has been calculated using the discounted cash flow methodology and recognised on the balance sheet at £15m gross of tax, with a corresponding deferred tax liability of £3m. The intangible assets will be amortised in line with the expected emergence of profit from the business (over 15 years). Since 6 May 2008, Suffolk Life Group Plc has contributed a profit of £2m to consolidated loss before tax before amortisation of the purchased intangibles.

Notes to the Financial Statements

3.10 Acquisitions (continued)

(i) Nationwide Life Limited - Assets and liabilities at date of acquisition

	Book value £m	Adjustments £m	Fair value £m
Assets			
Purchased interest in long term businesses and other intangible assets	-	129	129
Financial investments	1,276	-	1,276
Reinsurers' share of contract liabilities	286	-	286
Deferred acquisition costs	15	(15)	-
Income tax recoverable	15	(15)	-
Other assets	4	-	4
Cash and cash equivalents	599	-	599
Total assets	2,195	99	2,294
Liabilities			
Non-participating contract liabilities	1,221	-	1,221
Tax liabilities	8	15	23
Other liabilities	801	(3)	798
Total liabilities	2,030	12	2,042
Net assets	165	87	252

Adjustments include the recognition of acquired intangibles and application of consistent Group accounting policies.

(ii) Nationwide Unit Trust Managers Limited - Assets and liabilities at date of acquisition

	Book value £m	Adjustments £m	Fair value £m
Assets			
Purchased interest in long term businesses and other intangible assets	-	29	29
Deferred acquisition costs	29	(29)	-
Other assets	70	-	70
Cash and cash equivalents	30	-	30
Total assets	129	-	129
Liabilities			
Provisions	14	-	14
Deferred income liabilities	1	(1)	-
Tax liabilities	5	5	10
Other liabilities	55	-	55
Total liabilities	75	4	79
Net assets	54	(4)	50

Adjustments include the recognition of acquired intangibles and application of consistent Group accounting policies.

Notes to the Financial Statements

3.10 Acquisitions (continued)

(iii) Suffolk Life Group Plc - Assets and liabilities at date of acquisition

	Book value £m	Adjustments £m	Fair value £m
Assets			
Purchased interest in long term businesses and other intangible assets	-	62	62
Plant and equipment	1	-	1
Investment property	503	-	503
Financial investments	1,763	(2)	1,761
Income tax recoverable	1	-	1
Other assets	60	-	60
Cash and cash equivalents	738	2	740
Total assets	3,066	62	3,128
Liabilities			
Non-participating contract liabilities	2,893	-	2,893
Senior borrowings	153	-	153
Tax liabilities	-	16	16
Other liabilities	3	-	3
Total liabilities	3,049	16	3,065
Net assets	17	46	63

Adjustments include the recognition of acquired intangibles and application of consistent Group accounting policies.

Notes to the Financial Statements

3.11 Financial investments

	2008 £m	2007 £m
Equities	**107,408**	149,567
Unit trusts	**5,456**	4,659
Debt securities	**112,013**	104,087
Accrued interest	**1,607**	1,363
Derivative assets[1]	**6,130**	694
Loans and receivables	**1,900**	1,348
	234,514	261,718

1. Derivative assets include £3,765m (2007: £455m) held on behalf of unit linked policyholders. Non unit linked derivative assets have increased, primarily as a result of sterling interest rate hedging and the acquisition of assets backing guaranteed equity bond contacts with Nationwide Life.

3.12 Share capital and share premium

Authorised share capital	2008 Number of shares	2008 £m	2007 £m
At 31 December: ordinary shares of 2.5p each	**9,200,000,000**	**230**	230

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

Issued share capital, fully paid	Number of shares	Share capital £m	Share premium £m
As at 1 January 2007	6,532,261,961	163	923
Shares cancelled under share buyback programme[1]	(241,207,267)	(6)	-
Options exercised under share option schemes			
- Executive share option scheme	1,961,215	-	2
- Savings related share option scheme	3,305,251	-	2
As at 31 December 2007	6,296,321,160	157	927

1. During the year, 449,891,914 shares (2007: 241,207,267 shares) were repurchased and cancelled under the share buyback programme representing 7.1% (2007: 3.7%) of opening issued share capital, at a cost of £523m including expenses (2007: £320m).

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

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

Notes to the Financial Statements

3.13 Segmental analysis of shareholders' equity

	2008 £m	2007 £m
Risk		
General insurance	**99**	114
Other	**2**	(1)
Total Risk	**101**	113
Savings		
Core retail investments	**59**	39
Other	**14**	14
Total Savings	**73**	53
Investment management	**322**	310
International		
USA	**932**	643
Netherlands	**135**	112
France	**193**	130
Emerging markets	**12**	3
Total International	**1,272**	888
Group capital and financing	**1,820**	4,082
Shareholders' equity	**3,588**	5,446

At 31 December 2008, the Group adopted IFRS 8, ‘Operating 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.

The Group considers additional performance measures in assessing the performance of the segments. These include new business levels (Notes 2.01-2.12) and EEV Reporting (Notes 4.01-4.17).

Notes to the Financial Statements

3.14 Analysis of borrowings

	2008 £m	2007 £m
Subordinated borrowings		
6.385% Sterling perpetual capital securities	**692**	620
5.875% Sterling undated subordinated notes	**426**	427
4.0% Euro subordinated notes 2025	**539**	414
Total subordinated borrowings	**1,657**	1,461
Senior borrowings		
Sterling medium term notes 2031-2041	**608**	608
Euro commercial paper 2009	**609**	118
Bank loans 2009	**160**	13
Non recourse financing		
- US Dollar Triple X securitisation 2025	**369**	266
- US Dollar Triple X securitisation 2037	**308**	223
- Sterling property partnership loans 2011	**101**	99
- Suffolk Life unit linked borrowings	**159**	-
Total senior borrowings	**2,314**	1,327
Total borrowings	**3,971**	2,788
Total borrowings (excluding non recourse financing)	**3,034**	2,200

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.

Non recourse financing

US Dollar Triple X securitisation 2025
In 2004, a subsidiary of Legal & General America Inc issued US$550m of non recourse debt in the US capital markets to meet the Triple X reserve requirements of part of the US term insurance written up to 2005. It is secured on the cash flows related to that tranche of business.

US Dollar Triple X securitisation 2037
In 2006, a subsidiary of Legal & General America Inc issued US$450m of non recourse debt in the US capital markets to meet the Triple X reserve requirements of part of the US term insurance written after 2005 and 2006. It is secured on the cash flows related to that tranche of business.

Sterling property partnership loans 2011
The property partnership loans are secured on specific properties.

Suffolk Life unit linked borrowings
These borrowings relate solely to client investments.

As at 31 December 2008, 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 non-unit linked short term borrowings of £763m (Euro Commercial Paper and Bank Loans).

2008 finance costs include £34m of interest payable on cash collateral lodged by counterpartiers in respect of certain derivative assets (2007: £nil).

3.15 Minority interests

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

Notes to the Financial Statements

3.16 Total equity

	2008 £m	2007 £m
As at 1 January	**5,624**	5,839
Total recognised income and expense	**(1,037)**	699
Issue of share capital	**10**	4
Share buyback	**(523)**	(320)
Net movements in employee scheme shares	**(4)**	1
Dividend distributions to equity holders of the Company during the year	**(367)**	(369)
Movements in minority interests including disposals	**29**	(230)
As at 31 December	**3,732**	5,624

3.17 Insurance contract liabilities

(a) Analysis of insurance contract liabilities

	Notes	Gross 2008 £m	Reinsurance 2008 £m	Gross 2007 £m	Reinsurance 2007 £m
Life and pensions participating insurance contracts	3.17(b)	**9,384**	**(1)**	11,663	(1)
Life and pensions non-participating insurance contracts	3.17(c)	**25,582**	**(1,847)**	22,568	(1,302)
General insurance contracts	3.17(d)	**259**	**(11)**	305	(19)
Insurance contract liabilities		**35,225**	**(1,859)**	34,536	(1,322)

(b) Movement in participating insurance contract liabilities

	Gross 2008 £m	Reinsurance 2008 £m	Gross 2007 £m	Reinsurance 2007 £m
As at 1 January	**11,663**	**(1)**	12,660	(1)
New liabilities in the year	**333**	**-**	219	-
Liabilities discharged in the year	**(1,628)**	**-**	(1,684)	-
Unwinding of discount rates	**383**	**-**	520	-
Effect of change in non-economic assumptions	**58**	**-**	(102)	-
Effect of change in economic assumptions	**(1,348)**	**-**	50	-
Other	**(77)**	**-**	-	-
As at 31 December	**9,384**	**(1)**	11,663	(1)

(c) Movement in non-participating insurance contract liabilities

	Gross 2008 £m	Reinsurance 2008 £m	Gross 2007 £m	Reinsurance 2007 £m
As at 1 January	**22,568**	**(1,302)**	21,321	(1,237)
New liabilities in the year	**3,020**	**(262)**	2,463	(286)
Liabilities discharged in the year	**(1,493)**	**79**	(1,108)	78
Unwinding of discount rates	**1,022**	**(88)**	876	(126)
Effect of change in non-economic assumptions[1]	**(87)**	**121**	1	179
Effect of change in economic assumptions[2]	**(1,366)**	**(26)**	(902)	-
Foreign exchange adjustments	**946**	**(82)**	109	2
Acquisitions	**1,172**	**(286)**	-	-
Other	**(200)**	**(1)**	(192)	88
As at 31 December	**25,582**	**(1,847)**	22,568	(1,302)

1. In 2007, the Effect of change in non-economic assumptions includes an increase of approximately £214m relating to the strengthening of assumptions for annuitant longevity on existing business. This was largely offset by mortality and changes to expense assumptions on term business (on a gross of reassurance basis), which reflected improved experience.
2. In 2008, the Effect of changes in economic assumptions includes the impact arising from the current interest rate environment and increased credit spreads reducing liabilities, partially offset by the £650m of additional reserves for non profit annuity credit default, bringing the total reserve to £1.2bn.

Notes to the Financial Statements

3.17 Insurance contract liabilities (continued)

(d) Analysis of General insurance contract liabilities

	Gross 2008 £m	Reinsurance 2008 £m	Gross 2007 £m	Reinsurance 2007 £m
Outstanding claims	**99**	**(4)**	132	(12)
Claims incurred but not reported	**29**	**-**	40	-
Unearned premiums	**131**	**(7)**	133	(7)
General insurance contract liabilities	**259**	**(11)**	305	(19)

(e) Movement in General insurance claim liabilities

	Gross 2008 £m	Reinsurance 2008 £m	Gross 2007 £m	Reinsurance 2007 £m
As at 1 January	**172**	**(12)**	137	(5)
Claims arising	**231**	**(4)**	323	(6)
Claims paid	**(235)**	**6**	(255)	(2)
Adjustments to prior year liabilities	**(40)**	**6**	(33)	1
As at 31 December	**128**	**(4)**	172	(12)

3.18 Investment contract liabilities

(a) Analysis of investment contract liabilities

	Gross 2008 £m	Reinsurance 2008 £m	Gross 2007 £m	Reinsurance 2007 £m
Participating investment contracts	**6,992**	**(12)**	7,462	(74)
Non-participating investment contracts	**196,698**	**(126)**	224,906	(134)
Investment contract liabilities	**203,690**	**(138)**	232,368	(208)

(b) Movement in investment contract liabilities

	Gross 2008 £m	Reinsurance 2008 £m	Gross 2007 £m	Reinsurance 2007 £m
As at 1 January	**232,368**	**(208)**	169,517	(227)
Reserves in respect of new business	**38,583**	**(741)**	75,969	(412)
Amounts paid on surrenders and maturities during the year	**(36,852)**	**504**	(24,706)	262
Investment return and related benefits	**(33,500)**	**307**	11,854	169
Management charges	**(378)**	**-**	(399)	-
Foreign exchange adjustments	**527**	**-**	133	-
Acquisitions	**2,942**	**-**	-	-
As at 31 December	**203,690**	**(138)**	232,368	(208)

Notes to the Financial Statements

3.19 Value of policyholder assets held in Society and LGPL

	2008 £bn	2007 £bn
With-profits business	**24.0**	29.5
Non profit business	**30.4**	30.7
	54.4	60.2

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

As at 31 December 2008	Investment return %	With-profits asset share %	With-profits non par %	With-profits other %	Non profit %	Society shareholder capital %
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**
As at 31 December 2007						
Equities	9	45	4	(43)	-	69
Bonds	1	35	83	129	99	12
Property	(5)	17	2	-	-	12
Cash	5	3	11	14	1	7
		100	100	100	100	100
Investment return (% pa)	3	4	3	6	-	6
Invested assets (£bn) net of derivative liabilities		17.1	2.4	1.8	16.6	4.0
Invested assets (£bn) gross of derivative liabilities		17.1	2.4	1.8	17.1	4.0

All investment return percentages reflect average returns for the period.

In 2008, the percentage of Group capital invested in equities and property was 25% and 4% respectively (2007: 47% and 8%). An analysis of Group capital can be found in Note 6.05.

3.21 Sensitivities

General insurance sensitivity analysis

	Impact on pre-tax profit net of reinsurance 2008 £m	Impact on equity net of reinsurance 2008 £m
Sensitivity test		
Single storm event with 1 in 200 year probability	**(50)**	**(36)**
Subsidence event – worst claims ratio in last 30 years	**(46)**	**(33)**
Repeat of 1990 recession on ASU/DMI[1]/Household accounts	**(39)**	**(28)**
5% decrease in overall claims ratio	**10**	**7**
5% surplus over claims liabilities	**6**	**4**

1. Accident, sickness and unemployment (ASU)/Domestic mortgage indemnity (DMI)

3.22 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 31 December 2008, the combined after tax deficit arising from these arrangements (net of annuity obligations insured by Society) has been estimated at £101m (2007: £130m). These amounts have been recognised in the financial statements with £59m charged against shareholder equity (2007: £77m) and £42m against the unallocated divisible surplus (2007: £53m).

Notes to the Financial Statements

3.23 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 arise. 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.

3.24 Foreign exchange rates

Principal rates of exchange used for translation are:

	01.01.08-31.12.08 Average	**2008 Year end**	01.01.07-31.12.07 Average	2007 Year end
United States Dollar	**1.85**	**1.44**	2.00	1.99
Euro	**1.26**	**1.03**	1.46	1.36

European Embedded Value

Consolidated income statement

For the year ended 31 December 2008

	Notes	2008 £m	2007 Restated[5,6] £m
From continuing operations[1]			
Risk	4.01	**439**	219
Savings	4.01	**50**	146
Investment management	4.02	**130**	120
International	4.03	**100**	136
Group capital and financing[2]	4.04	**151**	227
Operating profit		**870**	848
Variation from longer term investment return	4.07	**(1,579)**	116
Effect of economic assumption changes[3,4]	4.08	**(609)**	52
Property losses attributable to minority interests		**(63)**	(6)
Corporate restructure		**-**	161
(Loss)/profit from continuing operations before tax attributable to equity holders of the Company		**(1,381)**	1,171
Tax credit/(expense) on (loss)/profit from ordinary activities	4.10	**327**	(310)
Effect of UK Budget tax changes		**-**	86
Tax impact of corporate restructure		**81**	206
(Loss)/profit from ordinary activities after tax		**(973)**	1,153
Loss attributable to minority interests	3.15	**63**	6
(Loss)/profit attributable to equity holders of the Company		**(910)**	1,159

	Notes	p	Restated p
Earnings per share	4.11		
Based on operating profit from continuing operations after tax attributable to equity holders of the Company		**10.66**	9.06
Based on (loss)/profit attributable to equity holders of the Company		**(15.25)**	17.99
Diluted earnings per share	4.11		
Based on operating profit from continuing operations after tax attributable to equity holders of the Company		**10.62**	9.02
Based on (loss)/profit attributable to equity holders of the Company		**(15.25)**	17.89

For 2008 embedded value reporting:

1. New IFRS 8 segmentation has been adopted for 2008 to further improve shareholders' understanding of the Group's performance (see Note 3.13). The comparatives have been reclassified to reflect these changes.

2. 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.

3. In 2008, on a best estimate basis, Legal & General Pensions Limited has reserved an additional £313m to allow for credit defaults over the next four years. Economic assumption changes include £272m to reflect the present value and cost of capital of the in-force element of the additional reserve. New business contribution includes the remaining present value and cost of capital impact of £50m.

4. Economic assumption changes also includes -£361m relating to the 0.8% increase in the UK risk discount rate from 7.5% to 8.3% during the year.

5. A contingent loan has been advanced by Legal & General Assurance Society Limited to Legal & General Pensions Limited (LGPL) to finance the business that is reinsured to LGPL. For 2008 the loan asset has been treated as part of the value of in-force business and offsets LGPL's liability. Previously the value of the loan (2008: £786m; 2007: £614m) was included in free surplus, and the expected return on the loan (2008: £64m; 2007: £51m) included in contribution from shareholder net worth. 2007 comparatives have been restated accordingly.

6. For 2008 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 £35m (2007: £23m) 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. This change has reduced 2007 operating profit before tax by £64m, profit after tax by £59m and shareholders' equity by £340m. 2007 comparatives have been restated accordingly.

Consolidated balance sheet

As at 31 December 2008

	Notes	2008 £m	2007 Restated £m
Assets			
Investments		**249,185**	276,438
Long term in-force business asset		**3,160**	2,701
Other assets		**7,315**	4,828
		259,660	283,967
Equity and liabilities			
Shareholders' equity	4.13/4.14	**6,521**	8,128
Minority interests	3.15	**144**	178
Total equity		**6,665**	8,306
Subordinated borrowings	3.14	**1,657**	1,461
Unallocated divisible surplus		**913**	1,721
Participating contract liabilities		**16,205**	18,849
Non-participating contract liabilities		**222,539**	247,779
Senior borrowings	3.14	**2,314**	1,327
Other liabilities and provisions		**9,367**	4,524
		259,660	283,967

Consolidated statement of recognised income and expense

For the year ended 31 December 2008

	2008 £m	2007 Restated £m
Exchange differences on translation of overseas operations	**196**	18
Actuarial gains/(losses) on defined benefit pension schemes	**12**	(23)
Actuarial (gains)/losses on defined benefit pension schemes transferred to unallocated divisible surplus	**(8)**	16
Income recognised directly in equity, net of tax	**200**	11
(Loss)/profit from ordinary activities after tax	**(973)**	1,153
Total recognised income and expense	**(773)**	1,164
Attributable to:		
Minority interests	**(63)**	(6)
Equity holders of the Company	**(710)**	1,170

Notes to the Financial Statements

4.01 (Loss)/profit from continuing operations after tax

For the year ended 31 December 2008	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		**265**		**32**		**297**
Contribution from in-force business:						
- expected return[1]		**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[2]				**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[3]	4.02		**130**			**130**
Group capital and financing	4.04				**(105)**	**(105)**
Other[4]		**(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[5]		**53**	**-**	**-**	**28**	**81**
(Loss)/profit from ordinary activities after tax		**(84)**	**95**	**(83)**	**(901)**	**(973)**
Operating profit attributable to:						
Risk		**439**				
Savings		**50**				

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 £3,460m in 2008. This is adjusted for the effects of opening model changes (-£18m) to give an adjusted opening base VIF of £3,442m. This is then multiplied by the opening risk discount rate of 7.5% and the result grossed up at the notional attributed tax rate of 28% to give a return of £359m. This is added to the expected return on the in-force of businesses acquired in the year (£11m) to give a total UK expected return of £370m.

2. The 2008 Group capital and financing contribution from shareholder net worth (SNW) of £256m reflects an average return on the average balance of invested assets. This is offset by pre-tax corporate expenses charged to shareholders' funds of £12m, and an adjustment for opening tax and other modelling changes of £10m.

3. Investment management operating profit excludes £35m (2007: £23m) 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 operating profit on an IFRS basis.

5. 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

4.01 (Loss)/profit from continuing operations after tax (continued)

For the year ended 31 December 2007	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		321		38		359
Contribution from in-force business:						
- expected return		314		80		394
- experience variances	4.05	108		3		111
- operating assumption changes	4.06	(275)		2		(273)
Development costs		(44)		-		(44)
Contribution from shareholder net worth				13	296	309
Operating profit on covered business		424	-	136	296	856
Business reported on an IFRS basis:						
General insurance	3.05	(67)				(67)
Core retail investments		12				12
Investment management[1]	4.02		120			120
Group capital and financing	4.04				(69)	(69)
Other		(4)				(4)
Total operating profit		365	120	136	227	848
Variation from longer term investment return	4.07	274	4	(8)	(154)	116
Effect of economic assumption changes	4.08	44	-	(18)	26	52
Property losses attributable to minority interests		-	-	-	(6)	(6)
Corporate restructure		37	-	-	124	161
Profit from continuing operations before tax		720	124	110	217	1,171
Tax expense on profit from ordinary activities		(202)	(39)	(32)	(37)	(310)
Effect of UK Budget tax changes		48	-	-	38	86
Tax impact of corporate restructure[2]		-	-	-	206	206
Profit from ordinary activities after tax		566	85	78	424	1,153
Operating profit attributable to:						
Risk		219				
Savings		146				

1. 2007 investment management operating profit excludes £23m of profits arising from the provision of investment management services at market referenced rates to the covered business. These are reported on a look through basis and as a consequence are included in the Risk, Savings and Group capital and financing covered business on an EEV basis.

2. In 2007 £1.7bn was transferred from Shareholder Retained Capital to shareholder capital held outside the long term fund. This transfer did not give rise to any incremental tax and therefore resulted in a £206m benefit to embedded value.

Notes to the Financial Statements

4.02 Investment management operating profit

	2008 £m	2007 Restated £m
Managed pension funds[1]	**117**	103
Private equity	**(1)**	-
Property	**4**	6
Other income[2]	**17**	15
Legal & General Investment Management	**137**	124
Institutional unit trusts[3]	**(7)**	(4)
Total Investment management operating profit	**130**	120

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. 2007 comparatives have been restated accordingly.

2. Other income excludes £35m (2007: £23m) 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 £nil (2007: £12m), which has been disclosed as part of Savings. The comparatives have been restated accordingly.

4.03 International operating profit

	2008 £m	2007 £m
USA	**70**	75
Netherlands	**8**	32
France	**22**	29
	100	136

4.04 Group capital and financing operating profit[1]

	2008 £m	2007 £m
Business reported on an EEV basis	**256**	296
Business reported on an IFRS basis:		
Investment return	**47**	51
Interest expense[2]	**(138)**	(114)
Unallocated corporate expenses	**(9)**	(11)
Defined benefit pension scheme[3]	**(5)**	5
	(105)	(69)
Total Group capital and financing operating profit	**151**	227

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 (expense)/income 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 recognised income and expense. The 2007 comparative also includes income arising from a pension deficit reduction payment which was charged to the operating segments in 2008.

Notes to the Financial Statements

4.05 Analysis of experience variances

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

For the year ended 31 December 2007	Risk and Savings Restated £m	Inter-national £m	Total Restated £m
Persistency	(24)	(1)	(25)
Mortality/morbidity	38	16	54
Expenses	(14)	1	(13)
Other	108	(13)	95
	108	3	111

2007 Risk and Savings other experience variances of £108m (restated) principally comprise the impact of introducing market referenced fees for the investment management services provided to Society's with-profits business by Legal & General Investment Management (£83m), which are recognised on a look through basis.

4.06 Analysis of operating assumption changes

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)**

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

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

For the year ended 31 December 2007	Risk and Savings Restated £m	Inter-national £m	Total Restated £m
Persistency	(41)	(4)	(45)
Mortality/morbidity	(213)	21	(192)
Expenses	(48)	(4)	(52)
Other	27	(11)	16
	(275)	2	(273)

2007 Risk and Savings mortality/morbidity operating assumption changes of -£213m (restated) relate primarily to the strengthening of assumptions for annuitant mortality (-£295m restated) offset by a change in assumptions for the proportion of annuitants married (£46m restated) and improved mortality on individual protection and other products (£36m). The restated figures reflect the reclassification of the contingent loan from SNW to VIF.

Notes to the Financial Statements

4.07 Variation from longer term investment return

	2008 £m	2007 Restated £m
Business reported on an EEV basis:		
Risk and Savings	**(146)**	283
International	**(110)**	(8)
Group capital and financing	**(1,176)**	(155)
	(1,432)	120
Business reported on an IFRS basis:		
General insurance	**(29)**	(9)
Investment management	**7**	4
Group capital and financing	**(125)**	1
	(1,579)	116

4.08 Effect of economic assumption changes

	2008 £m	2007 Restated £m
Business reported on an EEV basis:		
Risk and Savings[1]	**(505)**	44
International	**(110)**	(18)
Group capital and financing	**6**	26
	(609)	52

1. In 2008, on a best estimate basis, Legal & General Pensions Limited has reserved an additional £313m to allow for credit defaults over the next four years. Risk and Savings economic assumption changes include £272m to reflect the present value and cost of capital of the in-force element of the additional reserve.

   Economic assumption changes also includes -£361m relating to the 0.8% increase in the UK risk discount rate from 7.5% to 8.3% during the year.

4.09 Time value of options and guarantees

	2008 £m	2007 £m
Risk and Savings[1]	**46**	5
International	**13**	13
	59	18

1. Includes £21m (2007: £1m) relating to UK with-profits business, reflecting the impact of falling investment markets, and £25m (2007: £4m) relating to UK non profit business, due to the current low inflation environment and its impact on the allowance for negative inflation within the annuity business.

4.10 Tax

Analysis of tax

	Profit/(loss) before tax 2008 £m	Tax (expense)/ credit 2008 £m	Profit/(loss) before tax 2007 Restated £m	Tax (expense)/ credit 2007 Restated £m
From continuing operations				
Risk	**439**	**(125)**	219	(61)
Savings	**50**	**(11)**	146	(46)
Investment management	**130**	**(40)**	120	(38)
International	**100**	**(35)**	136	(40)
Group capital and financing	**151**	**(23)**	227	(79)
Operating profit	**870**	**(234)**	848	(264)
Variation from longer term investment return	**(1,579)**	**385**	116	12
Effect of economic assumption changes	**(609)**	**176**	52	(13)
Property losses attributable to minority interests	**(63)**	**-**	(6)	-
Corporate restructure	**-**	**-**	161	(45)
(Loss)/profit from continuing operations before tax / Tax	**(1,381)**	**327**	1,171	(310)

Notes to the Financial Statements

4.11 Earnings per share

(a) Earnings per share

	Profit/(loss) before tax 2008 £m	Tax (expense)/ credit 2008 £m	Profit/(loss) after tax 2008 £m	Per share 2008 p	Profit before tax 2007 Restated £m	Tax (expense)/ credit 2007 Restated £m	Profit after tax 2007 Restated £m	Per share 2007 Restated p
Operating profit from continuing operations	**870**	**(234)**	**636**	**10.66**	848	(264)	584	9.06
Variation from longer term investment return	**(1,579)**	**385**	**(1,194)**	**(20.01)**	116	12	128	1.99
Effect of economic assumption changes	**(609)**	**176**	**(433)**	**(7.26)**	52	(13)	39	0.61
Corporate restructure	**-**	**-**	**-**	**-**	161	(45)	116	1.80
Effect of UK Budget tax changes	**-**	**-**	**-**	**-**	-	86	86	1.34
Tax impact of corporate restructure	**-**	**81**	**81**	**1.36**	-	206	206	3.19
Earnings per share based on (loss)/profit attributable to equity holders	**(1,318)**	**408**	**(910)**	**(15.25)**	1,177	(18)	1,159	17.99

(b) Diluted earnings per share

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

	Profit after tax 2008 £m	Number of shares[1] 2008 m	Per share 2008 p	Profit after tax 2007 Restated £m	Number of shares[1] 2007 m	Per share 2007 Restated p
Operating profit from continuing operations after tax	**636**	**5,968**	**10.66**	584	6,444	9.06
Net shares under options allocable for no further consideration	**-**	**22**	**(0.04)**	-	34	(0.04)
Diluted earnings per share	**636**	**5,990**	**10.62**	584	6,478	9.02

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

	Loss after tax 2008 £m	Number of shares[1] 2008 m	Per share 2008 p	Profit after tax 2007 Restated £m	Number of shares[1] 2007 m	Per share 2007 Restated p
(Loss)/profit attributable to equity holders of the Company	**(910)**	**5,968**	**(15.25)**	1,159	6,444	17.99
Net shares under options allocable for no further consideration[2]	**-**	**22**	**-**	-	34	(0.10)
Diluted earnings per share	**(910)**	**5,990**	**(15.25)**	1,159	6,478	17.89

The number of shares in issue at 31 December 2008 was 5,861,627,994 (2007: 6,296,321,160).

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

4.12 Embedded value reconciliation

For the year ended 31 December 2008	UK free surplus £m	UK required capital £m	UK value of in-force £m	Total UK £m	Inter-national £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	4,161
	2,639	1,198	3,460	7,297	1,106	8,403
Exchange rate movements	-	-	-	-	386	386
Opening adjustment	27	-	(27)	-	-	-
	2,666	1,198	3,433	7,297	1,492	8,789
Loss for the period:						
- New business contribution (including short term default reserve)[1]	(661)	232	620	191		
- Expected return on VIF	-	-	267	267		
- Expected transfer from VIF and required capital to free surplus	565	(115)	(450)	-		
- Experience variances	39	3	(38)	4		
- Operating assumption changes	(31)	1	(38)	(68)		
- Development costs	(37)	-	-	(37)		
- Expected return on SNW	140	51	-	191		
- Investment variances	(1,092)	(83)	189	(986)		
- Economic assumption changes	(531)	(3)	175	(359)		
- Tax impact of corporate restructure	28	-	53	81		
Loss for the period[2]	(1,580)	86	778	(716)	(83)	(799)
Capital movements[3]	(260)	-	-	(260)	60	(200)
Embedded value of businesses acquired	71	85	143	299	-	299
Distributions:						
- With-profits transfer	77	-	(77)	-		
- Dividend to Group	(405)	-	-	(405)		
Distributions	(328)	-	(77)	(405)	(6)	(411)
Other reserve movements including pension deficit	(35)	-	(9)	(44)	-	(44)
Transfer to non-covered business[4]	(25)	-	-	(25)	-	(25)
Embedded value	509	1,369	4,268	6,146	1,463	7,609
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	2,282

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. Further information on the acquisitions can be found in Note 3.10. 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

4.12 Embedded value reconciliation (continued)

For the year ended 31 December 2007	UK free surplus Restated £m	UK required capital Restated £m	UK value of in-force Restated £m	Total UK Restated £m	International Restated £m	Total Restated £m
At 1 January						
Value of in-force business (VIF)			2,909	2,909	652	3,561
Shareholder net worth (SNW)	655	2,696		3,351	266	3,617
	655	2,696	2,909	6,260	918	7,178
Exchange rate movements	-	-	-	-	28	28
	655	2,696	2,909	6,260	946	7,206
Profit for the period:						
- New business contribution	(470)	191	510	231		
- Expected return on VIF	-	-	226	226		
- Expected transfer from VIF and required capital to free surplus	450	(119)	(331)	-		
- Experience variances	4	7	60	71		
- Operating assumption changes	(155)	3	(50)	(202)		
- Development costs	(34)	-	-	(34)		
- Expected return on SNW	16	180	-	196		
- Investment variances	(90)	6	222	138		
- Economic assumption changes	176	(30)	(96)	50		
- Effect of UK Budget tax changes	38	-	48	86		
- Corporate restructure	1,812	(1,741)	45	116		
- Tax impact of corporate restructure	206	-	-	206		
Profit for the period[1]	1,953	(1,503)	634	1,084	78	1,162
Capital movements[2]	(595)	5	-	(590)	84	(506)
Other capital movements[3]	1,307	-	-	1,307	-	1,307
Distributions:						
- With-profits transfer	74	-	(74)	-		
- Dividend to Group	(728)	-	-	(728)		
Distributions	(654)	-	(74)	(728)	(2)	(730)
Other reserve movements including pension deficit	(11)	-	(9)	(20)	-	(20)
Transfer to non-covered business[4]	(16)	-	-	(16)	-	(16)
Embedded value	2,639	1,198	3,460	7,297	1,106	8,403
Represented by:						
Non profit			2,670			
With-profits			790			
Value of in-force business			3,460	3,460	782	4,242
Shareholder net worth	2,639	1,198		3,837	324	4,161

1. Included in the profit for the period is an inter-fund transfer from non profit (included in VIF) to SSC (included in free surplus) of £60m.

2. Capital movements comprise the repayment of £602m of intra-group subordinated debt; offset by £57m ($114m) of capital injected into the USA and £39m injected into Legal & General International (Ireland) from Group, together with £27m (€40m) injected into France from Society.

3. In previous periods, UK SNW represented the amounts in the Society long term fund and LGPL shareholder capital which were regarded as either required capital or free surplus held within the covered business. As a consequence of the 2007 Capital review all shareholder capital in Society and LGPL is included as SNW within the covered business. This notional transfer of the previously excluded Society Shareholder Capital (SSC) into UK SNW is included as Other capital movements.

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 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)**

As at 31 December 2007	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]	166	310	888	4,082	5,446
Additional retained profit/(loss) on an EEV basis	3,460	-	221	(999)	2,682
Shareholders' equity on an EEV basis	3,626	310	1,109	3,083	8,128
Comprising:					
Business reported on an IFRS basis	166	310	3	(754)	(275)
Business reported on an EEV basis:					
Shareholder net worth					
- Free surplus[2]			145	2,639	2,784
- Required capital to cover solvency margin			179	1,198	1,377
Value of in-force					
- Value of in-force business	3,558		840		4,398
- Cost of capital[3]	(98)		(58)		(156)

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 2008 the cost of capital 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 55% (2007 risk margin of 3.0% and equity backing ratio of 79%).

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 2008 £m	Other business IFRS basis 2008 £m	Total 2008 £m	Covered business EEV basis 2007 Restated £m	Other business IFRS basis 2007 Restated £m	Total 2007 Restated £m
Risk						
- Risk reported on an EEV basis	**3,138**	**-**	**3,138**	1,914	-	1,914
- General insurance	**-**	**99**	**99**	-	114	114
- Other	**-**	**2**	**2**	-	(1)	(1)
Total Risk	**3,138**	**101**	**3,239**	1,914	113	2,027
Savings						
- Savings reported on an EEV basis	**1,130**	**-**	**1,130**	1,546	-	1,546
- Core retail investments	**-**	**59**	**59**	-	39	39
- Other	**-**	**14**	**14**	-	14	14
Total Savings	**1,130**	**73**	**1,203**	1,546	53	1,599
Investment management	**-**	**322**	**322**	-	310	310
International						
- USA	**937**	**-**	**937**	645	-	645
- Netherlands	**305**	**-**	**305**	275	-	275
- France	**221**	**-**	**221**	186	-	186
- Emerging markets	**-**	**12**	**12**	-	3	3
Total International	**1,463**	**12**	**1,475**	1,106	3	1,109
Group capital and financing	**1,878**	**(1,596)**	**282**	3,837	(754)	3,083
	7,609	**(1,088)**	**6,521**	8,403	(275)	8,128

	2008 £m	2007 Restated £m
Movement		
As at 1 January	**8,128**	7,650
Total recognised income and expense	**(710)**	1,170
Issue of share capital	**10**	4
Share buyback	**(523)**	(320)
Net movements in employee scheme shares	**(4)**	1
Dividend distributions to equity holders of the Company during the year	**(367)**	(369)
Other reserve movements including pension deficit	**(13)**	(8)
As at 31 December	**6,521**	8,128

Notes to the Financial Statements

4.15 Reconciliation of shareholder net worth

	UK covered business 2008 £m	Total 2008 £m	UK covered business 2007 Restated £m	Total 2007 Restated £m
SNW of long term operations (IFRS basis)	**3,415**	**4,676**	4,836	5,721
Other liabilities (IFRS basis)	**-**	**(1,088)**	-	(275)
Shareholders' equity on the IFRS basis	**3,415**	**3,588**	4,836	5,446
Purchased interests in long term business	**(171)**	**(202)**	(5)	(19)
Deferred acquisition costs/deferred income liabilities	**(233)**	**(1,160)**	(139)	(751)
Contingent loan[1]	**(786)**	**(786)**	(614)	(614)
Deferred tax[2]	**(354)**	**(51)**	(363)	(172)
Other[3]	**7**	**(195)**	122	(4)
Shareholder net worth on the EEV basis	**1,878**	**1,194**	3,837	3,886

1. On an EEV basis the contingent loan (between Society and LGPL) is modelled within the VIF. On an IFRS basis the contingent loan asset is included within the Group capital and financing net assets.

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

3. Other in the UK covered business relates primarily to the different treatment of sterling reserves, other long term reserves and the non profit result of LGPL under EEV compared with IFRS. Total business also includes the different treatment of the US Triple X securitisation on an EEV and IFRS basis.

4.16 Sensitivities

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

Effect on embedded value as at 31 December 2008

	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
UK	**6,146**	**384**	**(336)**	**(73)**	**5**	**110**
International	**1,463**	**126**	**(109)**	**17**	**(23)**	**3**
Total covered business	**7,609**	**510**	**(445)**	**(56)**	**(18)**	**113**

	As published £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse rates £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
UK	**6,146**	**(248)**	**68**	**66**	**(111)**	**40**
International	**1,463**	**(6)**	**12**	**59**	**n/a**	**95**
Total covered business	**7,609**	**(254)**	**80**	**125**	**(111)**	**135**

Effect on new business contribution for the year

	As published £m	1% lower risk discount rate £m	1% higher risk discount rate £m	1% lower interest rate £m	1% higher interest rate £m	1% higher equity/ property yields £m
UK	**265**	**82**	**(72)**	**(7)**	**(13)**	**14**
International	**32**	**17**	**(15)**	**2**	**(1)**	**-**
Total covered business	**297**	**99**	**(87)**	**(5)**	**(14)**	**14**

	As published £m	10% lower equity/ property values £m	10% lower maintenance expenses £m	10% lower lapse rates £m	5% lower mortality (UK annuities) £m	5% lower mortality (other business) £m
UK	**265**	**(32)**	**13**	**16**	**(20)**	**7**
International	**32**	**-**	**1**	**7**	**n/a**	**12**
Total covered business	**297**	**(32)**	**14**	**23**	**(20)**	**19**

Opposite sensitivities are broadly symmetrical.

4.17 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, some aspects of this revised strategy were 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. (0.50% p.a. at 31.12.07) 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 0.11% p.a. and 0.12% p.a. respectively across the portfolios as a whole (0.11% p.a. and 0.10% p.a. at 31.12.2007). In 2008 Legal & General Pensions Limited has reserved an additional £313m before discounting to allow for our best estimate of the credit defaults over the next four years.

Economic assumptions

	31.12.08 % p.a.	31.12.07 % p.a.	31.12.06 % p.a.
Equity risk premium	**3.5**	3.0	3.0
Property risk premium	**2.0**	2.0	2.0
Investment return			
- Gilts:			
- Fixed interest	**3.8**	4.5	4.6
- RPI linked	**3.7**	4.5	4.7
- Non gilts:			
- Fixed interest	**4.2 – 8.2**	4.9 – 6.1	4.9 – 5.3
- RPI linked	**4.7 – 5.9**	4.9 – 5.3	4.6 – 5.1
- Equities	**7.3**	7.5	7.6
- Property	**5.8**	6.5	6.6
Risk margin	**4.5**	3.0	3.0
Risk discount rate (net of tax)	**8.3**	7.5	7.6
Inflation			
- Expenses/earnings	**3.6**	4.4	4.2
- Indexation	**2.6**	3.4	3.2

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.

4.17 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 (31.12.07: 25.1 years). The expectation of life on the regulatory reserving basis is 26.4 years (31.12.07: 26.2 years).

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

International

vi. Key assumptions:

	31.12.08 % p.a.	31.12.07 % p.a.	31.12.06 % p.a.
USA			
Reinvestment rate	**5.4**	5.4	5.4
Risk margin	**4.5**	3.0	3.0
Risk discount rate (net of tax)	**6.8**	7.1	7.8
Europe			
Government bond return	**3.5**	4.4	4.0
Risk margin	**4.5**	3.0	3.0
Risk discount rate (net of tax)	**8.0**	7.4	7.0

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

Tax

viii. The profits on the covered business, except for the profits on the Society Shareholder Capital held outside the long term fund, are calculated on an after tax basis and are grossed up by the notional attributed tax rate for presentation in the income statement. The tax rate used for grossing up is the corporate tax rate in the territory concerned which for the UK was 28% (2007: 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

4.17 Assumptions (continued)

Summary statistics:

The following table sets out means and standard deviations (StDev) of future returns as at 31 December 2008 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	3.5%	3.4%	4.4%	3.4%
Corporate bonds	7.1%	3.8%	7.1%	3.9%
Property (excess returns)	2.0%	15.1%	2.0%	14.8%
Equities (excess returns)	3.5%	20.1%	3.6%	20.3%
European Business (Euro)				
Long Government bonds[3]	3.5%	4.3%	4.3%	4.5%
Short Government bonds[4]	3.5%	3.6%	4.3%	7.6%
US Business (US Dollar)				
Long Government bonds[3]	2.9%	4.9%	3.5%	4.3%

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

Risk discount rate:

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

Sensitivity calculations

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

- 1% variation in discount rate – a one percentage point increase/decrease in the risk margin has been assumed in each case (for example a 1% increase in the risk margin would result in a 5.5% risk margin).
- 1% variation in interest rate environment - a one percentage point increased/decreased parallel shift in the risk-free curve with consequential impacts on fixed asset market values, investment return assumptions, risk discount rate, including consequential changes to valuation bases.
- 1% higher equity/property yields – a one percentage point increase in the assumed equity/property investment returns, excluding any consequential changes, for example, to risk discount rates or valuation bases, has been assumed in each case (for example a 1% increase in equity returns would increase assumed total equity returns from 7.3% to 8.3%).
- 10% lower equity/property market values – an immediate 10% reduction in equity and property asset values.
- 10% lower maintenance expenses, excluding any consequential changes, for example, to valuation expense bases or potentially reviewable policy fees (a 10% decrease on a base assumption of £10 per annum would result in an £9 per annum expense assumption).
- 10% lower assumed persistency experience rates, excluding any consequential changes to valuation bases, incorporating a 10% decrease in lapse, surrender and premium cessation assumptions (a 10% decrease on a base assumption of 7% would result in a 6.3% lapse assumption).
- 5% lower mortality and morbidity rates, excluding any consequential changes to valuation bases but including assumed product repricing action where appropriate (for example if base experienced mortality is 90% of a standard mortality table then, for this sensitivity, the assumption is set to 85.5% of the standard table).

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

Capital and Cash Flow

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 based on unaudited regulatory returns.

	2008 £bn	2007 £bn
Core tier I	**3.9**	7.6
Innovative tier I	**0.6**	0.6
Upper tier II	**0.4**	0.4
Lower tier II[1]	**0.6**	0.4
Deductions[2]	**(1.1)**	(0.7)
Group capital resources	**4.4**	8.3
Group capital resources requirement[3]	**2.6**	4.2
IGD surplus[4]	**1.8**	4.1
Coverage ratio (Group capital resources / Group capital resources requirement)	**1.69 times**	1.98 times

1. The increase in Tier II capital reflects favourable foreign exchange rates.
2. Deductions of inadmissible assets have been reclassified from 2007 year end in line with FSA rules. They now comprise deductions made for L&G America of £0.8bn (2007: £0.5bn) which were previously deducted from Core tier I capital resources. The 2007 figures reflect this reclassification. Other deductions comprise inadmissible assets in Society of £0.2bn and other subsidiaries of £0.1bn.
3. Group capital resources requirement includes a reduced With-Profits Insurance Capital Component (WPICC) of £0.2bn (2007: £2.0bn). The decrease reflects the convergence of the peak 1 and peak 2 surpluses in the with-profits part of the LTF due to the impact of adverse economic conditions during 2008.
4. IGD surplus after accruing for the final dividend of £120m (2007: £248m).

A segmental analysis is given below.	2008 £bn	2007 £bn
Society long term fund[1]	**1.9**	3.9
Society shareholder capital	**1.6**	3.1
General insurance	**0.1**	0.1
France	**0.2**	0.1
Netherlands	**0.2**	0.1
Nationwide Life	**0.1**	-
USA	**0.1**	0.1
Investment management	**0.3**	0.3
Other[2]	**1.3**	1.4
Innovative tier I	**0.6**	0.6
Tier II	**1.0**	0.8
Debt	**(3.0)**	(2.2)
Group capital resources	**4.4**	8.3
Society long term fund[1]	**2.1**	3.9
Other	**0.5**	0.3
Group capital resources requirement	**2.6**	4.2

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

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.

	2008 £bn	2007 £bn
Capital and reserves attributable to equity holders on an IFRS basis	**3.6**	5.4
Innovative tier I	**0.6**	0.6
Tier II	**1.0**	0.8
Proposed final dividend	**(0.1)**	(0.2)
Additional capital available from Society	**0.3**	2.2
Adjustment to reflect regulatory value of the USA operation	**(0.8)**	(0.5)
Other regulatory adjustments	**(0.2)**	-
Group capital resources	**4.4**	8.3

5.01 Regulatory capital resources (continued)

(b) With-profits realistic balance sheet

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

	2008 £m	2007 £m
With-profits surplus	**641**	1,047
Risk capital margin	**373**	262
Surplus	**268**	785

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. After applying this stress the surplus includes the present value of future shareholder transfers of £212m (2007: £396m) as a liability in the calculation.

(c) Society capital surplus

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

	2008 Long term business £bn	2008 General insurance £bn	2007 Long term business £bn	2007 General insurance £bn
Available capital resources - Tier 1	**4.0**	**0.1**	8.4	0.1
Insurance capital requirement	**1.9**	**0.1**	1.9	0.1
Capital requirements of regulated related undertakings	**0.3**	**-**	0.1	-
With-Profits Insurance Capital Component	**0.2**	**-**	2.0	-
Capital resources requirement	**2.4**	**0.1**	4.0	0.1
Regulatory capital surplus	**1.6**	**-**	4.4	-

On a regulatory basis (peak 1), Society regulatory capital surplus of £1.6bn (2007: £4.4bn) comprises capital resources within the long term fund of £1.9bn (2007: £5.0bn) and capital resources outside the long term fund of £2.1bn (2007: £3.4bn) less the capital resource requirement of £2.4bn (2007: £4.0bn).

The reduction in capital resources was primarily caused by adverse investment markets throughout 2008. The largest impact was incurred in the with-profits part of the long term fund, although the capital resources outside of the long term fund were also impacted. In addition, the short term default allowance of £650m has reduced the regulatory value of L&G Pensions Limited (LGPL) which is included in the capital resources held outside of the long term fund.

The capital resources requirement of £2.4bn (2007: £4.0bn) comprises the long term insurance capital requirement which is unchanged at £1.9bn, capital requirements of regulated undertakings which have increased to £0.3bn due to the acquisition of Nationwide Life and foreign exchange movements in the overseas subsidiaries of Society and the With-Profits Insurance Capital Component (WPICC) of £0.2bn (2007: £2.0bn).

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 described above. A further adjustment is made to the WPICC to remove the present value of future shareholder transfers which is treated as a liability in Society's with-profits realistic surplus. At 31 December 2008, this adjustment reduced the WPICC by £212m (2007: £396m). The overall decrease in the WPICC during 2008 reflects adverse economic conditions throughout the year.

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 in 2008, together with a reconciliation to IFRS profit after tax.

	Operational Cash Generation £m	New business strain £m	Inter-national[2] £m	Variances[3] £m	Investment gains and losses[4] £m	Other £m	IFRS Profit after Tax £m
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 forms a key component of the dividend decision process each year. The core flow of operational cash generated by the business is available to replenish the capital stock, reinvest back into the business and finance the dividend. In 2008, the business generated operational cashflow of £654m before investing £334m in non profit new business strain, resulting in net cash generated of £320m. In 2008, £119m has been used to pay the interim dividend, £120m the final dividend and £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 in order to reflect a net of tax income on shareholders' investments.

Asset Disclosures

6.01 Investment portfolio

	Notes	2008 Market value £bn	2007 Market value £bn
Worldwide funds under management		**280**	312
Client and policyholder assets		**(233)**	(264)
Non-unit linked With-profits fund assets[1]		**(19)**	(23)
Assets to which shareholders are directly exposed		**28**	25

	Notes	2008	2007
Comprising:			
Assets held to back the UK non-linked non profit business:			
Legal & General Pensions Limited (LGPL)		**18.7**	16.6
Other UK non profit insurance business[2]		**1.9**	0.5
	3.20	**20.6**	17.1
Assets held to back other insurance businesses (including Triple-X reserves)		**2.5**	1.8
Society shareholder capital	3.20/6.05	**2.9**	4.0
Other Group shareholder assets	6.05	**2.3**	2.1
		28.3	25.0

1. Includes assets backing participating business in France of £2bn (2007 restated: £2bn).
2. Includes £1.5bn of assets held within Nationwide Life, acquired during the year.

Analysed by asset class:

As at 31 December 2008	Notes	LGPL £bn	Other UK non profit insurance business £bn	Other insurance business £bn	Society shareholder capital £bn	Other Group shareholder assets £bn	Total £bn
Equities[1]		-	0.1	-	1.3	-	**1.4**
Property		-	-	-	0.2	-	**0.2**
Bonds	6.02	17.1	0.5	2.1	0.7	1.0	**21.4**
Derivative assets[2]		1.3	0.7	-	-	0.3	**2.3**
Cash (including cash equivalents)		0.3	0.6	0.4	0.7	1.0	**3.0**
		18.7	**1.9**	**2.5**	**2.9**	**2.3**	**28.3**

1. Since the year end the Group has reduced shareholder exposure to equity investments by £0.4bn through disposals.

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

Asset Disclosures

6.02 Bond portfolio summary

(i) Analysed by sector

As at 31 December 2008		Notes	LGPL £m	LGPL %	**Total £m**	**Total %**
Sovereigns, Supras and Sub-Sovereigns			1,317	8	**2,517**	**12**
Banks	- Tier 1[1]	6.04	594	3	**650**	**3**
	- Tier 2 and other subordinated	6.04	2,207	13	**2,410**	**11**
	- Senior		1,096	6	**1,815**	**8**
Utilities			2,033	12	**2,291**	**11**
Consumer Services & Goods			1,627	9	**1,829**	**8**
Financial Services			894	5	**989**	**5**
Technology & Telecoms			940	6	**1,172**	**5**
Insurance			775	5	**904**	**4**
Industrials			557	3	**784**	**4**
Oil & Gas			549	3	**611**	**3**
Health Care			484	3	**541**	**3**
Property			443	3	**516**	**2**
ABS		6.03	2,572	15	**3,389**	**16**
CDO			991	6	**1,004**	**5**
Total			**17,079**	**100**	**21,422**	**100**

1. Tier 1 holdings include £75m of preference shares.

(ii) Analysed by domicile

As at 31 December 2008	LGPL £m	LGPL %	**Total £m**	**Total %**
United Kingdom	7,694	45	**8,996**	**42**
North America	4,831	28	**6,833**	**32**
Europe	3,868	23	**4,821**	**22**
Other	686	4	**772**	**4**
Total	**17,079**	**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

As at 31 December 2008		LGPL £m	LGPL %	**Total £m**	**Total %**
AAA		2,571	15	**4,616**	**22**
AA		1,893	11	**2,359**	**11**
A		7,064	42	**8,180**	**38**
BBB		3,779	22	**4,385**	**20**
BB or below		168	1	**183**	**1**
Unrated:	Bespoke CDOs	878	5	**878**	**4**
	Other	726	4	**821**	**4**
		17,079	**100**	**21,422**	**100**

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

6.02 Bond portfolio summary (continued)

As at 31 December 2008

(iv) CDOs

Total Group holds collateralised debt obligations (CDO) with a market value of £1,004m.

These holdings include £126m in traded CDOs and £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 £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 28%, on average across the four CDOs, before the CDOs incur any default losses. Assuming an average recovery rate of 33%, then over 42% of the reference names would have to default before the CDOs incur any default losses.

Beyond 28% of default losses on the reference portfolio, losses to the CDO would occur at a rate that is a multiple of the loss rate on the reference portfolio. Losses are limited under the terms of the CDOs to assets and collateral invested. For illustration a £200m loss could be reached if default losses to the reference portfolios exceeded 32% or if 48% of the names in the diversified global investment grade portfolio defaulted, with an average 33% recovery rate. (All figures are averages across the four CDOs.)

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 are 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

As at 31 December 2008	LGPL £m	LGPL %	**Total £m**	**Total %**
Traditional ABS:				
RMBS - Prime[1]	292	12	**593**	**17**
RMBS - Sub-prime[2]	-	-	**30**	**1**
CMBS	137	5	**284**	**8**
Credit Card	36	1	**267**	**8**
Auto	-	-	**82**	**2**
Student Loan	20	1	**30**	**1**
	485	19	**1,286**	**37**
Other:				
Secured Bond	1,061	41	**1,068**	**31**
Commercial Property Backed Bonds	155	6	**155**	**5**
Infrastructure / PFI / Social housing	640	25	**641**	**19**
Whole Business Securitisation	220	9	**221**	**7**
Other secured holdings[3]	11	-	**18**	**1**
	2,087	**81**	**2,103**	**63**
Total	**2,572**	**100**	**3,389**	**100**

1. 87% of Prime RMBS holdings relate to UK mortgages.
2. 90% of Sub-prime RMBS holdings have a credit rating of AAA and 49% relate to the UK.
3. Other includes covered bonds (£9m) and non investment grade monoline wrapped securities (£2m).

(ii) By credit rating

As at 31 December 2008	LGPL £m	LGPL %	**Total £m**	**Total %**
AAA	947	37	**1,703**	**51**
AA	553	21	**581**	**17**
A	713	28	**721**	**21**
BBB	340	13	**359**	**11**
BB or below	14	1	**16**	**-**
Unrated	5	-	**9**	**-**
Total	**2,572**	**100**	**3,389**	**100**

Of the £801m of traditional ABS holdings held outside of LGPL, 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

As at 31 December 2008	Market value £m	Total %
Tier 1		
United Kingdom[1]	448	15
North America	102	3
Europe	88	3
Others	12	-
Total tier 1	650	21
Lower Tier 2		
United Kingdom	760	25
North America	668	22
Europe	255	8
Others	71	2
Upper Tier 2		
United Kingdom	474	16
North America	3	-
Europe	142	5
Others	9	-
Other subordinated		
United Kingdom	10	-
North America	18	1
Europe	-	-
Others	-	-
Total tier 2 and other subordinated	2,410	79
Total	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.

6.05 Shareholder asset mix

	Society shareholder capital 2008 %	Other Group shareholder assets 2008 %	Total 2008 %	Society shareholder capital 2007 %	Other Group shareholder assets 2007 %	Total 2007 %
Equities	**43**	**2**	**25**	69	3	47
Property	**6**	**-**	**4**	12	-	8
Bonds	**23**	**50**	**35**	12	59	28
Derivative assets	**1**	**12**	**6**	-	4	1
Cash (including cash equivalents)	**27**	**36**	**30**	7	34	16
	100	**100**	**100**	100	100	100
Invested assets (£bn)	**2.9**	**2.3**	**5.2**	4.0	2.1	6.1

6.06 Fair value hierarchy

(i) Analysis of fair value measurement bases

	Fair value measurement at the end of the reporting period based on:			
As at 31 December 200	**Level 1 £bn**	**Level 2 £bn**	**Level 3 £bn**	**Total £bn**
Shareholder				
Equity securities	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				
Equity securities	0.1	-	-	**0.1**
Bonds	1.1	16.5	-	**17.6**
Derivative assets	-	2.0	-	**2.0**
	1.2	**18.5**	**-**	**19.7**

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

Level 1: fair values measured using quoted prices in an active market for identical assets or liabilities.

Level 2: fair values measured using valuation techniques for which all inputs significant to the measurement are based on observable market data.

Level 3: fair values measured using valuation techniques for which any input significant to the measurement is not based on observable market data.

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. The models used have also been verified by independent external consultants and reviewed by our auditors. 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 Operating profit income statement

For the year ended 31 December 2008

	Previous reported basis £m	Risk £m	Savings £m	Investment manage-ment £m	Inter-national £m	Group capital and financing £m
From continuing operations						
Life and pensions						
- UK	**(291)**	**(648)**	**87**	**-**	**-**	**270**
- International	**63**	**-**	**-**	**-**	**59**	**4**
Investment management						
- Legal & General Investment Management	**172**	**-**	**-**	**172**	**-**	**-**
- Core retail investments	**(7)**	**-**	**-**	**(7)**	**-**	**-**
General insurance	**(2)**	**(2)**	**-**	**-**	**-**	**-**
Other operational income	**(124)**	**47**	**(21)**	**-**	**-**	**(150)**
Operating (loss)/profit	**(189)**	**(603)**	**66**	**165**	**59**	**124**
Variation from longer term investment return	**(1,239)**	**(29)**	**-**	**7**	**4**	**(1,221)**
Property losses attributable to minority interests	**(63)**	**-**	**-**	**-**	**-**	**(63)**
(Loss)/profit from continuing operations before tax attributable to equity holders of the Company	**(1,491)**	**(632)**	**66**	**172**	**63**	**(1,160)**
Tax attributable to equity holders	**361**	**172**	**(7)**	**(52)**	**(21)**	**269**
(Loss)/profit from ordinary activities after tax	**(1,130)**	**(460)**	**59**	**120**	**42**	**(891)**

For the year ended 31 December 2007

	Previous reported basis £m	Risk £m	Savings £m	Investment manage-ment £m	Inter-national £m	Group capital and financing £m
From continuing operations						
Life and pensions						
- UK	557	154	113	-	-	290
- International	86	-	-	-	86	-
Investment management						
- Legal & General Investment Management	147	-	-	147	-	-
- Core retail investments	8	-	12	(4)	-	-
General insurance	(67)	(67)	-	-	-	-
Other operational income	(73)	17	(13)	-	-	(77)
Operating profit	658	104	112	143	86	213
Variation from longer term investment return	(90)	(9)	-	4	(11)	(74)
Release of 1996 Sub-fund	321	-	-	-	-	321
Property losses attributable to minority interests	(6)	-	-	-	-	(6)
Profit from continuing operations before tax attributable attributable to equity holders of the Company	883	95	112	147	75	454
Tax attributable to equity holders	(165)	(32)	(33)	(44)	(22)	(34)
Profit from ordinary activities after tax	718	63	79	103	53	420

II UK funds under management

	2008 £m	2007 £m
Total investments	**264,228**	296,649
Represented by		
Index tracking funds:		
- UK equities	**54,780**	86,294
- Overseas equities	**54,366**	63,930
- Fixed interest	**35,912**	34,256
- Index linked	**30,704**	28,776
- Cash/deposits	**(186)**	860
Total index tracking funds	**175,576**	214,116
Actively managed funds	**65,872**	70,727
Structured solutions	**22,780**	11,806
	264,228	296,649
By investment approach		
Indexed equities	**109,146**	150,224
Indexed bonds (including index linked funds and cash)	**66,430**	63,891
Active bonds (including index linked funds and cash)	**51,439**	51,546
Structured solutions	**22,780**	11,806
Active equities	**7,576**	9,816
Property	**6,646**	9,086
Private equity	**211**	280
	264,228	296,649
By source of business		
Institutional funds under management[1]:		
- Managed pension funds pooled	**160,946**	194,771
- Structured solutions	**22,780**	11,806
- Other	**8,631**	7,030
- Managed pension funds segregated	**3,832**	5,807
Total institutional funds under management	**196,189**	219,414
UK businesses (life and general insurance funds)	**57,688**	65,280
UK businesses (unit trusts - excluding life fund investment)	**10,351**	11,955
	264,228	296,649

1. Excludes institutional investments in unit trust funds.

III Capital

a) Group capital resources

As at 31 December 2008	UK with-profits £m	UK non profit and SRC[1] £m	LGPL £m	Overseas and PMC £m	Total life £m	Shareholders' equity and other activities £m	Total £m
Shareholders' equity outside the LTF	-	166	(373)	1,466	1,259	1,236	2,495
Shareholders' equity held in the LTF	-	1,093	-	-	1,093	-	1,093
Capital and reserves attributable to equity holders of the Company	-	1,259	(373)	1,466	2,352	1,236	3,588
Adjustments onto regulatory basis[2]:							
Unallocated divisible surplus[3]	950	-	-	(37)	913	-	913
Other[4]	(309)	(586)	-	(742)	(1,637)	(285)	(1,922)
Other qualifying capital:							
Subordinated borrowings	-	-	-	-	-	1,570	1,570
Internal loans[5]	-	-	938	-	938	(938)	-
Proposed dividend	-	-	-	-	-	(120)	(120)
Total available capital resources	641	673	565	687	2,566	1,463	4,029
IFRS liability analysis:							
UK participating liabilities on realistic basis							
- Options and guarantees	1,034	-	-	-	1,034	-	1,034
- Other policyholder obligations	12,976	39	-	-	13,015	-	13,015
Overseas participating liabilities	-	-	-	2,327	2,327	-	2,327
Unallocated divisible surplus[3]	950	-	-	(37)	913	-	913
Value of in-force non-participating contracts	(171)	-	-	-	(171)	-	(171)
Participating contract liabilities	14,789	39	-	2,290	17,118	-	17,118
Unit linked non-participating life assurance liabilities	515	457	-	1,387	2,359	-	2,359
Non linked non-participating life assurance liabilities	1,944	19,070	-	2,255	23,269	-	23,269
Unit linked non-participating investment contract liabilities	6,835	15,300	-	174,517	196,652	-	196,652
General insurance liabilities	-	-	-	-	-	259	259
Non-participating contract liabilities	9,294	34,827	-	178,159	222,280	259	222,539

1. UK non profit and SRC includes Nationwide Life Limited and Suffolk Life Annuities Limited acquired during the year.
2. Figures extracted from draft unaudited regulatory returns.
3. The negative overseas unallocated divisible surplus arises as a result of differences between regulatory and IFRS reporting.
4. Other consists of shareholders' share in realistic liabilities of £179m and changes to the values of assets and liabilities on a regulated basis of £1,743m.
5. Internal loans wholly comprises the contingent loan (£938m) from Society shareholders' equity to LGPL, which is reflected in the value of LGPL for regulatory purposes.

III Capital (continued)

b) Movements in life business capital resources

	UK with-profits 2008 £m	UK non profit and SRC[1] 2008 £m	LGPL[2] 2008 £m	Overseas and PMC 2008 £m	Total life 2008 £m
As at 1 January	1,047	1,130	1,210	562	3,949
Effect of investment variations	(279)	(449)	(250)	15	(963)
Effect of changes in valuation assumptions	(14)	118	(779)	-	(675)
Changes in management policy	-	-	-	-	-
Changes in regulatory requirements	-	-	-	-	-
New business	(38)	(187)	(147)	(75)	(447)
Cash distributions	-	(30)	(150)	(83)	(263)
Acquisitions	-	156	-	-	156
Other factors	(75)	(65)	681	268	809
As at 31 December	641	673	565	687	2,566

1. UK non profit and SRC includes Nationwide Life Limited and Suffolk Life Annuities Limited acquired during the year.

2. Effect of changes in valuation assumptions includes a £650m increase in credit default reserving. The corresponding deferred tax asset is included within Other factors.

IV New business

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

	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m
Protection	49	48	60	50	55	57	55	56
Annuities	58	45	87	91	78	38	45	44
Total risk	107	93	147	141	133	95	100	100
Unit linked bonds	30	26	35	40	53	62	62	74
Pensions, stakeholder and other non profit	82	84	93	69	60	60	64	69
With-profits savings	40	47	61	43	45	54	69	60
Total savings	152	157	189	152	158	176	195	203
Total UK risk and savings	259	250	336	293	291	271	295	303

1. Excludes core retail investments.

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

	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m
Protection	49	48	60	50	55	57	55	56
Annuities	-	-	-	-	-	-	-	-
Total risk	49	48	60	50	55	57	55	56
Unit linked bonds	-	-	-	-	-	-	-	-
Pensions, stakeholder and other non profit	44	43	51	43	37	34	27	43
With-profits savings	25	26	32	25	23	27	45	35
Total savings	69	69	83	68	60	61	72	78
Total UK risk and savings	118	117	143	118	115	118	127	134

1. Excludes core retail investments.

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

	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m
Protection	-	-	-	-	-	-	-	-
Annuities	573	457	871	905	780	370	458	437
Total risk	573	457	871	905	780	370	458	437
Unit linked bonds	297	260	347	402	537	620	616	739
Pensions, stakeholder and other non profit	385	404	418	261	229	258	373	262
With-profits savings	155	208	304	171	217	278	240	248
Total savings	837	872	1,069	834	983	1,156	1,229	1,249
Total UK risk and savings	1,410	1,329	1,940	1,739	1,763	1,526	1,687	1,686

1. Excludes core retail investments.

d) International[1] new business APE by quarter

	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m
USA	15	12	12	12	11	12	11	11
Netherlands	6	6	8	9	7	6	6	8
France	6	8	4	15	6	9	17	10
Total	27	26	24	36	24	27	34	29

1. Excludes retail investments.

IV New Business (continued)

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

	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m
USA	15	12	12	12	11	12	11	11
Netherlands	3	4	3	3	3	3	2	3
France	2	5	-	10	1	5	9	2
Total	20	21	15	25	15	20	22	16

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

	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m
USA	-	-	-	-	-	-	-	-
Netherlands	29	32	37	59	36	30	35	56
France	38	34	43	49	47	45	78	78
Total	67	66	80	108	83	75	113	134

g) Core retail investments new business APE by quarter

	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m
UK	61	53	73	42	37	38	51	35
France	2	1	2	1	-	-	1	1
Total	63	54	75	43	37	38	52	36

h) Core retail investments new business annual premiums by quarter

	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m
UK	10	12	14	5	5	5	7	4
France	-	-	-	-	-	-	-	-
Total	10	12	14	5	5	5	7	4

i) Core retail investments new business single premiums by quarter

	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m
UK	510	416	577	376	316	324	440	319
France	19	18	19	7	4	5	9	6
Total	529	434	596	383	320	329	449	325

IV New Business (continued)

j) Analysis of total Risk and Savings APE

	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m
Independent financial advisers	**207**	**199**	**234**	**187**	185	206	220	231
Tied	**57**	**57**	**76**	**53**	57	66	72	66
Direct	**9**	**7**	**10**	**8**	5	9	13	9
Total individual Risk and Savings	**273**	**263**	**320**	**248**	247	281	305	306
Individual Risk and Savings[1]	**212**	**210**	**247**	**206**	210	243	254	271
Core retail investments	**61**	**53**	**73**	**42**	37	38	51	35
Total individual Risk and Savings	**273**	**263**	**320**	**248**	247	281	305	306
Group Risk and Savings	**47**	**40**	**90**	**86**	81	28	41	32
Total Risk and Savings	**320**	**303**	**410**	**334**	328	309	346	338

1. Excludes core retail investments.

k) Investment management new business by quarter

	3 months 31.12.08 £m	3 months 30.09.08 £m	3 months 30.06.08 £m	3 months 31.03.08 £m	3 months 31.12.07 £m	3 months 30.09.07 £m	3 months 30.06.07 £m	3 months 31.03.07 £m
Managed pension funds[1]								
Pooled funds	**3,423**	**9,748**	**8,254**	**5,308**	19,903	13,989	10,646	4,922
Segregated funds	**430**	**47**	**141**	**223**	230	1,925	380	68
Total managed funds	**3,853**	**9,795**	**8,395**	**5,531**	20,133	15,914	11,026	4,990
Other funds[2]	**890**	**908**	**3,151**	**568**	871	492	506	499
Total	**4,743**	**10,703**	**11,546**	**6,099**	21,004	16,406	11,532	5,489
Attributable to:								
Legal & General Investment Management	**4,185**	**10,464**	**10,611**	**5,613**	20,247	16,149	11,167	5,059
Legal & General Retail Investments	**558**	**239**	**935**	**486**	757	257	365	430

1. New monies from pension fund clients of Legal & General Assurance (Pensions Management) Limited exclude £7.4bn (2007: £19.4bn) held through the year on a temporary basis, generally as part of portfolio reconstructions.
2. Includes segregated property, property partnerships, ventures partnerships and institutional clients funds managed by Legal & General Investment Management and institutional investments in unit trust funds managed by Legal & General Retail Investments.

V 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.

For 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. 2007 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 LGPL, which have been charged at market referenced rates since 1 January 2007, and to 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.

V 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

V 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

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

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

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

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

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

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

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

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

V 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 the 2008 results the risk margin was increased to 4.5% (31.12.07: 3.0%). This 1.5% increase includes 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.

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.

V 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.

VI IFRS basis of preparation

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

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

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

Use of estimates
The preparation of the financial information includes the use of estimates and assumptions that affect items reported in the consolidated balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management’s best knowledge of current circumstances and future events and actions, actual results may differ from those estimates, possibly significantly. They are particularly relevant to the estimation of insurance and investment contract liabilities and associated balances, deferred acquisition costs, pension schemes, deferred tax liabilities and the determination of fair values of unquoted financial liabilities.

Summary of significant accounting policies
The Group has selected accounting policies which fairly state its financial position and financial performance for a reporting period. The accounting policies have been consistently applied to all years presented, unless otherwise stated.